2005
ANNUAL REPORT

China Sciences
Conservational Power Limited
中 科 環 保 電 力 有 限 公 司

(Incorporated in Hong Kong with limited liability)

Stock Code: 351

CONTENTS

CORPORATE INFORMATION

Board of Directors

Executive Directors

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

Non-Executive Directors

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

Independent Non-Executive Directors

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

Company Secretary

Ms. Cheung Yuet Fan

Audit Committee

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

Remuneration Committee

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

Principal Bankers

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

Auditors

Shu Lun Pan Horwath Hong Kong CPA Limited

Solicitors

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

Share Registrar and Transfer Office

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

REGISTERED OFFICE

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

Head Office and Principal Place of Business in Hong Kong

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

Hong Kong Stock Exchange Stock Code

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Results

For the year ended 31 December 2005, the turnover of China Sciences Conservational Power Limited (the "Company") and its subsidiaries (together, the "Group") reached approximately HK$707,003,000 (2004: approximately HK$338,140,000), representing an increase of 109% as compared with last year. During the year, gross profit from operations was approximately HK$3,381,000, representing a jump of 26% over last year's HK$2,681,000. Loss after taxation was approximately HK$270,071,000 (2004: Loss after taxation: approximately HK$9,129,000). Loss per share were 26.19 HK cents (2004: Loss per share: 1.45 HK cents).

The increase in turnover was attributable to the increase in sale of computers hardware and maintenance support services.

Business Review

2005 was a complicated year with mixed news. The year began with the Group changing its name from "Central China Enterprises Limited" to "China Sciences Conservational Power Limited" on 28 January 2005. In the same month, the Group appointed His Royal Highness Prince Idris Abdallah Al-Senussi of Libya and Mr. Alan Grant Quasha as non-executive directors. Their experience and expertise is an asset to the Group. The Group's intention and commitment is to become a market leader in the waste-to-energy industry within the People's Republic of China ("PRC").

During the year under review, the industrial conditions had proved favourable to the Company. The continued growth in demand for power and the increased awareness on environmental protection in the PRC meant that waste incineration and renewable energy in general have a promising future. The enforcing of the Kyoto Protocol, which is an agreement between nations promoting the stability of greenhouse gas concentration, in February 2005 was a notable milestone to the industry which the Group operates in. As the PRC is a participating nation, environmental projects in the PRC such as waste incineration can benefit from both global exposure and additional revenue by trading CERs (Certified Emissions Reduction) with developed countries under the Protocol.

With its renewed business direction, the Group had identified many partners for collaboration. During the year under review, the Group increased its stake in Dongguan China Sciences Conservational Power Co., Ltd 東莞中科環保電力有限公司 (the "Dongguan JV") up to 90%. The Dongguan JV was the Group's first waste-to-energy project, processing 1000 tonnes per day of waste and generating 30MW of power, and was expected to commence operation in 2006.

The Group also completed the acquisition of 100% equity interest in Sino Profit International Limited with 80% interest in Xingning China Sciences Conservational Power Ltd 興寧中科環保電力有限公司 (the "Meizhou JV"), a 600 tonnes per day waste-to-energy plant.

In September 2005, the Group entered into a letter of intent with Oriental Investment Corporation Limited indicating their joint intention to pool their respective resources for the identification, development and operation of a new environmentally-friendly project in the PRC.

It is a strategic objective of the Group to further extend its presence in other PRC cities in order to widen its source of revenue and place a foothold in the waste-to-energy industry.

Armed with a clear strategic direction, the Group had also taken actions to reinforce its financial situation. It entered into a number of fund raising agreements, including a subscription agreement with Tianyuan Development Holding Limited in September 2005.

The well reported ICAC investigation in September 2005 involving 22 individuals, of whom some were directors and senior management of the Group, provided an impetus for the Group to review and reinforce its management and control. Further information regarding the incidence is set out on note 38 to the financial statements. Since the beginning of 2005, various directors came off the board and new directors and senior management joined. With support from the Group's trading partners, the board is determined to implement stringent internal controls whilst continuing its strategy to invest and prosper in the waste-to-energy industry.

MANAGEMENT DISCUSSION AND ANALYSIS

Prospects

The PRC is one of the world's greatest generators of municipal solid waste (MSW). According to national statistics, urban waste output in the PRC was 155 million tonnes in 2004, growing at 8-10% per year. The nation's fast growing economy and development aggravates the waste problem. Waste not only occupies valuable land, but also causes pollution which is damaging to the environment and eco system.

The PRC government understands the need to reduce pollution and increase public awareness in order to create a better living environment and to meet increasing stringent global emissions levels. Its 10th Five Year Plan (2001-2005) focused on policies to reduce pollution, one of which being to promote environmental protection investment in solid waste treatment projects. The PRC government also offers incentives to promote environmental energy projects such as a rebate on Value-Added-Tax (17%) on electricity sales and higher on-grid tariffs. In November 2005, the PRC government also pledged to double its reliance on renewable energy by 2020.

The completion of the Dongguan JV phase one project allowing 1000 tonnes of waste to be processed each day was a major milestone for the group. The project is one of the biggest waste-to-energy plants in the PRC and provides 30MW of electricity to the southern power grid. This will be the platform to encourage further investment and collaboration from potential partners with incentives and backing from the PRC government.

Resumption of trading for the Group is of importance to the growth and potential opportunities of the Company. The management team will incorporate high standards of internal control and corporate governance in order to build a strong backbone for the Group to deliver performance and results in such an important and rapidly growing industry.

Segment Information

In the year under review, the Group had five principal activities. These are waste incineration power generation business, computer hardware and maintenance support services, software design and development, and guaranteed income investments in a power plant and a motor spare parts business.

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

Liquidity and Financial Resources

The Group is mainly financed by internal cash flow generated by operations and proceeds from issue of shares.

As at 31 December 2005, the Group had net current assets of approximately HK$69,077,000 (2004: net current assets of approximately HK$115,515,000) and shareholders' funds of approximately HK$108,086,000 (2004: approximately HK$120,262,000). The decrease in net current assets attributed to the increase in investment in Dongguan JV (Construction-in-progress).

As at 31 December 2005, the Group had outstanding borrowings in respect of HK$20,000,000 8.5 per cent per annum extendable convertible notes due in the year of 2006. The gearing ratio of the Group, which is calculated as total borrowings (including convertible notes) to the Group's shareholders' funds, was 2.57 (2004: 0.17).

During the year, the Group enlarged its shareholder base and strengthened its financial position through a number of new shares placements and fund raising exercises.

- On 23 March 2005, the Company entered into a placing and underwriting agreement (completed in April 2005) for the placing of up to 90,000,000 new shares at HK$0.78 to independent investors. The net proceeds amounted to HK$68,417,576.

- On 23 March 2005, the Company entered into a conditional subscription letter to issue and allot a total of 30,000,000 shares at a subscription price of HK$0.78 per share (completed in June 2005). The net proceeds amounted to HK$23,402,798.

- On 27 September 2005, the Company completed a placing of 65,000,000 new shares at HK$0.76 per share to independent investors. The net proceeds amounted to HK$48,108,962.

Significant Investments, Acquisitions and Disposals

In April 2005, the Group began the acquisition of additional 51% equity interest in the Dongguan JV. The agreement was completed in July 2005, increasing Company's stake in the Dongguan JV to a total of 90%, and at a total consideration of HK$76 million in the form of issuing shares of the Company and a loan owned by the Group.

The Group also entered into a sale and purchase agreement in relation to the acquisition of 100% Sino Profit International Limited ("Sino Profit") on 19 April 2005 at a total consideration of HK$8 million and the provision of an unsecured and interest free loan to Sino Profit. The agreement comprised of 80% equity interest by Sino Profit in the Meizhou JV.

On 14 March 2006, the Company obtained the remaining 20% equity interest of the Meizhou JV, raising the Group's stake in it to 100%.

Saved as disclosed under headings "Business review" and "Prospects" above, the Group did not have significant new investments or acquisitions during the year ended 31 December 2005 and up to the date of this report.

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

Foreign Exchange Management

The Group's business dealings in the PRC are subject to the foreign currency fluctuations. In 2005, the Company did not deem the fluctuation to be significant enough to implement a foreign exchange management system. During the year under review, the Group did not use any financial instruments for hedging purposes.

Contingent Liabilities and Capital Commitments

As at 31 December 2005, the Group had outstanding capital commitments in respect of acquisition of property, plant and equipment of approximately HK$107,684,000.

The Group did not have any significant contingent liabilities as at 31 December 2005.

Details of the Company's capital commitments are set out in note 34 to the financial statements.

Pledge of Assets

Details of the pledge of assets are set out in note 24 and 33 to the financial statements.

Employee and Remuneration Policy

As at 31 December 2005, the Group had 118 employees, 99 of whom were based in the PRC. Their salary and benefits are maintained at competitive levels and are based on their duties, working experience and the prevailing market practices. Employees are rewarded by a share option scheme based on the performance of the Group and individual employees. The Group has also participated in an approved Mandatory Provident Fund ("MPF") scheme for eligible employees.

DIRECTORS' AND SENIOR MANAGEMENT'S PROFILE

Executive Directors

Mr. Liang Jun *(Chairman)*

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

Mr. Chan Wai Ming *(Chief Executive Officer)*

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

Mr. Chan Ka Fat *(Chief Financial Officer)*

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

Non-Executive Directors

His Royal Highness Prince Idris Abdallah Al-Senussi

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

Mr. Alan Grant Quasha

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

Mr. Tse On Kin

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

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

Independent Non-Executive Directors

Mr. Chan Chi Yuen

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

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

Mr. Tsang Kwok Wa

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

Mr. Zhang Xi

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

FORMER DIRECTORS' PROFILE

Executive Directors

Mr. Zhu Xirong

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

Mr. Ping Kim

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

Ms. Wong King King

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

Mr. Tian Yuchuan

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

Mr. Hon Yik Kwong

Mr. Hon, aged 50, was appointed as an Executive Director of the Company on 1 December 2004 and resigned on 26 October 2005. He has more than 21 years of experience in the investment business in the manufacturing industry in the PRC and he also has over 10 years of experience in the management of highway construction projects in the PRC.

Mr. Kwong Cheung Tim

Mr. Kwong, aged 64, was appointed as an Executive Director of the Company on 31 March 2003 and resigned on 28 April 2005.

Non-Executive Directors

Mr. John Douglas Kuhns

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

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

Mr. Liu Hongru

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

Mr. Lo Wing Yat, Kelvin

Mr. Lo, aged 48, was appointed as a Non-Executive Director of the Company on 9 March 2005 and resigned on 10 March 2006. He has over 20 years of experience in legal field. Mr. Lo graduated from the University of Hong Kong with a Bachelor's degree in Law.

Mr. Hon Ming Kong

Mr. Hon, aged 40, was re-designated from Chairman and Executive Director to a Non-Executive Director of the company on 3 October 2005 and resigned on 26 October 2005. He engaged principally in the business of securities brokerage and the waste incineration industry in the PRC.

Mr. Chan Tat Chee

Mr. Chan, aged 61, was re-designated from an Executive Director to a Non-Executive Director of the Company on 3 October 2005 and resigned on 26 October 2005. He has over 29 years of experience in the garment industry and international trading. He also has experience in property investment and retail distribution in the PRC.

Mr. Chow Ho Tung, Anthony

Mr. Chow, aged 47, was re-designated from an Executive Director to a Non-Executive Director of the company on 3 October 2005 and resigned on 26 October 2005. Mr. Chow has over 20 years of experience in financial and business management. Before joining the Company, he held senior positions in several listed companies in Asia. Mr. Chow is a member of the American Institute of Certified Public Accountants, the Hong Kong Institute of Certified Public Accountants and Hong Kong Institute of Marketing.

Independent Non-Executive Directors

Mr. Cheung Pui Hung

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

Ms. Leung Po Hung, Mabel

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

Mr. Tai Sik Fung, George

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

Mr. Lai Hin Wing, Henry

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

FORMER DIRECTORS' PROFILE

Mr. Chan Kin Sang, Peter

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

Mr. Cheng Kin Chow, Tony

Mr. Cheng, aged 57, was appointed as an Independent Non-Executive Director of the company on 27 October 2004 and resigned on 26 October 2005. Mr. Cheng has over 25 years of experience in the garment industry.

Mr. Cham Yiu Keung

Mr. Cham, aged 47, was appointed as an Independent Non-Executive Director of the company on 10 February 2004 and resigned on 26 October 2005.

Mr. Lee Yu Leung

Mr. Lee, aged 49, was appointed as an Independent Non-Executive Director of the company on 1 December 2000 and resigned on 9 March 2005.

The directors submit herewith their annual report together with the audited financial statements of the Company for the year ended 31 December 2005.

Corporate Information and Principal Activities

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

The Company acts as an investment holding company and provides corporate management services. The principal activities and other particulars of its principal subsidiaries are set out in note 15 to the financial statements.

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

Results

The results of the Group for the year ended 31 December 2005 are set out in the consolidated income statement on page 32.

The directors did not recommend the payment of a dividend for the year ended 31 December 2005.

Reserves

Details of movements in the reserves of the Group and of the Company during the year are set out in the statement of changes in equity on page 36 and note 30 to the financial statements respectively.

Distributable Reserves

As at 31 December 2005, the Company did not have any reserves available for distribution to shareholders as calculated in accordance with the provisions of section 79B of the Hong Kong Companies Ordinance. In addition, the Company's share premium account, in the amount of approximately HK$459,967,000, may be distributed in the form of fully paid bonus shares.

Financial Summary

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 106. This summary does not form part of the audited financial statements.

Property, Plant and Equipment

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

Share Capital

Details of movements in the share capital of the Company are set out in note 28 to the financial statements.

Details of changes and movements of preference shares are set out in note 28 to the financial statements.

Purchase, Redemption or Sale of Listed Securities of the Company

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

Bank Borrowings

Particulars of the Group's bank borrowings are set out in note 24 to the financial statements. The amount of interest capitalised during the year was approximately RMB3,850,000 (equivalent to approximately HK$3,700,000).

Directors and Directors' Service Contracts

The directors of the Company during the year ended 31 December 2005 and up to the date of this report were:

	Appointment Date	Resignation Date
Executive directors ("ED")		
Liang Jun *(Chairman)*	12 June 2006	—
Chan Wai Ming *(Chief Executive Officer)*	9 May 2007	—
Chan Ka Fat *(Chief Financial Officer)*	19 September 2007	—
Zhu Xirong	29 August 2007	12 September 2007
Ping Kim	10 March 2006	9 May 2007
Tian Yuchuan	3 October 2005	10 March 2006
Wong King King	27 October 2004	10 March 2006
Hon Yik Kwong	1 December 2004	26 October 2005
Kwong Cheung Tim, Jimmy	31 March 2003	28 April 2005
Non-executive directors ("NED")		
His Royal Highness Prince Idris Abdallah Al-Senussi	18 January 2005	—
Alan Grant Quasha	18 January 2005	—
Tse On Kin	10 March 2006 as ED and re-designated on 1 April 2007 as NED	—
John Douglas Kuhns	28 April 2005	1 April 2007
Liu Hongru	3 October 2005	10 March 2006
Lo Wing Yat, Kelvin	9 March 2005	10 March 2006
Hon Ming Kong	20 September 2004 as ED and redesignated on 3 October 2005 as NED	26 October 2005
Chan Tat Chee	29 October 2003 as ED and redesignated on 3 October 2005 as NED	26 October 2005
Chow Ho Tung, Anthony	10 February 2004 as ED and redesignated on 3 October 2005 as NED	26 October 2005

	Appointment Date	Resignation Date
Independent non-executive directors ("INED")		
Chan Chi Yuen	30 September 2004	—
Tsang Kwok Wa	19 July 2007	—
Zhang Xi	10 March 2006	—
Cheung Pui Hung	9 May 2007	19 July 2007
Leung Po Hung, Mabel	1 April 2007	9 May 2007
Tai Sik Fung, George	10 March 2006	1 April 2007
Chan Kin Sang, Peter	26 October 2005	10 March 2006
Lai Hin Wing, Henry	26 October 2005	10 March 2006
Cheng Kin Chow, Tony	27 October 2004	26 October 2005
Cham Yiu Keung	10 February 2004	26 October 2005
Lee Yu Leung	1 December 2000	9 March 2005

The Company has received annual confirmations from each of the independent non-executive directors as regards their independence to the Company and considers that each of the independent non-executive directors is independent to the Company. In accordance with Article 92 of the Company's Articles of Association, Mr. Tse On Kin, Mr. Zhang Xi, Mr. Liang Jun, Mr. Chan Wai Ming, Mr. Tsang Kwok Wa and Mr. Chan Ka Fat shall retire and, be eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company. In accordance with Article 101A and 101B of the Company's Articles of Association, His Royal Highness Prince Idris Abdalleh Al-Senussi and Mr. Alan Grant Quasha shall retire by rotation and shall not offer themselves for re-election. Mr. Chan Chi Yuen shall retire by rotation and, being eligible, offer himself for re-election.

