power to environment
2007 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)

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CORPORATE INFORMATION

Board of Directors

Executive Directors

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

Non-Executive Director

Mr. Tse On Kin

Independent Non-Executive Directors

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

Company Secretary

Mr. Tung Tat Chiu, Michael

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.

Auditor

Shu Lun Pan Horwath Hong Kong CPA Limited

Legal Advisers

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

Rooms 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

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

Hong Kong Stock Exchange Stock Code

351

Website

www.cscp.com.hk/ir

Results

For the year ended 31 December 2007, the turnover of China Sciences Conservational Power Limited (the "Company") and its subsidiaries (together, the "Group") have reached approximately HK$76,782,000 (2006: approximately HK$56,631,000), representing an increase of 35.6% as compared with last year. During the year, gross loss from operations was approximately HK$5,622,000, representing a significant reduction when compared with last year's gross profit of HK$868,000. Loss after taxation was approximately HK$35,382,000 (2006: Loss after taxation: approximately HK$32,293,000). Loss per share was 2.69 HK cents (2006: Loss per share: 2.74 HK cents).

The increase in turnover was attributable to the commencement of the Group's commercial operation in Dongguan as mentioned below.

Business Review

Throughout the year under review, the focus of the Company was to maintain a smooth, ongoing operation of its core business which included waste incineration, processing and power generation in Dongguan, People's Republic of China (the "PRC"). The Company was also working hard on its ongoing preparation for the resumption of trading of the Company's shares.

Phase I of the Company's Dongguan waste-to-energy power plant began its commercial operation in January 2007. The opening ceremony had the pleasure of the attendance of local officials from the Dongguan government as well as other distinguished guests. The waste-to-energy power plant is one of the biggest of its kind, capable of processing up to 1,000 tonnes of municipal solid waste on a daily basis.

With the success of existing operation, the Company then quickly decided to expand its operating facilities by increasing its total output capacity. This expansion was completed near the end of the year 2007.

In order to focus on the Group's core business, the computer hardware & maintenance support services business and software design & development business was discontinued. These segments have underperformed, leading management to direct attention to its new business of waste incineration power generation.

The Company has been working its way to being in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). As at the date of this report, the Company has already taken all necessary steps to ensure compliance with the relevant rules in the Listing Rules. The Company had formally submitted a proposal for the resumption of trading of the Company's shares to the Stock Exchange of Hong Kong Limited.

During the year under review, there had been various changes in the Company's board composition. The current board (the "Board") of directors of the Company (the "Directors") possesses valuable skills, expertises and experience in managing the Group and the Company's affairs and business operation.

Prospects

With the completion of Dongguan Phase I expansion, the new operating facilities are physically ready to commence operation. The respective approval is expected to be obtained in early 2008. The expansion's successful implementation will provide additional turnover and operational efficiency for the Group.

The Company is of the opinion that the PRC government will continue giving support to the waste-to-energy industry in the future. The environmental and energy issues would continue to be a concern which are reflected in the PRC government's policies in the coming years.

The Company plans to raise and inject funds into the development of Phase II of the MSW incineration power plant in the adjacent land of the existing plant. The Phase II incineration power plant will have three power generators and incinerators. The development is expected to start in the fourth quarter of 2008.

The Company aims to continue making good use of this industry's favourable conditions as well as seeking other business opportunities to improve its shareholders' interest.

In an effort to improve efficiency, the Group had undergone reorganization of the Group companies in early 2008 as well as engaging external professionals to treat certain subsidiaries accordingly.

Segment Information

In the year under review, the Group was engaged primarily in the waste incineration, processing and power generation business. No other significant business segments existed in the Group for the year 2007.

Details of the business segments of the Group are set out on note 7 to the financial statements.

Liquidity and Financial Resources

The Group is mainly financed by resources from internal cash flow generated by operations and shareholder loans.

As at 31 December 2007, the Group had net current liabilities of approximately HK$98,734,000 (2006: approximately HK$16,136,000) and shareholders' funds of approximately HK$32,627,000 (2006: approximately HK$79,559,000). The increases in net current liabilities and decreases in shareholders' funds were mainly attributable to the maturity of the Company's convertible preference shares.

As at 31 December 2007, the Group had outstanding borrowings in respect of HK$20,000,000 representing 8.5 per cent redeemable convertible notes. However, as at the date of this report, the Company has redeemed the notes and repayment has been made as valid, full and final discharge of all the Company's liabilities and obligations under these notes. The gearing ratio of the Group, which is calculated as total borrowings (including convertible notes) to the Group's shareholders' funds, is 7.71 (2006: 3.53).

During the year under review and up to the date of this report, the Company had strengthened its financial position through the following fund raising activities:

- On 5 September 2007, the Company entered into a loan agreement with a director of the Company for a borrowing of HK$15,000,000.
- On 3 January 2008, the Company entered into a loan agreement with a company controlled and wholly owned by a substantial shareholder of the Company for a borrowing of HK$30,000,000.
- On 27 February 2008, the Company entered into a conditional subscription agreement (as amended) with a company controlled and wholly owned by a substantial shareholder of the Company to issue and allot 4,000,000,000 new shares in, and to issue HK$200,000,000 convertible bonds of the Company, for an aggregate amount of HK$400,000,000 at the subscription and conversion price of HK$0.05 per share.

Significant Investments, Acquisitions and Disposals

Saved as disclosed under headings "Business Review" and "Prospects" above, the Group did not have significant new investments, acquisitions or disposals during the year ended 31 December 2007 and up to the date of this report.

Saved as disclosed under headings "Business Review" and "Prospects" above, there are no other 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 2007, the value of "Renminbi" (the currency in the PRC) had been appreciating gradually. The fluctuation did not have significant adverse impact on the Group's financial position 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 2007, the Group had outstanding capital commitments in respect of acquisition of property, plant and equipment of approximately HK$275,000.

The Group did not have any significant contingent liabilities as at 31 December 2007.

Details of the Company's capital commitments are set out in note 37 to the financial statements.

Pledge of Assets

Details of the pledge of assets are set out in note 23 and 28 to the financial statements.

Employee and Remuneration Policy

As at 31 December 2007, the Group has 190 employees, 175 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.

Executive Directors

Mr. Liang Jun *(Chairman)*

Mr. Liang, aged 41, 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 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, 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 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 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. He is a director of various subsidiaries of the Company. 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 from Macquarie University, Sydney, Australia.

Non-Executive Director

Mr. Tse On Kin

Mr. Tse, aged 46, 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, operations, human resources and new markets development. Currently, Mr. Tse is the chairman of New Times Group Holdings Limited, the chairman of Kong Sun Holdings Limited and a non-executive director of Climax International Company Limited, all being public listed companies in Hong Kong. He had also been an executive director of Mexan Limited, an executive director of China National Resources Development Holdings Limited and the vice chairman and chief executive officer of Great Wall Cybertech Limited (which had undergone a scheme of arrangement with its creditors sanctioned by the Court and now known as EPI (Holdings) Limited), all being public listed companies in Hong Kong.

Mr. Tse has a bachelor's degree in public policy and administration from York University in Canada. Ms. Ho Pui Man, the head of Accounting Department 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's degree with honours in business administration and a master of science degree in corporate governance and directorship from Hong Kong Baptist University. 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 43, 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 the Taxation Institute of Australia. Mr. Tsang holds a degree of master of commerce major in accounting from Charles Sturt University in Australia.

Mr. Zhang Xi

Mr. Zhang, 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's degree in science (electrical engineering) from Shanghai Jiao Tong University in July 1991. Mr. Zhang obtained an international master of business administration (finance) from York University in Canada in September 1998.

Senior Management

Mr. Tung Tat Chiu, Michael

Mr. Tung, aged 46, was appointed as the Company Secretary of the Company on 19 February 2008. Mr. Tung holds a bachelor of arts degree in law and accounting from the University of Manchester. He is a practicing solicitor in Hong Kong. He is an independent non-executive director of GR Vietnam Holdings Limited, whose shares are listed on the Main Board of the Stock Exchange and is also the company secretary of four other listed companies in Hong Kong, namely Carico Holdings Limited, Jiangxi Copper Company Limited, Qingling Motors Co. Ltd. and Silver Grant International Industries Limited.

Ms. Cheung Yuet Fan

Ms. Cheung is the Head of Directors' Office of the Group and joined the Group on 20 August 2007. Ms. Cheung is an associate member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators, and had solid and extensive experience in corporate secretarial field gained in various public listed companies in Hong Kong and an international accounting firm. She is responsible for the compliance affairs and internal control of the Group. She holds a bachelor's degree of arts in accountancy from City University of Hong Kong.

Ms. Ho Pui Man

Ms. Ho is the head of Accounting Department of the Group. She joined the Group on 1 April 2006. Ms. Ho is a member of Hong Kong Institute of Certified Public Accountants and CPA Australia. She holds a bachelor's degree in commerce majoring in economics, marketing and finance from Deakin University of Australia and a master degree in practicing accounting from Monash University of Australia. Ms. Ho has over six years of experience in accounting and corporate finance. Mr. Tse On Kin, the non-executive Director of the Company, is her uncle.

Mr. Gan Wen

Mr. Gan is the General Manager of the Group's MSW incineration power plant operation in Dongguan, the PRC. He joined the Group as general manager of Dongguan China Sciences Conservational Power Limited. (東莞中科環保電力有限公司), a subsidiary of the Company, in September 2006 and is responsible for the overall management of the power plant operation, including engineering management and project development. He has over 18 years of experience in the power plant industry in China.

The directors submit herewith their annual report together with the audited financial statements of the Company for the year ended 31 December 2007.

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 17 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 7 to the financial statements.

Results

The results of the Group for the year ended 31 December 2007 are set out in the consolidated income statement on page 24.

The directors did not recommend the payment of a dividend for the year ended 31 December 2007.

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 28 and note 34 to the financial statements.

Distributable Reserves

As at 31 December 2007, 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 92. 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 14 to the financial statements.

Share Capital

Details of movements in the share capital of the Company are set out in note 32 to the financial statements.

Details of changes and movements of preference shares are set out in note 32 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 28 to the financial statements. No interest was capitalized during the year under review.

Directors and Directors' Service Contracts

The directors of the Company during the year ended 31 December 2007 and up to the date of this report were:

Executive Directors ("EDs")

Liang Jun *(Chairman)*	
Chan Wai Ming *(Chief Executive Officer)*	(appointed on 9 May 2007)
Chan Ka Fat *(Chief Financial Officer)*	(appointed on 19 September 2007)
Zhu Xirong	(appointed on 29 August 2007 and resigned on 12 September 2007)
Ping Kim	(resigned on 9 May 2007)

Non-Executive Directors ("NEDs")

Tse On Kin	(re-designated as NED on 1 April 2007)
His Royal Highness Prince Idris Abdallah Al-Senussi	(retired on 29 January 2008)
Alan Grant Quasha	(retired on 29 January 2008)
John Douglas Kuhns	(resigned on 1 April 2007)

Independent Non-Executive Directors ("INEDs")

Chan Chi Yuen	
Tsang Kwok Wa	(appointed on 19 July 2007)
Zhang Xi	
Cheung Pui Hung	(appointed on 9 May 2007 and resigned on 19 July 2007)
Leung Po Hung, Mabel	(appointed on 1 April 2007 and resigned on 9 May 2007)
Tai Sik Fung, George	(resigned on 1 April 2007)

The Company has received annual confirmations from each of the INEDs with regards to their independence to the Company and considers that each of the INEDs is independent to the Company.

