1. GENERAL INFORMATION

The Company is a limited liability company incorporated and domiciled in Bermuda. The address of its registered office is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and, its principal place of business is in the People's Republic of China, except Hong Kong ("PRC"). The Company's shares are listed on the Main Board ("MB") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activity of the Company is investment holding. Its principal subsidiary is engaged in generation and sale of electricity through the operation of a coal-fired electricity power plant (the "Power Plant") located in Fujian Province, the PRC. The principal activities and other particulars of its subsidiaries are set out in note 18 to the financial statements.

The financial statements on pages 22 to 76 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules").

The financial statements for the year ended 31 December 2005 were approved by the board of directors on 24 April 2006.

2. ADOPTION OF NEW/REVISED HKFRS

From 1 January 2005, the Group has adopted the new/revised standards and interpretations of HKFRS, which are relevant to its operations. This includes the following new, revised and renamed standards :

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments : Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments : Recognition and Measurement
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

2. ADOPTION OF NEW/REVISED HKFRS (Continued)

All the standards have been applied retrospectively except where specific transitional provisions require a different treatment and accordingly the 2004 financial statements and their presentation have been amended in accordance with HKAS 8. Due to the change in accounting policies, the 2004 comparatives contained in these financial statements differ from those published in the financial statements for the year ended 31 December 2004.

Significant effects on current, prior or future periods arising from the first-time application of the standards listed above in respect to presentation, recognition and measurement of accounts are described in the following notes:

2.1 Adoption of HKAS 1

The application of HKAS 1 led to an update of the presentation of the financial statements. Minority interests are now included as a separate line item within equity. Profit and loss attributable to minority interests and that attributable to equity holders of the Company are now presented as an allocation of the net result of the year. In addition, in previous years, the Group's share of tax attributable to an associate was included as a component of the Group's taxation charge in the consolidated income statement. Upon the adoption of HKAS 1, the Group's share of the post-acquisition results of an associate is presented net of the Group's share of tax attributable to an associate.

2.2 Adoption of HKAS 17

In previous years, leasehold land and buildings were included in property, plant and equipment and carried at cost less accumulated depreciation and accumulated impairment losses.

Upon the adoption of HKAS 17, the land and buildings elements are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid land lease payments under operating leases, which are carried at cost and subsequently recognised in the income statement on a straight-line basis over the lease term. This change in accounting policy has been applied retrospectively.

2.3 Adoption of HKAS 31

In previous years, interests in jointly controlled entities were accounted for using the equity method. In the current year, the Group has applied HKAS 31 "Interests in jointly controlled entities" which allows an entity to use either proportionate consolidation or the equity method to account for its interests in jointly controlled entities. Upon the application of HKAS 31, the Group has elected to continue applying the equity method to account for its interests in jointly controlled entities. As a result, there has been no change in accounting method in respect of the Group's interest in jointly controlled entities. This change has no effect on the Group's retained profits at 1 January 2005.

2. ADOPTION OF NEW/REVISED HKFRS (Continued)

2.4 Adoption of HKAS 36, HKAS 38 and HKFRS 3

Previously, goodwill was capitalised and amortised on the straight-line basis over its estimated useful life and subject to impairment testing when there was any indication of impairment.

In accordance with the provisions of HKFRS 3, with respect to goodwill previously capitalised on the consolidated balance sheet, the amortisation of goodwill has ceased from 1 January 2005 and the accumulated amortisation at 31 December 2004 was eliminated against the original gross amount of goodwill. Goodwill is now subject only to annual testing for impairment as well as when there is an indication of impairment. The Group has allocated the carrying amount of its goodwill to its cash generating units.

2.5 Adoption of HKFRS 2

Prior to the adoption of HKFRS 2 on 1 January 2005, the Group did not recognise the financial effect of share options until they were exercised.

The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to directors and employees of the Company and/or its subsidiaries, determined at the date of grant of the share options, over the vesting period with a corresponding credit to equity, unless the transaction is a cash settled share-based payment.

According to the transitional provisions of HKFRS 2, the Group applies HKFRS 2 retrospectively to share options that were granted after 7 November 2002 and had not vested on 1 January 2005.

The adoption of this standard did not result in any significant changes to the amounts or disclosures in the financial statements as the share options outstanding were granted before 7 November 2002 and vested before 1 January 2005.

2.6 Adoption of HKAS 32 and HKAS 39

Prior to the adoption of HKAS 39, the Group has recorded its short term investments at fair values with changes in value being recognised in the income statement as they arise.

On the adoption of HKAS 39, the Group classified its short term investments as financial assets at fair value through profit or loss and measured it at fair value.

In accordance with the transitional provisions of HKAS 39, it does not permit the recognition, derecognition and measurement of financial assets and liabilities in accordance with the standard on a retrospective basis. Accordingly, any adjustment to the previous carrying amount is recognised in the opening balance of retained earnings on 1 January 2005 and the comparative figures have not been restated.

2. ADOPTION OF NEW/REVISED HKFRS (Continued)

2.7 Adoption of HKFRS 5

On adoption of HKFRS 5, the Group disclosed a single amount on the face of the income statement comprising the total of:

(i) the post-tax profit or loss of discontinued operation and

(ii) the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation.

The application of HKFRS 5 does not impact on the prior-year financial statements other than a change in the presentation of the results and cash flows of discontinued operation.

2.8 Other standards adopted

The adoption of HKAS 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 23, 24, 27, 33 and 37 did not result in significant changes to the Group's accounting policies. The specific transitional provisions contained in some of these standards were considered. The adoption of these other standards did not result in any changes to the amounts or disclosures in these financial statements and the 2004 financial statements.

2. ADOPTION OF NEW/REVISED HKFRS (Continued)

2.9 The effect of changes in the accounting policies on consolidated income statement on adoption of HKAS 1, 17 and HKFRS 3 is summarised below:

	HKAS 1# *HK$'000*	HKAS 17# *HK$'000*	HKFRS 3* *HK$'000*	Total *HK$'000*
Year ended 31 December 2004				
Increase in amortisation of prepaid lease payments	–	(226)	–	(226)
Decrease in depreciation	–	226	–	226
Decrease in share of profits of associates	(3,511)	–	–	(3,511)
Decrease in taxation	3,511	–	–	3,511
Total increase in profit	–	–	–	–
Increase/(Decrease) in basic earnings per share	–	–	–	–
Year ended 31 December 2005				
Increase in amortisation of prepaid lease payments	–	(465)	–	(465)
Decrease in depreciation	–	465	–	465
Decrease in amortisation charge on goodwill	–	–	5,886	5,886
Total increase in profit	–	–	5,886	5,886
Increase/(Decrease) in basic earnings per share (HK Cents)	–	–	1.57	1.57

* adjustments which take effect prospectively from 1 January 2005

\# adjustments which take effect retrospectively

2. ADOPTION OF NEW/REVISED HKFRS (Continued)

2.10 The effect of changes in the accounting policies on consolidated balance sheet on adoption of HKAS 17 and 39 is summarised below :

