

# Directors' Report

The directors ("Directors") of the Company submit their report together with the audited financial statements for the year ended 31 December 2006 ("Year").

## 1. PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATION

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 19 to the financial statements.

An analysis of the Group's performance for the Year by business and geographical segments is set out in note 8 to the financial statements.

## 2. FINANCIAL POSITION AND APPROPRIATIONS

The results of the Group for the Year are set out in the consolidated income statement on page 30. The state of the Group's affairs as at 31 December 2006 is set out in the consolidated balance sheet on pages 31 and 32.

The changes in equity of the Group for the Year are set out in the consolidated statement of changes in equity on page 34.

The cash flows of the Group for the Year are set out in the consolidated cash flow statement on pages 35 and 36.

No interim dividend was declared and paid during the Year (2005: Nil). The Directors do not recommend the payment of a final dividend for the Year (2005: Nil).

## 3. RESERVES

Movements in the reserves of the Group and the Company during the Year are set out in note 28 to the financial statements.

## 4. PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the Year are set out in note 16 to the financial statements.

## 5. SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in share capital and share options of the Company during the Year are set out in notes 27 and 29 to the financial statements.

## 6. PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## 7. FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out below:

Results	Year ended 31 December				
	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover	56,904	51,688	36,781	14,062	24,645
Operating loss after finance costs	(5,711)	(4,607)	(10,875)	(126,382)	(234,736)
Share of profits/(loss) of associated companies	-	-	-	2	(486)
Amortisation of premium on acquisition of associated companies	-	-	-	(7,764)	(5,823)
Impairment loss on investments in associated companies	-	-	-	(11,862)	-
Impairment loss on investment held for resale	-	-	-	(115,739)	(30,816)
Gain/(loss) on disposal of subsidiaries	939	1,068	23,022	-	(1,905)
Gain on disposal of property, plant and equipment	1,256	-	-	-	-
Gain on deconsolidation of a subsidiary	-	-	50,239	-	-
Gain on waiver of accrued directors' remuneration	3,384	-	-	-	-
Gain on debt discharged under Creditors' Scheme	-	-	100,306	-	-
Share-based payment expense	(27,574)	-	-	-	-
(Loss)/profit before tax	(27,706)	(3,539)	162,692	(261,745)	(273,766)
Income tax expense	(1,246)	(1,019)	(841)	(596)	-
(Loss)/profit for the year	<u>(28,952)</u>	<u>(4,588)</u>	<u>161,851</u>	<u>(262,341)</u>	<u>(273,766)</u>
Attributable to:					
Shareholders of the Company	(28,952)	(4,588)	161,851	(262,341)	(213,004)
Minority interests	-	-	-	-	(60,762)
(Loss)/profit for the year	<u>(28,952)</u>	<u>(4,588)</u>	<u>161,851</u>	<u>(262,341)</u>	<u>(273,766)</u>

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## 7. FIVE YEARS FINANCIAL SUMMARY (CONTINUED)

Assets and Liabilities	As at 31 December				
	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000
Total assets	174,999	25,839	27,472	8,336	255,217
Total liabilities	(23,733)	(24,654)	( 21,826)	(185,897)	(105,918)
Total equity attributable to shareholders of the Company	151,266	1,185	5,646	(177,561)	149,299
Minority interests	—	—	—	—	(74,827)
	<u>151,266</u>	<u>1,185</u>	<u>5,646</u>	<u>(177,561)</u>	<u>74,472</u>

## 8. PURCHASE, SALE OR REDEMPTION OF SHARES

The Company did not redeem any of its shares during the Year. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's shares during the Year.

## 9. DIRECTORS

The Directors during the Year and up to the date of this report were:

### Executive Directors:

Mr. Yip Wai Leung Jerry ( <i>Chairman</i> )	(appointed on 2 March 2006 and designated as Chairman on 24 March 2006)
Mr. Tam Jin Rong ( <i>Chairman</i> )	(resigned on 24 March 2006)
Mr. Ming Kar Fook Charles	(appointed on 2 March 2006)
Mr. Tao Ke Wei	(resigned on 24 March 2006)
Mr. Tam Kai On	(resigned on 24 March 2006)

### Independent non-executive Directors:

Mr. So Yin Wai	(appointed on 2 March 2006)
Mr. Zhou Yaoming	(appointed on 2 March 2006 and resigned on 5 June 2006)
Ms. Zhu You Chun	(appointed on 2 March 2006)
Mr. Chan Kai Yung Ronney	(appointed on 5 June 2006)
Mr. Tsui Wing Tak	(resigned on 24 March 2006)
Mr. Lau Kwok Wah	(resigned on 24 March 2006)
Mr. Huang Shou Deng	(resigned on 24 March 2006)

## 9. DIRECTORS (CONTINUED)

In accordance with Bye-law 99 of the Company's Bye-laws, Mr. Ming Kar Fook Charles and Ms. Zhu You Chun retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

As at the date of this Directors' Report, the Directors were not appointed for a specified term and would be subject to the retirement and rotation requirements under the Company's Bye-laws.