In accordance with Article 101A and 101B of the Company's Articles of Association, Mr. Chan Wai Ming, Mr. Chan Chi Yuen and Mr. Zhang Xi shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

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 pages 6 and 7 of the annual report.

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

As at 31 December 2007, 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 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Long positions in ordinary shares of the Company

Name of the Director	Capacity	Personal interests	Family interests	Corporate interests	Other interests	Total	Approximate percentage of shareholding
Liang Jun	Beneficial owner	2,000,000	–	–	–	2,000,000	0.17
Chan Wai Ming	Interest of a controlled corporation and beneficial owner	2,800,000	–	70,000,000	–	72,800,000 (Note)	6.29

Note: Of these shares, 70,000,000 ordinary shares are deemed interest of Mr. Chan Wai Ming held by Smartest Assets Management Limited, a company wholly owned by him.

As at 31 December 2007, 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

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

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

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

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

Date of grant of share options	Exercise period of share options	Exercise price of share options HK$	As at 1.1.2007	Granted during the year	Exercised during the year	Lapsed during the year	As at 31.12.2007	Market value per share (Note 1) Immediately preceding the grant date of share options HK$	Immediately preceding the exercise date of share options HK$
Employees - In aggregate									
12.08.2004	12.08.2004 to 11.08.2014	0.385	26,800,000	–	–	–	26,800,000	0.38	–
27.10.2004	27.10.2004 to 26.10.2014	0.47	8,000,000	–	–	(8,000,000)	–	0.465	–
01.12.2004	01.12.2004 to 30.11.2014	0.67	8,000,000	–	–	–	8,000,000	0.67	–
31.01.2005	31.01.2005 to 30.01.2015	0.57	7,000,000	–	–	(7,000,000)	–	0.59	–
24.03.2005	24.03.2005 to 23.03.2015	0.84	6,000,000	–	–	(6,000,000)	–	N/A (Note 2)	–
26.05.2005	26.05.2005 to 25.05.2015	0.69	3,500,000	–	–	(2,800,000)	700,000	0.68	–
03.08.2005	03.08.2005 to 02.08.2015	0.688	2,500,000	–	–	(2,000,000)	500,000	0.66	–

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 Option Scheme was cancelled during the year.

No option was granted during the year under review.

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 under the heading "Liquidity and Financial Resources" and in note 39 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 39 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 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 2007, the register of interests and short positions in the shares and underlying shares of the Company kept under section 336 of the SFO showed that, the following shareholders had an interest of 5% or more in the issued share capital of the Company:

Name	Capacity	Number of Shares held	Approximate percentage of shareholding
Ordinary shares			
CITIC International Assets Management Limited (Note 1)	Beneficial owner	111,116,666 (Note 2)	9.60%
CITIC Capital Investment Holdings Limited (Note 1)	Beneficial owner	83,590,000	7.22%
CITIC Capital Markets Holdings Limited (Note 1)	Interest of a controlled corporation	83,590,000	7.22%
Forever Glory Holdings Ltd. (Note 1)	Interest of a controlled corporation	83,590,000	7.22%
Golden Gateway Enterprises Inc. (Note 1)	Interest of a controlled corporation	83,590,000	7.22%
CITIC Pacific Limited (Note 1)	Interest of a controlled corporation	83,590,000	7.22%
CITIC United Asia Investments Limited (Note 1)	Interest of a controlled corporation	6,080,000	0.5%
CITIC International Financial Holdings Limited (Note 1)	Interest of a controlled corporation	194,706,666	16.83%
CITIC Group (Note 1)	Interest of a controlled corporation	200,786,666	17.35%
Delight Assets Management Limited (Note 3)	Beneficial owner	295,000,000	25.5%
Ko Fong	Interest of a controlled corporation and beneficial owner	295,000,000	25.5%
Smartest Assets Management Limited (Note 4)	Beneficial owner	70,000,000	6.05%
Chan Wai Ming (Note 4)	Interest of a controlled corporation and beneficial owner	72,800,000	6.29%
Preference shares			
China Conservational Power Holdings Limited (Note 5)	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 40% of CITIC International Assets Management Limited and 50% of CITIC Capital Markets Holdings Limited. CITIC Pacific Limited is interested in 100% of the issued share capital of Golden Gateway Enterprises Inc., which is interested in 100% of Forever Glory Holdings Ltd. Forever Glory Holdings Ltd. is interested in 50% of CITIC Capital Markets Holdings Limited, CITIC Capital Markets Holdings Limited is interested in 100% of CITIC Capital Investment Holdings Limited. Accordingly, under the SFO: (i) CITIC Group and CITIC International Financial Holdings Limited are deemed to be interested in the 44,450,000 Shares held by CITIC International Assets Management Limited and the 83,590,000 Shares held by CITIC Capital Investment Holdings Limited; (ii) CITIC International Assets Management Limited is interested in 44,450,000 Shares held by it and 66,666,666 Shares to be issued and allotted to it under the Convertible Notes; and (iii) each of CITIC Pacific Limited, Golden Gateway Enterprises Inc. and CITIC Capital Markets Holdings Limited are deemed to be interested in the 83,590,000 Shares held by CITIC Capital Investment Holdings Limited.

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

3. Delight Assets Management Limited is wholly owned by Ko Fong.

4. Smartest Assets Management Limited is wholly owned by Chan Wai Ming, an executive Director of the Company.

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

Save as disclosed above, as at 31 December 2007, the Company had not been notified by any other person who had an interest or short position in the Shares or underlying Shares of the Company which were required to be disclosed to the Company under part XV of the SFO or recorded in the register required to be kept by the Company under Section 336 of the SFO.

Connected Transactions

Details of connected transactions are set out in note 39 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 60% to the total purchases for the year and the aggregate amount of purchases attributable to the Group's top five suppliers represented 97% of the Group's total purchases.

The Group's largest customer accounted for 100% of the Group's turnover (excluding guaranteed return).

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 2007, 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 pages 16 to 21 of this annual report.

Auditor

Shu Lun Pan Horwath Hong Kong CPA Limited (formerly named Horwath Hong Kong CPA Limited) was first appointed as auditor 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 auditor of the Company in 2002. Save as aforesaid, there had been no other changes of the Company's auditor in the past three financial years.

A resolution for the re-appointment of Shu Lun Pan Horwath Hong Kong CPA Limited as the auditor 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, 25 April 2008

Corporate Governance Practice

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

Throughout the year ended 31 December 2007, the Company has complied with the SEHK Code, except for the following:

Code Provision A.2.1

The roles of the chairman and the chief executive officer ("CEO") were not segregated during Mr. Tse On Kin's ("Mr. Tse") term of appointment as chairman of the Company from 10 March 2006 to 31 March 2007. Mr. Liang Jun ("Mr. Liang") assumed both roles of chairman and CEO from 1 April 2007 and ceased to be the CEO from 15 June 2007, as the position was taken up by Mr. Chan Wai Ming ("Mr. Chan") on the same date. As at the date of this report, the two roles continued to be separated and segregated.

Given the extensive experience of Mr. Tse as well as the Company's stage of progress during the year under review, it was considered unnecessary to appoint a CEO in Mr. Tse's term of office as chairman. The Company appointed Mr. Chan as the CEO at the earliest possible time in Mr. Liang's term of appointment as chairman to improve its corporate governance practice.

Code Provision A.4.1

All non-executive Directors during the year under review do not have a specific term of appointment but are subject to retirement by rotation and re-election pursuant to the Articles of Association of the Company. According to the Articles of Association of the Company, 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 less than one-third) shall retire from office by rotation provided that every director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years.

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.

Having made specific enquiry, all the current directors who held office in 2007 confirmed that they have complied with the code throughout the year ended 31 December 2007.

Board of Directors

The Board currently comprises of three executive Directors, one non-executive Director and three independent non-executive Directors. The biographical details of each Director are shown on pages 6 and 7.

As at 31 December 2007, the board composition consisted of three executive Directors, three non-executive Directors and three independent non-executive Directors.

For the year ended 31 December 2007 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 10.

The number of board meetings held during the financial year of 2007 and its record of individual attendance is shown on page 20.

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 pages 6 and 7.

Chairman and Chief Executive Officer

The identities of the Chairman and Chief Executive Officer for the year ended 31 December 2007 and up to the date of this report are as follows:

Period				
From	To	Chairman	Chief Executive Officer	Segregated/ Unsegregated
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 2007 and up to the date of this report. The resignations of non-executive Directors can be found on page 10.

For all non-executive Directors in the office during the year of 2007 and up to the date of this report, they have no specific term of service.

Pursuant to the Articles of Association of the Company, all non-executive Directors shall be subject to retirement by rotation at least once every three years at annual general meeting of the Company and shall be eligible for re-election.

Remuneration of Directors

A remuneration committee was established in 2006 and its function is 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.

Since 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**
From	**To**	**Members**
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 31 December 2007 and up to 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 of the Company.

The number of remuneration committee meetings held during the financial year of 2007 and its record of individual attendance is shown on page 20.

In 2007, the Board accepted the recommendations of the remuneration committee in regards 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 2007 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.

Auditor's Remuneration

Shu Lun Pan Horwath Hong Kong CPA Limited (formerly named Horwath Hong Kong CPA Limited) was first appointed as auditor 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.

For the interim audit for the six months ended 30 June 2007 and the annual audit for the year ended 31 December 2007, the total audit fee to Shu Lun Pan Horwath Hong Kong CPA Limited was HK$1,100,000. There was no non-audit service fee paid to external auditor during the year under review.

Audit Committee

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

Since 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
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

As at 31 December 2007 and up to the date of this report, the audit committee members are made up of Mr. Chan Chi Yuen, Mr. Tsang Kwok Wa and Mr. Zhang Xi. Mr. Chan Chi Yuen is the chairman of the audit committee of the Company.

The number of audit committee meetings held during the financial year of 2007 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 2007.

	Meetings Attended/Held in 2007		
	Board	Audit Committee	Remuneration Committee
No. of meetings held during the year 2007	14	2	4
Executive Directors			
Liang Jun	14		4
Chan Wai Ming	9	2	
Chan Ka Fat	3	2	
Zhu Xirong	0		
Ping Kim	3		
Non-Executive Directors			
Tse On Kin	9		
His Royal Highness Prince Idris Abdallah Al-Senussi	1		
Alan Grant Quasha	0		
John Douglas Kuhns	0		
Independent Non-Executive Directors			
Chan Chi Yuen	9	2	3
Tsang Kwok Wa	6	2	
Zhang Xi	9	2	3
Cheung Pui Hung	1		
Leung Po Hung, Mabel	0		
Tai Sik Fung, George	1		

Internal Control

The Company's systems of internal control consist of policies and procedures designed to provide management with reasonable assurance that the Company achieves its objectives in the following categories:

- reliability of financial reporting;
- effectiveness and efficiency of operations; and
- compliance with applicable laws and regulations.