	HKAS 17#	HKAS 39*	Total
	HK$'000	*HK$'000*	*HK$'000*
At 31 December 2004			
Increase/(Decrease) in assets			
Property, plant and equipment	(7,117)	–	(7,117)
Prepaid lease payments	7,117	–	7,117
At 1 January 2005			
Increase/(Decrease) in assets			
Property, plant and equipment	(7,117)	–	(7,117)
Prepaid lease payments	7,117	–	7,117
Short term investments	–	(2,821)	(2,821)
Financial assets at fair value through profit or loss	–	2,821	2,821
At 31 December 2005			
Increase/(Decrease) in assets			
Property, plant and equipment	(6,858)	–	(6,858)
Prepaid lease payments	6,858	–	6,858

adjustments which take effect retrospectively

* adjustments which take effect prospectively from 1 January 2005

2. ADOPTION OF NEW/REVISED HKFRS (Continued)

2.11 New standards or interpretations that have been issued but are not yet effective

The Group has not early adopted the following standards or interpretations relevant to its operation that have been issued but are not yet effective. The directors of the Company anticipate that the adoption of these standards and interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 19 (Amendment)	Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures[2]
HKAS 21 (Amendment)	Net Investment in a Foreign Operation[2]
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions[2]
HKAS 39 (Amendment)	The Fair Value Option[2]
HKAS 39 & HKFRS 4 (Amendment)	Financial Guarantee Contracts[2]
HKFRS 7	Financial Instruments – Disclosures[1]
HK(IFRIC) – Int 4	Determining whether an Arrangement contains A Lease[2]

1 Effective for annual periods beginning on or after 1 January 2007

2 Effective for annual periods beginning on or after 1 January 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

The significant accounting policies that have been used in the preparation of these financial statements are recognised below.

The financial statements have been prepared on the historical cost basis except for the revaluation of certain financial assets and liabilities. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

3.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year. Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the assets transferred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Basis of consolidation (Continued)

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and consolidated statement of changes in equity within equity, separately from equity attributable to the equity holders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and equity holders of the Company.

3.3 Subsidiaries

Subsidiaries are all entities over which the Company has the power to control the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

Acquired subsidiaries are subject to application of the purchase method. This involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their revalued amounts, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

In the Company's balance sheet, subsidiaries are carried at cost less any impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

3.4 Joint ventures

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the venturers.

The Group's share of post-acquisition results and reserves of jointly controlled entities is included in the consolidated income statement and consolidated reserves, respectively. The cumulative post-acquisition movements are adjusted against the carrying amount of investment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Joint ventures (Continued)

When the Group's share of losses in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity (including any other unsecured receivables), the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the jointly controlled entity.

Unrealised gains on transactions between the Group and its jointly controlled entity are eliminated to the extent of the Group's interest in the jointly controlled entity. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The Company's investment in jointly controlled entity is stated at cost less any impairment losses. The results of jointly controlled entity are accounted for by the Company on the basis of dividends received and receivable.

3.5 Foreign currency translation

The financial statements are presented in Hong Kong Dollars (HK$), which is also the functional currency of the Company.

In the separate financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in the income statement.

In the consolidated financial statements, all separate financial statements of subsidiaries and joint ventures, originally presented in a currency different from the Group's presentation currency, have been converted into Hong Kong dollars. Assets and liabilities have been translated into Hong Kong dollars at the closing rate at the balance sheet date. Income and expenses have been converted into Hong Kong dollars at the average rates over the reporting period. Any differences arising from this procedure have been dealt with in the exchange fluctuation reserve in equity. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into Hong Kong Dollars at the closing rates.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 Income and expense recognition

Revenue comprises the fair value for the sale of goods and services, net of rebates and discounts and after elimination of sales within the Group.

Revenue is recognised when it is probable that the economics benefits will flow to the Group and when the revenue and costs, if applicable, can be measured reliably and on the following bases:

– Revenue from sale of electricity is recognised on consumption recorded by meters read during the year and terms agreed with the relevant PRC governmental electricity supply bureau.

– Interest income is recognised on a time proportion basis using the effective interest rate method.

Operating expenses are charged to the income statement when incurred.

3.7 Borrowing costs

All borrowing costs are expensed as incurred.

3.8 Goodwill

Goodwill arising on acquisition of subsidiaries for which the agreement date is before 1 January 2005 represents the excess of the cost of an acquisition over the Group's interest in fair value of identifiable assets and liabilities of the acquired subsidiary at the date of acquisition. The Group has discontinued amortisation from 1 January 2005 onwards and such goodwill is test annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

3.9 Property, plant and equipment

Property, plant and equipment are stated at acquisition cost less accumulated depreciation and accumulated impairment losses. The cost of asset comprises its purchase price and any directly attributable cost of bringing the asset to its working condition and location for its intended use. The gain or loss arising on the disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Property, plant and equipment (Continued)

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost less their residual values over their estimated useful lives, as follows:

Buildings	4% per annum
Plant and machineries	4% per annum
Furniture, fixtures, equipment and leasehold improvement	20% per annum
Motor vehicles	20% per annum

The assets' residual value and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The gain or loss arising on disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

3.10 Land use rights

Land use rights represent up-front payments to acquire long term interest in the usage of land. They are stated at cost and charged to the income statement over the remaining period of the lease on a straight line basis net of any impairment losses.

3.11 Impairment of assets

Goodwill, property, plant and equipment, prepaid lease payments and interest in subsidiaries and jointly controlled entities are subject to impairment testing.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management controls the related cash flows.

Individual assets or cash-generating units that include goodwill are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11 Impairment of assets (Continued)

An impairment loss is recognised as an expense immediately for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation. Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit.

An impairment loss on goodwill is not reversed in subsequent periods. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.12 Leases

Leases where substantially all the rewards and risks of ownership of leased assets remain with the lessor are accounted for as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis. Affiliated costs, such as maintenance and insurance, are expensed as incurred.

3.13 Financial assets

In previous years, the Group classified its investments in securities, other than subsidiaries and jointly controlled entities, as short term investments.

Short term investments were carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading securities were recognised in the income statement. Profits or losses on disposal of trading securities, representing the difference between the net sales proceeds and the carrying amounts, were recognised in the income statement as they arose.

From 1 January 2005, the Group classified its financial assets as loans and receivable and financial assets at fair value through profit or loss. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the financial assets were acquired. The designation of financial assets is reclassified at every reporting date at which a choice of classification or accounting treatment is available.

All financial assets are recognised on their settlement date. When financial assets are recognised initially, they are measured at fair value, plus in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Financial assets (Continued)

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. An assessment for impairment is undertaken at least at each balance sheet date whether or not there is objective evidence that a financial asset or a group of financial assets is impaired.

Financial assets at fair value through profit or loss include financial assets that are either held for trading or are designated by the entity to be carried at fair value through profit or loss on initial recognition. Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in income statement. Financial assets originally designated as financial assets at fair value through profit or loss may not subsequently be re-classified.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any impairment losses. Any changes in their value is recognised in income statement.

Loans and receivables are provided against when objective evidence is received that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

3.14 Inventories

Inventories comprise coal, spare parts and consumable stores for own consumption purposes. Coal and diesel are stated at weighted average cost whereas spare parts and consumable stores are stated at first-in first-out or weight average basis as appropriate.