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

Directors' Biographies

Biographical details of the directors of the Company are set out on page 6 to 10 of the annual report.

Directors' Interests and Short Positions in Shares and Underlying Shares and Debentures

As at 31 December 2005, the interests and short positions of the directors in the share capital and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Long positions in ordinary shares of the Company

Name of the Director	Capacity	Personal interests	Family interests	Corporate interests	Other interests	Total	Approximate percentage of shareholding
Tian Yuchuan	Beneficial Owner	100,000	—	—	—	100,000	0.01
Wong King King (Note)	Interest of a controlled corporation	—	—	78,500,000	—	78,500,000	6.78

Note:

By virtue of SFO, Ms. Wong King King was, as at 31 December 2005, deemed to be interested in 78,500,000 shares of the Company held by Sky Bright International Development Ltd, a company which was wholly owned by Ms. Wong.

As at 31 December 2005, save as disclosed above, none of the directors or the chief executive of the Company is a director or employee of a company which had an interest or short position in the shares and the underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

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

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

Share Options

2002 Share Option Scheme

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

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

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

The following table discloses the movements in the Company's share options under 2002 Share Option Scheme during the year:

Name or category of participant	Date of grant of share options	Exercise period of share options	Exercise price of share options HK$	As at 1.1.2005	Granted during the year	Exercised during the year	Lapsed during the year	As at 31.12.2005	Market value per share (Note 1) Immediately preceding the grant date of share options HK$	Market value per share (Note 1) Immediately preceding the exercise date of share options HK$
Directors										
Wong King King	27.10.2004	27.10.2004 to 26.10.2014	0.4700	8,000,000	—	—	—	8,000,000	0.4650	—
Tian Yuchuan	03.08.2005	03.08.2005 to 02.08.2015	0.6880	—	3,000,000	—	—	3,000,000	0.6600	—
Former directors										
Hon Ming Kong	27.10.2004	27.10.2004 to 26.10.2014	0.4700	8,000,000	—	—	—	8,000,000	0.4650	—
Chow Ho Tung, Anthony	23.02.2004	23.02.2004 to 22.02.2014	0.2744	2,800,000	—	(2,800,000)	—	—	0.2500	0.83
	27.10.2004	27.10.2004 to 26.10.2014	0.4700	2,400,000	—	(2,400,000)	—	—	0.4650	0.71
	03.08.2005	03.08.2005 to 02.08.2015	0.6880	—	3,000,000	—	(3,000,000)	—	0.6600	—
Hon Yik Kwong	01.12.2004	01.12.2004 to 30.11.2014	0.6700	8,000,000	—	—	—	8,000,000	0.6700	—
Employees										
In aggregate	23.02.2004	23.02.2004 to 22.02.2014	0.2744	300,000	—	(300,000)	—	—	0.2500	0.77
	12.08.2004	12.08.2004 to 11.08.2014	0.3850	32,930,000	—	(6,130,000)	—	26,800,000	0.3800	0.68
	31.01.2005	31.01.2005 to 30.01.2015	0.5700	—	7,000,000	—	—	7,000,000	0.5900	—
	24.03.2005	24.03.2005 to 23.03.2015	0.8400	—	6,000,000	—	—	6,000,000	N/A (Note 2)	—
	26.05.2005	26.05.2005 to 25.05.2015	0.6900	—	6,500,000	—	(400,000)	6,100,000	0.6800	—
	03.08.2005	03.08.2005 to 02.08.2015	0.6880	—	4,000,000	—	(500,000)	3,500,000	0.6600	—

Notes:

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

2. The trading of the Company's shares was suspended on 23 March 2005.

No option under the 2002 Share Option Scheme was cancelled during the year.

The values of options granted during the year under review by calculation of the Black-Scholes option pricing model are set out on page 93 and 94 to the financial statements.

Arrangements to Purchase Shares or Debentures

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

Directors' Interests in Contracts

Save as disclosed in note 36 to the financial statements, no contract of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Interests of Controlling Shareholders in Contracts

Save as disclosed in note 36 to the financial statements, there is no contract of significance between the Company or one of its subsidiaries, and a controlling shareholder of the Company or any of its subsidiaries – where a controlling shareholder is as defined in Note 16 of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") – at any time during the year under review.

Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2005, the register of interests and short positions in the shares and underlying shares of the Company kept under section 336 of the SFO showed that, the following shareholders had an interest of 5% or more in the issued share capital of the Company:

Name	Capacity	Number of Shares held	Approximate percentage of shareholding
Ordinary Shares			
CITIC International Assets Management Limited (Note 1)	Beneficial owner	111,116,666	9.60% (Note 2)
CITIC Capital Investment Holdings Limited (Note 1)	Beneficial owner	83,590,000	7.22%
CITIC Capital Markets Holdings Limited (Note 1)	Interest of a controlled corporation	83,590,000	7.22%
Forever Glory Holdings Ltd. (Note 1)	Interest of a controlled corporation	83,590,000	7.22%
Golden Gateway Enterprises Inc. (Note 1)	Interest of a controlled corporation	83,590,000	7.22%
CITIC Pacific Limited. (Note 1)	Interest of a controlled corporation	83,590,000	7.22%
CITIC United Asia Investments Limited (Note 1)	Interest of a controlled corporation	6,080,000	0.5%
CITIC International Financial Holdings Limited. (Note 1)	Interest of a controlled corporation	194,706,666	16.83%
CITIC Group (Note 1)	Interest of a controlled corporation	200,786,666	17.35%
Aimstar Holdings Limited (Notes 3 & 4)	Beneficial owner	295,000,000	25.5%
Hon Ming Kong	Interest of a controlled corporation and beneficial owner	309,500,000 (Note 5)	26.74%
Kingston Finance Limited (Notes 4 & 6)	Person having security interest in shares	295,000,000	25.5%
Chu Yuet Wah (Notes 4 & 6)	Interest of a controlled corporation	295,000,000	25.5%

Name	Capacity	Number of Shares held	Approximate percentage of shareholding
Ordinary Shares			
Ma Siu Fong (Notes 4 & 6)	Interest of a controlled corporation	295,000,000	25.5%
Sky Bright International Development Limited (Note 7)	Beneficial owner	78,500,000	6.78%
Wong King King	Interest of a controlled corporation and beneficial owner	86,500,000	7.48%
Metro Capital Finance Limited	Interest of a controlled corporation	70,000,000	6.05%
Preference Shares			
China Conservational Power Holdings Limited (Note 8)	Beneficial owner	80,000,000	100%

Notes:

1. CITIC Group is interested in 56% of the issued share capital of CITIC International Financial Holdings Limited and is interested in 100% of the issued share capital of CITIC United Asia Investments Limited. CITIC International Financial Holdings Limited is interested in 100% of CITIC International Assets Management Limited and 50% of CITIC Capital Markets Holdings Limited. CITIC Pacific Limited is interested in 100% of the issued share capital of Golden Gateway Enterprises Inc., which is interested in 100% of Forever Glory Holdings Ltd. Forever Glory Holdings Ltd. is interested in 50% of CITIC Capital Markets Holdings Limited, CITIC Capital Markets Holdings Limited is interested in 100% of CITIC Capital Investment Holdings Limited. Accordingly, under the SF0: (i) CITIC Group and CITIC International Financial Holdings Limited are deemed to be interested in the 111,116,666 Shares held by CITIC International Assets Management Limited and the 83,590,000 Shares held by CITIC Capital Investment Holdings Limited; (ii) CITIC International Assets Management Limited is interested in 44,450,000 Shares held by it and 66,666,666 Shares to be issued and allotted to it under the Convertible Notes; and (iii) each of CITIC Pacific Limited, Golden Gateway Enterprises Inc. and CITIC Capital Markets Holdings Limited are deemed to be interested in the 83,590,000 Shares held by CITIC Capital Investment Holdings Limited.

2. Out of the 111,116,666 Shares held by CITIC International Assets Management Limited, 66,666,666 Shares represented the shares to be issued to CITIC International Assets Management Limited pursuant to the exercise of the conversion rights under the Convertible Notes subscribed under the subscription agreement dated 24 June 2004 entered into between the Company and CITIC International Assets Management Limited.

3. Aimstar is wholly owned by Mr. Hon Ming Kong.

4. The 295,000,000 Shares held by Aimstar which Mr. Hon Ming Kong is deemed to be interested in, are pledged to Kingston Finance Limited.

5. The 309,500,000 Shares, comprise (i) 295,000,000 held by Aimstar and (ii) 14,500,000 ordinary and underlying shares held by Mr. Hon Ming Kong. As Aimstar is wholly owned by Mr. Hon Ming Kong, he is deemed to be interested in such 295,000,000 Shares held by Aimstar.

6. Kingston Finance Limited is held as to 51% by Chu Yuet Wah and as to 49% by Ma Siu Fong. Accordingly, each of Chu Yuet Wah and Ma Siu Fong is deemed to be interested in the Shares held by Kingston Finance Limited.

7. Sky Bright International Development Limited is wholly owned by Wong King King, an executive director.

8. These are class B preference shares of HK$0.01 each ("Preference Shares") issued pursuant to the Sale and Purchase Agreement dated 7 April 2005 between the Company and China Conservational Power Holdings Limited ("CCPH"). These Preference Shares are convertible into ordinary shares of HK$0.01 each in the capital of the Company at a conversion price of HK$0.76 each within a three-year period maturing on 4 July 2008. Pursuant to this Sale and Purchase Agreement, CCPH also has the right to subscribe for 40,000,000 option shares at the price of HK$0.76 each and any exercise of such options must be accompanied by the conversion of two Preference Shares at the same time.

Save as disclosed above, as at 31 December 2005, the directors of the Company are not aware of any other persons who have interests or short position in the shares, underlying shares of equity derivatives or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which would be required to be disclosed to the Company pursuant to Part XV of the SFO.

Connected Transactions

Details of the connected transactions are set out in note 36 to the financial statements.

Sufficiency of Public Float

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

Major Suppliers And Customers

The Group's largest supplier contributed 18% to the total purchases for the year and the aggregate amount of purchases attributable to the Group's top five suppliers represented 44% of the Group's total purchases.

The Group's largest customer accounted for 10% of the Group's turnover (excluding guaranteed return) and 43% of the total turnover (excluding guaranteed return) of the Group was attributable to the Group's top five customers.

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

Retirement Benefits Schemes

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

Corporate Governance

The Company has, throughout the year ended 31 December 2005, complied with most of the applicable code provisions and principles of the Code of Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. Details of the Corporate Governance Report of the Company are set out on page 20 to 26 of this annual report.

Auditors

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

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

On behalf of the Board

Liang Jun
Chairman
Hong Kong, 3 December 2007

Corporate Governance Practice

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

Throughout the year ended 31 December 2005, the Company has complied with the SEHK Code, except for the following:

Code provision of the SEHK Code	**Deviation**	**Considered reason for deviation**
A.2.1 Separation of the role of the Chairman and Chief Executive Officer	Mr. Hon Ming Kong ("Mr. Hon") assumed both roles during the term of his appointment in 2005 from 11 November 2004 to 2 October 2005.	Mr. Hon possessed extensive experience and knowledge of the waste incineration industry in the PRC. At the time of his appointment, he was considered appropriate person to assume both roles and build the business in the PRC at the developing stage. The Board had henceforth segregated the two roles and they remained segregated throughout the remainder of the year. As at the date of this report, the two roles are separated and segregated.
B.1.1 Establishment of a Remuneration Committee	The committee was set up on 26 October 2005.	Ample time was needed in the setting up of the remuneration committee.
E.1.2 Chairman's attendance at Annual General Meeting	Mr. Hon did not attend the annual general meeting held on 30 May 2005.	Mr. Hon was appointed as chairman of the Company on 11 November 2004. He did not attend because he had another business engagement. The meeting was attended by his predecessor.

Code Provision A.4.1 stated that all non-executive directors ("NEDs") should be appointed for a specific term. All NEDs of the Company during 2005 did not have a fixed term of service but are subject to retirement by rotation and re-election pursuant to the Articles of Association of the Company. The relevant Articles of Association stipulates that at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three, then the number nearest to but not greater than one-third) shall retire from office.

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

Directors' Securities Transactions

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

Given the time lapse between the period under review and the date of this report, it is no longer practicable to make specific enquiry of the directors of 2005 and confirmed that they have complied with the code throughout the year ended 31 December 2005. However, specific enquiry has been made of the current directors and they have confirmed that as at the date of this report they are complying with the code.

Board of Directors

The Board currently comprises of three Executive Directors, three Non-Executive Directors and three Independent Non-Executive Directors. The biographical details of each director are shown on page 6 and 7.

As at 31 December 2005, the board composition consisted of two Executive Directors, five Non-Executive Directors and three Independent Non-Executive Directors. For the year ended 31 December 2005 and up to the date of this report, the board composition of the Company has undergone a series of changes. These changes can be found on page 12.

The number of board meetings held during the financial year of 2005 and its record of individual attendance is shown on page 25.

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

Other duties include but are not limited to:—

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

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

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

Chairman and Chief Executive Officer

The identities of the Chairman and Chief Executive Officer for the year ended 31 December 2005 and up to the date of this report are as follows:

Period				
From	**To**	**Chairman**	**Chief Executive Officer**	**Segregated/ Unsegregated**
1 January 2005	2 October 2005	Hon Ming Kong	Hon Ming Kong	Unsegregated
3 October 2005	9 March 2006	Wong King King	Tian Yuchuan	Segregated
10 March 2006	31 March 2007	Tse On Kin	—	Unsegregated
1 April 2007	14 June 2007	Liang Jun	Liang Jun	Unsegregated
15 June 2007	—	Liang Jun	Chan Wai Ming	Segregated

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

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

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

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

Non-Executive Directors

The Company's board composition has undergone a number of changes during 2005 and up to the date of this report. The appointments and resignations of non-executive directors can be found on page 12.

For all non-executive directors that were appointed during the year of 2005 and up to the date of this report, they have no specific term of service. The two exceptions were the appointments of:—

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

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

Remuneration of Directors

A remuneration committee was established in 2005 and as at 31 December 2005 it was comprised of Ms. Wong King King, Mr. Lai Hin Wing, Henry and Mr. Chan Kin Sang, Peter. Ms. Wong King King was then the chairman of the remuneration committee.

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

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

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

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

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

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

The number of remuneration committee meetings held during the financial year of 2005 and its record of individual attendance is shown on page 25.

In 2005, the Board accepted the recommendations of the remuneration committee in regard to the emolument and reimbursement of Executive Directors.

Nomination of Directors

The Company does not have a nomination committee for the year ended 31 December 2005 and up to the date of this report.

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

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

Auditors' Remuneration

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

During the year under review, the fee in respect of audit and non-audit services provided by the external auditors to the Company is as follows:

For the interim review for the six months ended 30 June 2005, the audit fee to HLB Hodgson Impey Cheng was HK$157,380. For annual audit for the year ended 31 December 2005, the audit fee to Horwath HK CPA Limited was HK$760,000. There was no non-audit service fee paid to external auditors during the year under review.

Audit Committee

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

During the year ended 31 December 2005, the audit committee's terms of reference are aligned with the recommendations set out in 'A Guide for Effective Audit Committee' issued by the Hong Kong Institute of Certified Public Accountants.