The systems of internal control have been maintained within reasonable cost and are assessed on an ongoing basis by the Company's Board and, if considered appropriate and necessary, by external professional bodies. It is in the opinion of the Company that given the dynamic and ever-evolving nature of internal operation and industry conditions, the internal control systems can only safeguard against most of the unforeseeable circumstances. Therefore, the Company's internal control systems are subject to occasional reviews and updates.

In late 2007, the systems were enhanced and updated with the assistance of an independent audit firm which the Company engaged. A second independent audit firm was appointed to review the improved internal control systems.

The Board is of the view that the Group's internal control systems are effective to achieve the Group's internal control objectives. The improved systems are now strictly adhered to by the Group and will be reviewed annually.

Directors' and Auditor's Acknowledgement

All Directors acknowledge their responsibility for preparing the accounts for the year ended 31 December 2007.

Shu Lun Pan Horwath Hong Kong CPA Limited, the auditor of the Company, acknowledges its reporting responsibilities in the independent auditor's report on the financial statements for the year ended 31 December 2007.

Horwath

Shu Lun Pan Horwath Hong Kong CPA Limited
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TO THE SHAREHOLDERS OF CHINA SCIENCES CONSERVATIONAL POWER LIMITED
(中科環保電力有限公司)
(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of China Sciences Conservational Power Limited (the "Company") and its subsidiaries (hereinafter referred to as the "Group") set out on pages 24 to 91,which comprise the consolidated and Company balance sheets as at 31 December 2007, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. 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

As explained in note 3(b) to the consolidated financial statements, although the Group incurred a loss attributable to equity holders of the Company of approximately HK$31,111,000 for the year ended 31 December 2007 and had consolidated net current liabilities of approximately HK$98,734,000 as at 31 December 2007 and the Company had net liabilities of approximately HK$91,904,000 as at 31 December 2007, the consolidated financial statements have been prepared by the Directors on a going concern basis, the validity of which is dependent on the outcome of the proposed capital injection from a potential investor which would provide the Group with sufficient funds for working capital requirement and future expansion plan. The consolidated financial statements do not include any adjustments that would result from a failure of the proposed capital injection. However, the uncertainty surrounding the outcome of the proposed capital injection raises significant doubt about the Group's ability to continue as a going concern.

Disclaimer of opinion: disclaimer on view given by the financial statements

Because of the significance of the matter described in the basis for disclaimer of opinion paragraph, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2007 and the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Uncertainty arising from ongoing proceedings by the Independent Commission Against Corruption

As further explained in note 43 to the consolidated financial statements, on 29 September 2005, the Independent Commission Against Corruption (the "ICAC") issued a press release in relation to the arrest of 22 individuals for alleged corruption over the misappropriation of funds from two listed companies. It was subsequently mentioned in certain press articles that several former Directors of the Company had been arrested. Certain records and documents of the Group have been seized by the ICAC for the purpose of investigation. According to the press release by the ICAC dated 20 February 2006, two former Directors of the Company who held office until 26 October 2005, were charged with alleged conspiracy to defraud the Company involving Company's funds (the "Charges"). The alleged offences took place between January 2004 and April 2005. At the date of this report, save as set out in note 43 to the consolidated financial statements, the Company is not aware of other developments of the Charges, and hence any possible impact on the Group's operations and financial position.

SHU LUN PAN HORWATH HONG KONG CPA LIMITED
Certified Public Accountants

2001 Central Plaza
18 Harbour Road
Wanchai
Hong Kong

25 April 2008
Li Pak Ki
Practising Certificate number P01330

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

	Note	2007 HK$'000	2006 HK$'000 (Restated)
CONTINUING OPERATION			
Turnover	5	**76,782**	24,965
Cost of sales		**(82,404)**	(24,255)
Gross (loss)/profit		**(5,622)**	710
Other revenue and gains	6	**31,119**	2,902
Administrative expenses		**(34,247)**	(27,927)
Impairment loss on construction in progress	16	**(3,165)**	—
Loss from operations		**(11,915)**	(24,315)
Finance costs	8	**(23,713)**	(6,974)
Loss before taxation	9	**(35,628)**	(31,289)
Income tax	10	**—**	—
Loss for the year from continuing operation		**(35,628)**	(31,289)
DISCONTINUED OPERATIONS			
Profit/(loss) for the year from discontinuing operations	35	**246**	(1,004)
Loss for the year		**(35,382)**	(32,293)
Attributable to:			
Equity holders of the Company		**(31,111)**	(31,688)
Minority interests		**(4,271)**	(605)
		(35,382)	(32,293)
Dividend	12	**—**	—
Loss per share (expressed in HK cents per share)	13		
— Basic			
— from continuing and discontinued operations		**(2.69)**	(2.74)
— from continuing operation		**(2.71)**	(2.65)
— Diluted		**N/A**	N/A

The accompanying notes form part of these financial statements.

	Note	2007 HK$'000	2006 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	14	**356,197**	265,259
Land use rights	15	**4,447**	4,220
Construction in progress	16	**2,211**	92,572
Goodwill	18	**25,642**	23,916
		388,497	385,967
Current assets			
Inventories	19	**1,822**	489
Trade and other receivables	20	**25,369**	23,547
Amount due from a director	21	**—**	500
Trading securities	22	**—**	76
Tax recoverable		**29**	—
Pledged bank deposits	23	**16,026**	14,948
Bank balances and cash	24	**46,893**	7,666
		90,139	47,226
Assets of a disposal group classified as held for sale	35	**17**	—
		90,156	47,226
Current liabilities			
Trade and other payables	25	**71,361**	41,857
Amount due to a minority shareholder of a subsidiary	26	**923**	901
Loan from a director	27	**15,100**	—
Convertible notes	29	**20,000**	20,604
Convertible preference shares	30	**78,570**	—
		185,954	63,362
Liabilities directly associated with the assets classified as held for sale	35	**2,936**	—
		188,890	63,362
Net current liabilities		**(98,734)**	(16,136)
Total assets less current liabilities carried forward		**289,763**	369,831

At 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
Total assets less current liabilities brought forward		**289,763**	369,831
Non-current liabilities			
Bank loans	28	**251,608**	229,195
Convertible preference shares	30	**–**	51,745
		(251,608)	(280,940)
Net assets		**38,155**	88,891
EQUITY			
Share capital	32	**11,570**	11,570
Reserves		**21,057**	67,989
Equity attributable to equity holders of the Company		**32,627**	79,559
Minority interests		**5,528**	9,332
Total equity		**38,155**	88,891

These financial statements were approved and authorised for issue by the board of Directors on 25 April 2008.

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Liang Jun
Director

Chan Wai Ming
Director

The accompanying notes form part of these financial statements.

	Note	2007 HK$'000	2006 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries	17	**19,879**	18,765
Current assets			
Trade and other receivables	20	**194**	5,518
Amount due from a director	21	**—**	500
Trading securities	22	**—**	76
Bank balances and cash	24	**8,196**	6,591
		8,390	12,685
Current liabilities			
Trade and other payables	25	**5,693**	2,728
Loan from a director	27	**15,100**	—
Convertible notes	29	**20,000**	20,604
Convertible preference shares	30	**78,570**	—
		119,363	23,332
Net current liabilities		**(110,973)**	(10,647)
Total assets less current liabilities		**(91,094)**	8,118
Non-current liabilities			
Convertible preference shares	30	**—**	(51,745)
Net liabilities		**(91,094)**	(43,627)
EQUITY			
Share capital	32	**11,570**	11,570
Reserves	34	**(102,664)**	(55,197)
Total equity		**(91,094)**	(43,627)

These financial statements were approved and authorised for issue by the board of Directors on 25 April 2008.

Liang Jun
Director

Chan Wai Ming
Director

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

	Attributable to equity holders of the Company									
	Share capital HK$'000 (Note 32)	Share premium HK$'000 (Note 34)	Share options reserve HK$'000 (Note 33)	Equity component of convertible notes HK$'000 (Note 29)	Equity component of convertible preference shares HK$'000 (Note 30)	Translation reserve HK$'000 (Note 34)	Accu-mulated losses HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2006	**11,570**	**459,967**	**9,198**	**550**	**20,952**	**2,831**	**(396,982)**	**108,086**	**9,592**	**117,678**
Total income and expense recognised directly in equity – exchange difference arising on translation of financial statements of foreign operations	–	–	–	–	–	2,694	–	2,694	345	3,039
Loss for the year	–	–	–	–	–	–	(31,688)	(31,688)	(605)	(32,293)
Total recognised income and expense for the year	–	–	–	–	–	2,694	(31,688)	(28,994)	(260)	(29,254)
Recognition of share option payments	–	–	467	–	–	–	–	467	–	467
Share options lapsed	–	–	(395)	–	–	–	395	–	–	–
At 31 December 2006	**11,570**	**459,967**	**9,270**	**550**	**20,952**	**5,525**	**(428,275)**	**79,559**	**9,332**	**88,891**
Total income and expense recognised directly in equity – exchange difference arising on translation of financial statements of foreign operations	–	–	–	–	–	5,106	–	5,106	467	5,573
Reclassification as liabilities (note 30)	–	–	–	–	(20,952)	–	–	(20,952)	–	(20,952)
Total income and expense recognised directly in equity	–	–	–	–	(20,952)	5,106	–	(15,846)	467	(15,379)
Loss for the year	–	–	–	–	–	–	(31,111)	(31,111)	(4,271)	(35,382)
Total recognised income and expense for the year	–	–	–	–	(20,952)	5,106	(31,111)	(46,957)	(3,804)	(50,761)
Recognition of share option payments	–	–	25	–	–	–	–	25	–	25
Share options lapsed	–	–	(2,275)	–	–	–	2,275	–	–	–
At 31 December 2007	**11,570**	**459,967**	**7,020**	**550**	**–**	**10,631**	**(457,111)**	**32,627**	**5,528**	**38,155**

The accompanying notes form part of these financial statements.

	2007 HK$'000	2006 HK$'000
Operating activities		
Loss before taxation	**(35,382)**	(32,293)
Adjustment for:		
Gain on disposal of trading securities	**(140)**	—
Interest income	**(120)**	(419)
Fair value gain of trading securities	**—**	(20)
Depreciation of property, plant and equipment	**27,913**	951
Amortisation of land use rights	**75**	42
Loss on disposal of property, plant and equipment	**470**	129
Impairment loss on construction in progress	**3,165**	—
Impairment loss on other receivables	**—**	57
Bad debts written off	**—**	60
Reversal of impairment loss on other receivables	**(20,770)**	—
Equity-settled share-based expense	**25**	467
Interest on bank loans	**17,740**	—
Interest on loan from a director	**100**	—
Interest on convertible notes	**—**	1,700
Waiver of interest expenses on convertible notes	**(604)**	—
Interest on convertible preference shares	**5,873**	5,274
Effect of foreign exchange rate changes	**(5,627)**	(2,573)
Operating cash flows before working capital changes	**(7,282)**	(26,625)
Increase in inventories	**(1,333)**	(13)
Decrease in trade and other receivables	**33,548**	6,610
Decrease/(increase) in amount due from a director	**500**	(500)
Increase in trade and other payables	**25,017**	25,426
Increase in amount due to a minority shareholder of a subsidiary	**22**	901
Cash generated from operations	**50,472**	5,799
Income tax paid	**(29)**	—
Interest on bank loans	**(17,740)**	(14,726)
Interest on convertible notes	**—**	(1,272)
Interest received	**120**	419
Net cash generated from/(used in) operating activities	**32,823**	(9,780)

CONSOLIDATED CASH FLOW STATEMENT (Continued)

For the year ended 31 December 2007

	2007 HK$'000	2006 HK$'000
Investing activities		
Purchase of property, plant and equipment	**(24,208)**	(20,522)
Payments for land use rights	**—**	(4,262)
Payments for construction in progress	**(2,314)**	(8,909)
Proceeds from disposal of trading securities	**216**	—
Value added tax refund for property, plant and equipment	**11,288**	—
Proceeds from disposal of property, plant and equipment	**508**	43
Net cash used in investing activities	**(14,510)**	(33,650)
Financing activities		
Loan from a director	**15,000**	—
New bank loans	**10,684**	9,965
Repayment of bank loans	**(4,808)**	—
Net cash generated from financing activities	**20,876**	9,965
Net increase/(decrease) in cash and cash equivalents	**39,189**	(33,465)
Cash and cash equivalents at beginning of year	**7,666**	40,290
Effect of foreign exchange rate changes	**55**	841
Cash and cash equivalents at end of year representing bank balances and cash	**46,910**	7,666

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 its shares were suspended for trading since 29 September 2005.