3.15 Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, tax authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the tax periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.15 Accounting for income taxes (Continued)

Deferred income taxes are calculated using the liability method on temporary differences. This involves the comparison of the carrying amounts of assets and liabilities in the consolidated financial statements with their respective tax bases. No deferred taxes are recognised on temporary differences associated with shares in subsidiaries if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future. In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided for in full. Deferred tax assets are recognised to the extent that it is probable that they will be able to be offset against future taxable income. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Most changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement. Only changes in deferred tax assets or liabilities that relate to a change in value of assets or liabilities that is charged directly to equity are charged or credited directly to equity.

3.16 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand as well as short term bank deposits.

3.17 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from the proceeds (net of any related income tax benefits), to the extent they are incidental costs directly attributable to the equity transaction.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.18 Employee benefits

(i) Retirement benefit obligations

The Group contributes to a defined contribution retirement benefit scheme ("MPF scheme") under the Mandatory Provident Fund Scheme Ordinance which are available to its employees in Hong Kong. Contributions to the MPF Scheme by the Group and employees are calculated as percentages of employees' basic salaries. The retirement benefit scheme cost charged to income statement represents contributions payable by the Group to the MPF scheme.

The assets of the MPF Scheme are held separately from those of the Group in independently administered funds.

The employees of the Group's subsidiary which operates in the PRC are required to participate in a central pension scheme operated by the local municipal government.

This subsidiary is required to contribute certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

(ii) Share-based employee compensation

All share-based payment arrangements granted after 7 November 2002 and had not vested on 1 January 2005 are recognised in the financial statements.

The Group operates equity-settled share-based compensation plans for remuneration of its employees.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the share options awarded. The value is appraised at the grant date and excludes the impact of any non-market vesting conditions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.18 Employee benefits (Continued)

(ii) Share-based employee compensation (Continued)

All share-based compensation is recognised as an expense in income statement with a corresponding credit to equity compensation reserve, net of deferred tax where applicable. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment to expense recognised in prior periods is made if fewer share options ultimately are exercised than originally estimated.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the share issued are reallocated to share capital with any excess being recorded as share premium. When the share options are lapsed, forfeited or still not exercised at the expired date, the amount previously recognised in equity will be transferred to retained earnings.

3.19 Financial liabilities

The Group's financial liabilities include bank loans, account payables, other payables and accruals, amount due to a director and loans from minority shareholders. They are included in balance sheet line items as "bank loans" under current and non-current liabilities, "account payables", "other payables and accruals", "amount due to a director" under current liabilities and "loans from minority shareholders" under non-current liabilities.

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument. All interest related charges are recognised as an expense in finance costs in the income statement.

Borrowings, which include bank loans and loans from minority shareholders, are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

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.

Account payables, other payables and accruals and amount due to a director are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest rate method.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.20 Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

In respect of business segment reporting, unallocated costs represent corporate expenses. Segment assets consist primarily of property, plant and equipment, prepaid lease payments, interests in jointly-controlled entities, goodwill, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings.

Capital expenditure comprises additions to property, plant and equipment.

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

3.21 Related parties

Parties are considered to be related to if:

(i) directly, or indirectly through one or more intermediaries, the Group:

- controls, is controlled by, or is under common control with, the entity;
- has an interest in the entity that gives it significant influence over the entity;
- has joint control over the entity;

(ii) the party is a joint-controlled entity;

(iii) the party is a member of the key management personnel of the Group or its parent;

(iv) the party is a close member of the family or any individual referred to in (i) or (iii);

(v) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iii) or (iv); or

(vi) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.22 Discontinued operations

A discontinued operation is a clearly distinguishable component of the Group's business that is disposed of or abandoned pursuant to a single plan, which represents a separate major line of business or geographical area of operations.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates 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 estimated 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.

(i) *Impairment of goodwill*

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 3.8. The recoverable amounts of cash-generating unit have been determined based on value-in-use calculations. These calculations require the use of estimates.

(ii) *Depreciation*

The Group depreciates the property, plant and equipment on a straight-line basis over the estimated useful lives of 5 to 25 years, starting from the date on which the assets are placed into productive use. The estimated useful lives reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment.

(iii) *Impairment of receivables*

The Group's management determines impairment of receivables on a regular basis. This estimate is based on the credit history of its customers and current market conditions. Management reassess the impairment of receivables at the balance sheet date.

5. REVENUE AND OTHER OPERATING INCOME

Revenue, which is also the Group's turnover, represents the sale of electricity, net of value added tax, for the year. For the year ended 31 December 2004, revenue also included the net invoiced value of goods sold, after allowances for returns and trade discounts. Revenue and other operating income recognised during the year are as follows :

	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Revenue		
Sale of electricity-continuing operation	**186,535**	118,711
Other operating income		
Interest income	**141**	22
Gain on disposal of property, plant and equipment	**36**	74
Others	**1,780**	991
	1,957	1,087

6. SEGMENT INFORMATION

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(i) the garments segment involves the sale of garments (note 10);

(ii) the generation and sale of electricity segment involves the sale of electricity; and

(iil) the "others" segment comprises, principally, the Group's trading and holding of equity investments.

There was no intersegment sale and transfer during the year (2004: Nil).

6. SEGMENT INFORMATION (Continued)

(a) Business segments

	Discontinued operation		Continuing operations							
	Garments		Generation and sale of electricity		Others		Total		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
				(Restated)						(Restated)
Segment revenue :										
Sales to external customer	**–**	1,300	**186,535**	118,711	**–**	–	**186,535**	118,711	**186,535**	120,011
Segment results	**–**	(6,442)	**25,965**	24,074	**1,190**	(2,911)	**27,155**	21,163	**27,155**	14,721
Unallocated other operating income									**–**	204
Unallocated expenses									**(18,861)**	(12,396)
Impairment of goodwill			**(59,000)**	–					**(59,000)**	–
Operating (loss)/profit									**(50,706)**	2,529
Finance costs									**(8,082)**	(4,966)
Share of profits of associates			**–**	19,791					**–**	19,791
(Loss)/Profit before income tax									**(58,788)**	17,354
Income tax (expense)/credit									**(439)**	3,064
(Loss)/Profit for the year									**(59,227)**	20,418

6. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

	Discontinued operation		Continuing operations							
	Garments		Generation and sale of electricity		Others		Total		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
				(Restated)				(Restated)		(Restated)
Segment assets	**–**	–	**382,778**	423,723	**2,465**	2,970	**385,243**	426,693	**385,243**	426,693
Interests in jointly-controlled entities	**–**	–	**–**	–	**–**	–	**–**	–	**71,511**	62,623
Unallocated assets	**–**	–	**–**	–	**–**	–	**–**	–	**21,014**	80,270
Total assets	**–**	–	**382,778**	423,723	**2,465**	2,970	**385,243**	426,693	**477,768**	569,586
Segment liabilities	**–**	–	**145,610**	182,469	**782**	726	**146,392**	183,195	**146,392**	183,195
Unallocated liabilities	**–**	–	**–**	–	**–**	–	**–**	–	**20,751**	21,018
Total liabilities	**–**	–	**145,610**	182,469	**782**	726	**146,392**	183,195	**167,143**	204,213
Depreciation	**–**	–	**20,970**	10,744	**486**	360	**21,456**	11,104	**21,456**	11,104
Amortisation of goodwill	**–**	–	**–**	2,943	**–**	–	**-**	2,943	**–**	2,943
Amortisation of prepaid lease payments	**–**	–	**465**	226	**–**	–	**465**	226	**465**	226
Other non-cash expenses	**–**	–	**–**	–	**–**	6,689	**–**	6,689	**–**	6,689
Unallocated non-cash expenses	**–**	–	**–**	–	**–**	–	**–**	–	**–**	1,031
Capital expenditure – addition of property, plant and equipment	**–**	–	**167**	308,818	**310**	1,419	**477**	310,237	**477**	310,237
Impairment loss of goodwill	**–**	–	**59,000**	–	**–**	–	**59,000**	–	**59,000**	–

6. SEGMENT INFORMATION (Continued)

(b) Geographical segments

The following table presents revenue and segment asset and expenditure information for the Group's geographical segments.