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

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

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

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

Period From	Period To	Audit Committee Members
1 January 2005	8 March 2005	Lee Yu Leung *(Chairman)* Cham Yiu Keung Chan Chi Yuen Cheng Kin Chow, Tony
9 March 2005	25 October 2005	Cham Yiu Keung Chan Chi Yuen Cheng Kin Chow, Tony
26 October 2005	9 March 2006	Chan Chi Yuen *(Chairman)* Lai Hin Wing, Henry Chan Kin Sang, Peter
10 March 2006	31 March 2007	Chan Chi Yuen *(Chairman)* Tai Sik Fung, George Zhang Xi
1 April 2007	8 May 2007	Chan Chi Yuen *(Chairman)* Zhang Xi Leung Po Hung, Mabel
9 May 2007	18 July 2007	Chan Chi Yuen *(Chairman)* Cheung Pui Hung Zhang Xi
19 July 2007	—	Chan Chi Yuen *(Chairman)* Tsang Kwok Wa Zhang Xi

The number of audit committee meetings held during the year under review and its record of individual attendance is shown below.

The audit committee had reviewed and approved the financial statements for the year ended 31 December 2005.

	Meetings Attended/Held in 2005				
	Board	Audit Committee	Remuneration Committee	2005 AGM	2005 EGM
No. of meetings held during the year 2005	64	1	1	1	3
Executive Directors					
Kwong Cheung Tim, Jimmy	6				
Wong King King	35				
Hon Yik Kwong	23				
Tian Yuchuan	8				
Non-Executive Directors					
Chow Ho Tung, Anthony (Note)	51	1		1	3
Chan Tat Chee (Note)	50			1	3
Hon Ming Kong (Note)	47				
His Royal Highness Prince Idris Abdallah Al-Senussi					
Alan Grant Quasha					
Lo Wing Yat, Kelvin	6				
John Douglas Kuhns	1				
Liu Hongru	1				
Independent Non-Executive Directors					
Lee Yu Leung					
Cham Yiu Keung	7	1			
Chan Chi Yuen	9	1		1	2
Cheng Kin Chow, Tony	9	1		1	2
Lai Hin Wing, Henry			1		
Chan Kin Sang, Peter			1		

Note:

Re-designated from Executive Directors to Non- Executive Directors on 3 October 2005.

Internal Control

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

Directors' and Auditors' Acknowledgement

All Directors acknowledge their responsibility for preparing the accounts for the year ended 31 December 2005.

Shu Lun Pan Horwath Hong Kong CPA Limited, the auditors of the Company, acknowledges its reporting responsibilities in the auditors' report on the financial statements for the year ended 31 December 2005.

Horwath

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
CHINA SCIENCES CONSERVATIONAL POWER LIMITED
(中科環保電力有限公司)
(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of China Sciences Conservational Power Limited (the "Company") and its subsidiaries (hereinafter referred to as the "Group") set out on pages 32 to 105, which comprise of the consolidated and Company balance sheets as at 31 December 2005, the consolidated income statement, the statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Except for the limitation in the scope of our work as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. However, because of the matter described in the basis for disclaimer of opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

1. As more fully explained in note 3(b)(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 December 2005. Although the present Board of Directors have represented that they have taken due care in the preparation of the financial statements, the current Board is unable to give representation as to the completeness of the books and records of the Group during the year ended 31 December 2005. 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 December 2005 have been properly included in the financial statements.

Furthermore, certain former directors of the Company were investigated by the Independent Commission against Corruption ("ICAC") as disclosed in note 38 to the financial statements. The directors have consulted with the Company's legal advisers as to what legal implications the investigation undertaken by the ICAC and its allegations will have for the Group as a whole. The directors conclude that it is too early for them to make any assessment of legal implications in light of the ICAC's investigation. Accordingly, we have been unable to obtain full representations from the Directors for the purpose of our audit.

2. Hong Kong Standard on Auditing 510 "Initial Engagements — Opening Balances" issued by the Hong Kong Institute of Certified Public Accountants requires the auditor to obtain sufficient audit evidence that opening balances do not contain material misstatements which affect the financial statements of the current year.

Included in other receivables as at 31 December 2004, there were several amounts with an aggregate sum of approximately HK$63,500,000. Full provision in the amount of approximately HK$63,500,000 against these receivables had been made by the Group during the current year and the details are as follows:

(a) a provision in the amount of HK$28,500,000 against a deposit with a PRC construction company relating to the construction of a waste incineration power generation plant (see paragraph 3 below);

(b) a provision in the amount of HK$19,000,000 against a deposit with Beijing Yuk Chak Enterprises Limited 北京旭策置業有限公司 (see paragraph 4 below);

(c) a provision in the amount of approximately HK$15,000,000 against the payment for the production of a film (see paragraph 5 below);

(d) a provision in the amount of HK$1,000,000 against a deposit with an independent third party (see paragraph 6 below).

It was not possible for us to perform auditing procedures necessary to obtain sufficient appropriate audit evidence concerning the related assets, as well as the provisions made in the year ended 31 December 2005, and to determine whether or not the related assets were fairly stated in the preceding year's financial statements. Accordingly, we were unable to verify whether or not comparative figures as at 31 December 2004 were fairly stated.

3. On 18 November 2004, 桂林中科環保電力有限公司, a 94.21% owned subsidiary of the Company, entered into an agreement with an independent PRC construction company, pursuant to which the PRC construction company has agreed to construct a waste incineration power generation plant in Guilin, the PRC. As at 31 December 2004, an aggregate amount of HK$28,500,000 had been deposited with the PRC construction company. Full provision in the amount of HK$28,500,000 against this deposit had been made by the Group during the current year. We have been unable to obtain sufficient audit evidence and explanations as to satisfy ourselves that such an amount was fairly stated in the financial statements.

4. Asset Palace International Limited, a wholly owned subsidiary of the Company, entered into an acquisition agreement dated 21 December 2004 and a supplemental acquisition agreement dated 4 March 2005 with Beijing Yuk Chak Enterprises Limited 北京旭策置業有限公司 ("Beijing Yuk Chak") for the acquisition of an approximately 32.89% equity interest in Beijing China Sciences General Energy & Environment Company Limited 北京中科通用能源環保有限責任公司 from Beijing Yuk Chak at a cash consideration of HK$20,000,000. As at 31 December 2004, HK$19,000,000, which comprised HK$10,000,000 being earnest money and HK$9,000,000 being payment of part of the cash consideration was

paid to Beijing Yuk Chak and included as part of trade and other receivables balances of HK$107,575,000 as disclosed in the balance sheet. The conditions for completion of the acquisition which include, inter alia, the approval of shareholders at the general meeting and The Stock Exchange of Hong Kong Limited had not been fulfilled as at 31 December 2005. Full provision in the amount of HK$19,000,000 against these deposits had been made by the Group during the current year. We have been unable to obtain sufficient audit evidence and explanations as to satisfy ourselves that such amounts were fairly stated in the financial statements.

5. Pursuant to an agreement dated 31 March 2004 relating to the production of a film entered into between the Company and a third party company (the "Third Party"), the Company paid an amount of HK$15,000,000 to the Third Party for its half share of the production costs of the film. On 3 May 2004, the Company entered into an agreement with the parent of the Third Party (the "Third Party Parent") stating that the estimated production costs of the film were only HK$15,000,000 (the "Second Agreement"). The Second Agreement superseded the agreement dated 31 March 2004. On 31 March 2005, the Company entered into an agreement of termination with the Third Party Parent terminating the Second Agreement. In December 2006, the solicitors of the Third Party Parent challenged the validity of the agreement of termination dated 31 March 2005. During the current year, the Company made full provision for the payment of HK$15,000,000 for the production costs. We have been unable to obtain sufficient audit evidence and explanations as to satisfy ourselves that such an amount was fairly stated in the financial statements.

6. A consultancy agreement dated 16 November 2004 was entered into between Abba China Holdings Limited ("Abba China"), a wholly owned subsidiary of the Company, and an independent third party ("the third party"), whereby Abba China and the third party agreed to seek the opportunities in conducting waste incineration business in Zhun Zhou, the PRC. An earnest money, amounting to HK$1,000,000, was paid by the Company to the third party pursuant to the consultancy agreement. Full provision in the amount of HK$1,000,000 against this deposit had been made by the Group during the current year. We have been unable to obtain sufficient audit evidence and explanations as to satisfy ourselves that such amount was fairly stated in the financial statements.

7. On 24 December 2004, a memorandum of understanding ("MOU") was entered into between Abba China and Mr. Pang Kwok Chung ("Mr. Pang"), whereby Abba China and Mr. Pang agreed to seek the opportunities in conducting waste incineration business in Meizhou, the PRC. An earnest money, amounting to HK$8,000,000, was paid by Abba China to Mr. Pang pursuant to the MOU.

   On 19 April 2005, an agreement for the sale and purchase of sale share in Sino Profit International Limited ("Sino Profit"), a company wholly owned by Mr. Pang, was entered into between Abba China and Mr. Pang, whereby Abba China agreed to acquire from Mr. Pang the sale share in Sino Profit, representing 100% of the issued share capital of Sino Profit, for the consideration of HK$8,000,000. No further payment had been made by Abba China, and both parties agreed that the consideration would be paid and set off against the earnest money amounting to HK$8,000,000 paid by Abba China to Mr. Pang pursuant to the MOU. A goodwill of approximately HK$8,000,000 arising from the acquisition of Sino Profit had been recognised. Full provision in the amount of approximately HK$8,000,000 against the carrying value of the goodwill had been made by the Group during the current year.

We have been unable to obtain sufficient information and explanations and to perform any satisfactory audit procedures to substantiate this transaction. Accordingly we are unable to satisfy ourselves that such amount was fairly stated in the financial statements.

8. In April 2005, Abba China agreed to lend out HK$5,000,000 to Sino Profit as working capital using funds provided by the Company. The loan was unsecured, interest free and supported by Mr. Pang's personal guarantee. Whilst the transaction was recorded as an advance from the Company to Abba China for lending to Sino Profit, the actual fund flow was that a cheque in the amount of HK$5,000,000 was drawn out by the Company in favour of a former director of the Company. The amount was recorded as other receivable in the books of Sino Profit. We have been unable to obtain sufficient information and explanations and to perform any satisfactory audit procedures to substantiate whether this transaction should be accounted for as a loan to director or other receivable. Accordingly, we are unable to satisfy ourselves that the disclosure requirement in respect of a loan to a director pursuant to section 161B of the Hong Kong Companies Ordinance has been fulfilled.

9. On 5 January 2005, Sharpo Solutions Limited, a wholly owned subsidiary of the Company, deposited HK$4,000,000 with Well Glory International Trading Limited as the consideration paid for purchase of computer components for trading purposes. Full provision in the amount of HK$4,000,000 against this deposit had been made by the Group during the current year. We have been unable to obtain sufficient information and explanations and to perform any satisfactory audit procedures to substantiate this transaction. Accordingly, we are unable to satisfy ourselves that such an amount was fairly stated in the financial statements.

10. In March 2005, Sharpo Solutions Limited deposited two amounts with an aggregate sum of HK$1,010,000 with a third party as loans. Full provision in the amount of HK$1,010,000 against this deposit had been made by the Group during the current year. We have been unable to obtain sufficient information and explanations and to perform any satisfactory audit procedures to substantiate these transactions. Accordingly, we are unable to satisfy ourselves that such amounts were fairly stated in the financial statements.

11. Pursuant to an agreement dated 12 May 2005 relating to the priority right to purchase steel to construct waste incineration power generation plant entered into between the Company and Angang Group Hong Kong Co., Limited ("Angang Group"), an amount of HK$7,000,000 was paid by the Company as guarantee deposit. On 26 October 2005, the Company entered into an agreement with Angang Group to terminate the agreement dated 12 May 2005. An amount of HK$3,300,000 being part of the guarantee deposit had been refunded to the Company on 14 December 2005. Full provision in the amount of HK$3,700,000 against the remaining part of this guarantee deposit had been made by the Group during the current year. We have been unable to obtain sufficient information and explanations and to perform any satisfactory audit procedures to substantiate this transaction. Accordingly, we are unable to satisfy ourselves that such amount was fairly stated in the financial statements.

12. During the current year, there were several investment deposits amounting to approximately HK$43,398,000 against which full provision had been made by the Group. We have been unable to obtain sufficient information and explanations and to perform any satisfactory audit procedures to substantiate these transactions. Accordingly, we are unable to satisfy ourselves that such amounts were fairly stated in the financial statements.

13. Included in other receivables at 31 December 2005 were several amounts with an aggregate sum of approximately HK$5,778,000 against which full provision had been made by the Group during the current year. We have been unable to obtain sufficient audit evidence and explanations as to satisfy ourselves that such amounts were fairly stated in the financial statements.

Disclaimer of opinion: disclaimer on view given by financial statements

Because of the significance of the matters described in the basis for disclaimer of opinion paragraph, we do not express an opinion on the financial statements as to whether they give a true and fair view of the state of the Company's and the Group's affairs as at 31 December 2005 and of the loss and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards. In our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the fulfilment of the disclosure requirements pursuant to section 161B of the Hong Kong Companies Ordinance, the financial statements have been properly prepared in accordance with the Hong Kong Companies Ordinance in all other respects.

Report on matters under sections 141(4) and 141(6) of the Hong Kong Companies Ordinance

In respect alone of the limitation on our work set out in the basis for disclaimer of opinion paragraph 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.

SHU LUN PAN HORWATH HONG KONG CPA LIMITED
Certified Public Accountants

3 December 2007
Li Pak Ki
Practising Certificate number P01330

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2005

	Note	**2005** **HK$'000**	2004 HK$'000 (Restated)
Turnover	5	**707,003**	338,140
Cost of sales		**(703,622)**	(335,459)
Gross profit		**3,381**	2,681
Other revenue		**630**	399
Administrative expenses		**(57,271)**	(33,852)
Provision for impairment of trade and other receivables		**(168,322)**	(2,229)
Provision for impairment of goodwill		**(42,851)**	—
Amortisation of goodwill		**—**	(10,420)
Loss from operations	7	**(264,433)**	(43,421)
Finance costs	8	**(4,693)**	(1,130)
Share of results of an associate		**(945)**	—
Loss on disposal of subsidiaries		**—**	(3,404)
Gain on disposal of an associate		**—**	38,826
Loss before taxation		**(270,071)**	(9,129)
Income tax	9	**—**	—
Loss after taxation		**(270,071)**	(9,129)
Attributable to:			
Equity holders of the Company		**(269,656)**	(9,129)
Minority interests		**(415)**	—
		(270,071)	(9,129)
Dividends	11	**—**	—
Loss per share			
— Basic	12	**(26.19) cents**	(1.45) cents
— Diluted	12	**N/A**	N/A

The accompanying notes form part of these financial statements.

At 31 December 2005

	Note	2005 HK$'000	2004 HK$'000 (Restated)
Assets and liabilities			
Non-current assets			
Property, plant and equipment	13	**5,158**	1,921
Construction in progress	14	**298,416**	—
Goodwill	16	**23,061**	23,444
Guaranteed income investments	17	**—**	—
		326,635	25,365
Current assets			
Inventories	18	**476**	420
Trade and other receivables	19	**30,274**	107,575
Investments held for trading	20	**56**	1,064
Pledged bank deposits	33	**14,413**	—
Bank balances and cash	21	**40,290**	37,027
		85,509	146,086
Current liabilities			
Trade and other payables	22	**16,432**	30,316
Obligations under finance leases	23	**—**	255
		16,432	30,571
Net current assets		**69,077**	115,515
Total assets less current liabilities		**395,712**	140,880
Non-current liabilities			
Obligations under finance leases	23	**—**	755
Bank loans	24	**211,387**	—
Convertible notes	25	**20,176**	19,856
Convertible preference shares	26	**46,471**	—
		278,034	20,611
Net assets		**117,678**	120,269

CONSOLIDATED BALANCE SHEET

At 31 December 2005

	Note	2005 HK$'000	2004 HK$'000 (Restated)
Equity			
Share capital	28	**11,570**	8,129
Reserves		**96,516**	112,133
Equity attributable to equity holders of the Company		**108,086**	120,262
Minority interests		**9,592**	7
Total equity		**117,678**	120,269

These financial statements were approved and authorised for issue by the board of directors on 3 December 2007:

Liang Jun
Director

Chan Wai Ming
Director

The accompanying notes form part of these financial statements.