It has its registered office and principal place of business at Rooms 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 17.

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

In the current year, the Group has adopted all of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are relevant to its operations and effective for the current accounting period of the Group and the Company. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies.

The impact of the adoption of HKFRS 7 "Financial Instruments: Disclosures" and HKAS 1 Amendment: "Capital Disclosures" has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital.

At the date of authorisation of these financial statements, the following standards and interpretations were in issue but not yet effective:

		Effective for annual periods beginning on or after
HKAS 1 (Revised)	Presentation of financial statements	1 January 2009
HKAS 23 (Revised)	Borrowing costs	1 January 2009
HKAS 27 (Revised)	Consolidated and separate financial statements	1 July 2009
HKFRS 2 Amendment	Share-based payment - Vesting conditions and cancellation	1 January 2009
HKFRS 3 (Revised)	Business combinations	1 July 2009
HKFRS 8	Operating segments	1 January 2009
HK(IFRIC) — Int 11	HKFRS 2 - Group and treasury share transactions	1 March 2007
HK(IFRIC) — Int 12	Service concession arrangements	1 January 2008
HK(IFRIC) — Int 13	Customer loyalty programmes	1 July 2008
HK(IFRIC) — Int 14	HKAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction	1 January 2008

The Group has not early adopted any of these new or revised standards and interpretations, and is in the process of making an assessment of what the impact of these new or revised standards or interpretations is expected to be in the period of their initial application.

3. Principal accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable HKFRSs, accounting principles generally accepted in Hong Kong and 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 of Hong Kong Limited.

(b) Basis of preparation of financial statements - going concern basis

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

The Group sustained a loss for the year attributable to equity holders of the Company of HK$31,111,000 and had net current liabilities of approximately HK$98,734,000 as at 31 December 2007. In view of the proposed capital injection from a potential investor which would provide the Group with sufficient funds for its working capital requirement and future expansion plan. The Directors are of the opinion that the Group will have sufficient working capital to meet its normal operational requirements in the ensuing year and are satisfied that it is appropriate for the Group's consolidated financial statements to be prepared on a going concern basis.

(c) Basis of consolidation

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

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

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 attributable goodwill and exchange difference which was not previously charged or recognised in profit or loss.

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 profit or loss.

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

Subsidiaries are entities in which the Group has the power to govern the financial and operating policies, so as to obtain benefits from their activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

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) Goodwill

Goodwill arising on acquisition of a subsidiary 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 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.

On the disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

3. Principal Accounting Policies *(Continued)*

(g) Property, plant and equipment

Property, plant and equipment including buildings 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.

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 or 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 of assets, other than properties under construction, over their estimated useful lives, using the straight-line method. The estimated useful lives and depreciation method are reviewed at each balance sheet date, with the effect of any changes in estimate accounted for on a prospective basis. The principal annual rates are as follows:

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

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

(h) Impairment of assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its assets 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. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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 for which the estimates of future cash flows have not been adjusted.

3. Principal Accounting Policies *(Continued)*

(h) Impairment of assets excluding goodwill *(Continued)*

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 profit or loss, 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 profit or loss, 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.

(i) Assets held for sale and discontinued operations

i) Assets held for sale

Disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the disposal group is available for immediate sale in its present condition.

Disposal groups classified as held for sale are measured at the lower of the disposal groups' previous carrying amount and fair value less costs to sell.

ii) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs when the operation is abandoned.

(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.

3. Principal Accounting Policies *(Continued)*

(k) Financial assets

i) Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss where the financial asset is either held for trading or it is designated as at fair value through profit or loss. Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial assets.

ii) Loans and receivables

Trade and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

iii) Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For equity securities, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

— significant financial difficulty of the issuer or counterparty; or

— default or delinquency in interest or principal payments; or

— it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

3. Principal Accounting Policies *(Continued)*

(k) Financial assets *(Continued)*

iii) Impairment of financial assets (Continued)

If any such evidence exists, any impairment loss is determined and recognised as follows:

— for unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

— for trade and other receivables, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade and other receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

3. Principal Accounting Policies *(Continued)*

(k) Financial assets *(Continued)*

iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or where appropriate, a shorter period.

v) Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

(l) Financial liabilities and equity instrument issued by the Group

i) Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or equity in accordance with the substance of the contractual arrangement.

ii) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

3. Principal Accounting Policies *(Continued)*

(l) Financial liabilities and equity instrument issued by the Group *(Continued)*

iii) Compound instruments

I) Convertible notes

Convertible notes that can be converted to equity at the option of the holders, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition, the fair value of the liability component is measured as the present value of the future interest and principal payments, discounted at the prevailing market interest rate for a similar non-convertible instrument. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. The portion relating to the equity component is charged directly to equity, while the portion relating to the liability component is included in the carrying amount of the liability portion and amortised over the period of the convertible notes using the effective interest method.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve (convertible note reserve) until either the notes are converted or redeemed.

If the convertible notes are converted, the convertible note reserve, together with the carrying amount of the liability component at the time of conversion, are transferred to share capital and share premium as consideration for the shares issued. If the notes are redeemed, the convertible note reserve is released directly to retained profits and any difference between the amount paid and the carrying amounts of liability component is recognised in profit or loss.

3. Principal Accounting Policies *(Continued)*

(l) Financial liabilities and equity instrument issued by the Group *(Continued)*

iii) Compound instruments (Continued)

II) Convertible preference shares

Convertible preference shares issued by the Company is regarded as a hybrid instrument. Derivatives embedded in the host debt contracts is treated as separated derivatives when their economic risks and characteristics are not closely related to those of the host contract (the liability component) and the host contract is not carried at fair value through profit or loss. The conversion option is classified as equity component only if the option can be converted by exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. In the case that the conversion option is not settled by the exchange of a fixed amount of cash or another financial asset for fixed number of equity instrument, the conversion component is an embedded derivative.

At the date of issue, the conversion option derivative (the "derivative component") and liability component are recognised at its fair value.

In subsequent periods, the liability component of the convertible preference shares is carried at amoritsed cost using the effective interest method. The derivative component is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible preference shares are allocated to the liability and derivative components in proportion to the allocation of proceeds. Transaction costs relating to the derivative component is charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible preference shares using the effective interest method.

iv) Financial liabilities

The Group's financial liabilities, including bank borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or where appropriate, a shorter period.

3. Principal Accounting Policies *(Continued)*

(l) Financial liabilities and equity instrument issued by the Group *(Continued)*

v) Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

(m) 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.

(n) 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.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

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

(o) Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Where it is probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as 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 not remote.

3. Principal Accounting Policies *(Continued)*

(p) Taxation

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

i) Current 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.

ii) Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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 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 arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

3. Principal Accounting Policies *(Continued)*

(p) Taxation *(Continued)*

ii) Deferred tax (Continued)

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.

(q) 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 are recognised in profit or loss in the period in which they arise except for:

— exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on foreign currency borrowings;

— exchange differences on transactions entered into in order to hedge certain foreign currency risks; and

— exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the translation reserve and recognised in profit or loss on disposal of the net investment.

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 translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

3. Principal Accounting Policies *(Continued)*

(q) Foreign currencies *(Continued)*

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.

(r) Employees' benefits

i) Short term employee benefits

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

ii) Pension obligations

The Group has participated in an approved Mandatory Provident Fund ("MPF") scheme effective from 1 December 2000 to provide MPF scheme to all eligible employees in Hong Kong. The contributions borne by the Group are calculated at 5% of the salaries and wages (monthly contribution limited to 5% of HK$20,000 for each eligible employee) as calculated under the MPF legislation. Contributions to MPF scheme are recognised as an expense in the income statement as incurred. There were no forfeited contributions used to reduce future contributions as at 31 December 2007.

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 the 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 2007.

iii) Equity-settled share-based payments

The Group issues share options to certain employees which 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 share options 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-Merton Option 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.

3. Principal Accounting Policies *(Continued)*

(s) 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 or loss in the period in which they are incurred.

(t) 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.

(u) 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.

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

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

3. Principal Accounting Policies *(Continued)*

(w) Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching with them and that the grants will be received.

Other government grants are recognised as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

(x) 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.

(b) Impairment of trade and other receivables

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(f). 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 2007, the carrying amount of goodwill was HK$25,642,000 (2006: HK$23,916,000). Details of the impairment assessment are disclosed in note 18.

5. Turnover

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

	2007 **HK$'000**	2006 HK$'000
From continuing operation:		
Waste incineration power generation income	**76,782**	24,965
From discontinued operations:		
Sale of computer hardware and maintenance support and related services (note 35)	**–**	31,666
	76,782	56,631

6. Other revenue and gains

		The Group	
	Note	**2007** **HK$'000**	2006 HK$'000
From continuing operation:			
Reversal of impairment loss on other receivables		**20,770**	—
Net exchange gains		**4,809**	2,382
Rubbish handling income		**4,494**	—
Waiver of interest expenses on convertible notes	29	**604**	—
Gain on disposal of trading securities		**140**	—
Bank interest income		**120**	410
Others		**182**	110
		31,119	2,902
From discontinued operations:			
Net exchange gains		**364**	12
Bank interest income		**–**	9
	35	**364**	21

7. Business and geographical segments

(a) Business segments

For management purposes, the Group is currently organised into two operating divisions: i) waste incineration power generation; and ii) computer hardware and maintenance support and related services. 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 and related services	—	Sale of computer hardware, provision of maintenance support services, e-commerce consultancy, software development, system integration, website design and sale of software

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

2007

	Continuing operation	**Discontinued operations**	
	Waste incineration power generation HK$'000	**Computer hardware and maintenance support and related services** HK$'000	**Consolidated** HK$'000
RESULTS			
Turnover	76,782	—	76,782
Segment results	(25,419)	(1,486)	(26,905)
Gain on disposal of trading securities			140
Unallocated corporate income and expenses (net)			15,096
Loss from operations			(11,669)
Finance costs			(23,713)
Loss before taxation			(35,382)
Income tax			—
Loss for the year			(35,382)
Minority interests			4,271
Loss for the year attributable to equity holders of the Company			(31,111)