	Hong Kong		PRC		Other		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue								
– Continuing operations								
Sales to external customer	**–**	–	**186,535**	118,711	**–**	–	**186,535**	118,711
– Discontinued operations								
Sales to external customer	**–**	442	**–**	–	**–**	858	**–**	1,300
Segment assets								
– Continuing operations	**98,996**	156,246	**378,772**	413,340	**–**	–	**477,768**	569,586
Capital expenditure-addition of property, plant and equipment								
– Continuing operations	**310**	1,419	**167**	308,818	**–**	–	**477**	310,237

7. FINANCE COSTS

	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Interest charge on bank loans :		
– wholly repayable within five years	**7,544**	3,970
– wholly repayable after five years	**538**	481
	8,082	4,451

8. (LOSS)/PROFIT BEFORE INCOME TAX

(Loss)/Profit before income tax is arrived at after charging:

	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Cost of inventories sold	**161,539**	87,531
Auditors' remuneration	**400**	720
Depreciation of owned assets*	**21,456**	11,104
Operating lease charges on land and buildings	**625**	649
Amortisation of goodwill	**–**	2,943
Amortisation of prepaid lease payments	**465**	226
Employee benefit expense, including directors' remuneration and retirement benefit scheme contributions *(note 13)*	**14,601**	11,314
Retirement benefit scheme contributions	**116**	233
Provision for doubtful debts	**–**	6,689
Impairment loss on goodwill *(note 20)*	**59,000**	–
Fair value losses on financial assets at fair value through profit or loss	**934**	–
Net realised losses on trading of short term listed equity investments	**–**	1,881
Net unrealised holding losses on short term equity investments	**–**	1,031

* Depreciation expense of HK$19,446,000 (2004: HK$10,461,000) has been expensed in cost of sales and HK$2,010,000 (2004: HK$643,000) in administrative expenses.

The comparative figures include both continuing and discontinued operations of the Group. Details of the discontinued operation are set out in note 10.

9. INCOME TAX EXPENSE/CREDIT

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the year (2004: Nil).

Pursuant to a circular of Min Gao Shui Fa (2002) Number 88 (閩國稅法[2002] 88號) issued by the Fujian Provincial Government on 10 April 2002, the estimated assessable profits of Longyan Hengfa Electric Industry Co. Ltd ("Longyan Hengfa") 龍岩恒發電業有限公司 arising in the PRC starting from 1 January 2003 were subjected to an applicable corporate income tax rate of 24%. According to a circular of Min Guo Shui Xian (2004) Number 47（閩國稅函[2004] 47號）issued by the Fujian Office of National Tax Bureau on 3 February 2004, a preferential corporate income tax rate of 15% has been granted to Longyan Hengfa starting from February 2004.

	2005 ***HK$'000***	2004 *HK$'000* (Restated)
Current tax		
Hong Kong profits tax		
Over provision in prior years	**–**	(6,319)
PRC income tax		
Current year	**439**	3,255
Total income tax expense/(credit)	**439**	(3,064)

Reconciliation between tax expense/(credit) and (loss)/profit before income tax at applicable tax rates is as follows:

	2005 ***HK$'000***	2004 *HK$'000* (Restated)
(Loss)/Profit before income tax	**(58,788)**	21,388
Share of profits of associate	**–**	(19,791)
	(58,788)	1,597
Tax on loss before income tax, calculated at the rates applicable to profits in the tax jurisdictions	**(12,351)**	71
Tax effect of non-taxable income	**(239)**	–
Tax effect of non-deductible expenses	**10,621**	592
Tax losses not recognised	**2,408**	2,592
Over provision in prior years	**–**	(6,319)
Income tax expense/(credit)	**439**	(3,064)

10. DISCONTINUED OPERATION

On 30 July 2004, Perfect Yield Holdings Limited ("Perfect Yield"), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement (the "Disposal Agreement") with Mr. Leung Yuen Keung, Edward ("Mr. Leung"), a substantial shareholder of Royalink. Pursuant to the Disposal Agreement, Perfect Yield agreed to sell its 1,020,000 shares of HK$1.00 each in Royalink, representing in aggregate 51% of the issued share capital of Royalink, for a cash consideration of HK$5,000 (the "disposal").

The Disposal was completed on 25 October 2004. The consideration of HK$5,000 was payable by Mr. Leung upon completion.

An analysis of the results of the discontinued garment business, and the result recognised on the remeasurement of assets of the disposal group is as follows:

	2004* *HK$'000*
Revenue	1,300
Expenses	(8,210)
Income tax expense	–
Loss for the year for discontinued operation	(6,910)
Gain recognised on disposal of discontinued operation	2,876
Loss for the year from discontinued operation	(4,034)
Operating cash flows	(2,130)
Investing cash flows	–
Financing cash flows	285
Total cash flows	(1,845)

* Results for the period from 1 January 2004 to 25 October 2004, date of discontinuance.

Loss for the year for discontinued operation was arrived at after charging if applicable:

	2004 *HK$'000*
Cost of inventories sold	2,340
Auditors' remuneration	9
Operating lease charges on land and buildings	178
Employee benefit expense (including retirement benefit scheme contributions)	932
Retirement benefit scheme contributions	37
Interest charge on bank loan wholly repayable within five years	515

11. (LOSS)/PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY

Of the consolidated loss attributable to equity holders of the Company of HK$62,996,000 (2004: profit of HK$14,698,000), a loss of HK$1,385,000 (2004: HK$2,757,000) has been dealt with in the financial statements of the Company.

12. (LOSS)/EARNINGS PER SHARE

The calculation of basic loss per share for continuing and discontinued operations is based on the loss attributable to equity holders of the Company of HK$62,996,000 (2004: profit of HK$14,698,000), and on the weighted average of 375,862,614 (2004: 375,862,614) ordinary shares in issue during the year.

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

	2005	2004
	HK$'000	*HK$'000*
		(Restated)
(Loss)/Profit from continuing and discontinued operations	**(62,996)**	14,698
Add: Loss attributable to discontinued operation	**–**	648
	(62,996)	15,346

The denominators used are the same as those detailed above for basic loss per share for continuing and discontinued operations.

No diluted loss per share is presented for the year ended 31 December 2005 as the outstanding share options were anti-dilutive. No diluted earnings per share have been shown for the year ended 31 December 2004 because the exercise price of the share options outstanding during that year was higher than the average market price of the Company's shares and, accordingly, there was no dilutive effect on the basic earnings per share.

13. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' REMUNERATION)

	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Wages and salaries	**14,485**	10,186
Retirement benefit scheme contributions		
– defined contribution plans	**116**	196
	14,601	10,382

14. DIRECTORS' REMUNERATION

The emoluments paid or payable to the directors were as follows:

	Fees HK$'000	Salaries and allowances HK$'000	Bonuses HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
2005					
Executive directors					
Chan Chun Keung	–	264	22	12	298
Chau On Ta Yuen	–	300	50	12	362
Judy Leissner	–	480	40	12	532
Lam Chung Chak	–	211	17	11	239
Chan Kin	–	–	–	–	–
Li Wan Luk	6	154	–	–	160
Chan Lai Yin Tommy	40	–	–	–	40
Independent non-executive directors					
Chan Kin Sang	80	–	–	–	80
Ng Wing Hang Patrick	80	–	–	–	80
Wong Wai Kong	50	–	–	–	50
	256	1,409	129	47	1,841
2004					
Executive directors					
Chan Chun Keung	–	264	22	12	298
Chau On Ta Yuen	–	300	25	12	337
Judy Leissner	–	480	40	12	532
Lam Chung Chak	–	211	17	11	239
Chan Kin	–	–	–	–	–
Li Wan Luk	–	123	30	–	153
Chan Lai Yin Tommy	–	40	–	–	40
Independent non-executive directors					
Chan Kin Sang	80	–	–	–	80
Ng Wing Hang Patrick	80	–	–	–	80
Wong Wai Kong	50	–	–	–	50
Dominic Lai	–	–	–	–	–
Chan Kam Man	–	–	–	–	–
	210	1,418	134	47	1,809

During the year, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group, or as compensation for loss of office (2004: Nil).

No share options have been granted to any of the director of the Company to subscribe for ordinary shares of the Company for the year (2004: Nil).

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2004: Nil).

15. FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Group for the year included three (2004: four) directors whose emoluments are reflected in the analysis presented in note 14. The emoluments payable to the remaining two (2004: one) individuals during the year are as follows:

	2005	2004
	HK$'000	*HK$'000*
Basic salaries, housing benefits, other allowances and benefits in kind	**706**	752
Retirement benefit scheme contributions	**23**	21
	729	773

The emoluments fell within the following bands:

	2005	2004
Emolument bands		
Nil – HK$1,000,000	**2**	1

During the year, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office (2004: Nil).

No share options have been granted to the five highest paid individuals of the Group to subscribe for ordinary shares of the Company for the year (2004: Nil).

16. PROPERTY, PLANT AND EQUIPMENT – GROUP

	Buildings HK$'000 (Restated)	Plant and machineries HK$'000	Furniture, fixtures, equipment and leasehold improvement HK$'000	Motor vehicles HK$'000	Construction in process HK$'000	Total HK$'000 (Restated)
At 1 January 2004						
Cost	–	2,401	1,336	1,270	–	5,007
Accumulated depreciation	–	(795)	(584)	(375)	–	(1,754)
Net book amount	–	1,606	752	895	–	3,253
Year ended 31 December 2004						
Opening net book value	–	1,606	752	895	–	3,253
Additions	–	540	168	1,419	654	2,781
Acquisition of subsidiaries	106,536	197,709	544	–	2,667	307,456
Transfer	–	3,321	–	–	(3,321)	–
Disposal	–	–	–	(526)	–	(526)
Disposal of a subsidiary	–	(1,246)	(202)	–	–	(1,448)
Depreciation	(2,383)	(8,147)	(286)	(288)	–	(11,104)
Closing net book amount	104,153	193,783	976	1,500	–	300,412
At 31 December 2004						
Cost	106,536	201,570	1,463	1,761	–	311,330
Accumulated depreciation	(2,383)	(7,787)	(487)	(261)	–	(10,918)
Net book amount	104,153	193,783	976	1,500	–	300,412
Year ended 31 December 2005						
Opening net book value	104,153	193,783	976	1,500	–	300,412
Exchange difference	3,003	5,028	19	–	–	8,050
Additions	–	50	117	310	–	477
Disposal	–	–	(50)	(253)	–	(303)
Depreciation	(6,200)	(14,298)	(597)	(361)	–	(21,456)
Closing net book amount	100,956	184,563	465	1,196	–	287,180
At 31 December 2005						
Cost	109,608	207,435	1,306	1,726	–	320,075
Accumulated depreciation	(8,652)	(22,872)	(841)	(530)	–	(32,895)
Net book amount	100,956	184,563	465	1,196	–	287,180

Certain of the Group's buildings and plant and machineries which had an aggregate net book value at 31 December 2005 of approximately HK$211,543,000 (2004: HK$135,957,000) were pledged to secure the Group's banking facilities (note 27).

17. PREPAID LEASE PAYMENTS – GROUP

	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Opening net book amount	**7,117**	–
Acquisition of subsidiaries	**–**	7,343
Exchange difference	**206**	–
Amortisation charge for the year	**(465)**	(226)
Closing net book amount	**6,858**	7,117

The prepaid lease payments for leasehold interests in land are held in the PRC on medium and long term leases of approximately HK$2,587,000 (2004: HK$2,683,000) and HK$4,271,000 (2004: HK$4,434,000) respectively.

At 31 December 2005, certain leasehold interests in land of approximately HK$2,587,000 (2004: Nil) was pledged against certain bank loans granted to the Group (note 27).

18. INTERESTS IN SUBSIDIARIES – COMPANY

	2005	2004
	HK$'000	*HK$'000*
Unlisted shares, at cost	**82,058**	82,058
Due from subsidiaries	**413,021**	412,438
Due to subsidiaries	**(95,523)**	(95,523)
	399,556	398,973
Less: Provision for impairment	**(176,724)**	(176,724)
	222,832	222,249

The amounts due from/(to) subsidiaries are unsecured, interest-free and are not repayable in the next 12 months.

18. INTERESTS IN SUBSIDIARIES – COMPANY (Continued)

The table below 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 the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Particulars of the principal subsidiaries of the Company at 31 December 2005 were as follows:

Name	Place of incorporation/ operations	Particulars of issued capital	Percentage of issued capital held by the Company	Principal activities
Directly held				
Dragonfield Group (BVI) Limited	British Virgin Islands ("BVI")/ Hong Kong	1,000 shares of US$1 each	100	Investment holding
Indirectly held				
Concade Assets Limited ("Concade")	BVI/Hong Kong	11,968,000 shares of US$1 each	59	Investment holding
Dragonfield Management Limited	Hong Kong	2 shares of HK$1 each	100	Provision of management services
Everybest Century Limited ("ECL")	Hong Kong	1,000 ordinary shares of HK$1 each 10,000,000 deferred shares of HK$1 each *(note (i))*	59	Investment holding
Flying Gain Holdings Limited	BVI/Hong Kong	2 shares of US$1 each	100	Investment holding
Goodfield Development Limited ("Goodfield")	Hong Kong	1,000 shares of HK$1 each	85	Investment holding
Grand Gain International Limited	Hong Kong	2 shares of HK$1 each	100	Provision of management services

18. INTERESTS IN SUBSIDIARIES – COMPANY (Continued)

Name	Place of incorporation/ operations	Particulars of issued capital	Percentage of issued capital held by the Company	Principal activities
Indirectly held				
Longyan Hengfa *(note (ii))*	PRC	RMB 140,000,000	53.1	Management and operation of a power plant
Perfect Yield Holdings Limited	BVI/Hong Kong	7 shares of US$1 each	100	Investment holding
Royce Group Limited	BVI/Hong Kong	1 shares of US$1 each	100	Investment holding
Royce Properties Limited	Hong Kong	2 shares of HK$1 each	100	Investment holding

Notes:

(i) The non–voting deferred shares carry no rights to dividends, no rights to attend or vote at general meetings and no rights to receive any surplus assets in a return of capital in a winding–up.