BALANCE SHEET

At 31 December 2005

	Note	2005 HK$'000	2004 HK$'000 (Restated)
Assets and liabilities			
Non-current assets			
Property, plant and equipment	13	**5**	34
Investments in subsidiaries	15	**18,765**	108,281
Guaranteed income investments	17	**—**	—
		18,770	108,315
Current assets			
Trade and other receivables	19	**4,959**	15,079
Investments held for trading	20	**56**	—
Bank balances and cash	21	**29,079**	35,320
		34,094	50,399
Current liabilities			
Trade and other payables	22	**4,587**	29,496
Net current assets		**29,507**	20,903
Total assets less current liabilities		**48,277**	129,218
Non-current liabilities			
Convertible notes	25	**20,176**	19,856
Convertible preference shares	26	**46,471**	—
		66,647	19,856
Net (liabilities)/assets		**(18,370)**	109,362
Equity			
Share capital	28	**11,570**	8,129
Reserves	30	**(29,940)**	101,233
Total equity		**(18,370)**	109,362

These financial statements were approved and authorised for issue by the board of directors on 3 December 2007:

Liang Jun
Director

Chan Wai Ming
Director

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

	Attributable to equity shareholders of the Company									
	Share capital HK$'000 (Note 28)	Share premium HK$'000	Share option reserve HK$'000	Equity component of convertible notes HK$'000	Equity component of convertible preference shares HK$'000	Translation reserve HK$'000	Accu— mulated losses HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2004	532,674	491,076	—	—	—	(16)	(989,444)	34,290	7	34,297
Recognised upon disposal of subsidiaries	—	—	—	—	—	16	—	16	—	16
Net loss for the year — As restated (note 2(b))	—	—	—	—	—	—	(9,129)	(9,129)	—	(9,129)
Total recognised income and expenses for the year	—	—	—	—	—	16	(9,129)	(9,113)	—	(9,113)
Reduction of capital pursuant to the Subscription Agreement	(530,011)	(341,236)	—	—	—	—	871,247	—	—	—
New issue and allotment of shares pursuant to the Subscription Agreement	2,950	14,071	—	—	—	—	—	17,021	—	17,021
New issue and placing of 112,000,000 shares on 14 June 2004	1,120	14,023	—	—	—	—	—	15,143	—	15,143
New issue and placing of 134,660,000 shares on 23 September 2004	1,347	57,365	—	—	—	—	—	58,712	—	58,712
Recognition of convertible notes	—	—	—	550	—	—	—	550	—	550
Recognition of share option payments	—	—	2,316	—	—	—	—	2,316	—	2,316
Exercise of share options	49	1,294	—	—	—	—	—	1,343	—	1,343
At 31 December 2004	8,129	236,593	2,316	550	—	—	(127,326)	120,262	7	120,269

	Attributable to equity shareholders of the Company									
	Share capital HK$'000 (Note 28)	Share premium HK$'000	Share option reserve HK$'000	Equity component of convertible notes HK$'000	Equity component of convertible preference shares HK$'000	Translation reserve HK$'000	Accu— mulated losses HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2005										
— As previously reported	8,129	236,593	—	—	—	—	(124,781)	119,941	7	119,948
— Prior year adjustments on effects of changes in accounting policies (note 2(b))	—	—	2,316	550	—	—	(2,545)	321	—	321
— As restated	8,129	236,593	2,316	550	—	—	(127,326)	120,262	7	120,269
Exchange difference arising on translation of financial statements of foreign entities recognised directly in equity	—	—	—	—	—	2,831	—	2,831	225	3,056
Net loss for the year	—	—	—	—	—	—	(269,656)	(269,656)	(415)	(270,071)
Total recognised income and expenses for the year	—	—	—	—	—	2,831	(269,656)	(266,825)	(190)	(267,015)
New issue and allotment of shares pursuant to the Subscription Agreement	500	26,500	—	—	—	—	—	27,000	—	27,000
New issue and allotment of shares for acquisition of subsidiaries	700	37,100	—	—	—	—	—	37,800	—	37,800
New issue and placing of 120,000,000 shares on 23 March 2005	1,200	90,580	—	—	—	—	—	91,780	—	91,780
New issue and placing of 65,000,000 shares on 8 September 2005	650	47,459	—	—	—	—	—	48,109	—	48,109
Recognition of convertible preference shares	—	—	—	—	20,952	—	—	20,952	—	20,952
Conversion of convertible preference shares	200	10,978	—	—	—	—	—	11,178	—	11,178
Recognition of share option payments	—	—	7,825	—	—	—	—	7,825	—	7,825
Recognition of share premium upon exercise of share options	—	943	(943)	—	—	—	—	—	—	—
Exercise of share options	191	9,814	—	—	—	—	—	10,005	—	10,005
Share of net assets by minority interest of a subsidiary	—	—	—	—	—	—	—	—	9,775	9,775
At 31 December 2005	11,570	459,967	9,198	550	20,952	2,831	(396,982)	108,086	9,592	117,678

The accompanying notes form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2005

	2005 HK$'000	2004 HK$'000 (Restated)
Operating activities		
Loss before taxation	**(270,071)**	(9,129)
Adjustment for:		
Provision for impairment of goodwill	**42,851**	—
Share of results of associate	**945**	—
Unrealised holding loss/(gain) of other investments	**68**	(278)
Gain on disposal of investments held for trading	**(78)**	—
Loss on disposal of subsidiaries	**—**	3,404
Gain on disposal of an associate	**—**	(38,826)
Interest income	**(33)**	(100)
Interest expenses	**21**	273
Interest on obligations under finance leases	**53**	26
Amortisation of goodwill arising on acquisition of subsidiary	**—**	10,420
Depreciation and amortisation of property, plant and equipment	**1,267**	1,098
Loss on disposal of property, plant and equipment	**340**	215
Provision for inventories	**266**	—
Provision for impairment of trade and other receivables	**168,322**	—
Bad debts written off	**2,369**	—
Equity-settled share-based payment	**1,538**	2,316
Interest on convertible notes	**2,020**	831
Interest on convertible preference shares	**2,599**	—
Effect of foreign exchange rate changes	**2,263**	—
Operating loss before changes in working capital	**(45,260)**	(29,750)
Increase in inventories	**(322)**	(303)
Increase in trade and other receivables	**(71,965)**	(97,011)
(Decrease)/increase in trade and other payables	**(36,100)**	19,960
Cash used in operations	**(153,647)**	(107,104)
Interest paid	**(21)**	(273)
Interest on obligations under finance leases	**(53)**	(26)
Interest on bank loan	**(3,700)**	—
Interest on convertible notes	**(1,700)**	(425)
Interest received	**33**	100
Net cash used in operating activities	**(159,088)**	(107,728)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2005

	Note	**2005 HK$'000**	2004 HK$'000 (Restated)
Investing activities			
Purchase of investment securities and other investments		**—**	(786)
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	31	**(1,950)**	—
Disposal of subsidiaries (net of cash and cash equivalents disposed of)		**—**	1,959
Purchase of property, plant and equipment		**(5,314)**	(289)
Payments for construction in progress		**(205,699)**	—
Increase in pledged bank deposits		**(14,413)**	—
Proceeds from disposal of an associate		**—**	47,846
Proceeds from disposal of investments held for trading		**1,142**	—
Proceeds from disposal of property, plant and equipment		**1,437**	—
Purchase of investments held for trading		**(124)**	—
Net cash (used in)/from investing activities		**(224,921)**	48,730
Financing activities			
New bank loan		**211,387**	—
Repayment of bank loan		**—**	(16,723)
Capital element of finance leases rentals paid		**(1,010)**	(277)
Proceeds from issue of shares		**166,889**	92,219
Proceeds from issue of convertible notes		**—**	20,000
Proceeds from exercise of share options		**10,005**	—
Net cash from financing activities		**387,271**	95,219
Net increase in cash and cash equivalents		**3,262**	36,221
Cash and cash equivalents at 1 January		**37,027**	806
Effect of foreign exchange rate changes		**1**	—
Cash and cash equivalents at 31 December representing bank balances and cash		**40,290**	37,027

The accompanying notes form part of these financial statements.

(Expressed in Hong Kong dollars)

1. Organisation and operations

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

The Company acts as an investment holding company and provides corporate management services. The principal activities and other particulars of its principal subsidiaries are set out in note 15.

2. Adoption of new and revised Hong Kong Financial Reporting Standards

(a) In the current year, the Group has adopted all of the new and revised Hong Kong Financial Reporting Standards ("HKFRS"), which also include all Hong Kong Accounting Standards ("HKAS") and Interpretations ("HK(SIC)-Int") (collectively "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants which are relevant to its operations and effective for accounting periods beginning on or after 1 January 2005. The applicable HKFRSs are set out below:

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	Revenues
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 28	Investments in Associates
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 Asset
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HK(SIC)-Int 21	Income Taxes — Recovery of Revalued Non-Depreciated Assets
HK(SIC)-Int 27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease

2. Adoption of new and revised Hong Kong Financial Reporting Standards *(continued)*

(a) *(continued)*

The effects of the adoption of these HKFRSs on the Group's accounting policies and on the amount disclosed in the financial statements are summarised as follows:

(i) HKAS 1 has affected the presentation of minority interest and other disclosures.

(ii) HKASs 2, 7, 8, 10, 12, 14, 16, 17, 18, 19, 23, 27, 28, 33, 37 and HK(SIC)-Int 27 had no material effect on the Group's policies.

(iii) HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard and there is no change to the functional currency of each Group entity or the presentation currency for the consolidated financial statements.

(iv) HKAS 24 has affected the identification of related parties and some other related party disclosures.

(v) Amortisation of positive and negative goodwill (HKFRS 3 — Business combinations and HKAS 36 — Impairment of assets and HKAS 38 — Intangible assets)

In prior periods:

— positive or negative goodwill which arose prior to 1 April 2001 was taken directly to reserves at the time it arose, and was not recognised in the profit and loss account until disposal or impairment of the acquired business;

— positive goodwill which arose on or after 1 April 2001 was amortised on a straight-line basis over its useful life and was subject to impairment testing when there were indications of impairment; and

— negative goodwill which arose on or after 1 April 2001 was amortised over the weighted average useful life of the depreciable/amortisable non-monetary assets acquired, except to the extent it related to identified expected future losses as at the date of acquisition. In such cases it was recognised in the profit and loss account as those expected losses were incurred.

With effect from 1 January 2005, in order to comply with HKFRS 3, HKAS 36 and HKAS 38, the Group has changed its accounting policies relating to goodwill. Under the new policy, the Group no longer amortises positive goodwill. Such goodwill is tested annually for impairment, including in the year of its initial recognition, as well as when there are indications of impairment. Impairment losses are recognised when the carrying amount of the cash generating unit to which the goodwill had been allocated exceeds its recoverable amount. Also with effect from 1 January 2005 and in accordance with HKFRS 3, if the fair value of the net assets acquired in a business combination exceeds the consideration paid (i.e. an amount arises which would have been known as negative goodwill under the previous accounting policy), the excess is recognised immediately in the profit or loss as it arises. Further details of these new policies are set out in note 3(d) and 3(g) to the financial statements.

2. Adoption of new and revised Hong Kong Financial Reporting Standards *(continued)*

(a) *(continued)*

(v) *(continued)*

The new policy in respect of the amortisation of positive goodwill has been applied prospectively after 1 January 2005 in accordance with the transitional arrangements under HKFRS 3. As detailed in note 16 to the financial statements, the Group's accumulated amortisation of goodwill of $54,584,000 has been eliminated against the cost of goodwill as at 1 January 2005. The adoption of this new policy also reduced the amortisation of goodwill of HK$15,969,000 which would have been charged for the current year had the Group not adopted this new policy.

Also in accordance with the transitional arrangements under HKFRS 3, goodwill which had previously been taken directly to reserves (i.e. goodwill which arose before 1 January 2001) will not be recognised in the profit and loss account on disposal or impairment of the acquired business, or under any other circumstances.

The Group has reassessed the useful lives of its intangible assets in accordance with the provision of HKAS 38. No adjustment resulted from this reassessment.

The change in policy relating to negative goodwill had no effect on these consolidated financial statements as there was no negative goodwill deferred as at 31 December 2004.

(vi) Retranslation of goodwill relating to a net investment in a foreign operation (HKAS 21 — The effects of changes in foreign exchange rates)

In prior years, goodwill arising on the acquisition of foreign operation was translated at the exchange rates ruling at the transaction dates.

With effect from 1 January 2005, in order to comply with HKAS 21, the Group has changed its accounting policy relating to retranslation of goodwill. Under the new policy, any goodwill arising on the acquisition of a foreign operation is treated as an asset of the foreign operation. Thus it is expressed in the functional currency of that foreign operation and is retranslated at the closing rate at each balance sheet date. Any resulting exchange difference is taken directly to the exchange reserves, together with any other differences arising from the re-translation of the net assets of the foreign operation.

In accordance with the transitional provisions in HKAS 21, this new policy has not been adopted retrospectively and will only be applied to acquisitions occurring on or after 1 January 2005.

2. Adoption of new and revised Hong Kong Financial Reporting Standards *(continued)*

(a) *(continued)*

(vii) Financial instruments (HKAS 32 — Financial Instruments: Disclosure and Presentation and HKAS 39 — Financial Instruments: Recognition and Measurement)

The adoption of HKAS 32 and HKAS 39 has resulted in a change in the accounting policy for recognition, measurement, derecognition and disclosures of financial instruments. Under HKAS 39, financial assets are classified into four categories including financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets. Financial liabilities are generally classified as financial liabilities at fair value through profit or loss or other financial liabilities. Details of the change in accounting policy of the financial instruments are summarised in note 3(k) to the financial statements.

Convertible notes

In prior years, convertible notes were stated at amortised cost. Upon the adoption of HKAS 32 and HKAS 39, convertible notes in issue are split into liability and equity components.

On the issue of the convertible notes, the fair value of the liability component is determined using a market rate for an equivalent non-convertible note; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption.

The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years.

Transaction costs are apportioned between the liability and equity components of the convertible notes based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

In accordance with HKAS 32, comparative amounts have been restated and the financial impacts are set out in note 2(b). Following the adoption of HKAS32 which resulted in increased imputed interest expenses for the year ended 31 December 2005 by approximately HK$320,000 (2004: HK$229,000).

Investments at fair value through profit or loss

In prior years, the Group's investments in securities were classified as short term investments and were measured at fair value, with unrealised gains and losses included in the profit and loss account.

Upon the adoption of HKAS 32 and HKAS 39, these investments are classified as investments held for trading. Any gains and losses arising from changes in fair value are included in profit or loss for the period. This change in accounting policy has had no effect on the Group's profit or loss and retained profits. The Group has applied the transitional rules in HKAS 39. At 1 January 2005, the Group reclassified the investment in securities with a carrying amount of HK$1,064,000 to investments held for trading.

2. Adoption of new and revised Hong Kong Financial Reporting Standards *(continued)*

(a) *(continued)*

(viii) Share option scheme (HKFRS 2 — Share-based payment)

In prior years, no amounts were recognised when option holders (which term includes directors) were granted share options over shares in the Company. If the option holders chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

With effect from 1 January 2005, in order to comply with HKFRS 2, the Group has adopted a new policy for share options. Under the new policy, the fair value of such share options is recognised as an expense with a corresponding increase recognised in a capital reserve within equity. Further details of the new policy are set out in note 3(p)(iii) to the financial statements.

Where the option holders are required to meet vesting conditions before they become entitled to the options, the Group recognises the fair value of the options granted over the vesting period. Otherwise, the Group recognises the fair value in the period in which the options are granted.

If an option holder chooses to exercise options, the related capital reserve is transferred to share capital and share premium, together with the exercise price. If the options lapse unexercised, the related capital reserve is transferred directly to the retained profits.

The new accounting policy has been applied retrospectively with comparatives restated in accordance with HKFRS 2, except that the Group has taken advantage of the transitional provisions of HKFRS 2 under which the new recognition and measurement policies have not been applied to the following grants of options:

(a) all options granted to option holders on or before 7 November 2002; and

(b) all options granted to option holders after 7 November 2002 but which had vested before 1 January 2005.

The amount charged to the consolidated profit and loss account as a result of the change of policy increased administrative expenses for the year ended 31 December 2005 by approximately HK$1,538,000 (2004: HK$2,316,000), with the corresponding amounts credited to the capital reserve.

Details of the share option scheme are set out in note 29 to the financial statements.