## 10. DIRECTORS' SERVICE CONTRACTS

The executive Directors, namely Mr. Tam Jin Rong, Mr. Tam Kai On, and Mr. Tao Ke Wei had service contracts with the Company for a period of three years commencing from 11 February 2003, 1 June 2003 and 1 June 2003 respectively. All the above Directors resigned on 24 March 2006.

The executive Director, Mr. Yip Wai Leung Jerry entered into a service contract with the Company commencing on 1 July 2006 and expiring on 31 December 2006. The service contract was subsequently renewed for a further period of one year commencing on 1 January 2007.

Save as disclosed above, no Directors who is proposed for re-election at the forthcoming annual general meeting of the Company has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

## 11. DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in the section headed "Connected Transactions" of this Directors' Report, no contracts of significance in relation to the Company's business to which the Company, its subsidiaries, the controlling shareholder of the Company or any of its subsidiaries was a party or in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the Year or at any time during the Year.

## 12. BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of the Directors as at the date of this Directors' Report are set out on pages 5 and 6.

## 13. RETIREMENT BENEFIT SCHEME

Details of the retirement benefit scheme of the Group and the employer's costs charged to the consolidated income statement for the Year are set out in note 13 to the financial statements.

**14. CONNECTED TRANSACTIONS**

- (a) Pursuant to a shareholder's loan agreement dated 30 April 2004, Mr. Tam Jin Rong ("Mr. Tam") agreed to provide a loan with maximum amount of HK\$10 million to the Company for daily operation with interest rate at prime rate plus 2% per annum. The loan is unsecured and repayable on demand. During the Year, the Group paid interest of HK\$423,000 (2005: HK\$270,000) in relation to the shareholder's loan. The loan was fully repaid during the Year.
- (b) During the Year, the Group recognized construction revenue of approximately HK\$112,000 (2005: HK\$351,000) from Dongguan Blue Water & Blue Sky Property Co. Ltd. ("BW BSP") and Dongguan Nanfeng Industrial and Commerces Co. Ltd., of which Mr. Tam was a beneficial shareholder.
- (c) During the Year, the Group paid rental of HK\$10,000 (2005: HK\$45,000) in relation to office premises and staff quarters in the PRC, and to BW BSP of which a company in which Mr. Tam was a beneficial shareholder.
- (d) During the Year, the Group paid cleaning expenses of HK\$6,000 (2005: HK\$19,000) in relation to office premises and staff quarters in the PRC, to Dongguan Nan Feng Property Management Co. Ltd. ("DNFPM"), of which Mr. Tam was a beneficial shareholder.
- (e) On 28 April 2006, the Company entered into an underwriting agreement with Always Adept Limited and First Win Trading Limited, relating to an open offer ("Open Offer") of 256,431,132 offer shares of HK\$0.10 each in the Company immediately after the share consolidation at HK\$0.60 per offer share payable in full on application (in the proportion of three offer shares for every one consolidated share held). The Company paid HK\$439,000 and HK\$1,024,000 by way of underwriting fee to Always Adept Limited and First Win Trading Limited upon completion of the Open Offer.
- (f) On 24 March 2006, Mr. Tam Jin Rong, Mr. Tam Kai On and Mr. Tao Ke Wei resigned as executive directors of the Company. On the same day, Mr. Tam Jin Rong, Mr. Tam Kai On and Mr. Tao Ke Wei waived their accrued directors' fee due from the Company amounting to HK\$1,800,000, HK\$792,000 and HK\$792,000 respectively.

#### 14. CONNECTED TRANSACTIONS (CONTINUED)

- (g) As at 31 December 2006, included in the following accounts are balances with companies in which Mr. Tam was a beneficial shareholder.