(ii) Longyan Hengfa is a sino-foreign equity joint venture established in the PRC with a term of 25 years commencing on the date of its business licence of 30 December 1993. The Group through its non-wholly owned subsidiary, Concade, held 90% of Longyan Hengfa and the remaining 7% and 3% equity interests in Longyan Hengfa are respectively owned by Longyan Hengfa Power Construction Development Company (龍岩市電力建設發展公司), a state–owned enterprise in the PRC, and a company incorporated in Hong Kong, both of which are independent of the directors, chief executive or substantial shareholders of the Company or its subsidiaries or their respective associates (as defined in the Listing Rules).

19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES – GROUP

	2005	2004
	HK$'000	*HK$'000*
Share of net assets of jointly-controlled entities	**–**	–
Loans to jointly-controlled entities	**71,511**	62,623
	71,511	62,623

The loans to the jointly–controlled entities are unsecured, interest–free and are not repayable in the next twelve months.

As at 31 December 2005, the Group had interests in the following jointly–controlled entities :

Name	**Business structure**	**Place of incorporation/ registration and operations**	**Percentage of Ownership interest**	**Percentage of Voting power**	**Profit sharing**	**Principal activities**
Indirectly held						
Best Base Investments Limited ("Best Base")	Corporate	Hong Kong/PRC	42.5	42.5	42.5	Investment holding
United Force Development Limited ("United Force")	Corporate	Hong Kong/PRC	42.5	42.5	42.5	Investment holding
廈門梧村汽車站開發有限公司	Corporate	PRC/PRC	29.8	24.3	29.8	Property development
瀋陽置力房產開發有限公司	Corporate	PRC/PRC	42.1	34	42.1	Property development

19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES – GROUP (Continued)

Included in the Group's interests in jointly-controlled entities is the loans to United Force and its subsidiary, 瀋陽置力房產開發有限公司 (collectively the "United Force Group") and to Best Base and its subsidiary, 廈門梧村汽車站開發有限公司 (collectively the "Best Base Group") which, in the opinion of the directors, are material in the context of the Group's financial statements. The aggregate amounts relating to United Force Group and Best Base Group that have been included in the Group's consolidated financial statements are set out below:

United Force Group

	2005	2004
	HK$'000	*HK$'000*
Share of jointly-controlled entities' results		
Income	**3**	–
Expenses	**926**	241
Share of jointly-controlled entities' assets and liabilities		
Non-current assets	**46,934**	30,808
Current assets	**4,765**	5,284
Non-current liabilities	**(52,146)**	(36,383)
Current liabilities	**(22)**	(28)
	(469)	(319)

19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES – GROUP (Continued)

Best Base Group

	2005 *HK$'000*	2004 *HK$'000*
Share of jointly-controlled entities' loss		
Income	**3**	–
Expenses	**559**	627
Share of jointly-controlled entities' assets and liabilities		
Non-current assets	**36,979**	21,592
Current assets	**1,349**	3,029
Non-current liabilities	**(36,945)**	(25,272)
Current liabilities	**(2,468)**	(5)
	(1,085)	(656)

20. GOODWILL – GROUP

The net carrying amount of goodwill can be analysed as follows :

	2005	2004
	HK$'000	*HK$'000*
Carrying amount at 1 January	**79,910**	–
Transfer from associates	**–**	57,804
Further acquisition of 15% equity interest in Concade Group	**–**	25,049
Amortisation charge for the year	**–**	(2,943)
Impairment loss	**(59,000)**	–
Carrying amount at 31 December	**20,910**	79,910
Closing carrying amount		
Gross carrying amount	**79,910**	82,853
Accumulated amortisation	**–**	(2,943)
Accumulated impairment loss	**(59,000)**	–
Net carrying amount at 31 December	**20,910**	79,910

The goodwill at 31 December 2005 comprises goodwill arising from the acquisitions of Longyan Hengfa. The change in the gross carrying amount of goodwill between 31 December 2004 and 31 December 2005 was caused by the transitional provisions of HKFRS 3. In accordance with HKFRS 3, all accumulated amortisation as at 31 December 2004 was eliminated against the gross amount of goodwill and amortisation of goodwill was discontinued from 1 January 2005.

The carrying amount of goodwill has been allocated to the cash-generating units for impairment testing, i.e. the power plant which was engaged in generation and sale of electricity in the PRC. The recoverable amount for the cash-generating unit was determined based on value-in-use calculations, covering cash-flow projections for a period from 1 January 2006 upto the expiry of the business licence of the power plant discounted at applicable costs of capital, which assume the adverse changes in the power plant operations resulted from the high production cost.

The performance of the power plant declined significantly during the year. The forecast for the power plant was adjusted in 2005 for the decline in net profit of the power plant. This resulted in reduction of goodwill associated with the power plant. The related impairment loss of HK$59,000,000 (2004: Nil) was included under "impairment loss of goodwill" in the income statement and attributable to the Group's generation and sale of electricity segment (note 6).

21. INVENTORIES – GROUP

	2005	2004
	HK$'000	*HK$'000*
Coal	**30,451**	29,460
Diesel	**384**	480
Spare part and consumables	**4,096**	3,920
	34,931	33,860

22. ACCOUNT RECEIVABLES – GROUP

Account receivables generally have credit terms of not more than 30 days. An aged analysis of the Group's account receivables at the balance sheet date, based on invoice date, is as follows:

	2005	2004
	HK$'000	*HK$'000*
Current – 90 days	**21,056**	22,857

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AND SHORT TERM INVESTMENTS – GROUP

	2005	2004
	HK$'000	*HK$'000*
Financial assets at fair value through profit or loss		
Market value of listed equity securities-		
Hong Kong	**508**	–
Short term investments		
Market value of listed equity securities-Hong Kong	**–**	2,821

	2005
	HK$'000
The carrying amount of the above financial assets	
are classified as follows:	
Held for trading	**508**
Designated as fair value through profit or loss	
on initial recognition	**–**
	508

Financial assets at fair value through profit or loss are presented within the section on operating activities as part of changes in working capital in the cash flow statement.

Changes in fair values of financial assets at fair value through profit or loss are recorded in other operating expenses in the income statement.

24. CASH AND CASH EQUIVALENTS

(a) Group

Cash and cash equivalents include the following components :

	2005	2004
	HK$'000	*HK$'000*
Cash at banks and in hand	**11,311**	25,771
Short-term bank deposits	**15,865**	24,643
	27,176	50,414

The effective interest rate of short-term bank deposits is 1.62% (2004: 1.62%). They have a maturity of 7 days and are eligible for immediate cancellation without receiving any interest for the last deposit period.

Included in cash at banks and in hand of the Group is HK$22,822,000 (2004: HK$41,157,000) of bank balances denominated in Renminbi ("RMB") placed with banks in the PRC. RMB is not a freely convertible currency.