7. Business and geographical segments *(Continued)*

(a) Business segments *(Continued)*

2007

	Continuing operation	Discontinued operations	
	Waste incineration power generation	**Computer hardware and maintenance support and related services**	**Consolidated**
	HK$'000	HK$'000	HK$'000
BALANCE SHEET			
Segment assets	437,267	17	437,284
Unallocated corporate assets			41,369
Consolidated total assets			478,653
Segment liabilities	317,646	2,936	320,582
Unallocated corporate liabilities			119,916
Consolidated total liabilities			440,498
OTHER INFORMATION			
Capital expenditure	24,894	—	
Depreciation and amortisation	27,186	—	

7. Business and geographical segments *(Continued)*

(a) Business segments *(Continued)*

2006

	Continuing operation	**Discontinued operations**	
	Waste incineration power generation	**Computer hardware and maintenance support and related services**	**Consolidated**
	HK$'000	HK$'000	HK$'000
RESULTS			
Turnover	24,965	31,666	56,631
Segment results	(6,082)	(1,013)	(7,095)
Net investment gain			—
Unallocated corporate income and expenses (net)			(18,224)
Loss from operations			(25,319)
Finance costs			(6,974)
Loss before taxation			(32,293)
Income tax			—
Loss for the year			(32,293)
Minority interests			605
Loss for the year attributable to equity holders of the Company			(31,688)

7. Business and geographical segments *(Continued)*

(a) Business segments *(Continued)*

2006

	Continuing operation	Discontinued operations	
	Waste incineration power generation	**Computer hardware and maintenance support and related services**	**Consolidated**
	HK$'000	HK$'000	HK$'000
BALANCE SHEET			
Segment assets	409,029	98	409,127
Unallocated corporate assets			24,066
Consolidated total assets			433,193
Segment liabilities	264,322	2,889	267,211
Unallocated corporate liabilities			77,091
Consolidated total liabilities			344,302
OTHER INFORMATION			
Capital expenditure	30,293	6	
Depreciation and amortisation	213	58	
Impairment loss on other receivables	—	57	
Bad debts written off	—	60	

7. Business and geographical segments *(Continued)*

(b) Geographical segments

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

The Group

	Segment revenues	
	2007	2006
	HK$'000	HK$'000
From continuing operation:		
Hong Kong	**–**	–
Other regions of the PRC	**76,782**	24,965
	76,782	24,965
From discontinuing operations:		
Hong Kong	**–**	24,896
Other regions of the PRC	**–**	3,351
Taiwan	**–**	1,194
Others	**–**	2,225
	–	31,666

	Carrying amount of segment assets		**Additions to property plant and equipment, land use rights and construction in progress**	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**113,100**	13,739	**1,628**	89
Other regions of the PRC	**365,553**	419,454	**24,894**	33,604
	478,653	433,193	**26,522**	33,693

8. Finance costs

	The Group	
	2007	2006
	HK$'000	HK$'000
From countining operation:		
Interest expenses on bank borrowings not wholly repayable within five years	**17,740**	14,726
Interest expenses on borrowing wholly repayable within five years	**100**	—
Interest on convertible notes	**—**	1,700
Interest on convertible preference shares	**5,873**	5,274
Total borrowing costs	**23,713**	21,700
Less: Amount capitalised into construction in progress* (note 16)	**—**	(14,726)
	23,713	6,974

* In 2006, the borrowing costs have been capitalised at a rate of 6.18% to 6.91% per annum.

9. Loss before taxation

	2007	2006
	HK$'000	HK$'000
The Group's loss before taxation is arrived at after charging/ (crediting):-		
Depreciation of property, plant and equipment	**27,913**	951
Amortisation of land use rights	**75**	42
Auditor's remuneration		
— Current year	**1,127**	1,140
— Over-provision in prior year	**(90)**	—
Loss on disposal of property, plant and equipment	**470**	129
Bad debts written off	**—**	60
(Reversal of)/charge for impairment loss on other receivables	**(20,770)**	57
Impairment loss on construction in progress	**3,165**	—
Exchange gain, net	**(5,173)**	(2,394)
Gain on disposal of trading securities	**(140)**	—
Cost of inventories expensed	**51,778**	55,763
Cost of services	**—**	31,508
Operating lease rentals in respect of equipment	**80**	41
Staff costs, including directors' remuneration		
— Salaries, wages and other benefits	**15,943**	15,596
— Equity-settled share-based expense	**25**	467
— Contributions to defined contribution retirement scheme	**599**	596
	16,567	16,659

Note: The disclosures presented in this note include those amounts charged/(credited) in respect of the discontinued operations.

10. Income tax

(a) Hong Kong profits tax is calculated at 17.5% (2006: 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 Group entities operating in Hong Kong had no assessable profit for the year ended 31 December 2007 (2006: Nil).

No provision for PRC enterprise income tax ("EIT") has been made in the financial statements as the Group entities operating in the PRC had no assessable profit for the year ended 31 December 2007 (2006: Nil).

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress promulgated the Corporate Income Tax Law of the PRC ("the New Tax Law"), which became effective on 1 January 2008. Further, on 6 December 2007, the State Council released the Implementation Rules to the New Tax Law.

According to the New Tax Law, the standard EIT rate for enterprises in the PRC will be reduced from 33% to 25% with effect from 1 January 2008. However, a "new and high technology enterprise" will continue to be entitled to a reduced EIT rate of 15%.

(b) The taxation charge differs from the theoretical amount that would arise using the enacted tax rate of the Group as follows:

	The Group	
	2007	2006
	HK$'000	HK$'000
Loss/(profit) before taxation		
— continuing operation	**(35,628)**	(31,289)
— discontinued operations (note 35)	**246**	(1,004)
	(35,382)	(32,293)
Calculated at the tax rate of 17.5% (2006: 17.5%)	**(6,192)**	(5,651)
Tax effect of expenses not deductible for taxation purpose	**30,391**	3,445
Tax effect of non-taxable items	**(24,151)**	(64)
Tax effect of unrecognised tax losses and temporary differences	**(48)**	2,270
Tax charge for the year	**—**	—

11. Directors' and senior management's emoluments

(a) Directors' emoluments

For the year ended 31 December 2007

	The Group			
	Directors' fees	**Salaries, and other benefits**	**Pension fund con- tributions**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
Executive Directors				
Liang Jun	—	780	12	792
Chan Wai Ming	—	504	8	512
Chan Ka Fat	—	184	4	188
Zhu Xirong	—	32	—	32
Tse On Kin*	—	214	3	217
Ping Kim	—	278	5	283
Non-executive Directors				
His Royal Highness Prince Idris	389	—	—	389
Alan Grant Quasha	389	—	—	389
Tse On Kin *	293	—	—	293
John Douglas Kuhns	97	—	—	97
Independent non-executive Directors				
Chan Chi Yuen	100	—	—	100
Tsang Kwok Wa	50	—	—	50
Zhang Xi	100	—	—	100
Cheung Pui Hung	14	—	—	14
Leung Po Hung	11	—	—	11
Tai Sik Fung, George	25	—	—	25
	1,468	1,992	32	3,492

* Re-designated from executive Director to non-executive Director on 1 April 2007.

11. Directors' and senior management's emoluments *(Continued)*

(a) Directors' emoluments *(Continued)*

For the year ended 31 December 2006

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

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

11. Directors' and senior management's emoluments *(Continued)*

(b) Five highest paid individuals

The five highest paid individuals of the Group included three (2006: four) Directors, details of whose emoluments are set out above. The emoluments of the two highest paid non-director individuals (2006: one) for the year ended 31 December 2007, are as follows:

	2007 HK$'000	2006 HK$'000
Salaries and other benefits	**1,061**	1,001
Contributions to defined contribution retirement scheme	**21**	—
	1,082	1,001

The emoluments of the highest paid individuals, other than the Directors of the Company, were within the following band:

	2007 Number of employees	2006 Number of employees
Nil to HK$1,000,000	**2**	—
HK$1,000,000 to HK$1,500,000	**—**	1

(c) No emoluments were paid or payable to any Directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the year (2006: Nil).

12. Dividend

No dividend has been paid or declared by the Company during the year (2006: Nil).

The Directors do not propose the payment of any dividend for the year (2006: Nil).

13. Loss per share

(a) Loss

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

	2007 HK$'000	2006 HK$'000
Loss for the year attributable to equity holders of the Company	**(31,111)**	(31,688)
Less:		
Profit/(loss) for the year from discontinued operations used in the calculation of basic loss per share from discontinued operations	**246**	(1,004)
Loss for the year used in the calculation of basic loss per share from continuing operation	**(31,357)**	(30,684)

(b) Weighted average number of ordinary shares

1,157,027,100 ordinary shares were in issue during the years ended 31 December 2007 and 2006.

	2007 HK cents	2006 HK cents
Basic (loss)/earnings per share from:		
— continued operation	**(2.71)**	(2.65)
— discontinued operations	**0.02**	(0.09)
Loss per share from continuing and discontinued operations	**(2.69)**	(2.74)

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.

14. 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 2006	2,219	253	2,949	3,057	8,478
Exchange adjustments	83	9	46	51	189
Additions	19,272	214	1,000	36	20,522
Transfer from construction in progress (note 16)	240,551	—	—	—	240,551
Disposals	—	(51)	(643)	—	(694)
As at 31 December 2006	262,125	425	3,352	3,144	269,046
Exchange adjustments	18,912	31	121	105	19,169
Additions	29,899	489	756	487	31,631
Transfer from construction in progress (note 16)	81,469	—	—	—	81,469
VAT refund (note)	(11,288)	—	—	—	(11,288)
Disposals	(48)	(227)	(1,034)	(1,454)	(2,763)
Reclassified as assets held for sale (note 35)	—	—	(33)	—	(33)
As at 31 December 2007	381,069	718	3,162	2,282	387,231
Accumulated depreciation and impairment:					
As at 1 January 2006	80	18	1,934	1,288	3,320
Exchange adjustments	5	2	15	16	38
Charge for the year	107	79	274	491	951
Written back on disposal	—	(1)	(521)	—	(522)
As at 31 December 2006	192	98	1,702	1,795	3,787
Exchange adjustments	1,040	10	35	51	1,136
Charge for the year	26,928	120	437	428	27,913
Written back on disposal	—	(94)	(864)	(811)	(1,769)
Reclassified as assets held for sale (note 35)	—	—	(33)	—	(33)
As at 31 December 2007	28,160	134	1,277	1,463	31,034
Net carrying amount:					
As at 31 December 2007	352,909	584	1,885	819	356,197
As at 31 December 2006	261,933	327	1,650	1,349	265,259

Note: VAT refund represents PRC Value Added Tax refund for the plant and equipment purchased.

Buildings are situated on leasehold land in the PRC under a medium term lease.

14. Property, plant and equipment *(Continued)*

	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
The Company			
Cost:			
As at 1 January 2006 and 31 December 2006 and 2007	364	893	1,257
Accumulated depreciation:			
As at 1 January 2006	359	893	1,252
Charge for the year	5	—	5
As at 31 December 2006 and 2007	364	893	1,257
Net book value:			
As at 31 December 2006 and 2007	—	—	—

15. Land use rights

	The Group HK$'000
Cost:	
Additions and as at 31 December 2006	4,262
Exchange adjustments	308
As at 31 December 2007	4,570
Accumulated amortisation:	
As at 1 January 2006	—
Charge for the year	42
As at 31 December 2006	42
Charge for the year	75
Exchange adjustments	6
As at 31 December 2007	123
Net book value:	
At 31 December 2007	4,447
At 31 December 2006	4,220

Land use rights are held in the PRC under a medium term lease.

