亞洲能源物流集團有限公司

Asia Energy Logistics Group Limited

STOCK CODE: 0351

ANNUAL REPORT 2009

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Liang Jun
Mr. Fung Ka Keung, David
Ms. Yu Sau Lai

NON-EXECUTIVE DIRECTORS

Mr. Yu Baodong
Ms. Sun Wei
Mr. Tse On Kin

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

COMPANY SECRETARY

Ms. Cheng Sau Ying, Irene

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 BANKER

Wing Hang Bank Ltd.

AUDITOR

BDO Limited

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

0351

WEBSITE

www.aelg.com.hk

Chairman's Statement

FINANCIAL REVIEW

For the year ended 31 December 2009, the turnover of the Group was approximately HK$111,687,000 (2008: HK$108,130,000), representing an increase of approximately 3.3% as compared to last year. During the year, profit before tax was approximately HK$1,231,000 (2008: Loss HK$40,719,000), representing a turnaround of approximately 103% as compared to last year. Loss after taxation was approximately HK$6,078,000 (2008: HK$40,716,000). Loss per share was HK0.04 cent (2008: HK1.36 cents).

BUSINESS REVIEW

In the wake of the global financial crisis, the People's Republic of China (the "PRC") has been the driving force behind the worldwide economic recovery for most of the time in 2009. As the first country to emerge from the global economic downturn, the gross domestic product (GDP) of the PRC rose 8.7 percent in 2009 from a year earlier, achieving the 8-percent target that the PRC government had set at the beginning of last year. Taking advantage of the economic growth in the PRC, the Group has diversified its business to include railway construction and operation as well as development of infrastructure and resources projects in the PRC while continuing its improvement in the Group's existing business of waste incineration power generation.

Waste Incineration Power Generation

On 13 February 2009, **上海保利協鑫電力運行管理有限公司** (Shanghai GCL-Poly Electricity Operating Management Co. Ltd.*) ("Shanghai GCL"), a subsidiary of GCL-Poly Energy Holdings Limited (Stock Code: 3800), was engaged to provide consultation services to the operation and management of the Group's waste incineration power generation plant in Dongguan, Guangdong Province, the PRC (the "Plant").

With the professional knowledge and expertise of Shanghai GCL together with the extensive experience of the senior management, the overall performance of the Plant has shown satisfactory improvements. In 2009, the Plant, with the capacity of processing up to 1,200 tonnes of municipal solid waste per day, generated electricity of approximately 187 million kWh (approximately 156 million kWh on-grid) during the year. The total turnover of the Plant was approximately HK$111.7 million in 2009, representing an increase of approximately 3.3% as compared with approximately HK$ 108.1 million in 2008. The results had turned around from the segment loss of approximately HK$28.6 million in 2008 to a segment profit of approximately HK$3.2 million in 2009, reflecting the contribution made by Shanghai GCL for the management of the Plant.

Railway Construction and Operations

After the acquisition of Gofar Holdings Limited ("Gofar") during the year under review, the Group has diversified its business to include railway construction and operations in the PRC. The subsidiaries of Gofar in the PRC have been approved by the PRC governmental authorities to construct a railway of approximately 121 kilometers connecting Tangshan City and Chengde City in the Hebei Province of the PRC ("Zunxiao Railway"). The Zunxiao Railway is the first railway in the PRC that is majority owned by a foreign direct investment freight railway operator.

Total investment involved in constructing the Zunxiao Railway is estimated to be approximately RMB1.6 billion. It is a single-track railway with 12 planned stations and diesel traction trains. Zunxiao Railway is close to several mineral production facilities. Each mineral production facility has a capacity of over 1 million tonnes per year and may generate further business to the Group as the mineral products can be transported to other places in the PRC via the Zunxiao Railway.

As at 31 December 2009, Zunxiao Railway was still in the construction stage. It is expected that 25 kilometers of the Zunxiao Railway will commence operation in the second quarter of 2010 and the whole Zunxiao Railway will commence operation by the end of 2010. After Zunxiao Railway starts its full operation, the railway distance between Tangshan South and Xiaosigou will be shortened from approximately 530 kilometers to approximately 215 kilometers, thus making the railway an efficient connecting route.

Investment in Subsidiaries

On 17 March 2009, Sharprise Holdings Limited ("Sharprise"), a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement with Fast Sky Holdings Limited ("Fast Sky") as vendor and Mr. Zhu Gongshan ("Mr. Zhu"), being a director of Gofar, as guarantor for the acquisition of 70% equity interest in Gofar. This acquisition was completed on 31 July 2009. Subsequently, Sharprise entered into a second conditional sale and purchase agreement with Fast Sky and Mr. Zhu on 24 August 2009 to further acquire the remaining 30% equity interest in Gofar. This acquisition was completed on 11 February 2010, whereupon Gofar became a wholly-owned subsidiary of the Company.

On 17 March 2009, Sharprise entered into a subscription agreement (as amended by three supplemental agreements dated 30 April 2009, 16 June 2009 and 24 August 2009) with Fast Sky, Mr. Zhu, Top Fast Holdings Limited ("Top Fast") and China Railway Logistics Holdings Limited ("CRL") in relation to the subscription of convertible bonds issued by CRL in an aggregate principal amount of HK$402,500,000, of which HK$80,750,000 had been subscribed by Fast Sky and HK$321,750,000 by Sharprise.

On 13 August 2009, China Green Power Holdings Limited, a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement with Mr. Liu Jianhui for the acquisition of 100% equity interest in Anabell Hong Kong Limited, which in turn held 10% equity interest in **東莞中科環保電力有限公司** (Dongguan China Sciences Conservational Power Limited*) ("DG CSCP"). DG CSCP is principally engaged in waste incineration power generation business in the PRC. This acquisition was completed on 13 August 2009, whereupon DG CSCP became a wholly-owned subsidiary of the Company.

On 18 December 2009, Ocean Path Limited, a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement with Golden Concord Group Limited for the acquisition of 100% equity interest in Ocean Jade Investments Limited which has entered into an agreement with Waibert Navigation Company Limited, the holding company of which is Guangdong Province Navigation Holdings Co. Ltd., a state-owned enterprise, to establish a joint-venture company for carrying out shipment business. This acquisition has not been completed as at the date of this Chairman's Statement.

PROSPECTS

To enhance the business operation of Zunxiao Railway, on 24 November 2009, the Company entered into a co-operation framework agreement with China Oriental Group Limited ("China Oriental") (Stock Code: 581) in relation to the proposed cooperation regarding (i) the Company and its subsidiaries to assist in the construction of a cargo site at Santunying Station of Zunxiao Railway by China Oriental; and (ii) Hebei Jinxi Iron and Steel Company Limited ("Jinxi"), a 97.6% owned subsidiary of China Oriental for the transportation of iron and steel products through Zunxiao Railway. The estimated annual transportation fee payable by Jinxi in relation to the Zunxiao Railway will range from approximately RMB120 million to RMB360 million.

Since late 2008, the PRC government has carried out a series of economic stimulus policies, driving a substantial increase in steel and coal consumption. According to the PRC custom statistics, the PRC imported approximately 297 million tonnes of iron ore and 48 million tonnes of coal in the first half of year 2009, representing an increase of approximately 29% and 124% respectively as compared to the same period in 2008. The demand for these two commodities will drive the dry bulk shipping industry in the near future. As the demand for steel is growing, iron ore is expected to be the highest growth among the dry bulk commodities. Further, coal is also likely to be a much in-demand commodity with new power plants being installed in the PRC. According to the 21st Century Business Herald, the PRC annual coal demand is expected to reach 2.5 billion tonnes by the end of 2010 and 2.9 billion tonnes by 2020. The coal consumption by power plants is expected to reach 1.5 billion tonnes by 2010 and 1.9 billion tonnes by 2020. The dry bulk shipping industry is expected to benefit from the growing demand for iron ore and coal.

In view of the above, the Company intends to diversify its business to the dry bulk shipping industry by the acquisition of 100% equity interest in Ocean Jade Investments Limited which has cooperated with Waibert Navigation Company Limited to establish a joint venture company to operate businesses including, but not limited to vessel-ownership, transportation services for coal shipment, terminal investment, management and/or operation as well as logistic operations.

The Company is actively seeking new investment opportunities to enhance shareholders' value. Expansion and diversification would be in line with the Company's new corporate strategy as demonstrated with the recent acquisition of railway construction and operations business in the PRC and the proposed acquisition of vessel ownership and transportation projects.