2. Adoption of new and revised Hong Kong Financial Reporting Standards *(continued)*

(b) All changes on the accounting policies as mentioned above have been applied retrospectively. The effects of the changes in accounting policies on the financial statements are summarised below:

(i) Effect on the profit and loss and loss per share for the years ended 31 December 2004 and 2005

	HKFRS 3	HKAS 32 and HKAS 39	HKFRS 2	Total
	HK$'000	HK$'000	HK$'000	HK$'000
For the year ended 31 December 2004				
Increase in imputed interest expenses on convertible notes	—	(229)	—	(229)
Increase in equity-settled share-based payment under administrative expenses	—	—	(2,316)	(2,316)
Increase in loss for the year attributable to equity holders of the Company	—	(229)	(2,316)	(2,545)
Loss per share (HK cents)	—	(0.04)	(0.37)	(0.41)

Restated loss for the year ended 31 December 2004 is HK$9,129,000, after taking into account the prior year adjustments of HK$2,545,000 due to changes in accounting policies.

	HKFRS 3	HKAS 32 and HKAS 39	HKFRS 2	Total
	HK$'000	HK$'000	HK$'000	HK$'000
For the year ended 31 December 2005				
Decrease in amortisation expense on goodwill	15,969	—	—	15,969
Increase in imputed interest expenses on convertible notes and convertible preference shares	—	(2,919)	—	(2,919)
Increase in equity-settled share-based payment under administrative expenses	—	—	(1,538)	(1,538)
Decrease in loss for the year attributable to equity holders of the Company	15,969	(2,919)	(1,538)	11,512
Loss per share (HK cents)	1.55	(0.28)	(0.15)	1.12

2. Adoption of new and revised Hong Kong Financial Reporting Standards *(continued)*

(b) *(continued)*

(ii) Effect on the balance of equity at 31 December 2004 and 2005

	HKFRS 3 HK$'000	HKAS 32 and HKAS 39 HK$'000	HKFRS 2 HK$'000	Total HK$'000
At 31 December 2004				
Increase in equity component of convertible notes	—	550	—	550
Increase in accumulated losses	—	(229)	—	(229)
Increase in equity at 31 December 2004	—	321	—	321
At 31 December 2005				
Increase in equity component of convertible preference shares	—	16,928	—	16,928
Increase in share option reserve	—	—	7,826	7,826
(Increase)/decrease in accumulated losses	15,969	(2,919)	(1,538)	11,512
Increase in equity at 31 December 2005	15,969	14,009	6,288	36,266

2. Adoption of new and revised Hong Kong Financial Reporting Standards *(continued)*

(b) *(continued)*

(iii) Cumulative effect on balance sheets at 31 December 2004 and 2005

	HKFRS 3 HK$'000	**HKAS 32 and HKAS 39** HK$'000	**HKFRS 2** HK$'000	**Total** HK$'000
At 31 December 2004				
Assets				
Increase in goodwill	—	—	—	—
Liabilities				
Decrease in convertible notes	—	(321)	—	(321)
Equity				
Increase in equity component of convertible notes	—	550	—	550
Increase in share option reserve	—	—	2,316	2,316
Increase in accumulated losses	—	(229)	(2,316)	(2,545)
Total equity	—	321	—	321
At 31 December 2005				
Assets				
Increase in goodwill	15,969	—	—	15,969
Increase in amount due from a subsidiary	—	—	6,288	6,288
Total assets	15,969	—	6,288	22,257
Liabilities				
Increase in convertible notes	—	321	—	321
Decrease in convertible preference shares	—	(14,330)	—	(14,330)
Total liabilities	—	(14,009)	—	(14,009)
Equity				
Increase in equity component of convertible preference shares	—	20,951	—	20,951
Increase in share option reserve	—	—	6,883	6,883
(Decrease)/increase in share premium	—	(4,023)	943	(3,080)
(Increase)/decrease in accumulated losses	15,969	(2,919)	(1,538)	11,512
Total equity	15,969	14,009	6,288	36,266

(Expressed in Hong Kong dollars)

2. Adoption of new and revised Hong Kong Financial Reporting Standards *(continued)*

In the current year, the Group has not early adopted the following new HKFRSs, that have been issued but are not yet effective to these financial statements. The directors of the Company are in the process of making an assessment of what the impact of these new or revised Standards or Interpretations is expected to be in the period of initial application.

		Effective for accounting periods beginning on or after
HKAS 1 (Amendment)	Capital Disclosures	1 January 2007
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures	1 January 2006
HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates: Net Investment in a Foreign Operation	1 January 2006
HKAS 23 (Revised)	Borrowing Costs	1 January 2009
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement: Cash Flow Hedge Accounting of Forecast Intragroup Transactions	1 January 2006
HKAS 39 (Amendment)	The Fair Value Option	1 January 2006
HKAS 39 & HKFRS 4 (Amendment)	Financial Guarantee Contracts	1 January 2006
HKFRS 6	Exploration for and Evaluation of Mineral Resources	1 January 2006
HKFRS 7	Financial Instruments: Disclosures	1 January 2007
HKFRS 8	Operating Segments	1 January 2009
HKFRS — Int 4	Determining Whether an Arrangement Contains a Lease	1 January 2006
HKFRS — Int 5	Right to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	1 January 2006
HKFRS — Int 6	Liabilities arising from Participating in a Specific market, Waste Electrical and Electronic Equipment	1 December 2005
HK(IFRIC) — Int 4	Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases	24 May 2005
HK(IFRIC) — Int 7	Applying the Restatement Approach under HKAS 29 "Financial Reporting in Hyperinflationary Economies"	1 March 2006
HK(IFRIC) — Int 8	Scope of HKFRS 2	1 May 2006
HK(IFRIC) — Int 9	Reassessment of Embedded Derivatives	1 June 2006
HK(IFRIC) — Int 10	Interim Financial Reporting and Impairment	1 November 2006
HK(IFRIC) — Int 11	HKFRS 2 — Group and Treasury Share Transactions	1 March 2007
HK(IFRIC) — Int 12	Service Concession Arrangements	1 January 2008

3. Principal accounting policies

(a) Statement of compliance

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

(b) Basis of preparation of financial statements

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

(ii) There were several changes to the board of directors of the Company during the year and subsequent to the year ended 31 December 2005. In the present board of directors, only two non-executive directors were appointed during the year while the other directors (collectively the "Current Directors") were appointed in 2006 and 2007, which were subsequent to the Company's current reporting financial year. The financial statements have been prepared based on the books and records maintained by the Company and its subsidiaries. However, no representation as to the completeness of the books and records of the Group during the period from 1 January 2005 to 31 December 2005 could be given by the present board of directors although due care has been taken in the preparation of the financial statements. The Current Directors are, therefore, unable to represent that all transactions entered in the name of the Company and its subsidiaries during the year ended 31 December 2005 have been included in the financial statements. Notwithstanding the foregoing, the Current Directors have in the assessment of the Company's and the Group's assets and liabilities, taken such steps as they considered practicable, to make provisions and adjustments as they considered appropriate in the preparation of the financial statements.

(c) Basis of consolidation

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

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

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

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

3. Principal accounting policies *(continued)*

(d) Business combinations

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

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

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

(e) Subsidiaries

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

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

(f) Associates

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

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

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

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

3. Principal accounting policies *(continued)*

(g) Goodwill

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

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

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

(h) Property, plant and equipment

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

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

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

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

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

3. Principal accounting policies *(continued)*

(i) Impairment of assets excluding goodwill

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

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

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

(j) Inventories

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

(k) Financial instruments

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

(i) Trade and other receivables

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

3. Principal accounting policies *(continued)*

(k) Financial instruments *(continued)*

(ii) Investments

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

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

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

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

3. Principal accounting policies *(continued)*

(k) Financial instruments *(continued)*

(iii) Cash and cash equivalents

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

(iv) Financial liabilities and equity

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

(v) Borrowings

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

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

(vi) Convertible notes and convertible preference shares

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

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

3. Principal accounting policies *(continued)*

(k) Financial instruments *(continued)*

(vi) Convertible notes and convertible preference shares (continued)

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

(vii) Trade and other payables

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

(viii) Equity instruments

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

(l) Leases

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

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

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

3. Principal accounting policies *(continued)*

(m) Provisions and contingent liabilities

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

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

(n) Taxation

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

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

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

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

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

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

3. Principal accounting policies *(continued)*

(o) Translation of foreign currencies

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

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

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

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

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

(p) Employees' benefits

(i) Short term employee benefits

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

3. Principal accounting policies *(continued)*

(p) Employees' benefits *(continued)*

(ii) Pension obligations

The Group has participated in an approved Mandatory Provident Fund ("MPF") scheme effective from 1 December 2000 to provide MPF scheme to all eligible employees in Hong Kong. The contributions borne by the Group are calculated at 5% of the salaries and wages (monthly contribution limited to 5% of HK$20,000 for each eligible employee) as calculated under the MPF legislation. Contributions to MPF scheme are recognised as an expense in the income statement as incurred. There were no forfeited contributions used to reduce future contributions as at 31 December 2005.

Employees of the Company's subsidiaries in the People's Republic of China ("PRC") are required to participate in defined contribution retirement scheme operated by relevant government authorities. The PRC subsidiaries are required to contribute a certain percentage of the employee payroll to the scheme in accordance with the relevant regulations in the PRC and such contributions are charged to the income statement as incurred. There were no forfeited contributions used to reduce future contributions as at 31 December 2005.

(iii) Share-based payments

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

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

(q) Borrowing costs

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

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

3. Principal accounting policies *(continued)*

(r) Research and development costs

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

(s) Related parties

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(t) Revenue recognition

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

(i) Waste incineration power generation income are earned and recognised upon transmission of electricity to the power grid companies.

(ii) Sales of goods are recognised when goods are delivered and title has passed.

(iii) Service income is recognised when services are provided.

(iv) Guaranteed return is accrued on a time basis and is recognised when the guaranteed return becomes due and recoverability is reasonably assured.

(v) Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

(vi) Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

3. Principal accounting policies *(continued)*

(u) Segment reporting

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

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

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

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

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

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

4. Critical accounting estimates and judgements

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

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

(a) Useful lives of property, plant and equipment

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

4. Critical accounting estimates and judgements *(continued)*

(b) Impairment of trade and other receivable

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

(c) Assessment of impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 3(g). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate. In cases where the actual future cash flows generated are less than expected, a material portion of the goodwill may be derecognised, which would be charged to the consolidated income statement for the year in which such a derecognition takes place. As at 31 December 2005, the carrying amount of goodwill was HK$23,061,000 (2004: HK$23,444,000). Details of the impairment assessment are disclosed in note 16.

5. Turnover

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

	2005 **HK$'000**	2004 HK$'000
Sale of computer hardware and maintenance support services	**705,301**	336,864
Software design and development	**1,702**	1,276
Return from a power plant in the PRC (Note)	**—**	—
Return from an investment in a motor spare parts business in the PRC (Note)	**—**	—
	707,003	338,140

Note: No return has been recognised in the current and prior years as the recoverability of the guaranteed return is considered by the directors to be uncertain.

6. Business and geographical segments

(a) Business segments

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

The principal activities of the divisions are as follows:

Waste incineration power generation business	—	Waste incineration, processing and power generation business in the PRC
Computer hardware and maintenance support services	—	Sale of computer hardware and provision of maintenance support services
Software design and development	—	E-commerce consultancy, software development, system integration, website design and sale of software
Power plant	—	Guaranteed income investment in a power plant in the PRC
Motor spare parts business	—	Guaranteed income investment in a motor spare parts business in the PRC

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

6. Business and geographical segments *(continued)*

(a) Business segments *(continued)*

For the year ended 31 December 2005

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

6. Business and geographical segments *(continued)*

(a) Business segments *(continued)*

For the year ended 31 December 2005

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

6. Business and geographical segments *(continued)*

(a) Business segments *(continued)*

For the year ended 31 December 2004

	Waste incineration power generation business HK$'000	Computer hardware and maintenance support services HK$'000	Software design and development HK$'000	Power plant HK$'000	Motor spare parts business HK$'000	Consolidated HK$'000 (Restated)
Turnover	—	336,864	1,276	—	—	338,140
Segment results	—	(266)	(11,656)	—	—	(11,922)
Net investment gain						378
Unallocated corporate income and expenses (net)						(31,877)
Loss from operations						(43,421)
Finance costs						(1,130)
Loss on disposal of subsidiaries						(3,404)
Gain on disposal of an associate						38,826
Loss before taxation						(9,129)
Income tax						—
Loss for the year						(9,129)
Minority interests						—
Loss for the year attributable to equity holders of the Company						(9,129)

6. Business and geographical segments *(continued)*

(a) Business segments *(continued)*

For the year ended 31 December 2004

	Waste incineration power generation business HK$'000	Computer hardware and maintenance support services HK$'000	Software design and development HK$'000	Power plant HK$'000	Motor spare parts business HK$'000	Consolidated HK$'000 (Restated)
Segment assets	—	2,442	830	—	—	3,272
Unallocated corporate assets						168,179
Consolidated total assets						171,451
Segment liabilities	—	451	292	—	—	743
Unallocated corporate liabilities						50,439
Consolidated total liabilities						51,182
Capital expenditure	—	17	11	—	—	
Depreciation and amortisation	—	8	10,704	—	—	
Provision for impairment of trade and other receivables	—	—	—	—	—	

6. Business and geographical segments *(continued)*

(b) Geographical segments

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

	Segment revenues		**Carrying amount of segment assets**		**Additions to property plant and equipment and construction in progress**	
	2005 HK$'000	2004 HK$'000	**2005 HK$'000**	2004 HK$'000	**2005 HK$'000**	2004 HK$'000
Hong Kong	**455,044**	273,386	**66,582**	171,012	**1,787**	1,383
Other regions of PRC	**119,089**	43,230	**343,973**	439	**209,226**	11
Russia	**73,383**	—	**—**	—	**—**	—
Taiwan	**19,055**	9,022	**—**	—	**—**	—
Others	**40,432**	12,502	**1,589**	—	**—**	—
	707,003	338,140	**412,144**	171,451	**211,013**	1,394

7. Loss from operations

Loss from operations has been arrived at after charging (crediting):—

	2005 HK$'000	2004 HK$'000 (Restated)
Depreciation and amortisation of		
— property, plant and equipment		
— owned assets	**961**	943
— leased assets	**306**	155
— goodwill arising on acquisition of subsidiaries	**—**	10,420
	1,267	11,518
Auditors' remuneration	**1,031**	765
Loss on disposal of property, plant and equipment	**340**	215
Bad debts written off	**2,369**	—
Provision for impairment of trade and other receivables	**168,322**	2,229
Provision for impairment of goodwill	**42,851**	—
Inventories written off	**266**	—
Exchange gain	**(472)**	(92)
Cost of inventories expensed	**703,622**	335,459
Operating lease rentals in respect of land and buildings	**2,684**	1,803
Staff costs, including directors' remuneration		
— Salaries, wages and other benefits	**20,631**	12,934
— Contributions to defined contribution retirement scheme	**458**	170
	21,089	13,104

8. Finance costs

	2005 HK$'000	2004 HK$'000 (Restated)
Interest on bank borrowings wholly repayable within five years	**3,721**	273
Interest on convertible notes	**2,020**	831
Interest element of finance leases	**53**	26
Interest on convertible preference shares	**2,599**	—
Total borrowing costs	**8,393**	1,130
Less: amount capitalised into construction in progress	**(3,700)**	—
	4,693	1,130

9. Income tax

(a) Hong Kong profits tax is calculated at 17.5% (2004: 17.5%) on the estimated assessable profit for the year. Taxation for overseas subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

No provision for Hong Kong profits tax has been made in the financial statements as the companies operating in Hong Kong had no assessable profit for the year ended 31 December 2005 (2004: Nil).

No provision for PRC enterprise income tax has been made in the financial statements as the companies operating in the PRC had no assessable profit for the year ended 31 December 2005 (2004: Nil).