16. Construction in progress

	The Group	
	2007	2006
	HK$'000	HK$'000
Cost:		
At 1 January	**92,572**	298,416
Exchange adjustments	**6,559**	11,072
Other adjustments (note)	**(14,600)**	—
Additions	**2,314**	8,909
Interest capitalised (note 8)	**—**	14,726
Transferred to property, plant and equipment (note 14)	**(81,469)**	(240,551)
Impairment loss	**(3,165)**	—
At 31 December	**2,211**	92,572

Note:

Other adjustments include a reduction of purchase price by a supplier of machinery purchased in previous years and a refund receivable from a supplier of machinery.

During the year, the Directors reviewed the carrying value of certain construction in progress and identified that the recoverable amount of certain construction in progress to be less than its carrying value. Accordingly, an impairment loss of HK$3,165,000 (2006: Nil) was recognised in the year ended 31 December 2007.

17. Interests in subsidiaries

	The Company	
	2007	2006
	HK$'000	HK$'000
Unlisted shares, at cost	**1**	1
Amounts due from subsidiaries	**587,882**	579,808
	587,883	579,809
Less: Provision for impairment loss	**(568,004)**	(561,044)
	19,879	18,765

(Expressed in Hong Kong dollars)

17. Interests in subsidiaries *(Continued)*

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.

The Directors assessed that only a portion of the amounts due from subsidiaries is expected to be recoverable. Consequently, a provision for impairment loss was made.

Particulars of the Company's principal subsidiaries as at 31 December 2007 are as follows:

Name of subsidiary	Country of incorporation and operation and legal entity status	Issued and fully paid share capital/registered capital	Attributable equity interest held by the Company		Principal activities
			Directly	Indirectly	
Abba China Holdings Limited	Hong Kong	2 ordinary shares of HK$1	–	100%	Investment holding
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
CSCP Management Limited	Hong Kong	1 ordinary share of HK$1	–	100%	Management and corporate service
東莞中科環保電力有限公司(「東莞中科」) (note)	The People's Republic of China, limited liability company	RMB110,000,000	–	90%	Waste incineration power generation business
桂林中科環保電力有限公司(「桂林中科」) (note)	The People's Republic of China, limited liability company	RMB41,471,279	–	94.21%	Waste incineration power generation business

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

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

18. Goodwill

	The Group HK$'000
Cost:	
As at 1 January 2006	65,912
Exchange adjustment	855
As at 31 December 2006	66,767
Exchange adjustment	4,817
As at 31 December 2007	71,584
Accumulated impairment:	
As at 1 January and 31 December 2006	42,851
Exchange adjustment	3,091
As at 31 December 2007	45,942
Net carrying amount:	
At 31 December 2007	25,642
At 31 December 2006	23,916

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

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

During the year, the Group assessed the recoverable amount of goodwill, and determined that no further goodwill impairment was required. The recoverable amounts of the CGUs are determined based on a value in use calculation using cash flow projections based on financial budgets approved by management covering a period of 23 years. The discount rate applied to cash flow projections is 15% and cash flows beyond 8 years are extrapolated using a growth rate of 2.35% which is determined with reference to the long term business prospects and the general economic outlook of the PRC. Management estimated the budgeted gross margin based on the past performance and its expectations for market development.

19. Inventories

	The Group	
	2007	2006
	HK$'000	HK$'000
Fuel and supplies for power generation	**1,822**	489
Merchandise at cost	**–**	266
Less: Provision for obsolescence	**–**	(266)
	1,822	489

20. Trade and other receivables

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables	**11,456**	9,806	**–**	–
Less: Allowance for doubtful debts	**(3,008)**	(3,008)	**–**	–
Trade receivables, net	**8,448**	6,798	**–**	–
Other receivables	**167,990**	193,770	**36,094**	41,418
Less: Allowance for doubtful debts	**(151,069)**	(177,021)	**(35,900)**	(35,900)
Other receivables, net	**16,921**	16,749	**194**	5,518
	25,369	23,547	**194**	5,518

i) The movement in the allowance for doubtful debts for trade receivables during the year, including both specific and collective loss components, is as follows:

	The Group	
	2007	2006
	HK$'000	HK$'000
At beginning of year	**3,008**	3,531
Uncollectible amounts written off	**–**	(523)
At end of year	**3,008**	3,008

The allowance for doubtful debts has been made for the estimated irrecoverable amounts from the sale of goods. This allowance has been determined by the Directors with reference to past default experience.

20. Trade and other receivables *(Continued)*

ii) The movement in the allowance for doubtful debts for other receivables during the year, including both specific and collective loss components, is as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
At beginning of year	**177,021**	174,210	**35,900**	35,900
Impairment loss recognised	**—**	57	**—**	—
Reversal of provision	**(20,770)**	—	**—**	—
Uncollectible amounts written off	**(9,387)**	(36)	**—**	—
Exchange adjustments	**4,205**	2,790	**—**	—
At end of year	**151,069**	177,021	**35,900**	35,900

This impairment loss of HK$57,000 for 2006 related to the discontinued operations.

The allowance for doubtful debts has been made for the estimated irrecoverable amounts from the supplier of machinery. This allowance has been determined by the Directors with reference to the financial condition of the debtors concerned.

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

	The Group	
	2007	2006
	HK$'000	HK$'000
Trade receivables		
— Current and up to 30 days	**8,448**	6,798

iv) The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	The Group	
	2007	2006
	HK$'000	HK$'000
Neither past due nor impaired	**7,968**	6,798
Less than 1 month past due	**480**	—
	8,448	6,798

Trade receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

20. Trade and other receivables *(Continued)*

iv) *(Continued)*

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

v) The carrying amounts of trade and other receivables are denominated in the following currencies:

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong dollars	**1,252**	644	**194**	535
RMB	**24,117**	22,903	**—**	4,983
	25,369	23,547	**194**	5,518

The Directors consider the carrying amounts of trade and other receivables approximate their fair value.

21. Loan to officer

Loan to officer, which is disclosed pursuant to section 161B of the Hong Kong Companies Ordinance, is as follows:-

Loan made by the Company

Name of borrower:	Ping Kim
Position:	Executive director
Terms of the loan:	
— Duration and repayment terms	Repayable on demand
— Interest rate	Interest free
— Security	Unsecured
Balance of the loan:	
— at 1 January 2006	HK$ Nil
— at 31 December 2006	HK$ 500,000
— at 31 December 2007	HK$ Nil
Maximum balance outstanding:	
— during year ended 31 December 2006	HK$ 500,000
— during year ended 31 December 2007	HK$ 500,000

There was no amount due but unpaid, nor any provision made against the principal amount of or interest on this loan at 31 December 2006 and 2007.

22. Trading securities

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Equity securities listed in Hong Kong, at market value	**—**	76	**—**	76

23. Pledged bank deposits

At 31 December 2007, the Group had pledged bank deposits of RMB15,000,000 equivalent to approximately HK$16,026,000 (2006: RMB15,000,000, equivalent to approximately HK$14,948,000) to secure certain bank loans granted to the Group.

24. Bank balances and cash

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**39,815**	7,666	**1,118**	6,591
Time deposits	**7,078**	—	**7,078**	—
Cash and bank balances	**46,893**	7,666	**8,196**	6,591

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

The carrying amounts of bank balances and cash are denominated in the following currencies:

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong dollars	**8,278**	7,075	**8,196**	6,591
RMB	**38,615**	591	**—**	—
	46,893	7,666	**8,196**	6,591

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.

25. Trade and other payables

The ageing analysis of trade payables as at the balance sheet date is as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Current and up to 30 days	**7,290**	4,900	**–**	–
31 to 60 days	**2,606**	–	**–**	–
61 to 90 days	**–**	–	**–**	–
Over 90 days	**2,002**	2,448	**–**	–
Total trade payables	**11,898**	7,348	**–**	–
Other payables (note)	**59,463**	34,509	**5,693**	2,728
	71,361	41,857	**5,693**	2,728

Note: Included in other payables as at 31 December 2006 was an amount due to a former Director, Mr. Chan Tat Chee, amounting to HK$15,000. The amount due represented operating expenses paid by Mr. Chan on behalf of the Group, the terms of which are unsecured, interest-free and repayable on demand.

The carrying amounts of trade and other payables are denominated in the following currencies:

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong dollars	**5,962**	5,639	**5,693**	2,728
RMB	**65,399**	36,218	**–**	–
	71,361	41,857	**5,693**	2,728

The Directors consider the carrying amounts of trade and other payables approximate their fair value.

26. Amount due to a minority shareholder of a subsidiary

The Group

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

27. Loan from a director

The Group and the Company

The loan from a Director is unsecured, interest bearing at 2% per annum and repayable by 4 September 2008.

28. Bank loans

	The Group	
	2007	2006
	HK$'000	HK$'000
Wholly repayable after five years	**251,608**	229,195

The amount of bank loans in the original denominated borrowing currency is RMB235,500,000 (2006: RMB230,000,000). The average effective interest rate for the year is 7.08% (2006: 6.34%) per annum. The Directors estimated that the fair value of the bank loans is not significantly different from its carrying amount.

The bank loans are secured by a deposit of RMB15,000,000 equivalent to approximately HK$16,026,000 (2006: RMB15,000,000 equivalent to approximately HK$14,948,000). In addition, the Group pledged to the bank construction in progress including plant and equipment amounted to RMB 330,664,060 (2006: RMB351,392,499) in respect of the waste incineration project in the PRC, corresponding waste incineration licence and related income generated from the project (including waste handling income and electricity generation income).

29. 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 (the "Noteholder"), extend the maturity date so that, upon the giving of such notice, the maturity date shall be 24 August 2007. By agreement, the maturity date of the convertible note has been extended to 14 January 2008.

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

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

The fair value of the liability component was calculated at the issuance date using a market borrowing rate of 10.66% at the date of issue. The residual amount is assigned as the equity component and is included in shareholders' equity.

Pursuant to a settlement agreement signed between the Company and the Noteholder date 14 January 2008, both parties agreed that the Company redeems the convertible notes on 14 January 2008 in consideration of HK$20,000,000 and discharge all of the Company's liabilities and obligations, including but not limited to interests payment obligations under the convertible notes. As a result, the liability component was stated at its principal repayment amount of HK$20,000,000 as at 31 December 2007.

29. Convertible notes *(Continued)*

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

	The Group and the Company	
	2007	2006
	HK$'000	HK$'000
Liability component at 1 January	**20,604**	20,176
Waiver of interest expenses (note 6)	**(604)**	—
Interest expenses	**—**	1,700
Interest paid	**—**	(1,272)
Liability component at 31 December	**20,000**	20,604

30. Convertible preference shares

On 5 July 2005, the Company issued convertible preference shares of principal amount of HK$100 million. Details of the terms of the convertible preference shares are set out in note 32.