Finally, I would like to express my immense gratitude to the directors of the Company, management team and all staff for their dedication and hard work. I also extend my gratitude to our shareholders and business partners for their continuous support.

Yu Baodong
Chairman and
Non-Executive Director

Hong Kong
20 April 2010

MANAGEMENT DISCUSSION AND ANALYSIS

CHANGE OF COMPANY NAME

After the completion of acquisition of Gofar, the Group's principal business activities have been diversified to include railway construction and operations in the PRC. In order to better reflect this expansion and diversification of the Group's business, the name of the Company was changed from "China Sciences Conservational Power Limited **中科環保電力有限公司**" to "Asia Energy Logistics Group Limited **亞洲能源物流集團有限公司**" with effect from 6 October 2009.

LIQUIDITY AND FINANCIAL RESOURCES

The Group is mainly financed by various borrowings, shareholders equity and internally generated cash flows.

As at 31 December 2009, the Group had bank and cash balances, including pledged deposits, of approximately HK$80 million.

As at 31 December 2009, the Company had secured bank loans of approximately HK$256 million repayable within five years. The average effective interest rate for the year was 6.29% (2008: 7.98%) per annum.

As at 31 December 2009, the Company had outstanding convertible bonds in the principal amount of HK$5,000,000 (the "Convertible Bonds"). The Convertible Bonds were issued at the coupon rate of 2% per annum due on 16 January 2010 with an initial conversion price of HK$0.05 per conversion share (subject to adjustment).

The gearing ratio of the Group as at 31 December 2009, which is calculated as net debt divided by total capital, was approximately 46% (2008: 26%).

CAPITAL STRUCTURE

As at 31 December 2009, the total number of issued shares of the Company was 10,257,027,100 (2008: 8,157,027,100).

On 6 July 2009, the Company issued and allotted 1,200,000,000 new shares at the placing price of HK$0.122 per placing share.

During the year under review, convertible bonds in the principal amount of HK$45,000,000 were converted into 900,000,000 shares of the Company.

FUND RAISING ACTIVITIES

On 8 June 2009, the Company entered into a placing agreement with Fortune (HK) Securities Limited as placing agent for the placing of 1,200,000,000 new shares at a placing price of HK$0.122 per share (the "Placing"). The Placing was completed on 6 July 2009 and the net proceeds from the Placing were approximately HK$142,740,000, of which 100% was used for investment in railway project as at 31 December 2009.

SEGMENTAL INFORMATION

During the year under review, the Group was principally engaged in municipal solid waste incineration and power generation business, and railway construction and operations.

Details of the business segments of the Group are set out in Note 7 to the financial statements.

SIGNIFICANT INVESTMENTS

As at 31 December 2009, the Group had invested approximately HK$131 million in listed securities. Save as disclosed, there were no other significant investments in properties, listed securities and financial instruments.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

Save as disclosed in the section headed "Investment in Subsidiaries" in the Chairman's Statement on page 5 of the annual report, the Group did not have any material acquisitions or disposals of subsidiaries during the year ended 31 December 2009.

PLEDGE OF ASSETS

Details of the pledge of assets are set out in Note 27 to the financial statements.

LITIGATIONS AND CAPITAL COMMITMENTS

Details of litigations and capital commitments are set out in Note 44 and Note 37 respectively to the financial statements.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES

The Group's assets, liabilities and transactions are mainly denominated either in Hong Kong dollars or Renminbi. As the exchange rate of the US dollar to Renminbi is relatively stable due to the PRC foreign exchange policy and the Hong Kong dollar is pegged to the US dollar, the Directors consider that the Group's foreign currency exchange risk is within acceptable range. Therefore, no hedging devices or other alternatives have been implemented.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2009, the Group had 276 (2008: 197) full-time employees, 259 of whom were based in the PRC. Staff costs, including directors' remuneration, of the Group for the year ended 31 December 2009 were approximately HK$22,072,000 (2008: HK$18,574,000). The Group decides the remuneration and compensation payable to its staff based on their duties, working experience and the prevailing market practices. Apart from basic remuneration, share options may be granted to eligible employees by reference to the performance of the Group and individual employees. The Group also participated in an approved Mandatory Provident Fund scheme for its Hong Kong employees and made contributions to the various social insurance funds for its PRC employees.

SUBSEQUENT EVENTS

On 15 January 2010, King Castle Enterprises Limited ("King Castle"), Mr. Ko Fong, the Company and CITIC Securities Brokerage (HK) Limited as placing agent entered into a placing and subscription agreement in relation to the placing and top-up subscription of 1,500,000,000 new shares at a placing and subscription price of HK$0.159 per share (the "Top-up Placing"). The Top-up Placing was completed on 29 January 2010 and the net proceeds from the Top-up Placing were approximately HK$230,150,000.

As disclosed in the section headed "Investment in Subsidiaries" in the Chairman's Statement on page 5 of the annual report, the acquisition of the remaining 30% interest in Gofar was completed on 11 February 2010. Accordingly, Gofar has become an indirect wholly owned subsidiary of the Company.

DIRECTORS' PROFILE

EXECUTIVE DIRECTORS

MR. LIANG JUN

Mr. Liang, aged 43, has been an Executive Director of the Company since 12 June 2006. He is also the Chairman of the Remuneration Committee of the Company. Previously, he was the Chairman of the Company until he resigned from such position on 26 January 2010. Mr. Liang has over 18 years of experience in business development in China. He graduated from Tong Ji University (previously known as Tie Dao University of Shanghai) with a bachelor's degree in telecommunications engineering.

MR. FUNG KA KEUNG, DAVID

Mr. Fung, aged 46, has been an Executive Director of the Company since 26 January 2010. He holds a Master degree in Business Administration from the University of Leicester. Mr. Fung possesses more than 20 years of experience in accounting and finance, and is currently the director of finance in Golden Concord Holdings Limited as well as an independent non-executive director of Vongroup Limited, a company listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. Fung is a fellow member of both the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.

MS. YU SAU LAI

Ms. Yu, aged 47, has been an Executive Director of the Company since 31 March 2009. She has 26 years of experience in administrating different kinds of companies and also has extensive exposure in information technology and business management in trading, wholesale and retail businesses. Ms. Yu was an executive director of China Bio-Med Regeneration Technology Limited and executive director of Heng Xin China Holdings Limited, both of which are listed on the Growth Enterprise Market of the Stock Exchange, until 4 December 2009 and 1 April 2009 respectively .

NON-EXECUTIVE DIRECTORS

MR. YU BAODONG (CHAIRMAN)

Mr. Yu, aged 46, has been a Non-Executive Director of the Company since 31 March 2009 and the Chairman of the Company since 26 January 2010. He has over 10 years of experience in project investment and corporate management. He holds a Master Degree in Economics from the People's University of China and a Doctoral Degree in Economics from the Wuhan University. Mr. Yu is also an executive director and the vice president of GCL-Poly Energy Holdings Limited, which is listed on the main board of the Stock Exchange.

MS. SUN WEI

Ms. Sun Wei, aged 38, has been appointed as the Non-Executive Director of the Company since 26 January 2010. Ms. Sun holds a Doctorate degree in Business Administration from the Bulacan State University of the Philippines in 2005. Ms. Sun possesses over 10 years of experience in power plant investment and management. Ms. Sun is currently an executive director of GCL-Poly Energy Holdings Limited, a company listed on the main board of the Stock Exchange.

MR. TSE ON KIN

Mr. Tse, aged 48, was appointed as the Chairman and an Executive Director of the Company on 10 March 2006. He ceased to be the Chairman and was re-designated as a Non-Executive Director of the Company on 1 April 2007. He has over 20 years of management experience covering corporate planning, restructuring, business development, project injection, merger and acquisition. Currently, Mr. Tse is the chairman of Kong Sun Holdings Limited, China Grand Forestry Green Resources Group Limited and Climax International Company Limited, and an independent non-executive director of Value Covergence Holdings Limited, all being public listed companies in Hong Kong. He was an executive director of Mexan Limited until 4 July 2007, a non-executive director of New Times Energy Corporation Limited until 5 November 2009 and an executive director of Climax International Company Limited until 31 March 2010, all of which are companies listed in Hong Kong.

Mr. Tse has a bachelor's degree in public policy and administration from York University in Canada.