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

	2005 **HK$'000**	2004 HK$'000 (Restated)
Loss before taxation	**(270,071)**	(9,129)
Calculated at tax rate of 17.5%	**(47,262)**	(1,598)
Tax effect of expenses not deductible for taxation purposes	**42,028**	2,846
Tax effect of non-taxable items	**(6)**	(4,559)
Tax effect of unrecognised tax losses and temporary differences	**5,075**	3,312
Utilisation of previously unrecognised tax losses	**—**	(1)
Tax effect of share of results of associate	**165**	—
Taxation charge	**—**	—

10. Directors' and senior management's emoluments

(a) Directors' emoluments

For the year ended 31 December 2005

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

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

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

10. Directors' and senior management's emolument *(continued)*

(a) Directors' emoluments *(continued)*

For the year ended 31 December 2004

	Directors' fees HK$'000	Salaries, and other benefits HK$'000	Discre-tionary bonuses HK$'000	Share-based payments HK$'000	Pension fund con-tributions HK$'000	Total HK$'000
Executive directors						
Hon Ming Kong*	—	365	—	361	3	729
Wong King King	—	216	—	361	2	579
Chan Tat Chee#	—	1,300	—	—	12	1,312
Chow Ho Tung, Anthony#	—	1,012	—	130	12	1,154
Hon Yik Kwong	—	68	—	570	1	639
Kwong Cheung Tim, Jimmy	—	—	—	—	—	—
Tian Yuchuan	—	—	—	—	—	—
Chung Chi Shing	—	496	—	—	6	502
Lin Hoi Kwong	—	465	—	—	6	471
Non-executive directors						
His Royal Highness Prince Idris	—	—	—	—	—	—
Alan Grant Quasha	—	—	—	—	—	—
Lo Wing Yat, Kelvin	—	—	—	—	—	—
John Douglas Kuhns	—	—	—	—	—	—
Liu Hongru	—	—	—	—	—	—
Hon Ming Kong*	—	—	—	—	—	—
Chan Tat Chee#	—	—	—	—	—	—
Chow Ho Tung, Anthony#	—	—	—	—	—	—
Independent non-executive directors						
Cham Yiu Keung	—	—	—	—	—	—
Chan Chi Yuen	9	—	—	—	—	9
Cheng Kin Chow, Tony	8	—	—	—	—	8
Lai Hin Wing, Henry	—	—	—	—	—	—
Chan Kin Sang	—	—	—	—	—	—
	17	3,922	—	1,422	42	5,403

There were no arrangements under which any director waived or agreed to waive any emoluments in respect of each of the years ended 31 December 2005 and 2004.

10. Directors' and senior management's emoluments *(continued)*

(b) Five highest paid individuals

The five highest paid individuals of the Group included five (2004: four) executive directors of the Company, details of whose emoluments are set out above. The emoluments of the remaining one highest paid individual for the year ended 31 December 2004, other than the directors of the Company, are as follows:

	2005 HK$'000	2004 HK$'000
Salaries and other benefits	—	450
Contributions to defined contribution retirement scheme	—	12
	—	462

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

	2005 Number of employees	2004 Number of employees
HK$Nil to HK$1,000,000	—	1

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

11. Dividends

No dividend has been paid or declared by the Company during the year (2004: $Nil).

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

12. Loss per share

The calculation of basic loss per share for the year ended 31 December 2005 is based on the loss attributable to equity holders of the Company of HK$269,656,000 (2004 (restated): HK$9,129,000) and on the weighted average of 1,029,619,621 (2004: 628,052,674) ordinary shares in issue during the year.

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

13. Property, plant and equipment

	Buildings, plant and equipment HK$'000	Leasehold improve-ments HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
The Group					
Cost:					
As at 1 January 2004	—	—	6,227	5,365	11,592
Additions	—	—	89	1,305	1,394
Disposals	—	—	(2,477)	—	(2,477)
Through disposal of subsidiaries	—	—	(799)	(4,471)	(5,270)
As at 31 December 2004	—	—	3,040	2,199	5,239
Exchange adjustments	10	—	16	9	35
Acquisition of subsidiaries	416	—	207	396	1,019
Additions	1,793	253	614	2,654	5,314
Disposals	—	—	(928)	(2,201)	(3,129)
As at 31 December 2005	2,219	253	2,949	3,057	8,478
Accumulated depreciation and impairment losses:					
As at 1 January 2004	—	—	4,387	2,232	6,619
Provided for the year	—	—	1,051	47	1,098
Written back on disposal	—	—	(2,262)	—	(2,262)
Through disposal of subsidiaries	—	—	(799)	(1,338)	(2,137)
As at 31 December 2004	—	—	2,377	941	3,318
Exchange adjustments	1	—	11	3	15
Acquisition of subsidiaries	2	—	24	46	72
Charge for the year	77	18	449	723	1,267
Written back on disposal	—	—	(927)	(425)	(1,352)
As at 31 December 2005	80	18	1,934	1,288	3,320
Net book value:					
As at 31 December 2005	2,139	235	1,015	1,769	5,158
As at 31 December 2004	—	—	663	1,258	1,921

The net book value of the property, plant and equipment of the Group included an amount HK$Nil (2004: HK$1,191,000) in respect of assets held under finance leases. The related depreciation charge was HK$306,000 (2004: HK$155,000).

13. Property, plant and equipment *(continued)*

	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
The Company			
Cost			
As at 31 December 2004 and 2005	364	893	1,257
Accumulated depreciation:			
At 1 January 2004	297	893	1,190
Charge for the year	33	—	33
At 31 December 2004	330	893	1,223
Charge for the year	29	—	29
At 31 December 2005	359	893	1,252
Net book value:			
At 31 December 2005	5	—	5
At 31 December 2004	34	—	34

14. Construction in progress

	The Group	
	2005 HK$'000	2004 HK$'000
Cost:		
Additions	**209,399**	—
Acquisition of subsidiaries	**89,017**	—
At 31 December	**298,416**	—

15. Investment in subsidiaries

	The Company 2005 HK$'000	2004 HK$'000
Unlisted shares, at cost	**1**	1
Amounts due from subsidiaries	**571,574**	334,396
	571,575	334,397
Provision for impairment of amounts due from subsidiaries	**(552,810)**	(226,116)
	18,765	108,281

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

Particulars of the Company's principal subsidiaries as at 31 December 2005 are as follows.

Name of subsidiary	Place of incorporation/ establishment and operations	Issued and fully paid share capital/registered capital	Attributable equity interest held by the Company Directly	Attributable equity interest held by the Company Indirectly	Principal activities
Abba China Holdings Limited	Hong Kong	2 ordinary shares of HK$1	—	100%	Investment holding
Chainstoreonline.net Limited	Hong Kong	30,000 ordinary shares of HK$1	—	100%	Dormant
China Sciences Green Energy Investments Limited	Hong Kong	1 ordinary share of HK$1	—	100%	Management and corporate service
Hong Tong Hai Investments Limited	Hong Kong	2 ordinary shares of HK$1	—	100%	Investment holding
Sharpo Limited	Hong Kong	10,000 ordinary shares of HK$1	—	100%	Management and corporate service
Sharpo Solutions Limited	The British Virgin Islands	1 ordinary share of US$1	—	100%	Trading of computer products and the provision of maintenance support services

(Expressed in Hong Kong dollars)

15. Investment in subsidiaries *(continued)*

Name of subsidiary	Place of incorporation/ establishment and operations	Issued and fully paid share capital/registered capital	Attributable equity interest held by the Company		Principal activities
			Directly	Indirectly	
廣州宏中電腦科技有限公司	The People's Republic of China	HK$760,000 (note (i))	—	95%	Website design, development, installation and maintenance of computer software, sale of related computer products in the People's Republic of China
東莞中科環保電力有限公司("東莞中科")	The People's Republic of China	RMB110,000,000 (note (i))	—	90%	Waste incineration power generation business
桂林中科環保電力有限公司("桂林中科")	The People's Republic of China	RMB39,495,475 (notes (i) & (ii))	—	94.12%	Waste incineration power generation business
興寧中科環保電力有限公司("興寧中科")	The People's Republic of China	RMB10,620,000 (notes (i) & (iii))	—	80%	Waste incineration power generation business

Notes:

(i) The statutory financial statements of these subsidiaries were not audited by Shu Lun Pan Horwath Hong Kong CPA Limited.

(ii) The registered capital is RMB76,000,000. According to the articles of association of 桂林中科, the Group is entitled to 94.21% (capital contribution of RMB71,600,000) interest in桂林中科. Up to 31 December 2005, the Group contributed RMB39,495,475 as capital and the minority shareholder did not contribute any capital.

(iii) The registered capital is RMB93,480,000. According to the articles of association of 興寧中科, the Group is entitled to 80% (capital contribution of RMB74,784,000) interest in興寧中科. Up to 31 December 2005, the Group contributed RMB10,620,000 as capital and the minority shareholder did not contribute any capital.

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

16. Goodwill

	HK$'000
Cost:	
As at 1 January 2004 and 31 December 2004	78,028
Opening balance adjustment to eliminate accumulated amortisation	(54,584)
Addition arising on acquisition of subsidiaries	41,687
Exchange adjustment	781
As at 31 December 2005	65,912
Accumulated amortisation and impairment:	
As at 1 January 2004	44,164
Amortisation charge for the year	10,420
As at 31 December 2004	54,584
Opening balance adjustment to eliminate against cost	(54,584)
Impairment loss recognised during the year	42,851
As at 31 December 2005	42,851
Net carrying value:	
At 31 December 2005	23,061
At 31 December 2004	23,444

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

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

During the year, the Group assessed the recoverable amount of goodwill, and determined that goodwill was impaired by approximately HK$42,851,000. The recoverable amounts of the CGUs are determined based on a value in use calculation using cash flow projections based on financial budgets approved by management covering a period of 25 years. The discount rate applied to cash flow projections is 15.23% and cash flows beyond 10-year period are extrapolated using a growth rate of 2.35% which is determined with reference to the long term business prospects and the general economic outlook of PRC. Management estimated the budgeted gross margin based on the past performance and their expectations for market development.

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

17. Guaranteed Income Investments

	The Group		The Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Unlisted investments in the PRC, at cost	**124,299**	124,299	**121,495**	121,495
Accumulated amortisation	**(22,244)**	(22,244)	**(21,683)**	(21,683)
	102,055	102,055	**99,812**	99,812
Accumulated impairment loss recognised	**(102,055)**	(102,055)	**(99,812)**	(99,812)
	—	—	**—**	—

The unlisted investments in the PRC represent the Group's investments in Henan Taiwu Electric Power Co., Ltd. 河南太屋電力有限公司 ("Taiwu") and Kaifeng Hongya Machinery Co., Ltd. 開封宏亞機械有限公司 ("Kaifeng").

(a) Taiwu, a wholly-owned subsidiary of the Company, had obtained consent from relevant PRC authorities to construct and operate 25,000 kW power generation plant (the "Plant") in Henan Province, the PRC and to produce and distribute electricity to Jiyuan Shi, Henan Province, the PRC, for the period from 25 June 1996 to 24 June 2017. The development and construction of the Plant was subcontracted to Jiyuan Power Plant Company 河南省濟源電廠 ("Jiyuan") on a turnkey basis at a fixed cost of RMB130,000,000 (approximately HK$121,495,000). Commencing from 15 August 1997, the operation and management of the Plant has been subcontracted to Jiyuan pursuant to an operating agreement signed between Taiwu and Jiyuan (the "Operating Agreement"). The directors of the Company do not anticipate that any additional investment in the Plant will be required in the foreseeable future. Under the Operating Agreement, Jiyuan is responsible for the management and operation of the Plant, and all profits and losses generated from the operation as well as taxes payable will be taken up by Jiyuan. Jiyuan will pay a guaranteed return to Taiwu, which is equivalent to 17% per annum on the total investment of Taiwu. Upon the expiry of the Operating Agreement, the Plant will revert to Jiyuan at no cost.

17. Guaranteed Income Investments *(continued)*

(b) In 1999, the Group acquired a 37.5% interest in Kaifeng, a company which is engaged in the manufacture and sales of spare parts for automobiles in Henan Province, the PRC. The Group entered into an operating agreement (the "Agreement") with an independent third party 開封宏達撥叉(集團)有限公司("宏達") for the operation and management of Kaifeng for a period of ten years. The directors of the Company do not anticipate that any additional investment in Kaifeng will be required in the foreseeable future. Under the Agreement, 宏達 is responsible for the management and operation of Kaifeng, and all profits and losses generated from the operation as well as taxes payable will be taken up by 宏達. 宏達 will pay to the Group a guaranteed return of RMB750,000 per annum for the first four years and RMB700,000 per annum for the remaining six years.

(c) Since the Group has no control over the assets or management or operations of Taiwu and Kaifeng, and only receives passive income from Jiyuan and 宏達 respectively, the directors of the Company consider that it is more appropriate to classify the investments as guaranteed income investments and stated at cost less impairment loss and amortisation on a straight-line basis over the operating tenure of twenty years and ten years, respectively. The Group does not have any further commitment to invest in Taiwu and Kaifeng.

(d) Since 2000, the Group experienced difficulties in collecting the guaranteed returns in respect of its investments in Taiwu, principally because of the restriction in operation imposed by the PRC government on smaller power generating plants, and Kaifeng. An aggregate amount of RMB4,650,000 (equivalent to approximately HK$4,346,000) has been received by the Group up to 31 December 2005. The Group has issued demand letters through solicitors to Jiyuan and 宏達 in prior years and is considering to take further actions to collect the outstanding guaranteed income amounts. As the recoverability of the aggregate outstanding guaranteed income of RMB132,300,000 (equivalent to approximately HK$124,811,000) as at 31 December 2005 was considered by the directors to be uncertain, it has not been recognised by the Group as revenue in the financial statements.

(e) Taking into account of the restriction in operation of Taiwu and the inability to collect under the guaranteed return arrangements, the directors consider that there had been a decline in the recoverable amount of these guaranteed income investments and accumulated impairment losses of HK$102,055,000 have been recognised in the financial statements in the previous financial years, thus reducing the carrying value of the guaranteed investments to nil.

18. Inventories

	The Company	
	2005	2004
	HK$'000	HK$'000
Merchandise at cost	**742**	420
Less: provision	**(266)**	—
	476	420

19. Trade and other receivables

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

	The Group		The Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Current and up to 30 days	**2,068**	586	**—**	—
31 to 60 days	**95**	—	**—**	—
61 to 90 days	**—**	—	**—**	—
Over 90 days	**—**	299	**—**	—
Total trade receivables	**2,163**	885	**—**	—
Other receivables (net of provision)	**28,111**	106,690	**4,959**	15,079
	30,274	107,575	**4,959**	15,079

20. Investments held for trading

	The Group		The Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Listed equity securities in Hong Kong, at market value	**56**	1,064	**56**	—

As mentioned in note 2(a)(viii), from 1 January 2005 onwards, trading securities have been reclassified to investments held for trading in accordance with the requirements of HKAS 39. At 31 December 2004, trading securities amounted to HK$1,064,000 had been reclassified to investments held for trading.

The fair value of these securities is based on quoted market prices.

21. Bank balances and cash

	The Group		The Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**20,267**	36,817	**9,056**	35,110
Time deposits	**20,023**	210	**20,023**	210
Cash and bank balances	**40,290**	37,027	**29,079**	35,320

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods within three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term deposit rates. The directors consider the carrying amount of cash and cash equivalents approximate their fair values.

At as 31 December 2005, cash and bank balances denominated in RMB amounted to approximately HK$8,242,000 (2004: HK$57,000). RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

22. Trade and other payables

	The Group		The Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
		(Restated)		(Restated)
Current and up to 30 days	**3,217**	437	**—**	—
31 to 60 days	**—**	—	**—**	—
61 to 90 days	**—**	4	**—**	—
Over 90 days	**732**	2	**—**	—
Total trade payables	**3,949**	443	**—**	—
Other payables (Note)	**12,483**	29,873	**4,587**	29,496
	16,432	30,316	**4,587**	29,496

Note: Included in other payables as at 31 December 2005 are amounts due to former directors, Mr. Chan Tat Chee and Mr. Chung Chi Shing, amounting to approximately HK$15,000 and HK$Nil (2004: HK$279,000 and HK$611,000) respectively. The amounts due represented operating expenses paid by the directors on behalf of the Group, the terms of which are unsecured, interest-free and have no fixed repayment terms.

23. Obligations under finance leases

	The Group			
	Minimum lease payments		Present value of minimum lease payments	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under finance leases:				
Within one year	—	287	—	255
After one year but within two years	—	243	—	221
In the second to fifth years inclusive	—	588	—	534
	—	1,118	—	1,010
Less: Future finance charges	—	(108)		
Present value of lease obligations	—	1,010		
Less: Amount due for settlement within 12 months (shown under current liabilities)			—	(255)
Amount due for settlement after 12 months			—	755

The Group enters into finance lease arrangements for a motor vehicle and some of its equipment. The finance leases expire from one to five years. At the end of the lease term, the Group has the option to purchase the assets at a price deemed to be a bargain purchase option. None of these leases includes contingent rentals.