(b) Company

	2005	2004
	HK$'000	*HK$'000*
Cash at banks and in hand	**29**	1,997

25. ACCOUNT PAYABLES – GROUP

An aged analysis of the Group's account payables at the balance sheet date, based on invoice date, is as follows:

	2005	2004
	HK$'000	*HK$'000*
Current – 90 days	**4,289**	5,720
91 – 180 days	**65**	263
Over 180 days	**431**	340
	4,785	6,323

26. AMOUNT DUE TO A DIRECTOR – GROUP

The amount due was unsecured, repayable on demand and interest free.

27. BANK LOANS – GROUP

	2005	2004
	HK$'000	*HK$'000*
Bank loans repayable :		
Within one year	**52,462**	71,587
In the second year	**29,413**	22,709
In third to fifth years, inclusive	**24,646**	40,702
Beyond five years	**6,233**	5,667
	112,754	140,665
Portion classified as current liabilities	**(52,462)**	(71,587)
Non-current portion	**60,292**	69,078
Analysed as follows :		
Secured	**104,600**	132,162
Unsecured	**8,154**	8,503
	112,754	140,665

Bank loans of HK$50,000,000 (2004: HK$61,962,000) were denominated in RMB of which approximately HK$36,538,000 (2004: HK$55,420,000) and HK$13,462,000 (2004: HK$6,542,000) bear interest at variable rates, which were ranging from 5.22% to 5.86% per annum at 31 December 2005 (2004: 5.04% – 5.58% per annum), and fixed rate at 5.76% per annum (2004: 5.76% annum) respectively.

A bank loan of HK$54,600,000 (2004: HK$70,200,000) was denominated in United States Dollar which bears interest at variable rate, which was 7.75% per annum at 31 December 2005 (2004: 5.75%), whereas a bank loan of approximately HK$8,154,000 (2004: HK$8,503,000) was denominated in Hong Kong Dollar which bears interest at variable rate, which was 8.25% per annum at 31 December 2005 (2004: 5.5%).

The Group's bank loans at 31 December 2005 were secured by:

(i) pledge of certain of the Group's buildings, plant and machineries and leasehold interest in land in the PRC, which had an aggregate net book value at 31 December 2005 of approximately HK$93,076,000 (2004: Nil), HK$118,467,000 (2004: HK$135,957,000) and HK$2,587,000 (2004: Nil) respectively;

(ii) pledge of equity interest in Longyan Hengfa held by the Group;

(iii) pledge of 24,000,000 shares of the Company which are listed on the Stock Exchange and are beneficially owned by a director of the Company;

(iv) subordination of all loans and other amounts due by ECL to Concade and/or shareholders of Concade. Concade, a non-wholly owned subsidiary of the Group, is the immediate holding company of ECL; and

(v) corporate guarantees executed by the Company.

28. LOANS FROM MINORITY SHAREHOLDERS – GROUP

The amount due is unsecured, interest free and is not repayable in the next twelve months after the balance sheet date.

29. DEFERRED TAX

The Group has tax losses arising in Hong Kong of HK$7,736,000 (2004: HK$7,736,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

At 31 December 2005, there is no significant unrecognised deferred tax liability (2004: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or joint ventures as the Group has no liability to additional tax should such amounts be remitted.

30. SHARE CAPITAL

	2005 ***HK$'000***	2004 *HK$'000*
Authorised :		
1,000,000,000 (2004: 1,000,000,000) ordinary shares of HK$0.20 each	**200,000**	200,000
Issued and fully paid :		
375,862,614 (2004: 375,862,614) ordinary shares of HK$0.20 each	**75,173**	75,173

31. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants ("Participants") of the Scheme include any employee of the Company or any of its subsidiaries (including any director of the Company or any of its subsidiaries). The Scheme was approved by shareholders at a Special General Meeting on 20 October 2004 in substitution of the old share option scheme of the Company adopted on 15 May 1997. The Scheme became effective on 25 October 2004 and, unless otherwise cancelled or amended, will remain in force for ten years from that date.

Under the Scheme, the board of directors of the Company may at its discretion grant options to the Participants to subscribe for shares provided that the total number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other share option scheme(s) of the Company shall not in aggregate exceed 10% of the shares in issue as at the adoption date. The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme(s) of the Company shall not in aggregate exceed 30% of the shares in issue from time to time.

The options which have been granted during the life of the old share option scheme shall continue to be valid and exercisable in accordance with their terms of issue and in all other respects, the provisions of the old share option scheme shall remain in full force and effect.

The offer of a grant of share options may be accepted with 10 business days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The option period of an option may not end later than 10 years after the date of offer of the option.

The subscription price for the shares under the Scheme shall be a price determined by the board of directors of the Company at its absolute discretion but in any event shall not be less than the highest of (i) the official closing price of the shares as stated in daily quotations sheet of the Stock Exchange on the offer date, (ii) the average of the official closing price of the shares as stated in daily quotations sheets of the Stock Exchange for the five business days immediately preceding the offer date; and (iii) the nominal value of a share.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

31. SHARE OPTION SCHEME (Continued)

The following share options were outstanding under the old share option scheme during the year :

Name or category of participant	At 1 January and 31 December 2005	Date of grant of share options *(note (i))*	Exercise period of share options	Exercise price of share options *(note (ii))*
Directors				
Mr. Chan Chun Keung	3,211,937	4 January 2001	16 January 2001 to 15 January 2006	0.32
Mr. Chau On Ta Yuen	1,062,500	4 January 2001	16 January 2001 to 15 January 2006	0.32
	4,274,437			
Other employees				
In aggregate	2,578,688	4 January 2001	16 January 2001 to 15 January 2006	0.32
Third parties				
In aggregate	531,250	4 January 2001	16 January 2001 to 15 January 2006	0.32
	7,384,375			

Notes:

(i) The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

(ii) The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

No share option was granted under the Scheme during the year (2004: Nil).

At the balance sheet date, the Company had 7,384,375 share options outstanding under the old share option scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 7,384,375 additional ordinary shares of the Company and additional share capital of HK$1,476,875 and share premium of HK$886,125 (before issue expenses).

All the share options were lapsed subsequent to the balance sheet date.

32. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current period and the prior year are presented in the consolidated statement of changes in equity of the financial statements.

The share premium account of the Group includes the premium arising from issue of shares of the Company at a premium.

The capital redemption reserve arose from the purchase of the Company's share for cancellation and represents a transfer from the Company's retained profits equivalent to the nominal value of the shares purchased for cancellation.

The contributed surplus of the Group arose as a result of the Group reorganisation in 1997 and represents the difference between the nominal value of the Company's shares issued under the reorganisation scheme and the nominal value of the aggregate share capital of the subsidiaries then acquired.

In accordance with the relevant PRC regulations and the joint venture contract, the Group's PRC subsidiary is required, at the discretion of its directors, to appropriate a certain percentage of its profit after tax, if any, to the statutory reserve fund for the future development and capital expenditure on staff welfare facilities purposes.