INDEPENDENT NON-EXECUTIVE DIRECTORS

MR. CHAN CHI YUEN

Mr. Chan, aged 43, has been as an Independent Non-Executive Director of the Company since 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 independent non-executive director of China Gamma Group Limited, China Gogreen Assets Investment Limited, Superb Summit International Timber Company Limited, Richly Field China Development Limited, China Grand Forestry Green Resources Group Limited, Rojam Entertainment Holdings Limited and The Hong Kong Building and Loan Agency Limited. Mr. Chan is also a non-executive director of New Times Energy Corporation Limited. Mr. Chan was an executive director of Kong Sun Holdings Limited from February 2007 to November 2009, Amax Holdings Limited from August 2005 to January 2009 and China E-Learning Group Limited from July 2007 to September 2008.

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

MR. TSANG KWOK WA

Mr. Tsang, aged 45, has been an Independent Non-Executive Director of the Company since 19 July 2007 and is a member of the Audit Committee of the Company. He has over 21 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 master's degree of commerce with major in accounting from Charles Sturt University in Australia.

MR. ZHANG XI

Mr. Zhang, aged 40, has been an Independent Non-Executive Director of the Company since 10 March 2006 and is a member of both the Audit Committee and Remuneration Committee of the Company. He has over 9 years of experience in the financial sector. He is currently a CFA charter-holder. 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.

The board (the "Board") of directors (the "Directors") of Asia Energy Logistics Group Limited (the "Company") is pleased to present this annual report together with the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2009.

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. The principal activities and other particulars of its principal subsidiaries are set out in Note 18 to the financial statements.

The analysis of segments information of the Group during the financial year is set out in Note 7 to the financial statements.

CHANGE OF COMPANY NAME

With effect from 6 October 2009, the name of the Company was changed from "China Sciences Conservational Power Limited" "中科環保電力有限公司" to "Asia Energy Logistics Group Limited" "亞洲能源物流集團有限公司".

RESULTS

The results of the Group for the year ended 31 December 2009 are set out in the section headed "Consolidated Statement Of Comprehensive Income" on page 31 of the annual report.

The Directors did not recommend the payment of a dividend for the year ended 31 December 2009.

RESERVES

Details of movements in the reserves of the Group and of the Company during the year are set out in the section headed "Consolidated Statement Of Changes In Equity" on page 36 of the annual report and Note 33 to the financial statements, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2009, the Company did not have any reserves available for distribution to shareholders as calculated in accordance with the provisions of section 79B of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). In addition, the Company's share premium account, in the amount of approximately HK$744,098,000 may be distributed in the form of fully paid bonus shares.

FINANCIAL SUMMARY

A summary of the published results, 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 104 of the annual report. 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 31 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 27 to the financial statements.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The composition of the Board during the year ended 31 December 2009 and up to the date of this report is as follows:

Executive Directors	
Mr. Liang Jun	(resigned as Chairman on 26 January 2010)
Ms. Yu Sau Lai	(appointed on 31 March 2009)
Mr. Fung Ka Keung, David	(appointed on 26 January 2010)
Mr. Chan Wai Ming *(Chief Executive Officer)*	(resigned on 30 March 2009)
Mr. Chan Ka Fat *(Chief Financial Officer)*	(resigned on 28 April 2009)
Non-executive Directors	
Mr. Tse On Kin	
Mr. Yu Baodong *(Chairman)*	(appointed on 31 March 2009) (appointed as Chairman on 26 January 2010)
Ms. Sun Wei	(appointed on 26 January 2010)
Independent Non-executive Directors	
Mr. Chan Chi Yuen	
Mr. Tsang Kwok Wa	
Mr. Zhang Xi	

The Company has received annual confirmations from each of the Independent Non-executive Directors with regards to his independence to the Company and considers that each of the Independent Non-executive Directors to be independent.

In accordance with Article 92 of the Company's Articles of Association (the "Articles"), Mr. Fung Ka Keung, David and Ms. Sun Wei shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company. Pursuant to Articles 101A and 101B of the Articles, Mr. Liang Jun, 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.

During the year under review, each of Mr. Liang Jun, Mr. Fung Ka Keung, David and Ms. Yu Sai Lai 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.

Save as disclosed above, 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 are set out on pages 10 to 12 of the annual report.

EMOLUMENT POLICY

The emolument policy of the employees and senior management of the Group is set up by the remuneration committee of the Company on the basis of their merit, qualification and competence. The emoluments of the Directors are decided by the remuneration committee of the Company, having regard to market competitiveness, individual performance and achievement.

The Company has adopted a share option scheme as an incentive to Directors and eligible employees, details of which are set out in the section headed "Share Options" below.

Details of the emoluments of the Directors and the five highest paid individuals are set out in Note 11 to the financial statements.

RETIREMENT BENEFITS SCHEMES

The Group strictly complies with the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) in making mandatory contributions for its Hong Kong employees. The Group has also complied with the relevant PRC laws and regulations in making contributions to the various social insurance funds for its PRC employees.

Details of the retirement benefits schemes are set out in Note 36 to the financial statements.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES

As at 31 December 2009, the interests and short positions of the Directors in the share capital and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

LONG POSITIONS IN SHARES

Name of Director	Capacity	Number of Shares held	Approximate percentage of shareholding
Mr. Liang Jun	Beneficial owner	2,000,000	0.02%

As at 31 December 2009, save as disclosed above, none of the Directors 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 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 headed "Share Options" below.

SHARE OPTIONS

2002 OPTION SCHEME

On 27 May 2002, a share option scheme (the "2002 Option Scheme") was adopted by the Company. The purpose of the 2002 Option Scheme was to enable the Group to grant options to selected participants as incentives or reward for their contributions to the Group. The participants included (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 held any interest ("Invested Entity"); (iii) any customer of the Group or any Invested Entity; (iv) any person or entity that provided 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 Option Scheme would 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 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 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 the options. 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 options 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 options).

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

								Market value per share	
Date of grant of share options	**Exercise period of share options**	**Exercise price of share options**	**As at 1.1.2009**	**Granted during the year**	**Exercise during the year**	**Lapsed during the year**	**As at 31.12.2009**	**immediately preceding the grant date of share options**	**immediately preceding the exercise date of share options**
Employees - In aggregate									
26.05.2005	26.05.2005 to 25.05.2015	0.69	700,000	–	–	–	700,000	0.68	–
03.08.2005	03.08.2005 to 02.08.2015	0.688	500,000	–	–	–	500,000	0.66	–

Note: 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 on 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.

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

As at the date of this report, the 2002 Option Scheme was terminated with the passing of an ordinary resolution at the extraordinary general meeting of the Company held on 20 August 2008. The outstanding options were exercisable in accordance with the terms of the 2002 Option Scheme.

2008 OPTION SCHEME

On 20 August 2008, a new share option scheme (the "2008 Option Scheme") was adopted by the Company. The purpose of the 2008 Option Scheme was to attract, retain and motivate talented participants to strive for future developments and expansion of the Group. The participants are as follows:-

(i) any full-time employee and director (including non-executive director and independent non-executive director) of the Group; and any part time employee with weekly working hours of ten hours and above of the Group (collectively, "Employee");

(ii) any advisor or consultant to the Group; any provider of goods and/or services to the Group; or any other person who, at the sole determination of the Board, has contributed to the Group (the assessment criterion of which are (a) such person's contribution to the development and performance of the Group; (b) the quality of work performed by such person for the Group; and (c) the initiative and commitment of such person in performing his or her duties; and (d) the length of service or contribution of such person to the Group) (collectively, "Business Associate"); and

(iii) the trustee of any trust (whether family, discretionary or otherwise) whose beneficiaries or objects include any Employee or Business Associate of the Group.

The 2008 Option Scheme is valid and effective for a period of ten years commencing on the date of adoption.

The total number of shares which may be issued upon exercise of all options to be granted under the 2008 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 2008 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 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 (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on the date of grant of options; (ii) 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; or (iii) the nominal value of a share.

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 options 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 options) subject to any restrictions as may be imposed on the exercise of an option during the period in which an option may be exercised.

