

Report of the Auditors

TO THE SHAREHOLDERS OF CHINA CONSERVATIONAL POWER HOLDINGS LIMITED
 (中國環保電力控股有限公司)
(Incorporated in Cayman Islands with limited liability)

We have audited the financial statements on pages 36 to 111 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of Directors and Auditors

The Directors of the Company are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

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

Basis of opinion

We conducted our audit in accordance with Hong Kong Standard on Auditing issued by the Hong Kong Institute of Certified Public Accountants, except the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to us was limited because of the following matters:

- As more fully explained in note 3(a)(ii) to the financial statements, there were several changes to the board of directors of the Company during the year and subsequent to the year ended 31 March 2006. Although the present Board of Directors have represented that they have taken due care in the preparation of the financial statements, the present Board is unable to give representation as to the completeness of the books and records of the Group during the year ended 31 March 2006. The present Board of Directors is unable to represent that all transactions entered into under the name of the Company and its subsidiaries during the year ended 31 March 2006 have been properly included in the financial statements. Accordingly, we have been unable to obtain full representations from the Directors for the purpose of our audit.

Report of the Auditors

Basis of opinion (Continued)

2. Hong Kong Standard on Auditing 510 "Initial Engagement – Opening Balances" issued by HKICPA requires the auditors to obtain sufficient audit evidence that opening balances do not contain material misstatements which affect the financial statements of the current year. We have considered the adequacy of the disclosures made in the financial statements concerning losses incurred by the Group in connection with:
 - (a) an impairment loss in the amount of approximately HK\$467,000 against interests in associates of the Group;
 - (b) an impairment loss in the amount of approximately HK\$69,187,000 against loans receivable and accrued interest of the Group (see paragraph 7 below); and
 - (c) an impairment loss in the amount of approximately HK\$25,000,000 against investment deposits made by the Group (see paragraph 9 below).

The above impairment losses have been recorded in the current year but may well relate, in full or in part, to and should have been recorded in prior years. It was not possible for us to perform auditing procedures necessary to obtain sufficient appropriate audit evidence concerning these impairment losses in the year ended 31 March 2006 and to determine whether or not the related assets were fairly stated in preceding year's financial statements. Accordingly, we were unable to verify whether or not comparative figures as at 31 March 2005 are fairly stated.

32

3. As disclosed in note 20 to the financial statements, the following amounts in respect of the Group's associates have been included in the financial statements:
 - (a) share of results of associates of HK\$Nil included in the consolidated profit and loss account for the year ended 31 March 2006; and
 - (b) interests in associates of approximately HK\$Nil included in the consolidated balance sheet as at 31 March 2006.

The above amounts were either based on the unaudited management accounts or fragmented financial information of the associates which were available to the Directors. Accordingly, we are unable to obtain sufficient information and explanations to satisfy ourselves that such amounts are fairly stated in the financial statements.

4. As disclosed in note 21 to the financial statements, financial statements or financial information of the joint venture are not available to the Directors. Accordingly we have been unable to obtain sufficient information and explanations to satisfy ourselves that interest in the joint venture of HK\$Nil is fairly stated in the financial statements.

Basis of opinion (Continued)

5. As more fully disclosed in note 50(c) to the financial statements, the underlying books and records of 北京易行商盟在線網絡技術有限公司 ("北京易行"), one of the Company's subsidiaries, located in the PRC, have not been made available to the Directors. Consequently, the Directors have consolidated 北京易行 based on its unaudited financial information for the year ended 31 March 2006. We have been unable to obtain sufficient information and explanations to satisfy ourselves as to:
 - (a) the reliability of the results in respect of 北京易行 during the year ended 31 March 2006 and the related balances of assets and liabilities at 31 March 2006; and
 - (b) the correctness of the indirect shareholding of the Company in 北京易行 as set out in note 50(c) to the financial statements as at 31 March 2006 and whether or not it is appropriate to consolidate the results of this Company.