24. Bank loans

	The Group	
	2005	2004
	HK$'000	HK$'000
Repayable after five years	**211,387**	—

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

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

25. Convertible notes

The convertible notes were issued by the Company on 24 August 2004. The maturity date of the convertible notes is 24 August 2006 provided that the Company may at its option, on giving not less than 30 days' prior notice to the holders of the convertible notes, extend the maturity date so that, upon the giving of such notice, the maturity date shall be 24 August 2007. Since it is the directors' current intention to extend the repayment date of the convertible notes to 24 August 2007, the convertible notes are classified as non-current liabilities.

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

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

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

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

	The Group and the Company	
	2005	2004
	HK$'000	HK$'000
Liability component at 1 January	**19,856**	20,000
Equity component at date of issue	—	(550)
Interest expenses	**2,020**	831
Interest paid	**(1,700)**	(425)
Liability component at 31 December	**20,176**	19,856

26. Convertible preference shares

Details of the terms of the convertible preference shares are set out in note 28. The preference shares recognised in the balance sheet is calculated as follows:

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

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

	The Group and the Company	
	2005	2004
	HK$'000	HK$'000
Issue of preference shares for acquisition of a subsidiary	**76,000**	—
Equity component at date of issue	**(20,952)**	—
Liability component at date of issue	**55,048**	—
Interest expenses	**2,599**	—
Conversion of preference shares into ordinary shares	**(11,176)**	—
Liability component at 31 December	**46,471**	—

27. Deferred tax

No deferred tax liabilities have been recognised in the financial statements as the Group and the Company did not have material temporary difference arising between the tax bases of assets and liabilities and their carrying amounts as at 31 December 2004 and 2005.

A deferred tax asset has not been recognised in the financial statements in respect of tax losses available to offset future profits due to the uncertainty of future profit streams against which the asset can be utilised. As at 31 December 2005, the unprovided deferred tax asset of the Group and of the Company are as follows:

	The Group		The Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Tax effect of timing difference attributable to estimated tax losses	**31,967**	27,739	**26,508**	23,095

At the balance sheet date, the Group and the Company have unused tax losses of HK$182,669,000 (2004: HK$158,508,000) and HK$151,476,000 (2004: HK$131,971,000) respectively available for offset against future profits.

28. Share capital

(a) Authorised share capital

	Number of ordinary shares		Amount	
	2005	2004	**2005**	2004
			HK$'000	HK$'000
Authorised ordinary shares:				
At beginning of the year				
As at 1 January 2005 of HK$0.01 each and 1 January 2004 of HK$0.2 each	**120,000,000,000**	6,000,000,000	**1,200,000**	1,200,000
Reduction of capital pursuant to the Special Resolution and the sanction of the Order (as defined below)	**—**	6,000,000,000	**—**	—
Increase in authorised shares pursuant to the share subdivision	**—**	108,000,000,000	**—**	—
At end of the year,				
As at 31 December 2005 of HK$0.01 each and 31 December 2004 of HK$0.01 each	**120,000,000,000**	120,000,000,000	**1,200,000**	1,200,000

	Number of preference shares		Amount	
	2005	2004	**2005**	2004
			HK$'000	HK$'000
Authorised preference shares class A:				
Creation of capital during the year and at end of the year of HK$0.01 each	**10,000,000,000**	—	**100,000**	—
Authorised preference shares class B:				
Creation of capital during the year and at end of the year of HK$0.01 each	**10,000,000,000**	—	**100,000**	—

28. Share capital *(continued)*

(a) Authorised share capital *(continued)*

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

Preference Shares Class A

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

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

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

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

Preference Shares Class B

During the year, 100,000,000 preference shares class B were issued on 5 July 2005 as partial consideration for the acquisition of 51% in 東莞中科 as set out in note 31(a) to the financial statements. With the application of HKAS 32, the fair value of the liability component, included in non-current liability, was calculated by making reference to a market interest rate for an equivalent non-convertible loan. The difference between the proceeds of issue of the preference shares and fair value assigned to the liability component, representing the embedded option for the holder to convert the preference shares into equity of the group, is included in equity (capital reserves). Details of the terms of the preference shares class B were as follows.

28. Share capital *(continued)*

(a) Authorised share capital *(continued)*

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

Beginning on the date of issue and ending on (and including) the first anniversary of the date of issue	HK$0.76
Beginning from the day after the first anniversary of the date of issue and ending on (and including) the third anniversary of the date of issue	The higher of (i) 90% of the average of the closing prices on the Stock Exchange for one ordinary share for the five trading days up to and including the conversion date; and (ii) HK$0.50, provided that if trading of the ordinary shares is suspended on any date during such period, the average of the closing prices shall be calculated by reference to the latest five consecutive trading days on which the trading of the ordinary shares is not suspended up to and including the conversion date

28. Share capital *(continued)*

(b) Issued and fully paid share capital

Issued and fully paid ordinary shares:

	Notes	Number of shares	Par value HK$'000
As at 1 January 2004 of HK$0.2 each		2,663,371,000	532,674
Reduction of capital pursuant to the Special Resolution and the sanction of the Order		(2,636,737,290)	(530,011)
New issue and allotment of shares pursuant to the subscription agreement dated 30 June 2003		29,500,000	2,950
Increase in issued shares pursuant to the share subdivision		505,203,390	—
New issue and placing of shares pursuant to the placing agreement dated 12 May 2004 (as amended by the supplemental agreement dated 28 May 2004)		112,000,000	1,120
New issue and placing of shares pursuant to the placing agreement dated 27 August 2004 (as amended by the supplemental agreement dated 8 September 2004)		134,660,000	1,347
Exercise of share options		4,900,000	49
At 31 December 2004 of HK$0.01 each		812,897,100	8,129
New issue and allotment of shares pursuant to the subscription agreement dated 23 November 2004	(i)	50,000,000	500
New issue and allotment of shares for acquisition of 39% interest in 東莞中科	(ii)	70,000,000	700
New issue and placing of shares pursuant to the placing and underwriting agreement dated 23 March 2005	(iii)	90,000,000	900
New issue and placing of shares pursuant to the subscription letter dated 23 March 2005 (as amended by the supplemental agreement dated 4 May 2005)	(iv)	30,000,000	300
New issue and placing of shares pursuant to the placing agreement dated 8 September 2005	(v)	65,000,000	650
Exercise of share options issued under 2002 Share Option Scheme	(vi)	11,630,000	116
Conversion of convertible preference shares	(vii)	20,000,000	200
Exercise of share options issued under New Share Options	(viii)	7,500,000	75
At 31 December 2005 of HK$0.01 each		1,157,027,100	11,570

28. Share capital *(continued)*

Notes:

(i) On 23 November 2004, the Company entered into a conditional subscription agreement with Quadrant Investment Holdings Limited ("Quadrant") whereby the Company conditionally agreed to issue and allot to Quadrant and Quadrant conditionally agreed to subscribe for a total of 50,000,000 ordinary shares of the Company at HK$0.54 per share. Completion of the subscription took place on 18 January 2005.

(ii) On 25 November 2004, an indirect wholly owned subsidiary of the Company entered into a conditional agreement with Sky Bright International Development Limited ("Sky Bright"), a company beneficially and wholly-owned by a former director of the Company, Ms. Wong King King, pursuant to which the Group has conditionally agreed to acquire from Sky Bright 39% interest in 東莞中科 at a consideration of RMB42,900,000 (equivalent to approximately HK$40,327,000). The consideration was satisfied in full on completion as to RMB40,211,640 (equivalent to approximately HK$37,800,000) by allotment of 70,000,000 ordinary shares of the Company at HK$0.54 per share to Sky Bright; and as to the balance of RMB2,688,360 (equivalent to approximately HK$2,527,000) by payment in cash.

(iii) On 23 March 2005, the Company entered into a placing and underwriting agreement with Kim Eng Securities (Hong Kong) Limited ("Kim Eng"), pursuant to which the Company agreed to place, through Kim Eng, an aggregate of 90,000,000 shares, on fully underwritten basis, at a placing price of HK$0.78 per share. Completion of the placing took place on 8 April 2005.

(iv) On 23 March 2005, the Company also entered into a conditional subscription letter (as amended by the supplemental agreement dated 4 May 2005) with Sky Bright, Mr. Hon Ming Kong, the former director of the Company, CITIC International Assets Management Limited and CITIC Capital Investment Holdings Limited (the "Subscribers"), pursuant to which the Company agreed to issue and allot and the Subscribers agreed to subscribe an aggregate of 30,000,000 shares of the Company at a subscription price of HK$0.78 per share. Completion of the subscription took place on 30 June 2005.

(v) On 8 September 2005, the Company entered into a placing agreement with Kingston Securities Limited ("Kingston"), pursuant to which Kingston conditionally agreed to place 65,000,000 shares of the Company, at a placing price of HK$0.76 per share. Completion of the placing took place on 27 September 2005.

(vi) During the year ended 31 December 2005, a total of 11,630,000 share options issued under the 2002 Share Option Scheme were exercised to subscribe for 11,630,000 ordinary shares in the Company at a total consideration of HK$4,338,000.

(vii) During the year ended 31 December 2005, a total of 20,000,000 class B preference shares were converted into 20,000,000 ordinary shares in the Company at a total consideration of HK$15,200,000, of which HK$200,000, HK$10,978,000 and HK$4,022,000 were transferred from the convertible preference shares account to share capital, share premium and equity component account respectively. Further details are set out in note 29 to the financial statements.

(viii) During the year ended 31 December 2005, a total of 7,500,000 share options issued under New Share Options were exercised to subscribe for 7,500,000 ordinary shares in the Company at a total consideration of HK$5,700,000. Further details are set out in note 29 to the financial statements.

28. Share capital *(continued)*

The Undertaking

The share capital of the Company was reduced by virtue of a special resolution passed by the shareholders of the Company on 3 October 2003 (the "Special Resolution") and with the sanction of an Order of the High Court of the Hong Kong Special Administrative Region dated 3 February 2004 (the "Order"). Details of the share capital reduction were set out in the Company's annual report for the year ended 31 December 2004.

Pursuant to the Order, an undertaking was given by the Company that after the reduction of share capital and related share premium account took effect, in the event of its making any future recoveries in respect of the assets (as identified in the First Schedule of the Order), in respect of which provision for diminution in value or depreciation was made in the accounts of the Company between 1 January 1998 and 30 June 2003, beyond their written down value in the Company's accounts as at 30 June 2003, all such recoveries beyond that written down value up to an amount of HK$254,306,257.39 (the "Limit"), will be credited to a special capital reserve in the accounting records of the Company ("Special Capital Reserve").

While any debt of or claim against the Company, at the date on which the reduction of share capital and reduction of share premium account became effective (the "Effective Date"), remains outstanding and the persons entitled to the benefit of such debts or claims have not agreed otherwise, the Special Capital Reserve shall not be treated as realised profits for the purposes of section 79B of the Hong Kong Companies Ordinance and (for so long as the Company remains a listed company within the definition of section 2 of the Hong Kong Companies Ordinance) shall be treated as an undistributable reserve of the Company for the purposes of section 79C of the Hong Kong Companies Ordinance or any statutory re-enactments or modifications thereof.

The undertaking, however, is subject to the following provisos:

(1) the Company shall be at liberty to apply Special Capital Reserve for the same purposes as a share premium account may be applied;

(2) the Limit in respect of Special Capital Reserve may be reduced by the amount of any increase, after the Effective Date, in the paid up share capital or the amount standing to the credit of the share premium account of the Company as the result of the payment of shares by the receipt of new consideration or the capitalisation of distributable profits;

(3) the Limit in respect of Share Capital Reserve may be reduced upon the disposal or other realisation, after the Effective Date, of any of the assets (as identified in the First Schedule of the Order) by the amount of the provision made in relation to such asset as at 30 June 2003 (which amount is set out in the First Schedule of the Order) less such amount (if any) as is credited to Special Capital Reserve as a result of such disposal or realisation; and

(4) in the event that the amount standing to the credit of Special Capital Reserve exceeds the Limit thereof after any reduction of such Limit pursuant to provisos (2) and/or (3) above, the Company shall be at liberty to transfer the amount of any such excess to the general reserves of the Company and the same shall become available for distribution.

29. Share options

2002 Share Option Scheme

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

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

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

(Expressed in Hong Kong dollars)

29. Share options *(continued)*

(a) The movements in the Company's share options under the 2002 Share Option Scheme during the year ended 31 December 2005 are as follows:

Date of grant of share options	Exercise period of share options	Exercise price of share options HK$	At 1 January 2005	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2005	Estimated fair value of the share options HK$ (Note (c))
23.2.2004	23.2.2004 to 22.2.2014	0.2744	3,100,000	—	(3,100,000)	—	—	N/A
12.8.2004	12.8.2004 to 11.8.2014	0.3850	32,930,000	—	(6,130,000)	—	26,800,000	N/A
27.10.2004	27.10.2004 to 26.10.2014	0.4700	18,400,000	—	(2,400,000)	—	16,000,000	N/A
1.12.2004	1.12.2004 to 30.11.2014	0.6700	8,000,000	—	—	—	8,000,000	N/A
31.1.2005	31.1.2005 to 30.1.2015	0.5700	—	7,000,000	—	—	7,000,000	0.1110
24.3.2005	24.3.2005 to 23.3.2015	0.8400	—	6,000,000	—	—	6,000,000	0.1824
26.5.2005	26.5.2005 to 25.5.2015	0.6900	—	6,500,000	—	(400,000)	6,100,000	0.1045
3.8.2005	3.8.2005 to 2.8.2015	0.6880	—	10,000,000	—	(3,500,000)	6,500,000	0.0995
			62,430,000	29,500,000	(11,630,000)	(3,900,000)	76,400,000	

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

(Expressed in Hong Kong dollars)

29. Share options *(continued)*

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

	2005		2004	
	Number of share options	**Weighted average exercise price HK$**	Number of share options	Weighted average exercise price HK$
Outstanding at the beginning of the year	**62,430,000**	**0.4364**	41,500,000	0.3261
Granted during the year	**29,500,000**	**0.6914**	70,330,000	0.4224
Exercised during the year	**(11,630,000)**	**0.3731**	(4,900,000)	0.2744
Lapsed during the year	**(3,900,000)**	**0.6882**	(44,500,000)	0.3226
Outstanding and exercisable at the end of the year	**76,400,000**	**0.5316**	62,430,000	0.4364

The weighted average share price at the date of exercise for share options exercised during the year was HK$0.7375 (2004: HK$0.6669).

(c) Fair value of share options and assumptions

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

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

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

(Expressed in Hong Kong dollars)

29. Share options *(continued)*

New Share Options

Pursuant to the sales and purchase agreement of acquiring 51% interest in 東莞中科 (through acquisition of 100% of interest in Hong Tong Hai Investments Limited) as set out in note 31(a) to the financial statements, the Company issued 50,000,000 share options ("New Share Options") for a total consideration of HK$1. The New Share Options have an exercise price of HK$0.76 per share to subscribe for one ordinary share of the Company. The holders of New Share Options can exercise the New Share Options at any time during the period from (and including) the completion date of acquisition on 5 July 2005 to (and including) the day immediately preceding the third anniversary of that date on 4 July 2008, provided that the exercise of New Share Options must be accompanied by the conversion of two preference shares (note 28) at the same time. The New Share Options are transferable subject to the requirements of the Listing Rules and transfer of one New Share Option shall be accompanied by the transfer of two preference shares.