During the year under review, no share option was granted under the 2008 Option Scheme.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed under sections headed "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 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 section headed "Directors and Directors' Service Contracts" above and in Note 11 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 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 under the section headed "Connected Transactions" below and in Note 39 to the financial statements, there was 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 "controlling shareholder" is defined in paragraph 16 of Appendix 16 to 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

So far as is known to any Directors of the Company, as at 31 December 2009, the following persons (not being a Director or chief executive of the Company) had interests in the shares or underlying shares which were notified to the Company and the Stock Exchange pursuant to the provisions of Division 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under section 336 of the SFO:

Name	Capacity	Number of Shares and underlying shares held	Approximate percentage of shareholding
Mr. Ko Fong("Mr. Ko") *(Note)*	Interest of controlled corporations	4,552,970,325	44.39%
King Castle Enterprises Limited *(Note)*	Beneficial owner	4,257,970,325	41.51%
China Oriental Group Company Limited	Interest of controlled corporations	600,000,000	5.85%

Note: According to the individual substantial shareholder notice filed by Mr. Ko dated 14 December 2009, Mr. Ko's interest in the shares of the Company comprised (i) 295,000,000 shares of the Company held by Delight Assets Management Limited and (ii) 4,257,970,325 shares of the Company held by King Castle Enterprises Limited. As these two companies were wholly and beneficially owned by Mr. Ko, he was deemed to be interested in a total of 4,552,970,325 shares of the Company.

Save as disclosed above, as at 31 December 2009, the Company had not been notified of any other person (other than the Directors whose interests are set out in the section headed "Directors' Interest And Short Positions In Shares, Underlying Shares And Debentures" above) who had an interest or short position in the shares or underlying shares of the Company and was required to be recorded in the register required to be kept under Section 336 of the SFO.

CONNECTED TRANSACTIONS

Details of the material related party transactions for the year ended 31 December 2009 are set out in Note 39 to the financial statements, some of which also constituted connected transactions and continuing connected transactions for the Company under the Listing Rules. Details of the continuing connected transactions of the Group for the year under review is required to be disclosed in this report in accordance with Chapter 14A of the Listing Rules.

On 13 February 2009, Palace View International Limited ("Palace View"), a wholly-owned subsidiary of the Company, entered into an operation consultation agreement with Shanghai GCL in relation to the appointment of Shanghai GCL to provide consultation services for the operation of a municipal solid waste incineration power plant owned by a subsidiary of Palace View, details of which are set out in Note 39 to the financial statements.

Pursuant to Rule 14A.37 of the Listing Rules, the Independent non-executive Directors have reviewed the above continuing connected transactions for the year ended 31 December 2009 and confirmed that such transactions have been entered into:

1. in the ordinary and usual course of business of the Group;

2. either on normal commercial terms or on terms no less favourable to the Group than those available from independent third parties; and

3. in accordance with the relevant agreement governing them and on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole.

For the year under review, the aggregate volume of transactions for the provision of consultation services by Shanghai GCL to the Group did not exceed RMB2,000,000 (approximately HK$2,270,000).

In respect of the continuing connected transactions mentioned above, the Directors confirm that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules during the year under review.

The Company has also received a letter from the auditor in respect of the provision of consultation services by Shanghai GCL to the Group stating that:

1. the transactions have been approved by the Company's board of directors;

2. the transactions have been carried out and conducted in accordance with the terms of the agreement governing the transactions; and

3. the annual amount of the transactions has not exceeded the annual cap as disclosed in the announcement of the Company dated 31 July 2009.

LITIGATIONS

Details of the material litigations of the Group are set out in Note 44 to the financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the best of 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 44% to the Group's total purchases for the year under review and the aggregate amount of purchases attributable to the Group's top five suppliers represented 90% of the Group's total purchases.

The Group's largest customer accounted for 78% of the Group's turnover (excluding guaranteed return) and 97% of the total turnover (excluding guaranteed return) of the Group was attributable to the Group's top five customers.

None of the Directors, their associates or any shareholders of the Company (which to the best of 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.

CORPORATE GOVERNANCE

Throughout the year in 2009, the Company complied with the applicable code provisions and principles of the Code of Corporate Governance Practices as set out in Appendix 14 to the Listing Rules except for the deviations mentioned in the Corporate Governance Report on page 23 of the annual report.

AUDIT COMMITTEE

The Company has an audit committee (the "Audit Committee") which was established with written terms of reference in compliance with the Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group. The Audit Committee currently comprises three independent non-executive Directors, namely, Mr. Chan Chi Yuen (Chairman), Mr. Tsang Kwok Wa and Mr. Zhang Xi.

The audited financial results of the Group for the year ended 31 December 2009 have been reviewed by the Audit Committee.

AUDITOR

The Company's auditor changed their name from Shu Lun Pan Horwath Hong Kong CPA Limited to Shu Lun Pan Hong Kong CPA Limited and merged their business with BDO McCabe Lo Limited on 1 May 2009. On the same day, BDO McCabe Lo Limited changed their name to BDO Limited.

The consolidated financial statements of the Group for the year ended 31 December 2009 were audited by BDO Limited. A resolution for the re-appointment of BDO Limited as the auditor of the Company will be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board
Liang Jun
Executive Director

Hong Kong, 20 April 2010

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 "CG 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 2009, the Company has complied with the CG Code, save for the exceptions specified and explained below:

CODE PROVISION A.2.1

Following the resignation of Mr. Chan Wai Ming as the chief executive officer of the Company ("CEO") on 30 March 2009, the post of CEO has remained vacant since then. The duties of CEO were performed by other executive Directors of the Company as there exists a clear division of responsibilities of each Director in the Group. Therefore, the vacancy of the CEO position did not have any material impact on the operations of the Group. However, the Board will keep reviewing the current structure from time to time. If a candidate with suitable knowledge, skill and experience is identified, the Company will make appointment to fill the post of CEO as appropriate.

CODE PROVISION A.4.1

All existing non-executive Directors do not have a specific term of appointment but are subject to retirement by rotation and re-election pursuant to the Articles. According to the Articles, 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.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code 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 Directors who held office in 2009 confirmed that they have complied with the code throughout the year ended 31 December 2009.

BOARD OF DIRECTORS

(1) COMPOSITION OF THE BOARD OF DIRECTORS

The Board currently comprises three executive Directors ("EDs"), three non-executive Directors ("NEDs") and three independent non-executive Directors ("INEDs"). The biographical details of each Director are shown in the Directors' Profile on pages 10 to 12 of the annual report.

As at 31 December 2009, the Board comprised two EDs, two NEDs and three INEDs.

For the year ended 31 December 2009 and up to the date of this report, the Board has undergone some changes. These changes can be found in the section headed "Directors and Directors' Service Contracts" on page 14 of the annual report.

Save that Mr. Yu Baodong and Ms. Sun Wei who are also directors of GCL-Poly Energy Holdings Limited, the Board members do not have any family, financial or business relations with each other.

(2) RESPONSIBILITY OF THE BOARD OF DIRECTORS

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 principal divisions, it acknowledges that it remains ultimately accountable for the performance and affairs of the Company.

(3) BOARD MEETINGS

There were eleven board meetings held during the year. The attendance of Directors at the board meetings was as follows:

	Attendance No. of meetings attended/ No. of meetings during term of service
Executive Directors	
Mr. Liang Jun	11/11
Ms. Yu Sau Lai	9/9
Mr. Chan Wai Ming	2/2
Mr. Chan Ka Fat	3/3
Non-Executive Directors	
Mr. Yu Baodong	5/9
Mr. Tse On Kin	2/11
Independent Non-Executive Directors	
Mr. Chan Chi Yuen	6/11
Mr. Tsang Kwok Wa	7/11
Mr. Zhang Xi	6/11

(4) CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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 CEO 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.

Following the resignation of Mr. Chan Wai Ming on 30 March 2009, the post of CEO has been vacant since then. During this period, the duties of CEO were performed by the other executive Directors of the Group.

(5) NON-EXECUTIVE DIRECTORS

During the year under review and up to the date of this report, all NEDs have not been appointed for a specific term of service.

Pursuant to the Articles, all NEDs 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 COMMITTEE

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 INEDs.

Pursuant to its terms of reference, the remuneration committee's 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 of the Company 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 Provision B.1.3 of the CG Code.

During the year under review and up to the date of this report, the remuneration committee members comprised Mr. Liang Jun, Mr. Chan Chi Yuen and Mr. Zhang Xi. Mr. Liang Jun is the chairman of the remuneration committee of the Company.