The fair value of the liability component was calculated at the issuance date using a market borrowing rate of 11.35% at the issuance date. The residual amount is assigned as the equity component and is included in shareholders' equity.

In relation to the accounting treatment of the convertible preference shares at the balance sheet dates, the Directors realised that with reference to the terms of the convertible preference shares, the conversion option embedded in the convertible preference shares did not meet the definition of equity instrument upon its initial recognition, and thus should be accounted for as a derivative component of the convertible preference shares and measured at fair value upon initial recognition, and remeasured at fair value at each balance sheet date, with changes being recognised in the income statement of the period in which they arose, and with the derivative component being presented as a derivative financial instrument on the balance sheet.

In this connection, the Directors have consulted a firm of professional valuers with experience in the valuation of compound financial instruments, which advised that in estimating the fair value of the derivative component of the convertible preference shares, they had to obtain the share price information of the Company for the past years, but they had noted that the Company's shares, which are listed on The Stock Exchange of Hong Kong Limited, had been suspended for trading since 29 September 2005. As a result, the required share price information of the Company is not available to them to value the derivative component of the convertible preference shares.

30. Convertible preference shares *(Continued)*

The firm of professional valuers further advised that they had considered an alternative method of valuing the derivative component of the convertible preference shares, that is by reference to the share prices of comparable companies listed on The Stock Exchange of Hong Kong Limited. However, this approach involves many subjective judgments and would not reflect the actual fair value of the derivative component of the convertible preference shares. Consequently, the firm of professional valuers concluded that this approach would not give a fair estimation of the value of the derivative component of the convertible preference shares, and that an appropriate valuation of the derivative component of the convertible preference shares would not be feasible until the quoted market price of the Company's shares is available.

In considering the accounting treatment for the convertible preference shares as at 31 December 2007, the Directors have had due regard to the above advice obtained from the firm of professional valuers and the fact that the maturity date of the convertible preference shares is 4 July 2008 and that the Company has applied to The Stock Exchange of Hong Kong Limited for a resumption of trading of the Company's shares. After due and careful consideration, the Directors considered that it would be more appropriate for the carrying amount in the equity component of the convertible preference shares reserve to be reclassified as a current liability as at 31 December 2007, notwithstanding the fact that it was impracticable to determine the effect of any fair value change associated with the liability, pending the future redemption or conversion of the convertible preference shares in 2008.

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

	The Group and the Company	
	2007	2006
	HK$'000	HK$'000
Liability component at 1 January	**51,745**	46,471
Interest expenses	**5,873**	5,274
Reclassification from equity (note 34)	**20,952**	—
Liability component at 31 December		
— Current liability	**78,570**	—
— Non-current liability	—	51,745

31. 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 2006 and 2007.

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 2007, the unrecognised deferred tax asset of the Group and of the Company is as follows:

	The Group		**The Company**	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Tax effect of timing difference attributable to estimated tax losses	**6,476**	34,702	**640**	28,401

At the balance sheet date, the Group and the Company had unused tax losses of HK$37,007,000 (2006: HK$198,295,000) and HK$3,660,000 (2006: HK$162,294,000) respectively available for offset against future profits.

32. Share capital

(a) Authorised share capital

	Number of ordinary shares of HK$0.01 each		**Amount**	
	2007	2006	**2007**	2006
			HK$'000	HK$'000
Authorised ordinary shares:				
At beginning and end of the year	120,000,000,000	120,000,000,000	1,200,000	1,200,000

	Number of preference shares of HK$0.01 each		**Amount**	
	2007	2006	**2007**	2006
			HK$'000	HK$'000
Authorised preference shares class A:				
At beginning and end of the year	10,000,000,000	10,000,000,000	100,000	100,000
Authorised preference shares class B:				
At beginning and end of the year	10,000,000,000	10,000,000,000	100,000	100,000

32. Share capital *(Continued)*

(a) Authorised share capital *(Continued)*

The preference shares classes 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 on the third anniversary of the date of issue of the issue value and any dividends in arrears. The preference shareholders can convert the preference shares into ordinary shares of the Company during the 3-year term using the following formula:-

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

Adjusting factor is calculated as the higher of (i) 90% of the average of the closing prices 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.

32. Share capital *(Continued)*

(a) Authorised share capital *(Continued)*

Preference Shares Class B

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

32. Share capital *(Continued)*

(b) Issued and fully paid share capital

	Number of ordinary shares	Nominal value HK$'000
Ordinary shares of HK$0.01 each		
At 31 December 2006 and 2007	1,157,027,100	11,570

33. 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; 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 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 of the closing prices 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.

33. Share options *(Continued)*

2002 Share Option Scheme *(Continued)*

(a) The terms and conditions of the options granted that were outstanding at the balance sheet dates are as follows, whereby all options are settled by physical delivery of shares:

Options granted to employees	**Number of options ('000)**		**Vesting condition**	**Contractual life of options**
	2007	2006		
On 12 August 2004	**26,800**	26,800	Six months from the date of grant	10 years
On 27 October 2004	**–**	8,000	Nil	10 years
On 1 December 2004	**8,000**	8,000	Nil	10 years
On 31 January 2005	**–**	7,000	Nil	10 years
On 24 March 2005	**–**	6,000	Note	10 years
On 26 May 2005	**700**	3,500	Note	10 years
On 3 August 2005	**500**	2,500	Note	10 years
	36,000	61,800		

Note :

During the period beginning on the first business day from the date of grant and ending at the close of business on the business day preceding the second anniversary from the date of grant (both dates inclusive), the option holder must not exercise any of the options granted to him on the date of grant.

During the period beginning on the second anniversary from the date of grant and ending at the close of business on the business day preceding the third anniversary from the date of grant (both dates inclusive), the option holder must not exercise more than 25% of the share options granted to him on the date of grant.

During the period beginning on the third anniversary from the date of grant and ending at the close of business on the business day preceding the fourth anniversary from the date of grant (both dates inclusive), the option holder must not exercise more than 50% of the share options granted to him on the date of grant.

During the period beginning on the fourth anniversary from the date of grant and ending at the close of business on the business day preceding the fifth anniversary from the date of grant (both dates inclusive), the option holder must not exercise more than 75% of the share options granted to him on the date of grant.

During the period beginning on the fifth anniversary from the date of grant, the option holder can exercise the remaining balance of the share options granted to him on the date of grant.

33. Share options *(Continued)*

2002 Share Option Scheme *(Continued)*

(b) The number and weighted average exercise prices of share options are as follows:

	2007		2006	
	Weighted average exercise price HK$	**Number of options '000**	Weighted average exercise price HK$	Number of options '000
Outstanding at the beginning of the year	**0.5726**	**61,800**	0.5355	76,400
Forfeited during the year	**0.6240**	**(25,800)**	0.5689	(14,600)
Outstanding at the end of the year	**0.4585**	**36,000**	0.5276	61,800
Exercisable at the end of the year	**0.4546**	**35,400**	0.4780	47,550

The options outstanding at 31 December 2007 had an exercise price between HK$0.385 and HK$0.69 (2006: HK$0.385 and HK$0.84) and a weighted average remaining contractual life of 6.71 years (2006: 7.88 years).

33. Share options *(Continued)*

New Share Options

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

(a) The terms and conditions of the options granted that were outstanding at the balance sheet dates were as follows, whereby all options are settled by physical delivery of shares:

Options granted	**Number of options ('000)**		**Vesting condition**	**Contractual life of options**
	2007	2006		
On 5 July 2005	**42,500**	42,500	Nil	3 years

(b) The number and exercise price of share options are as follows:

	2007		2006	
	Exercise price HK$	**Number of options '000**	Exercise price HK$	Number of options '000
Outstanding at the beginning and at the end of the year	**0.76**	**42,500**	0.76	42,500
Exercisable at the end of the year	**0.76**	**42,500**	0.76	42,500

The options outstanding at 31 December 2007 had an exercise price of HK$0.76 (2006: HK$0.76) and a remaining contractual life of 6 months (2006: 1.5 years).

34. Reserves

The Company

	Share capital HK$'000 (Note 31)	Share premium HK$'000 (Note a)	Share options reserve HK$'000	Equity component of convertible notes HK$'000	Equity component of convertible preference shares HK$'000	Accu-mulated losses HK$'000	Total HK$'000
At 1 January 2006	11,570	459,967	9,198	550	20,952	(520,607)	(18,370)
Loss for the year	–	–	–	–	–	(25,724)	(25,724)
Recognition of share option payments	–	–	467	–	–	–	467
Share options lapsed	–	–	(395)	–	–	395	–
At 31 December 2006	11,570	459,967	9,270	550	20,952	(545,936)	(43,627)
Total income and expense recognised directly in equity - reclassification of equity component of convertible preference shares as liabilities (note 30)	–	–	–	–	(20,952)	–	(20,952)
Loss for the year	–	–	–	–	–	(26,540)	(26,540)
Total recognised income and expense for the year	–	–	–	–	(20,952)	(26,540)	(47,492)
Recognition of share option payments	–	–	25	–	–	–	25
Share options lapsed	–	–	(2,275)	–	–	2,275	–
At 31 December 2007	11,570	459,967	7,020	550	–	(570,201)	(91,094)

The Company did not have any reserves available for distribution to shareholders as at 31 December 2006 and 2007. The Company's share premium account may be distributed in the form of fully paid bonus shares.

Notes:

(a) Share premium

The application of the share premium account is governed by section 48B of the Hong Kong Companies Ordinance.

(b) Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 3(q).

(c) Other reserves are dealt with in accordance with the relevant accounting policies set out in note 3.

35. Discontinued operations

The Group's computer hardware and maintenance support services business and software design and development business were discontinued during the year due to the underachievement of these segments. In order to better utilise its resources, the Group has focused on the development of its waste incineration power generation business.

The profit/(loss) for the year from the discontinued operations is analysed as follows:

	Note	**2007 HK$'000**	2006 HK$'000
Turnover	5	**–**	31,666
Cost of sales		**–**	(31,508)
Gross profit		**–**	158
Other revenue and gains	6	**364**	21
Administrative expenses		**(118)**	(1,126)
Impairment loss on other receivables	20	**–**	(57)
Profit/(loss) before taxation	10	**246**	(1,004)
Income tax		**–**	–
Profit/(loss) for the year from the discontinued operations		**246**	(1,004)

The major classes of assets and liabilities classified as held for sale as at the balance sheet date are as follows:

	Note	**2007 HK$'000**	2006 HK$'000
Assets:			
Property, plant and equipment	14	**–**	–
Bank balances and cash		**17**	–
Assets classified as held for sale		**17**	–
Liabilities:			
Trade and other payables, being liabilities directly associated with the assets classified as held for sale		**(2,936)**	–
Net liabilities directly associated with the discontinued operations		**(2,919)**	–

35. Discontinued operations *(Continued)*

The net cash flows of the discontinued operations dealt with in the consolidated financial statements for the years are as follows:

	2007 **HK$'000**	2006 HK$'000
Net cash inflow/(outflow) from operating activities	**246**	(947)

36. Retirement benefits schemes

The Company's subsidiaries in the PRC, in compliance with the applicable regulations of the PRC, participated in retirement benefits operated by the relevant local government authorities. The Group is required to make contributions on behalf of employees who are registered permanent residents in the PRC. The Group's contributions for the year ended 31 December 2007 were based on 12% (2006: 12%) of the employees' basic salaries in accordance with the relevant regulations in the PRC and amounted to approximately HK$453,000 (2006: HK$410,000) which are charged to profit or loss as incurred. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in future years.