In particular, we have been unable to perform any satisfactory audit procedures to substantiate the transactions entered into by 北京易行 during the year and the assets and liabilities of 北京易行 as at 31 March 2006, and to determine as to whether or not all appropriate disclosures have been included in the financial statements in accordance with the disclosure requirements of the Hong Kong Companies Ordinance and the Hong Kong Financial Reporting Standards.

33

6. As disclosed in note 25 to the financial statements, investments held for trading of the Group of approximately HK\$66,580,000 as at the 31 March 2006, before impairment provision, were valued by a professional firm of independent valuers at a fair value of approximately HK\$38,816,000 as at the same date. The valuation assumed that the investee company will be able to continue to carry on business as a going concern. However, we have been unable to carry out the necessary audit procedures to satisfy ourselves that the investee company, which is listed on the Stock Exchange of Hong Kong and currently has its shares suspended for trading, will be able to continue to carry on business as a going concern. As a result of this uncertainty, we are unable to satisfy ourselves as to whether or not the impairment provision of HK\$27,764,000 based on the valuation is adequate or the resulting carrying value of investments held for trading of HK\$38,816,000 as at 31 March 2006 is fairly stated.
7. As disclosed in note 32 to the financial statements, full provision of HK\$69,187,000 was made in the year for certain loans receivable and interests thereon of a number of group companies. Based on our observation, these loans were made to borrowers without any securities or guarantees. We have not sighted any clear documentary evidence that proper approval or due diligence procedures had been carried out prior to the granting of these loans. We are unable to ascertain the commercial substance and validity of these transactions and the recoverability of these loans. Accordingly, we are unable to ascertain the carrying value of these receivables and whether or not it is appropriate to fully provide for them.

Report of the Auditors

Basis of opinion (Continued)

8. As disclosed in note 45 to the financial statements, audited financial statements of the subsidiaries Hong Tong Hai Investments Limited and Dongguan China Science Conservational Power Co., Limited were not available at the time of their disposal in July 2005. We have been unable to carry out audit procedures to ascertain the assets and liabilities of these companies at the time of disposal. Accordingly, we are unable to satisfy ourselves that the gain on disposal of subsidiaries of approximately HK\$25,927,000 is fairly stated.
9. As disclosed in notes 34(a) and (c) to the financial statements, full provision of approximately HK\$25,000,000 was made in the year for certain investment deposits. We have been unable to obtain the necessary evidence and explanations as to why these deposits are regarded as irrecoverable and have to be fully provided for. We are unable to ascertain the commercial substance and validity of these investment deposits and the circumstances in which they were paid.
10. As disclosed in note 7 to the financial statements, included in other operating income is a receipt of approximately HK\$3,000,000 related to an irrecoverable prepayment taken over from Hong Tai Hai Investment Limited, a former subsidiary which was disposed of in July 2005. We have been unable to obtain sufficient documentary evidence and explanations as to the nature of this cash receipt and the identity of the payee. Accordingly, we are unable to satisfy ourselves that it is correct to account for the receipt as other operating income.

34

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Fundamental uncertainty relating to the 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(a)(iii) to the financial statements, the Group sustained a net loss for the year of HK\$131,251,000. Net current assets and total equity only amounted to HK\$38,674,000 and HK\$40,056,000 respectively as at 31 March 2006 which included investments held for trading of HK\$38,816,000. As explained in paragraph 6 above, we are unable to satisfy ourselves as to whether or not the carrying value of investments held for trading are fairly stated. The financial statements have been prepared on a going concern basis, the validity of which depends upon the financial support of a substantial shareholder who has agreed to provide funds to finance the working capital requirements of the Group.

We consider that the circumstances relating to the above fundamental uncertainty have been adequately accounted for and disclosed in the financial statement and our opinion is not qualified in these respect.

Disclaimer of opinion

Because of the significance of the possible effects of the scope limitations in evidence available to us as referred to in the basis of opinion section of the report, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2006 and of the loss and cash flows of the Group for the year then ended. In all other respects, in our opinion, the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitations on our work set out in the basis of opinion section of this report:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- we were unable to determine whether proper books of accounts have been kept.

HORWATH HONG KONG CPA LIMITED
Certified Public Accountants

2001 Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Shiu Hong Ng
Practising Certificate number P03752