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

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

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

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

30. Reserves

The Company

	Share capital HK$'000 (Note 28)	Share premium HK$'000	Share option reserve HK$'000	Equity component of convertible notes HK$'000	Equity component of convertible preference shares HK$'000	Translation reserve HK$'000	Accu-mulated losses HK$'000	Total HK$'000
At 1 January 2004	532,674	491,076	—	—	—	—	(925,778)	97,972
Net loss for the year	—	—	—	—	—	—	(81,150)	(81,150)
Reduction of capital pursuant to the Subscription Agreement	(530,011)	(341,236)	—	—	—	—	871,247	—
New issue and allotment of shares pursuant to the Subscription Agreement	2,950	14,071	—	—	—	—	—	17,021
New issue and placing of 112,000,000 shares on 14 June 2004	1,120	14,023	—	—	—	—	—	15,143
New issue and placing of 134,660,000 shares on 23 September 2004	1,347	57,365	—	—	—	—	—	58,712
Recognition of convertible notes	—	—	—	550	—	—	(229)	321
Recognition of share option payments	—	—	2,316	—	—	—	(2,316)	—
Exercise of share options	49	1,294	—	—	—	—	—	1,343
At 31 December 2004	8,129	236,593	2,316	550	—	—	(138,226)	109,362

30. Reserves *(continued)*

The Company *(continued)*

	Share capital HK$'000 (Note 28)	Share premium HK$'000	Share option reserve HK$'000	Equity component of convertible notes HK$'000	Equity component of convertible preference shares HK$'000	Translation reserve HK$'000	Accu-mulated losses HK$'000	Total HK$'000
At 1 January 2005								
— As previously reported	8,129	236,593	—	—	—	—	(135,681)	109,041
— Prior year adjustments on effects of changes in accounting policies (note 2(b))	—	—	2,316	550	—	—	(2,545)	321
— As restated	8,129	236,593	2,316	550	—	—	(138,226)	109,362
Net loss for the year	—	—	—	—	—	—	(382,381)	(382,381)
New issue and allotment of shares pursuant to the Subscription Agreement	500	26,500	—	—	—	—	—	27,000
New issue and allotment of shares for acquisition of subsidiaries	700	37,100	—	—	—	—	—	37,800
New issue and placing of 120,000,000 shares on 23 March 2005	1,200	90,580	—	—	—	—	—	91,780
New issue and placing of 65,000,000 shares on 8 September 2005	650	47,459	—	—	—	—	—	48,109
Recognition of convertible preference shares	—	—	—	—	20,952	—	—	20,952
Conversion of convertible preference shares	200	10,978	—	—	—	—	—	11,178
Recognition of share option payments	—	—	7,825	—	—	—	—	7,825
Recognition of share premium for exercise of share options	—	943	(943)	—	—	—	—	—
Exercise of share options	191	9,814	—	—	—	—	—	10,005
At 31 December 2005	11,570	459,967	9,198	550	20,952	—	(520,607)	(18,370)

30. Reserves *(continued)*

The Company *(continued)*

The Company did not have any reserves available for distribution to shareholders as at 31 December 2005 and 2004. The Company's share premium account may be distributed in the form of fully paid bonus shares.

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

31. Acquisition of subsidiaries

(a) 90% interest in 東莞中科

During the year, the Group acquired 39% interest in 東莞中科 from Sky Bright, a company beneficially wholly-owned by a former director of the Company, Ms. Wong King King at a total consideration of RMB42,900,000 satisfied by the issue of 70,000,000 ordinary shares of the Company at HK$0.54 each and payment of cash of approximately RMB2,688,000 (HK$2,527,000). After the acquisition, 東莞中科 was accounted for as an associate of the Company.

Subsequently, the Group acquired 100% interest in Hong Tong Hai Investments Limited ("HTH") which holds 51% interest in 東莞中科 from China Conservational Power Holdings Limited ("CCPH") pursuant to a sales and purchase agreement and a supplemental agreement dated 7 April 2005 and 8 April 2005 respectively. Mr. Hon Ming Kong, a former director and chairman of the Company, was also a director of and had beneficial interest in CCPH at the time of acquisition. Mr. Chan Tat Chee, a former director of the Company, was the chairman and director of and had beneficial interest in CCPH at the time of acquisition. Mr. Lee Yu Leung, a former independent non-executive director of the Company who resigned on 9 March 2005, was an executive director of CCPH at the time of acquisition. Mr. Hon Yik Kwong, a former director of the Company, was a former director of CCPH who resigned from the board of CCPH on 26 November 2004. The consideration in respect of the acquisition of 100% equity interest in HTH and loan due by HTH to CCPH was satisfied by issuing 100,000,000 preference shares of the Company (note 28) at HK$0.76 each. Pursuant to the sales and purchase agreement, 50,000,000 New Share Options (note 29) were issued to CCPH at a consideration of HK$1. Goodwill of approximately HK$33 million (including goodwill arising from acquisition of 39% interest in 東莞中科) arising from the acquisition of 東莞中科 was attributable to the anticipated potential high returns for waste incineration power generation business for generating electricity in the PRC in view of continued economic growth in the PRC which creates strong demand for power, the volatile crude oil price and the unstable international oil supply. Upon the completion of acquisition of HTH on 5 July 2005, the Group has an effective interest of 90% in 東莞中科 and 東莞中科 was reclassified from associate of the Company to subsidiary of the Company.

If the acquisition had occurred on 1 January 2005, Group revenue would have been increased by approximately HK$9,000 and loss before taxation would have been increased by approximately HK$7,750,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2005, nor is it intended to be a projection of future results.

31. Acquisition of subsidiaries *(continued)*

(b) 100% interest in Sino Profit International Limited ("Sino Profit")

During the year, the Group acquired 100% interest in Sino Profit from an independent third party pursuant to an agreement dated 19 April 2005 for a consideration of HK$8,000,000 which had been paid as earnest money before 31 December 2004. The acquisition was completed on 11 July 2005. Sino Profit had no material assets or liabilities at the date of acquisition. Goodwill of approximately HK$8 million arising from the acquisition was attributable to the potential future economic benefits in relation to an agreement entered into between Sino Profit and the City Administrative Bureau of Xingning City ("Xingning Agreement") whereby Sino Profit was granted a right to construct and operate a incinerator in Xingning City, Meizhou, the PRC. Sino Profit also entered into a co-operative agreement ("Co-operative Agreement") with an independent third party to set up a joint venture in Meizhou to carry out the waste incineration power generation business. Subsequent to the acquisition of Sino Profit, 興寧中科 was set up pursuant to the Xingning Agreement and the Co-operative Agreement.

The net assets acquired in the above transactions, and the goodwill arising, are as follows:

	2005 **HK$'000**	2004 HK$'000
Net assets acquired:		
Property, plant and equipment	**947**	—
Construction in progress	**89,017**	—
Trade and other receivables	**29,424**	—
Bank balances and cash	**577**	—
Trade and other payables	**(82,479)**	—
Minority interests	**(9,775)**	—
	27,711	—
Goodwill	**41,687**	—
	69,398	—

31. Acquisition of subsidiaries *(continued)*

(b) 100% interest in Sino Profit International Limited ("Sino Profit") *(continued)*

	2005 HK$'000	2004 HK$'000
Satisfied by:		
100,000,000 preference shares issued (note 28)	**76,000**	—
50,000,000 New Share Options issued (note 29)	**6,287**	—
Cash consideration (paid as earnest money before 31 December 2004)	**8,000**	—
Reclassification from interest in an associate (39% interest in 東莞中科)	**39,373**	—
Payable acquired	**(60,262)**	—
	69,398	—
Net cash inflow arising from acquisition:		
Bank balances and cash acquired	**577**	—

The above acquired subsidiaries had no significant revenues or results during the year prior to their acquisition by the Group. The above acquired subsidiaries did not contribute significant revenues or results to the Group for the period between the dates of acquisition and the balance sheet date except for the impairment losses made during the year.

32. Disposal of subsidiaries

On 30 January 2004, the Group disposed of its entire equity interest in Rex World Limited and Milrosa Limited and its subsidiaries at a consideration of HK$2,000,000.

Summary of the effects of the disposal of subsidiaries are as follows:

	2005 **HK$'000**	2004 HK$'000
Net liabilities disposed of:		
Property, plant and equipment	—	3,133
Trade and other receivables	—	2,230
Bank balances and cash	—	41
Amount due to ultimate holding company	—	(106,995)
	—	(101,591)
Loss on disposal of subsidiaries	—	(3,404)
	—	(104,995)
Satisfied by:		
Cash consideration received	—	2,000
Amount due to ultimate holding company	—	(106,995)
	—	(104,995)
Net cash inflow arising from disposal:		
Bank balances and cash disposed of	—	(41)
Cash consideration received	—	2,000
	—	1,959

The subsidiaries disposed of did not contribute any significant revenues or results to the Group for the year ended 31 December 2004.

33. Pledged bank deposits

At 31 December 2005, the Group had pledged bank deposits of RMB15,000,000 (equivalent to approximately HK$14,413,000) (2004: HK$Nil) to secure certain bank loans granted to the Group.

34. Capital commitment

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

	The Group	
	2005	2004
	HK$'000	HK$'000
Authorised and contracted for in respect of acquisition and construction of property, plant and equipment	**107,684**	90,941

35. Operating lease commitments

As at 31 December 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	The Group	
	2005	2004
	HK$'000	HK$'000
Within one year	**2,122**	140
In the second to fifth years inclusive	**674**	30
	2,796	170

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

36. Related party transactions

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

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

37. Financial risk management

(a) Financial risk factors

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

(i) Interest rate risk

The Group's income and operating cash flows are substantially independent of the changes in market interest rates as the Group has no significant interest-bearing assets. The Group's exposure to changes in interest rates is mainly attributable to its borrowings. Borrowings at variable rates expose the Group to cash flow interest rate risk. Borrowings at fixed rates expose the Group to fair value interest-rate risk. Details of the Group's borrowings have been disclosed in note 24.

(ii) Credit risk

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

(iii) Foreign exchange risk

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

(iv) Liquidity risk

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

(b) Fair value estimation

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2005.

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

38. Other matters

Incident occurred on 29 September 2005.

Background

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

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

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

Measures taken by the Company

With a view to restore the creditability of the board of directors of the Company and safeguarding the interests of the Company, the Board has implemented the following measures:

(a) Changes in directorships

(i) On 3 October 2005, Mr. Hon Ming Kong resigned as Chairman and Executive Director and was re-designated to a Non-Executive Director of the Company on the same date. He subsequently resigned as a Non-Executive Director of the Company on 26 October 2005.

(ii) On 3 October 2005, Messrs. Chan Tat Chee and Chow Ho Tung, Anthony were re-designated from Executive Directors of the Company to Non-Executive Directors of the Company. Both of them subsequently resigned as Non-Executive Directors of the Company on 26 October 2005.

(iii) On 3 October 2005, Ms. Wong King King, was elected as Chairman of the Company. She subsequently resigned as Chairman and an Executive Director of the Company on 10 March 2006.

(iv) On 3 October 2005, Mr. Liu Hongru, the Honorary Chairman of the Company, was additionally appointed as a Non-Executive Director of the Company. He subsequently resigned as a Non-Executive Director of the Company on 10 March 2006.

(v) On 3 October 2005, Mr. Tian Yuchuan was appointed as an Executive Director and Chief Executive Officer of the Company. He subsequently resigned as an Executive Director and Chief Executive Officer of the Company on 10 March 2006.

(vi) On 26 October 2005, Messrs. Henry Lai Hin Wing and Peter Chan Kin Sang were appointed as Independent Non-Executive Directors of the Company. Both of them subsequently resigned as Independent Non-Executive Directors of the Company on 10 March 2006.

38. Other matters *(continued)*

Measures taken by the Company *(continued)*

(a) Changes in directorships (continued)

(vii) On 26 October 2005, Mr. Hon Yik Kwong resigned as an Executive Director of the Company.

(viii) On 26 October 2005, Messrs. Cham Yiu Keung and Cheng Kin Chow, Tony resigned as Independent Non-Executive Directors of the Company.

(ix) On 10 March 2006, Mr. Lo Wing Yai, Kelvin resigned as a Non-Executive Director of the Company.

(x) On 10 March 2006, Mr. Tse On Kin was appointed as Chairman and an Executive Director of the Company. On 1 April 2007, he resigned as Chairman and an Executive Director and was re-designated to a Non-Executive Director of the Company on the same date.

(xi) On 10 March 2006, Mr. Ping Kim was appointed as an Executive Director of the Company. He subsequently resigned as an Executive Director on 9 May 2007.

(xii) On 10 March 2006, Messrs. Zhang Xi and Tai Sik Fung George were appointed as Independent Non-Executive Directors of the Company. On 1 April 2007, Mr. Tai Sik Fung George resigned as an Independent Non-Executive Director of the Company.

(xiii) On 12 June 2006, Mr. Liang Jun was appointed as an Executive Director of the Company. On 1 April 2007, Mr. Liang was re-designated as Chairman and Chief Executive Officer of the Company. On 15 June 2007, Mr. Liang resigned as Chief Executive Officer of the Company.

(xiv) On 1 April 2007, Ms. Leung Po Hung Mabel was appointed as an Independent Non-Executive Director of the Company. She subsequently resigned as an Independent Non-Executive Director on 9 May 2007.

(xv) On 1 April 2007, Mr. John Douglas Kuhns resigned as a Non-Executive Director of the Company.

(xvi) On 9 May 2007, Mr. Chan Wai Ming was appointed as an Executive Director of the Company. On 15 June 2007, Mr. Chan was appointed as Chief Executive Officer of the Company.

(xvii) On 9 May 2007, Mr. Cheung Pui Hung was appointed as an Independent Non-Executive Director of the Company. He subsequently resigned as an Independent Non-Executive Director on 19 July 2007.

(xviii) On 19 July 2007, Mr. Tsang Kwok Wa was appointed as an Independent Non-Executive Director of the Company.

(xix) On 29 August 2007, Mr. Zhu Xirong was appointed as an Executive Director and Chief Financial Officer of the Company. He subsequently resigned as an Executive Director and Chief Financial Officer of the Company on 12 September 2007.

(xx) On 19 September 2007, Mr. Chan Ka Fat was appointed as an Executive Director and Chief Financial Officer of the Company.

Details of the above appointments, re-designation, resignations and changes in duties have been disclosed in announcements published by the Company.

38. Other matters *(continued)*

Measures taken by the Company *(continued)*

(b) Formation of Business Continuation Action Committee

On 20 October 2005, a board committee comprising Messrs. Tian Yuchuan, Liu Hongru, Lo Wing Yat Kelvin and Chan Chi Yuen was formed to implement the Business Continuation Plan to monitor smooth business operation of the Group in the future and to ensure the smooth running of the various projects undertaken by the Group.

(c) Formation of a Special Committee

On 25 October 2005, a special committee comprising Messrs. Henny Lai Hin Wing and Peter Chan Kin Sang was formed to review the existing financial and business positions of the Group. The members of the special committee were changed to Messrs. Zhang Xi and Tai Sik Fung George on 13 March 2006.

(d) Review of the financial affairs

On 21 December 2005, at the recommendation of the Special Board Committee, the Group appointed, CCIF CPA Limited, a firm of certified public accountants to conduct a review (the "Financial Due Diligence Review") of the financial position of the Group for the period from 1 January 2005 to 31 December 2005. The Financial Due Diligence Review had been terminated by the Company on 26 April 2006.

(e) Response to the Charges

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

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

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

39. Comparative figures

As further explained in note 2 to the financial statements, due to the adoption of new and revised HKFRSs during the year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative figures have been reclassified and restated to conform with the current year's presentation and accounting treatment.

40. Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 3 December 2007.

FIVE-YEAR FINANCIAL SUMMARY

Year ended 31st December 2005

	2005 HK$'000	2004 HK$'000 (Restated)	2003 HK$'000	2002 HK$'000	2001 HK$'000
RESULTS					
Turnover	**707,003**	338,140	91,996	1,606	126,817
Loss before tax	**(270,071)**	(9,129)	(58,859)	(147,973)	(74,860)
Loss after tax	**(270,071)**	(9,129)	(58,859)	(147,973)	(76,172)
MI	**415**	—	—	(7)	(130)
Net loss for the year	**(269,656)**	(9,129)	(58,859)	(147,980)	(76,302)
ASSETS AND LIABILITIES					
Total assets	**412,144**	171,451	61,558	115,585	280,512
Total liabilities	**(294,466)**	(51,182)	(27,268)	(22,436)	(39,383)
	117,678	120,269	34,290	93,149	241,129
Equity attribute to equity holders of the Company	**108,086**	120,262	34,283	93,142	241,129
Minority interests	**9,592**	7	7	7	—
	117,678	120,269	34,290	93,149	241,129

Note:

As further explained in note 2 to the financial statements, due to the adoption of new and revised Hong Kong Financial Reporting Standards during the year under review, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative figures have been reclassified and restated to conform with the current year's presentation and accounting treatment.