The Remuneration Committee meeting held one meeting during the year and the attendance of its menbers was as follows:

	Attendance **No. of meetings attended/** **No. of meetings during term of service**
Mr. Liang Jun *(Chairman)*	1/1
Mr. Chan Chi Yuen	1/1
Mr. Zhang Xi	1/1

NOMINATION COMMITTEE

As at the date of this report, the Company has not set up any nomination committee. Since the Board follows a formal, considered and transparent procedure for the appointment of new Directors, the Board does not consider it necessary 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.

The appointment of Directors made during the year and up to the date of this report can be found in the section headed "Directors and Directors' Service Contracts" on page 14 of the annual report.

AUDITOR'S REMUNERATION

BDO Limited (previously known as Shu Lun Pan Horwath Hong Kong CPA Limtied) was first appointed as auditor of the Company on 21 March 2006.

During the year under review, the fees in respect of audit and non-audit services provided by the external auditor to the Company are HK$1,132,000.

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 INEDs of the Company.

Pursuant to its terms of reference, the audit committee's duties and responsibilities include but are not limited to:—

- making recommendation to the Board on the appointment, re-appointment and removal of the external auditor;
- reviewing and monitoring the external auditor's 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 Provision C.3.3 of the CG Code.

The member of the audit committee are Mr. Chan Chi Yuen, Mr. Tsang Kwok Wa and Mr. Zhang Xi and Mr. Chan Chi Yuen is the chairman of the audit committee.

The audit committee had reviewed and approved the financial statements for the year ended 31 December 2009.

The Audit Committee held two meetings during the year and the attendance of its members was as follows:

	Attendance No. of meetings attended/ No. of meetings during term of service
Mr. Chan Chi Yuen *(Chairman)*	2/2
Mr. Tsang Kwok Wa	2/2
Mr. Zhang Xi	2/2

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 Board and, if considered appropriate and necessary, by external professional bodies. It is 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.

During the year, the Board appointed an independent accountancy firm to review the effectiveness of certain aspects of the Group's internal control system including financial, operational and compliance controls as well as risk management function. The result has been reported to the Audit Committee. Through the review, no significant weakness was found. The Company will take appropriate measures in respect of those areas that have been indentified for improvement.

DIRECTORS' AND AUDITOR'S ACKNOWLEDGEMENT

All Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2009.

BDO Limited, the auditor of the Company, acknowledges its reporting responsibilities in the auditor's report on the financial statements for the year ended 31 December 2009.

INDEPENDENT AUDITOR'S REPORT

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TO THE SHAREHOLDERS OF ASIA ENERGY LOGISTICS GROUP LIMITED
(FORMERLY KNOWN AS CHINA SCIENCES CONSERVATIONAL POWER LIMITED)
亞洲能源物流集團有限公司
(前稱中科環保電力有限公司)
(Incorporated in Hong Kong with limited liability)

We have audited the financial statements of Asia Energy Logistics Group Limited (the "Company") and its subsidiaries (hereinafter referred to as the "Group") set out on pages 31 to 103, which comprise the consolidated and company statements of financial positions as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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 the 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 the 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to Note 3(b) to the financial statements which indicates that the Group incurred a net loss of approximately HK$6,078,000 during the year ended 31 December 2009 and the Group's current liabilities exceeded its current assets by approximately HK$190,831,000 as at 31 December 2009. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

As further explained in Note 3(b) to the financial statements, the directors of the Company have been taking measures to improve the financial and current liquidity position of the Group and the Company had successfully completed a top-up placing and raised approximately HK$230 million in January 2010.

BDO Limited
Certified Public Accountants

20 April 2010
Li Pak Ki
Practising Certificate number P01330

Hong Kong

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Turnover	5	**111,687**	108,130
Other income and gains	6	**14,377**	54,660
Fuel costs		**(50,342)**	(88,940)
Depreciation and amortisation	9	**(20,928)**	(20,235)
Staff costs	9	**(22,072)**	(18,574)
Impairment loss on construction in progress	17	**—**	(3,459)
Change in fair value of trading securities	9	**41,015**	—
Change in fair value of the derivative component of convertible bonds	28	**(13,660)**	(6,943)
Concession intangible assets maintenance provision	29	**(5,970)**	(5,419)
Share of loss of an associate		**(2)**	—
Other operating expenses		**(34,960)**	(34,745)
Finance costs	8	**(17,914)**	(25,194)
Profit/(loss) before income tax		**1,231**	(40,719)
Income tax (expense)/credit	10	**(7,309)**	3
Loss for the year		**(6,078)**	(40,716)
Other comprehensive income			
Exchange difference arising on translation of financial statements of foreign operations		**477**	4,696
		477	4,696
Total comprehensive income for the year		**(5,601)**	(36,020)
Loss for the year attributable to:			
Owners of the Company		**(3,925)**	(37,865)
Non-controlling interests		**(2,153)**	(2,851)
		(6,078)	(40,716)
Total comprehensive income for the year attributable to:			
Owners of the Company		**(3,448)**	(33,169)
Non-controlling interests		**(2,153)**	(2,851)
		(5,601)	(36,020)
Loss per share — basic and diluted (HK cents per share)	13	**(0.04)**	(1.36)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	14	**10,058**	5,055
Concession intangible assets	15	**363,204**	381,661
Land use rights	16	**4,572**	4,646
Construction in progress	17	**816,116**	—
Goodwill	20	**27,312**	27,261
Pledged bank deposits	19	**17,070**	17,038
		1,238,332	435,661
Current assets			
Inventories	22	**1,618**	12,312
Trade and other receivables	23	**32,515**	51,245
Trading securities	24	**130,994**	—
Loan to an associate	21	**37,000**	—
Cash and cash equivalents	25	**62,691**	254,092
		264,818	317,649
Current liabilities			
Trade and other payables	26	**154,449**	74,889
Bank loans	27	**34,140**	—
Amount due to related companies	39(a)	**80**	—
Amount due to a shareholder	39(a)	**441**	441
Amount due to minority equity owners of subsidiaries	39(a)	**259,230**	—
Tax payable		**7,309**	—
		455,649	75,330
Net current (liabilities)/assets		**(190,831)**	242,319

	Notes	2009 HK$'000	2008 HK$'000
Non-current liabilities			
Bank loans	27	**256,050**	258,986
Provision for maintenance of concession intangible assets	29	**3,436**	5,419
Convertible bonds	28	**19,572**	57,296
		279,058	321,701
NET ASSETS		**768,443**	356,279
Capital and reserves attributable to owners of the Company			
Share capital	31	**102,570**	81,570
Reserves		**436,056**	271,687
Equity attributable to owners of the Company		**538,626**	353,257
Non-controlling interests		**229,817**	3,022
TOTAL EQUITY		**768,443**	356,279

These financial statements were approved and authorised for issue by the board of directors on 20 April 2010.

Liang Jun
Director

Yu Sau Lai
Director

STATEMENT OF FINANCIAL POSITION

As at 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries	18	**424,289**	55,557
Current assets			
Other receivables	23	**22**	728
Cash and cash equivalents	25	**10,394**	244,519
		10,416	245,247
Current liabilities			
Other payables	26	**3,968**	4,296
Amount due to a subsidiary	39(a)	**1,332**	1,332
Amount due to a shareholder	39(a)	**441**	441
Amounts due to related companies	39(a)	**80**	—
		5,821	6,069
Net current assets		**4,595**	239,178
Non-current liabilities			
Convertible bonds	28	**19,572**	57,296
Net assets		**409,312**	237,439
EQUITY			
Share capital	31	**102,570**	81,570
Reserves	33	**306,742**	155,869
Total equity		**409,312**	237,439

These financial statements were approved and authorised for issue by the board of directors on 20 April 2010.