The Group's Hong Kong office implemented a Mandatory Provident Fund Scheme (the "MPF") in compliance with the applicable regulations in Hong Kong for its staff at the end of 2000. The Group's contribution to the MPF amounted to approximately HK$146,000 (2006: HK$186,000).

37. Capital commitments

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

	The Group	
	2007 **HK$'000**	2006 HK$'000
Authorised and contracted for in respect of acquisition and construction of of property, plant and equipment	**275**	31,768

38. Operating lease commitments

	The Group	
	2007	2006
	HK$'000	HK$'000
Minimum lease payments under operating leases charged as expenses in the year	**1,468**	1,131

At the balance sheet date, the Group had outstanding minimum commitments under non-cancellable operating leases, which fall due as follows:

	The Group	
	2007	2006
	HK$'000	HK$'000
Within one year	**1,863**	1,025
In the second to fifth years inclusive	**3,381**	106
	5,244	1,131

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.

39. 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 11 to the financial statements.

40. Capital risk management

The Group's objectives of managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for equity owner and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustment to the capital structure in light of changes in economic conditions.

Consistent with industry practice, the Group monitors its capital structure on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings including borrowings and trade and other payables, as shown in the balance sheet less cash and bank balances. Total capital is calculated as equity, as shown in the balance sheet, plus net debt.

40. Capital risk management *(Continued)*

During 2007, the Group's strategy, which was unchanged from 2006, was to maintain a gearing ratio of not more than 100%.

The gearing ratios as at 31 December 2006 and 2007 were as follows:

	The Group	
	2007	2006
	HK$'000	HK$'000
Current liabilities	**188,890**	63,362
Non-current liabilities	**251,608**	280,940
Total borrowings	**440,498**	344,302
Less: Cash and bank balances (Note 24)	**(46,893)**	(7,666)
Net debt	**393,605**	336,636
Total equity	**38,155**	88,891
Total capital	**431,760**	425,527
Gearing ratio	**91%**	79%

41. Financial risk management

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business.

The main risks arising from the Groups' financial instruments in the normal course of the Group's business are credit risk, liquidity risk, interest rate and currency risk.

The Group does not consider it necessary to use derivative financial instruments to hedge these risk exposures. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

41. Financial risk management *(Continued)*

These risks are limited by the Group's financial management policies and practices described below:

(a) Credit risk

The Group has no significant concentration 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.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At the balance sheet date, the Group has a concentration of credit risk as over 65% (2006: 69%) and over 94% (2006: 98%) of the total trade receivables was due from the Group's largest debtor and the five largest debtors respectively.

The maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as at end of the financial year in relation to trade receivables is the carrying amount of trade receivables as stated in the balance sheet. Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in note 20.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent Company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay:

41. Financial risk management *(Continued)*

(b) Liquidity risk *(Continued)*

The Group

2007	**Carrying amount HK$'000**	**Total contractual undiscounted cash flow HK$'000**	**Within 1 year or on demand HK$'000**	**More than 1 year but less than 2 years HK$'000**	**More than 2 years but less than 5 years HK$'000**	**More than 5 years HK$'000**
Trade and other payables	**71,361**	**71,361**	**71,361**	**–**	**–**	**–**
Amount due to a minority shareholder of a subsidiary	**923**	**923**	**923**	**–**	**–**	**–**
Loan from a director	**15,100**	**15,100**	**15,100**	**–**	**–**	**–**
Convertible notes	**20,000**	**20,000**	**20,000**	**–**	**–**	**–**
Convertible preference shares	**78,570**	**81,752**	**81,752**	**–**	**–**	**–**
Bank loans	**251,608**	**372,818**	**18,069**	**18,069**	**54,205**	**282,475**
	437,562	**561,954**	**207,205**	**18,069**	**54,205**	**282,475**

2006	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000
Trade and other payables	41,857	41,857	41,857	–	–	–
Amount due to a minority shareholder of a subsidiary	901	901	901	–	–	–
Convertible notes	20,604	21,710	21,710	–	–	–
Convertible preference shares	51,745	60,800	–	60,800	–	–
Bank loans	229,195	348,732	15,677	15,677	47,031	270,347
	344,302	474,000	80,145	76,477	47,031	270,347

41. Financial risk management *(Continued)*

(b) Liquidity risk *(Continued)*

The Company

2007	**Carrying amount** HK$'000	**Total contractual undiscounted cash flow** HK$'000	**Within 1 year or on demand** HK$'000
Trade and other payables	5,693	5,693	5,693
Loan from a director	15,100	15,100	15,100
Convertible notes	20,000	20,000	20,000
Convertible preference shares	78,570	81,752	81,752
	119,363	122,545	122,545

2006	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000
Trade and other payables	2,728	2,728	2,728	–
Convertible notes	20,604	21,710	21,710	–
Convertible preference shares	51,745	60,800	–	60,800
	75,077	85,238	24,438	60,800

41. Financial risk management *(Continued)*

(c) Interest rate risk

The Group's interest rate risk arises primarily from its borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk. Details of the Group's borrowings have been disclosed in note 28. The Group's interest rate profile as monitored by management is set out below:

	The Group			
		2007		2006
	Effective interest rate %	**HK$'000**	Effective interest rate %	HK$'000
Fixed rate borrowings:				
Loan from a director	**2%**	**15,100**	N/A	—
Convertible notes	**N/A**	**20,000**	8.5%	20,604
Convertible preference shares	**11.35%**	**78,570**	11.35%	51,745
		113,670		72,349
Variable rate borrowings:				
Bank loans	**7.98%**	**251,608**	6.84%	229,195
Total borrowings		**365,278**		301,544
Fixed rate borrowings as a percentage of total borrowings		**31%**		24%

41. Financial risk management *(Continued)*

(c) Interest rate risk *(Continued)*

	The Company			
		2007		2006
	Effective interest rate %	**HK$'000**	Effective interest rate %	HK$'000
Fixed rate borrowings:				
Loan from a director	**2%**	**15,100**	N/A	—
Convertible notes	**N/A**	**20,000**	8.5%	20,604
Convertible preference shares	**11.35%**	**78,570**	11.35%	51,745
Total borrowings		**113,670**		72,349

At 31 December 2007, it is estimated that a general increase or decrease of 100 basis points in interest rates, with all other variables held constant, would increase or decrease the Group's loss for the year and accumulated losses by approximately HK$2,505,000 (2006: Nil effect as all the interest was capitalised into construction in progess) respectively.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2006.

(d) Currency risk

The Group's monetary assets and transactions are principally denominated in Hong Kong Dollars ("HKD") and Renminbi ("RMB"). The Group is exposed to foreign exchange risk arising from movement in the exchange rate between HKD and RMB. The Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rate.

An analysis on the Group's sensitivity to a 9% fluctuation in the exchange rate between RMB and HKD was performed assuming that the change in the exchange rate had occurred at the balance sheet date. 9% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in exchange rate of RMB against HKD. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 9% change in foreign currency rates. Where RMB strengthens against HKD by 9%, the Group's loss for the year will be decreased approximately by HK$2,365,000 (2006: $2,372,000) and the accumulated losses will be decreased by approximately the same amount. For a strengthening of RMB against HKD, there would be an equal and opposite impact on the Group's loss for the year and accumulated losses. The analysis is performed on the same basis for 2006.

41. Financial risk management *(Continued)*

(e) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2007 and 2006.

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

42. Summary of financial assets and financial liabilities by category

The carrying amounts of the Group's financial assets and financial liabilities as recognised at 31 December 2007 and 2006 may be categorised as follows:

	2007 HK$'000	2006 HK$'000
Financial assets		
Loans and receivables (including cash and bank balances)	**88,305**	46,661
Financial liabilities		
Financial liabilities measured at amortised cost	**188,890**	63,362

43. Other matters

Incident occurred on 29 September 2005.

Background

As previously disclosed in the 2005 and 2006 financial statements, on 29 September 2005, the Independent Commission Against Corruption (the "ICAC") issued a press release in relation to the arrest of 22 individuals for alleged corruption over the misappropriation of funds from two listed companies. It was subsequently mentioned in certain press articles that several former Directors of the Company had been arrested. Certain records and documents of the Group have been seized by the ICAC for the purpose of investigation. The Company's shares have been suspended for trading on the Stock Exchange since 29 September 2005.

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

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

43. Other matters *(Continued)*

Measures taken by the Company

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

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

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

44. Post balance sheet event

(a) The Company had strengthened its financial position through the following fund raising activities after the end of the balance sheet date:

   i) On 3 January 2008, the Company entered into a loan agreement with a substantial shareholder of the Company for a borrowing of HK$30,000,000.

   ii) On 27 February 2008, the Company entered into a conditional subscription agreement (as amended) to issue and allot 4,000,000,000 new shares in the Company at the subscription price of HK$0.05 per share, and to issue HK$200,000,000 convertible bonds of the Company for an aggregate amount of HK$400,000,000 at the conversion price of HK$0.05 per share.

(b) On 14 January 2008, a settlement agreement was signed between the Company and the Noteholder that both parties have mutually agreed to the Company's redemption of the convertible notes at a consideration of HK$20,000,000 and agreed to discharge all of the Company's liabilities and obligations under the convertible notes. The Company has repaid the convertible notes in full on the same day.

45. Comparative amounts

The Group's computer hardware and maintenance support services business and software design and development business were discontinued during the year due to the underachievement of these segments. Accordingly, the comparative consolidated income statement has been presented as if the operations discontinued during the current year had been discontinued at the beginning of the comparative period (note 35).

46. Approval of the financial statements

The financial statements were approved and authorised for issue by the board of Directors on 25 April 2008.

FIVE-YEAR FINANCIAL SUMMARY

Year ended 31st December 2007

	2007 HK$'000	2006 HK$'000 (Restated)	2005 HK$'000 (Restated)	2004 HK$'000 (Restated)	2003 HK$'000 (Restated)
RESULTS					
Turnover:					
Continuing operation	**76,782**	24,965	—	—	—
Discontinued operations	**—**	31,666	707,003	338,140	91,996
	76,782	56,631	707,003	338,140	91,996
Loss before tax:					
Continuing operation	**(35,628)**	(31,289)	(261,013)	—	—
Discontinued operations	**246**	(1,004)	(9,058)	(9,129)	(58,859)
	(35,382)	(32,293)	(270,071)	(9,129)	(58,859)
Loss for the year	**(35,382)**	(32,293)	(270,071)	(9,129)	(58,859)
Minority interest	**4,271**	(605)	(415)	—	—
Loss attributable to equity holders of the Company	**(31,111)**	(31,688)	(269,656)	(9,129)	(58,859)
ASSETS AND LIABILITIES					
Total assets	**478,653**	433,193	412,144	171,451	61,558
Total liabilities	**(440,498)**	(344,302)	(294,466)	(51,182)	(27,268)
	38,155	88,891	117,678	120,269	34,290
Equity attribute to equity holders of the Company	**32,627**	79,559	108,086	120,262	34,283
Minority interest	**5,528**	9,332	9,592	7	7
	38,155	88,891	117,678	120,269	34,290