(b) Company

	Share premium account *HK$'000*	**Capital redemption reserve** *HK$'000*	**Contributed surplus** *HK$'000*	**Accumulated losses** *HK$'000*	**Total** *HK$'000*
At 1 January 2004	150,321	50	2,643	(1,892)	151,122
Net loss for the year	–	–	–	(2,757)	(2,757)
At 31 December 2004 and 1 January 2005	150,321	50	2,643	(4,649)	148,365
Net loss for the year	–	–	–	(1,385)	(1,385)
At 31 December 2005	**150,321**	**50**	**2,643**	**(6,034)**	**146,980**

The contributed surplus of the Company arose as a result of the reorganisation referred to in note 32(a) and represents the excess of the fair value of the shares of the subsidiaries then acquired, over the nominal value of the Company's shares issued in exchange therefor. Under the Bermuda Companies Act 1981 (as amended), the Company may make distributions to its members out of the contributed surplus under certain circumstances prescribed by Section 54 thereof.

Details of share premium account and capital redemption reserve of the Company are set out in note 32(a) above.

33. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT – GROUP

(a) Acquisition of a subsidiary

	2004
	HK$'000
Share of attributable net assets acquired	
Property, plant and equipment	314,799
Inventories	11,980
Account receivables	43,415
Prepayments, deposits and other receivables	4,137
Cash and bank balances	65,107
Account payables	(8,241)
Other payables and accruals	(11,575)
Amount due to a director	(12,788)
Tax payable	(170)
Dividend payable	(45,826)
Bank loans	(122,206)
Loan from minority shareholder	(17,884)
Minority interests	(98,381)
	122,367
Less: Interest in associates	(91,279)
	31,088
Goodwill	25,049
	56,137
Satisfied by :	
Cash	56,137

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary:

	2004
	HK$'000
Cash consideration	(56,137)
Cash and bank balances acquired	65,107
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	8,970

Since the acquisition, the subsidiary contributed HK$118,711,000 to the Group's turnover and HK$17,006,000 to the profit from ordinary activities before minority interests for the year ended 31 December 2004.

33. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT – GROUP (Continued)

(b) Disposal of a subsidiary

	2004
	HK$'000
Net assets disposed of:	
Property, plant and equipment	1,448
Cash and bank balances	9
Other payables and accruals	(6,090)
Bank loans	(996)
Minority interests	2,758
	(2,871)
Gain on disposal of a subsidiary	2,876
	5
Satisfied by :	
Cash	5

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of a subsidiary:

	2004
	HK$'000
Cash consideration	5
Cash and bank balances disposed of	(9)
Net outflow of cash and cash equivalents in respect of the disposal of a subsidiary	(4)

The subsidiary sold during the year ended 31 December 2004 contributed HK$1,300,000 to the Group's turnover and contributed a loss after taxation and minority interests of HK$6,910,000 to the consolidated results for the year ended 31 December 2004.

34. OPERATING LEASE COMMITMENTS

At 31 December 2005, the total future minimum lease payments under non–cancellable operating leases in respect of land and buildings payable by the Group are as follows:

	2005	2004
	HK$'000	*HK$'000*
Within one year	**586**	390
In the second to fifth years inclusive	**390**	–
	976	390

The Group leases certain properties under operating leases. The leases run for an initial period of three years, without option to renew the lease term at the expiry date. None of the lease include contingent rentals.

The Company did not have any significant lease commitments at 31 December 2005 (2004: Nil).

35. CONTINGENT LIABILITIES

At 31 December 2005, the Company had given guarantees to banks in connection with banking facilities granted to certain subsidiaries in an aggregate amount of HK$9,730,000 (2004: HK$9,730,000), of which approximately HK$8,154,000 (2004: HK$8,503,000) was utilised at the balance sheet date.

36. RELATED PARTY TRANSACTIONS–GROUP

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year and in the prior year:

(a) On 8 April 2005, the Group granted a shareholder's loan of HK$8,888,000 to United Force, a jointly–controlled entity in which the Group holds 50% equity interests and a brother–in–law of Mr. Chan Chun Keung, a director of the Company, holds the other 50% equity interests. The amount advanced was unsecured, interest free and would not be repayable within the next twelve months.

(b) On 13 March 2004, the Group granted a shareholders' loan of HK$1,142,000 to Best Base, a jointly-controlled entity in which the Group beneficially holds a 50% equity interest and a brother-in-law of Mr. Chan, an executive director of the Company, holds the other 50% equity interest.

The Group made further advance of approximately HK$10,828,000 to Best Base on 17 May 2004. The amount advanced was unsecured, interest free and would not be repayable in the next twelve months.

(c) On 14 May 2004, the Group entered into a shareholder agreement with the sister of Mr. Chan ("Ms. Chan") for the establishment of an entity, Goodfield, in which the Group contributed a 85% equity interest at a cash consideration of HK$850. Goodfield became a shareholder of Best Base and United Force thereafter.

On 17 May 2004, Ms. Chan advanced HK$10,818,000 to Goodfield as her portion of shareholders' loan to Best Base and United Force. The amount advanced was unsecured, interest free and would not be repayable within the next twelve months.

(d) In December 2004, United Force made a repayment to the Group in the sum of HK$8,838,000.

(e) Compensation of key management personnel

	2005	2004
	HK$'000	*HK$'000*
Total remuneration of directors and other members of key management during the year (note 14)	**1,841**	1,809

37. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks which results from both its operating and investing activities. The Group does not have written risk management policies and guidelines. However, the board of directors meets periodically to analyse and formulate strategies to manage the Group's exposure to market risks, including changes in interest rates and currency exchange rates. Generally, the Group introduces conservative strategies on its risk management. The Group's exposure to market risk is kept to minimum. The Group has not used any derivatives or other instruments for hedging purposes. The Group does not issue derivative financial instruments for trading purposes.

(a) Credit risk

All the Group's cash and cash equivalents are deposited with major banks located in Hong Kong and the PRC.

The Group sells the electricity generated to its sole customer, 福建省電力有限公司, the provincial power company in the Fujian Province. The carrying amounts of account and other receivables represent the Group's maximum exposure to credit risk in relation to its financial assets. No other financial assets carrying a significant exposure to credit risk.

(b) Foreign currency risk

The sales and purchases of the Group are predominantly in RMB. The Group does not hedge its foreign currency risks, as the management does not expect any significant movements in the exchange rate between RMB and Hong Kong Dollar.

(c) Interest rate risk

The Group has no significant interest bearing assets. The Group's interest rate risk arises from long term borrowings. The interest rates and terms of repayment are disclosed in note 27.

(d) Fair values

The fair values of the Group's current financial assets and liabilities are not materially different from their carrying amount because of the immediate or short term maturity. The fair values of non–current liabilities was not disclosed because the carrying value is not materially different from their fair value.

38. SUBSEQUENT EVENT

Save as those disclosed elsewhere in the financial statements, the Group and the Company had the following significant subsequent event:

(i) On 24 April 2006, Royce Group Limited ("Royce Group"), an indirect wholly-owned subsidiary of the Company, entered into an agreement with the Meta Investments (China) Limited ("Meta Investments"), a company which is beneficially owned by Ms. Chan, pursuant to which the Royce Group has agreed to sell, and Meta Investments has agreed to purchase (a) the Group's entire equity interest, which represents 85% of the issued share capital of, Goodfield, a subsidiary of the Company; and (b) certain outstanding loans of Goodfield to the subsidiaries of the Group, at an aggregate consideration of approximately HK$88,610,000.

39. COMPARATIVES

Certain comparatives were reclassified to conform with current year's presentation as a result of the change in accounting policies. Further details are disclosed in note 2.