Liang Jun
Director

Yu Sau Lai
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

	Attributable to owners of the Company									
	Share capital HK$'000 (Note 31)	Share premium HK$'000 (Note 33)	Capital reserves HK$'000	Share option reserve HK$'000 (Note 32)	Equity component of convertible preference shares HK$'000	Translation reserve HK$'000 (note)	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
As at 1 January 2009	81,570	739,908	4,190	5,742	–	14,982	(493,135)	353,257	3,022	356,279
Total comprehensive income for the year	–	–	–	–	–	477	(3,925)	(3,448)	(2,153)	(5,601)
Acquisition of net assets (Note 34)	–	–	–	–	–	–	–	–	231,768	231,768
Acquisition of non-controlling interests (Note 35)	–	–	–	–	–	–	(6,958)	(6,958)	(2,820)	(9,778)
Shares issued at premium (Note 31)	12,000	130,754	–	–	–	–	–	142,754	–	142,754
Shares issued on conversion of convertible bonds (Note 28)	9,000	44,017	–	–	–	–	–	53,017	–	53,017
Recognition of share option expenses (Note 32)	–	–	–	4	–	–	–	4	–	4
As at 31 December 2009	102,570	914,679	4,190	5,746	–	15,459	(504,018)	538,626	229,817	768,443

	Attributable to owners of the Company									
	Share capital HK$'000 (Note 31)	Share premium HK$'000 (Note 33)	Capital reserves HK$'000	Share option reserve HK$'000 (Note 32)	Equity component of convertible preference shares HK$'000	Translation reserve HK$'000 (note)	Accumulated losses HK$'000	Total HK$'000	Non-controlling Interests HK$'000	Total equity HK$'000
At 1 January 2008	11,570	459,967	–	7,020	550	10,631	(457,111)	32,627	5,528	38,155
Total comprehensive income for the year	–	–	–	–	–	4,351	(37,865)	(33,514)	(2,506)	(36,020)
Shares issued at premium (Note 31)	40,000	160,000	–	–	–	–	–	200,000	–	200,000
Shares issued on conversion of convertible bonds (Note 28)	30,000	119,941	–	–	–	–	–	149,941	–	149,941
Redemption of convertible preference shares	–	–	–	–	(550)	–	550	–	–	–
Reclassification	–	–	4,190	–	–	–	–	4,190	–	4,190
Recognition of share option expenses (Note 32)	–	–	–	13	–	–	–	13	–	13
Share options lapsed (Note 32)	–	–	–	(1,291)	–	–	1,291	–	–	–
As at 31 December 2008	81,570	739,908	4,190	5,742	–	14,982	(493,135)	353,257	3,022	356,279

Note:

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 policy set out in Note 3(r).

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2009

	2009 HK$'000	2008 HK$'000
Operating activities		
Profit/(loss) before income tax	**1,231**	(40,719)
Adjustments for:		
Gains on liquidation and disposal of subsidiaries	**–**	(3,726)
Unrealised gain on change in fair value of trading securities	**(41,015)**	–
Gain on disposal of investments held for trading	**(6,203)**	–
Bank interest income	**(562)**	(1,112)
Depreciation of property, plant and equipment	**1,717**	1,097
Amortisation of land use rights	**82**	82
Amortisation of concession intangible assets	**19,129**	19,056
Loss on disposal of property, plant and equipment	**258**	139
Impairment loss on construction in progress	**–**	3,459
Reversal of provision for impairment of other receivables	**–**	(13,405)
Equity-settled share-based payment expenses	**4**	13
Interest on bank loans	**16,280**	20,657
Interest on loan from a director	**–**	234
Interest on amount due to a shareholder	**–**	446
Imputed interest on convertible bonds	**1,633**	675
Interest on convertible preference shares	**–**	3,182
Interest expenses waived on convertible preference shares	**–**	(5,472)
Gain on redemption of convertible preference shares	**–**	(11,290)
Change in fair value of the derivative component of convertible bonds	**13,660**	6,943
Provision for maintenance of concession intangible assets	**(1,998)**	5,419
Share of loss of an associate	**2**	–
Effect of foreign exchange rate changes	**(1,597)**	(5,722)
Operating cash flows before working capital changes	**2,621**	(20,044)
Decrease/(increase) in inventories	**10,694**	(10,490)
Decrease/(increase) in trade and other receivables	**23,433**	(25,300)
(Decrease)/increase in trade and other payables	**(184,811)**	16,720
Increase in amount due to related parties	**80**	–
Decrease in amount due to a minority equity owner of a subsidiary	**–**	(923)
Cash used in operations	**(147,983)**	(40,037)
Income tax refunded	**–**	3
Interest paid on bank loans	**(16,280)**	(20,657)
Interest received	**562**	1,112
Interest paid on loan from a shareholder	**–**	(5)
Interest paid on loan from a director	**–**	(334)
Net cash used in operating activities	**(163,701)**	(59,918)

	2009 HK$'000	2008 HK$'000
Investing activities		
Purchase of property, plant and equipment	**(4,290)**	(502)
Additions to concession intangible assets	**–**	(35,276)
Payments for construction in progress	**(171,121)**	(3,459)
Purchase of trading securities	**(116,109)**	–
Proceeds from disposal of trading securities	**32,333**	–
Acquisition of net assets (Note 34)	**28,381**	–
Acquisition of non-controlling interests	**(9,778)**	–
Proceeds from disposal of property, plant and equipment	**450**	–
Loan to an associate	**(37,000)**	–
VAT refund for additions to concession intangible assets	**–**	9,597
Net cash used in investing activities	**(277,134)**	(29,640)
Financing activities		
Issue of shares	**142,754**	200,000
Loan from minority equity owners of subsidiaries	**75,461**	–
Net proceeds of convertible bonds	**–**	199,620
New bank loans	**34,140**	–
Repayment of bank loans	**(2,936)**	(8,519)
Redemption of convertible preference shares	**–**	(60,800)
Redemption of convertible notes	**–**	(20,000)
Repayment of loan from a director	**–**	(15,000)
Net cash generated from financing activities	**249,419**	295,301
Net (decrease)/increase in cash and cash equivalents	**(191,416)**	205,743
Cash and cash equivalents at beginning of the year	**254,092**	46,910
Cash attributable to liquidation and disposal of subsidiaries	**–**	(56)
Effect of foreign exchange rate changes	**15**	1,495
Cash and cash equivalents at end of the year representing bank balances and cash	**62,691**	254,092

1. ORGANISATION AND OPERATIONS

Asia Energy Logistics Group Limited (the "Company") is a limited liability company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of its registered office is at Rooms 1208-1210, Dah Sing Financial Centre, 108 Gloucester Road, Wan Chai, Hong Kong.

The Company acts as an investment holding company. Its principal subsidiaries are principally engaged in waste incineration power generation business and railway construction and operations.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

(a) The Group has adopted the following new/revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for the current accounting period.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning on or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 related to the amendment paragraph 80 of HKAS 39
HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKFRS 1 and HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 7 (Amendments)	Improving Disclosures about Financial Instruments
HKFRS 8 (Amendments)	Operating Segments
HK(IFRIC) — Interpretation 9 & HKAS 39 (Amendments)	Embedded Derivatives

The adoption of the above new/revised HKFRSs had no material effect on the financial statements of the Group for both the current and prior reporting periods, except for certain presentational change as a result of adopting HKAS 1 (Revised). All relevant changes in accounting policies and disclosures have been made in accordance with the provisions of the respective standards. The statement of financial position as at 31 December 2007 has not been presented as there were no changes to the originally published financial statements.

HKFRS 8 replaces HKAS 14 "Segment Reporting", and requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision-makers in order to allocate resources to the segment and to assess its performance. The adoption of HKFRS 8 has no material impact on the Group's segment reporting as the present segment information has been identified on the basis of internal reports regularly reviewed by the decision-makers, except for the inclusion of finance costs in the measurement of segment profit or loss which was previously not allowed under HKAS 14. Comparative figures have therefore been restated in order to achieve a consistent presentation. However, such restatement in note disclosure does not have any impact on the statement of financial position.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

(a) *(Continued)*

The amendments to HKFRS 7 expand the disclosures relating to fair value measurements for financial instruments that are measured at fair value and liquidity risk of financial liabilities. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision.

(b) Potential impact arising on HKFRSs not yet effective

The Group has not early applied the following new or revised HKFRSs that have been issued but are not yet effective, but potentially relevant to the Group:

		Effective date
HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs	(i)
HKFRSs (Amendments)	Improvements to HKFRSs 2009	(ii)
Amendments to HKAS 39	Eligible Hedged Items	(i)
Amendments to HKFRS 2	Share-based Payment — Group Cash-settled Share-based Payment Transactions	(iii)
HKAS 27 (Revised)	Consolidated and Separate Financial Statements	(i)
HKFRS 3 (Revised)	Business Combinations	(i)
HK(IFRIC) — Interpretation 17	Distributions of Non-cash Assets to Owners	(i)
HK(IFRIC) — Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments	(iv)
HKAS 24 (Revised)	Related Party Disclosures	(v)
HKFRS 9	Financial Instruments	(vi)

Effective date:

(i) Annual periods beginning on or after 1 July 2009

(ii) Annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate

(iii) Annual periods beginning on or after 1 January 2010

(iv) Annual periods beginning on or after 1 July 2010

(v) Annual periods beginning on or after 1 January 2011

(vi) Annual periods beginning on or after 1 January 2013

The adoption of HKFRS 3 (Revised) may affect the Group's accounting for business combinations for which the acquisition dates are on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. Changes in the Group's ownership interest that do not result in loss of control of the subsidiary will be accounted for as equity transactions. The Group is in the process of making an assessment of the potential impact of other new/revised HKFRSs and the directors so far concluded that the application of the other new/revised HKFRSs will have no material impact on the results and the financial position of the Group.