	2006 HK\$'000	2005 HK\$'000
<b>BWBSP:</b>		
Prepayments, deposits and other receivables	–	84
Accounts receivable	16	38
Accruals and other payables	(955)	(585)
Gross amounts due to customers on construction contracts	–	(15)
<b>DNFPM:</b>		
Accruals and other payables	(58)	(19)
<b>Nan Feng Decorating and Engineering Co. Ltd.</b>		
Accounts payable	(230)	(172)

- (h) During the Year, the Group paid legal and secretarial fee of HK\$900,000 (2005: Nil) to J. Chan Yip So & Partners, a firm of solicitor in which Mr. Yip Wai Leung Jerry was a partner.

The related party transactions disclosed in note 32 to the financial statements and which have been disclosed in this paragraph (other than sub-paragraph (g) above) are connected transactions or as the case may be, continuing connected transactions under Chapter 14A of the Rule Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rule"). The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

#### 15. DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 31 December 2006, the interests or short positions of the Directors and chief executive of the Company, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

##### (a) Interests in shares in the Company

Name of Director/ chief executive	Capacity	Number and class of shares held	Approximate shareholding percentage
Yip Wai Leung Jerry ("Mr. Yip") (Note 1)	Settlor of a discretionary trust	222,971,436 ordinary shares of HK\$0.10 each (each a "Share")	65.21%

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### 15. DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY (CONTINUED)

#### (b) Interests in underlying shares in the Company

Name of Director/ chief executive	Capacity	Number and class of securities held	Approximate shareholding percentage
Mr. Yip	Beneficial owner	340,000 underlying Shares (Note 2)	0.1%
Mr. So Yin Wai	Beneficial owner	340,000 underlying Shares (Note 2)	0.1%
Mr. Chan Kai Yung, Ronney	Beneficial owner	340,000 underlying Shares (Note 2)	0.1%
Ms. Zhu You Chun	Beneficial owner	340,000 underlying Shares (Note 2)	0.1%

#### Notes:

- Mr. Yip set up a discretionary family trust pursuant to a deed of settlement dated 5 December 2005 entered into between him and New Zealand Professional Trustee Limited ("Trustee"). The Trustee held the entire issued share capital of Always New Limited, which owned the entire issued share capital of each of Always Adept Limited ("Always Adept") and First Win Trading Limited ("First Win") for the benefit of the family trust. Always Adept and First Win held 66,891,428 Shares and 156,080,008 Shares respectively. Always New Limited was deemed to be interested in the Shares held by First Win and Always Adept by virtue of the SFO.
- These underlying Shares represent Shares to be issued and allotted upon the exercise of the options granted by the Company to the above directors pursuant to the share option scheme of the Company. The options were granted on 21 November 2006 at exercise price HK\$1.05 per share. No option was exercised during the year.

Save as disclosed above, as at 31 December 2006, none of the Directors or chief executive of the Company had any interest or short position in any shares, underlying shares or debenture of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under the SFO) or were recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

## 16. OPTIONS TO SUBSCRIBE FOR ORDINARY SHARES IN THE COMPANY

Details of the options to subscribe for ordinary shares in the Company are set out in note 29 to the financial statements.

## 17. SUBSTANTIAL SHAREHOLDERS

As at 31 December 2006, so far as was known to the Directors or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had, or were deemed to have an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or were recorded in the register kept by the Company pursuant to Section 336 of the SFO:

### (a) Interest in shares in the Company

Name of shareholder	Capacity	Number of Shares held	Approximate shareholding percentage
Always Adept (Note 1)	Beneficial owner	66,891,428	19.56%
First Win (Note 1)	Beneficial owner	156,080,008	45.65%
Always New Limited (Note 1)	Interest of controlled corporation	222,971,436	65.21%
The Trustee (Note 2)	Trustee	222,971,436	65.21%
Chui Pui Fun ("Mrs. Yip") (Note 3)	Interest of spouse	222,971,436	65.21%



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### 17. SUBSTANTIAL SHAREHOLDERS (CONTINUED)

#### (b) Interest in underlying shares in the Company

Name of shareholder	Capacity	Number of underlying shares held	Approximate shareholding percentage
Mrs. Yip	Interest of spouse	340,000 (Note 4)	0.1%

*Notes:*

1. Always New Limited held the entire issued share capital of each of Always Adept and First Win. Always New Limited was deemed to be interested in the Shares held by the Always Adept and First Win by virtue of the SFO.
2. Mr. Yip set up a discretionary family trust pursuant to a deed of settlement dated 5 December 2005 entered into between him and the Trustee. The Trustee held the entire issued shares in the capital of Always New Limited, which own the entire issued share capital of each of Always Adept and First Win, which in turn held in aggregate 222,971,436 Shares.
3. Mrs. Yip was the spouse of Mr. Yip and she was deemed to be interested in the Shares in which Mr. Yip was interested by virtue of the SFO.
4. These underlying shares represent the shares to be issued and allotted upon the exercise of the options granted by the Company to Mr. Yip pursuant to the share option scheme of the Company.