3. PRINCIPAL ACCOUNTING POLICIES

(a) STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with all applicable HKFRSs and the Hong Kong Companies Ordinance. The financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules").

(b) BASIS OF PREPARATION OF FINANCIAL STATEMENTS

These financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain financial instruments which have been measured at fair value.

The Group incurred a net loss of approximately HK$6,078,000 during the year ended 31 December 2009 and the Group's current liabilities exceeded its current assets by approximately HK$190,831,000 as at 31 December 2009. This situation indicates the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern.

In order to improve the financial and current liquidity position of the Group, the Company had successfully completed a top-up placing and raised approximately HK$230 million in January 2010. Taking into consideration of this top-up placing and future fund raising activities and bank borrowings when circumstances required, the directors of the Company are satisfied that the liquidity of the Group can be maintained and have sufficient financial resources to meet its financial obligations as they fall due in the foreseeable future. Accordingly, these financial statements have been prepared on a going concern basis and do not include any adjustments relating to the carrying amount and reclassification of assets and liabilities that might be necessary should the Group fails to continue as a going concern.

(c) BASIS OF CONSOLIDATION

The financial statements comprise 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 statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions, balances and unrealised gains on transactions between group enterprises are eliminated in full on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment on the asset transferred.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) BASIS OF CONSOLIDATION (Continued)

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries attributable to equity interests that are not owned directly or indirectly through subsidiaries, by the Company. Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of comprehensive income as an allocation of the total profit or loss for the year between non-controlling interests and the owners of the Company.

An acquisition of non-controlling interests is accounted for using the entity concept method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as an equity transaction.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

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

(d) BUSINESS COMBINATIONS

The acquisition of business 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 that meet the conditions for recognition under HKFRS 3 "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.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(e) SUBSIDIARIES

Subsidiaries are entities in which the Group is able to exercise control. Control is achieved where the Company, directly or indirectly, has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

Investments in subsidiaries are stated in the Company's statement of financial position at cost less any impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(f) ASSOCIATES

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies. Associates are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amount is adjusted for the Group's share of the post-acquisition change in the associates' net assets except that losses in excess of the Group's interest in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate and the entire carrying amount of the investment is subject to impairment test, by comparing the carrying amount with its recoverable amount, which is higher of value in use and fair value less costs to sell.

(g) GOODWILL

Goodwill represents the excess of the cost of a business combination over the interest in the fair value of identifiable assets, liabilities and contingent liabilities acquired. Cost comprises the fair values of assets given, liabilities assumed and equity instruments issued, plus any direct costs of acquisition.

Goodwill is capitalised as a separate asset with any impairment in carrying amount being recognised in profit or loss.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(g) GOODWILL (Continued)

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

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.

(h) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated in the statement of financial position 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 construction in progress, over their estimated useful lives, using the straight-line method. The estimated useful lives and depreciation method are reviewed at each reporting 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%

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(h) PROPERTY, PLANT AND EQUIPMENT (Continued)

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.

Assets in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

(i) IMPAIRMENT OF ASSETS EXCLUDING GOODWILL

At each reporting 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.

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.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(j) INVENTORIES

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs on conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method of costing. 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 reporting date or to management estimates based on prevailing market conditions.

(k) FINANCIAL ASSETS

i) Financial assets at fair value through profit or loss

These assets represent trading securities which are acquired for the purpose of sale in the near term.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

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 method, except for short-term receivables when the recognition of interest would be immaterial.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(k) FINANCIAL ASSETS (Continued)

iii) Impairment of financial assets

Loans and receivables are assessed for indicators of impairment at each reporting date. Loans and receivables 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 financial asset have been impacted.

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.

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

— 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.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(k) FINANCIAL ASSETS (Continued)

iii) Impairment of financial assets *(Continued)*

Impairment losses recognised in respect of trade and other receivables, whose recovery is considered doubtful but not remote, 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.

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.

(l) 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.

(m) 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.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(m) FINANCIAL LIABILITIES AND EQUITY INSTRUMENT ISSUED BY THE GROUP (Continued)

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.

iii) Convertible bonds

At initial recognition the derivative component of the convertible bonds is measured at fair value. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in profit or loss.

The derivative component is subsequently remeasured at fair value with changes in fair value recognised in profit or loss. The liability component is subsequently carried at amortised cost. The interest expenses recognised in profit or loss on the liability component is calculated using the effective interest method.

If the convertible bonds are converted, the carrying amounts of the derivative and liability components are transferred to share capital and share premium as consideration for the shares issued. If the convertible bonds are redeemed, any difference between the amount paid and the carrying amounts of both components are recognised in profit or loss.

iv) Financial liabilities

The Group's other financial liabilities, including bank borrowings, are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost using the effective interest method.

v) Effective interest method

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)*

(m) FINANCIAL LIABILITIES AND EQUITY INSTRUMENT ISSUED BY THE GROUP (Continued)

vi) Derecognition of financial liabilities

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

(n) 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.

(o) 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.

(p) 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 reporting 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.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(p) PROVISIONS AND CONTINGENT LIABILITIES (Continued)

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 remote.

(q) 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 statement of comprehensive income 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 reporting 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 reporting 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.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(q) TAXATION (Continued)

ii) Deferred tax *(Continued)*

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 reporting 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.

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.

(r) 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 reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the reporting 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.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(r) FOREIGN CURRENCIES (Continued)

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 reporting 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.

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.

(s) 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 reporting 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 statement of comprehensive income as incurred. There were no forfeited contributions used to reduce future contributions as at 31 December 2009.

Employees of the Company's subsidiaries in the People's Republic of China ("PRC") are required to participate in defined contribution retirement scheme operated by relevant government authorities. The PRC subsidiaries are required to contribute a certain percentage of the employee payroll to the scheme in accordance with the relevant regulations in the PRC and such contributions are charged to the statement of comprehensive income as incurred. There were no forfeited contributions used to reduce future contributions as at 31 December 2009.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(s) EMPLOYEES' BENEFITS (Continued)

iii) Equity-settled share-based payments

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

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

(t) BORROWING COSTS

Borrowing costs attributable directly to the acquisition, construction or production of assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(u) REPAIR AND MAINTENANCE COSTS

Replacement spares and labour costs for the routine repairs of the infrastructure of the concession intangible assets are charged to profit or loss in the period in which they are incurred.

The Group's obligations to maintain or restore the infrastructure of the concession intangible assets are measured and recognised in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets". Provision for maintenance obligations is measured at the present value of the expenditures expected to settle the obligations using a pre-tax rate that reflects current market assessments of time value of money and the risks specific to the obligations.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(v) 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.

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. Government grants that compensate the Group for the cost of an asset are deducted in arriving at the carrying amount of the assets and consequently are recognised in profit or loss over the useful life of the related assets.

(w) 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.

(x) SEGMENT REPORTING

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Segment revenues, 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 revenues, expenses, assets and liabilities are determined before intra-group transactions and balances are eliminated as part of the consolidation process, except to the extent that such intra-group transactions and balances are between group enterprises within a single segment.

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

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(y) 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) Waste handling income is recognised when services are provided.

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

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

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) SERVICE CONCESSION ARRANGEMENT

The Group has entered into a service concession arrangement in respect of its waste incineration power generation plant.

The Group concluded that this service concession arrangement is service concession arrangement under HK(IFRIC) - Int 12, because the local government controls and regulates the services that the Group must provide with the infrastructure at a pre-determined service charge. In addition, upon expiry of concession right agreement, the infrastructure will be transferred to the local government at nil consideration.