Save as disclosed herein, as at 31 December 2006, there was no person (other than the Directors and chief executive of the Company) known to the Directors or chief executive of the Company, who had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or were recorded in the register required to be kept by the Company under Section 352 of the SFO.

### 18. MANAGEMENT CONTRACTS

There was no contracts concerning the management and administration of the whole or any substantial part of the business during the Year.

## 19. MAJOR CUSTOMERS AND SUPPLIERS

The percentage of sales and purchases for the Year attributable to the Group's major customers and suppliers are as follows:

### Sales

– the largest customer	85.9%
– five largest customers combined	99.7%

### Purchase

– the largest supplier	41.8%
– five largest suppliers combined	46.7%

During the Year, the Group had generated approximately HK\$112,000 (2005: HK\$351,000) construction revenue in relation to three construction contracts (2005: four construction contracts), having an aggregate contract sum of approximately HK\$296,000 (2005: HK\$750,000). The construction contracts were carried out in the ordinary course of business and were entered into on normal commercial terms with one of the five largest customers of the Group, namely BWBSP, a company of which Mr. Tam was a beneficial shareholder.

Except for the above, none of the Directors, their associates or any shareholders (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major customers or suppliers noted above.

## 20. CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report as set out on pages 21 to 27 of the annual report of the Company for the Year.

## 21. INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its independent non-executive Directors confirmation of his/her independence and the Company considers that each of them to be independent based on the guidelines set out in Rule 3.13 of the Listing Rules.

## 22. AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the audit committee of the Company ("Audit Committee") were adopted in 1999 and subsequently amended in 2005.

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scopes of the Group audit. It also reviews the effectiveness of the external audit and of internal controls and risk evaluation. As at the date of this report, the Audit Committee comprises three independent non-executive Directors, namely Mr. So Yin Wai as chairman, Mr. Chan Kai Yung Ronney and Ms. Zhu You Chun as members.

The Audit Committee had reviewed the audited results of the Group for the Year.

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### 23. PUBLIC FLOAT

On the basis of information that is publicly available to the Company within the knowledge of the Directors as at the latest practicable date prior to the issue of this report, the Company has complied with the public float requirements of the Listing Rules.

### 24. EVENTS AFTER BALANCE SHEET DATE

- (a) A wholly owned subsidiary known as EnviroPower GmbH having a share capital of EUR100,000 (equivalent to HK\$1,025,000) was incorporated in Germany on 26 February 2007 for the main purpose of undertaking a recycling business and the trading of recycled materials.
- (b) Another wholly owned subsidiary known as EnviroEnergy GmbH having a share capital of EUR500,000 (equivalent to HK\$5,123,000) was incorporated in Germany on 26 February 2007 for the main purpose of acquiring a parcel of land in Wilhemshaven, Germany and all relevant required for the construction of a recycling and the conduct of a recycling business upon such land.
- (c) A sum of EUR200,000 (equivalent to HK\$2,049,000) was paid by EnviroEnergy GmbH to obtain the ownership of the land from Johann Esser in Germany on 26 February 2007. Upon completion of the transfer of all recycling permits and rights concerning the use of the land. EnviroEnergy GmbH agreed to pay a further amounts of EUR500,000 (equivalent to HK\$5,123,000) to Johann Esser.
- (d) On 30 January 2007, ReKRETE International entered into a Deed with the Grantor which is a subsidiary of a company listed on the Main Board of the Stock Exchange. Pursuant to the Deed, an option was granted by the Grantor to ReKRETE International. The option is exercisable by ReKRETE International during a period of three years commencing from 30 January 2007 to require or compel the Grantor to purchase 25% of the entire issued share capital of ReKRETE Asia at an option price of HK\$8,000,000.

### 25. AUDITORS

A resolution to re-appoint the retiring auditors, RSM Nelson Wheeler, will be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board  
**Yip Wai Leung Jerry**  
*Chairman*

Hong Kong, 27 April 2007