The provision for maintenance obligations is estimated by the directors based on the data compiled by the engineers of the Group, which includes the major maintenance cycles of each of the key components of the infrastructure and the estimated labour and material costs for such major maintenance cycles.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(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(g). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate. In cases where the actual future cash flows generated are less than expected, a material portion of the goodwill may be derecognised, which would be charged to profit or loss for the year in which such a derecognition takes place. As at 31 December 2009, the carrying amount of goodwill was HK$27,312,000 (2008: HK$27,261,000). Details of the impairment assessment are disclosed in Note 20.

(d) FAIR VALUE OF DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each reporting date.

5. TURNOVER

Turnover, which is also revenue, represents the amount received and receivable for waste incineration power generation and waste handling income:

	2009 **HK$'000**	2008 HK$'000
Waste incineration power generation income	**87,382**	102,410
Waste handling income	**24,305**	5,720
	111,687	108,130

6. OTHER INCOME AND GAINS

	2009 HK$'000	2008 HK$'000
Gain on disposal of trading securities	**6,203**	—
VAT refund on waste incineration power generation income (note)	**6,084**	15,786
Net exchange gains	**934**	3,840
Bank interest income	**562**	1,112
Others	**594**	29
Gains on liquidation and disposal of subsidiaries	**—**	3,726
Reversal of provision for impairment of other receivables (Note 23)	**—**	13,405
Interest expenses waived on convertible preference shares	**—**	5,472
Gain on redemption of convertible preference shares	**—**	11,290
	14,377	54,660

Note:

東莞中科 is a designated environmental protection enterprise and was entitled to VAT refund based on the excess of the output VAT on electricity sale over the input VAT on purchases.

7. SEGMENT INFORMATION

The Group has adopted HKFRS 8 "Operating Segment". HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. It replaces the requirements under HKAS 14 to determine primary (business) and secondary (geographical) reporting segments of the Group. In accordance with the Group's internal organisation and reporting structure, the operating segments are based on nature of business.

The Group has two reportable segments in 31 December 2009 (2008: one). The segments are managed separately as each business offers different products and services and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

— Waste incineration power generation business
— Railway construction and operations

The Group principally has one reportable segment in 2008, which is waste incineration power generation in the PRC.

7. SEGMENT INFORMATION *(Continued)*

The following tables present information regarding revenue, profit or loss, assets and liabilities for each reportable segment:

	2009 HK$'000	2008 HK$'000
Segment revenue from external customers		
Waste incineration power generation business	**111,687**	108,130
Railway construction and operations	**—**	—
	111,687	108,130
Segment profit/(loss)		
Waste incineration power generation business	**3,184**	(28,559)
Railway construction and operations	**(1,812)**	—
	1,372	(28,559)
Share of loss of on associate	**(2)**	—
Finance costs	**(1,849)**	(4,538)
Unallocated corporate income and expenses (net)	**1,710**	(7,622)
Profit/(loss) before income tax	**1,231**	(40,719)
Segment assets		
Waste incineration power generation business	**358,426**	461,830
Railway construction and operations	**869,185**	—
Unallocated corporate assets	**275,539**	291,480
	1,503,150	753,310
Segment liabilities		
Waste incineration power generation business	**325,029**	334,032
Railway construction and operations	**394,118**	—
Unallocated corporate liabilities	**15,560**	62,999
	734,707	397,031

7. SEGMENT INFORMATION *(Continued)*

GEOGRAPHICAL INFORMATION AND MAJOR CUSTOMERS

The Group's entire operations, non-current assets and all its customers; are located in the PRC. Revenue from one customer of the Group's waste incineration power generation business segment represents approximately HK$87,382,000 (2008: HK$102,410,000) of the Group's total revenue.

8. FINANCE COSTS

	2009 **HK$'000**	2008 HK$'000
Interest on bank borrowings wholly repayable after two years but within five years	**20,218**	20,657
Imputed interest on convertible bonds (Note 28)	**1,633**	675
Bank overdraft interest	**215**	—
Other finance cost	**128**	—
Imputed interest on convertible preference shares	**—**	3,182
Interest on loan from a director	**—**	234
Interest on amount due to a shareholder	**—**	446
Total finance costs	**22,194**	25,194
Less: Amount capitalised in construction in progress	**(4,280)**	—
	17,914	25,194

9. LOSS FOR THE YEAR

	2009 HK$'000	2008 HK$'000
The Group's loss for the year is arrived at after charging/(crediting):		
Amortisation of concession intangible assets (Note 15)	**19,129**	19,056
Depreciation of property, plant and equipment (Note 14)	**1,717**	1,097
Amortisation of land use rights (Note 16)	**82**	82
	20,928	20,235
Staff costs, including directors' remuneration (Note 11)		
— Salaries, wages and other benefits	**21,310**	17,796
— Equity-settled share-based payment expenses (Note 33)	**4**	13
— Contributions to defined contribution retirement scheme	**758**	765
	22,072	18,574
Auditor's remuneration	**1,132**	2,790
Loss on disposal of property, plant and equipment	**258**	139
Impairment loss on construction in progress (Note 17)	**—**	3,459
Change in fair value of the derivative component of convertible bonds (Note 28)	**13,660**	6,943
Change in fair value of trading securities	**(41,015)**	—
Concession intangible assets maintenance provision (Note 29)	**5,970**	5,419
Operating lease rentals in respect of land and buildings	**2,834**	1,836

10. INCOME TAX

(a) Hong Kong profits tax is calculated at 16.5% (2008: 16.5%) on the estimated assessable profits for the year.

No provision for PRC enterprise income tax ("EIT") has been made in the financial statements as the companies operating in the PRC had no assessable profit for the year (2008: Nil).

On 16 March 2008, 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 Corporate Income Tax Law.

According to the New Tax Law, the standard EIT rate for enterprises in the PRC was reduced from 33% to 25% with effect from 1 January 2008.

(b) The taxation expense/(credit) for the year can be reconciled to the accounting profit/(loss) as follows:

	2009 HK$'000	2008 HK$'000
Profit/(loss) before income tax	**1,231**	(40,719)
Taxation calculated at Hong Kong profits tax rate of 16.5%	**203**	(6,719)
Tax effect of expenses not deductible for taxation purpose	**4,823**	11,246
Tax effect of non-taxable items	**(70)**	(4,574)
Tax effect of unrecognised tax losses and temporary differences	**2,353**	47
Overprovision in prior years	**–**	(3)
Tax expense/(credit) for the year	**7,309**	(3)

11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) DIRECTORS' EMOLUMENTS

Year ended 31 December 2009

	Directors' fees HK$'000	Salaries, and other benefits HK$'000	Payments for loss of office HK$'000	Pension fund contributions HK$'000	Total HK$'000
Executive directors					
Chan Ka Fat (i)	–	294	174	4	472
Chan Wai Ming (ii)	–	180	–	3	183
Liang Jun	–	810	–	12	822
Yu Sau Lai (iii)	–	376	–	9	385
Non-executive directors					
Yu Baodong	–	–	–	–	–
Tse On Kin	396	–	–	–	396
Independent non-executive directors					
Chan Chi Yuen	108	–	–	–	108
Tsang Kwok Wa	113	–	–	–	113
Zhang Xi	108	–	–	–	108
	725	1,660	174	28	2,587

11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(a) DIRECTORS' EMOLUMENTS (Continued)

Year ended 31 December 2008

	Directors' fees HK$'000	Salaries and other benefits HK$'000	Payments for loss of office HK$'000	Pension fund contributions HK$'000	Total HK$'000
Executive directors					
Liang Jun	—	780	—	12	792
Chan Wai Ming	—	780	—	12	792
Chan Ka Fat	—	682	—	12	694
Non-executive directors					
His Royal Highness Prince Idris (iv)	—	—	—	—	—
Alan Grant Quasha (v)	—	—	—	—	—
Tse On Kin	392	—	—	—	392
Independent non-executive directors					
Chan Chi Yuen	102	—	—	—	102
Tsang Kwok Wa	102	—	—	—	102
Zhang Xi	102	—	—	—	102
	698	2,242	—	36	2,976

(i) Resigned as director of the Company with effect from 28 April 2009.

(ii) Resigned as director of the Company with effect from 30 March 2009.

(iii) Appointed as director of the Company with effect from 31 March 2009.

(iv) Resigned as director of the Company with effect from 29 January 2008.

(v) Resigned as director of the Company with effect from 29 January 2008.

11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(b) FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals of the Group included two (2008: three) directors, details of whose emoluments are set out in (a) above. The emoluments of the remaining three highest paid non-director individuals for the years ended 31 December 2009 and 2008, are as follows:

	2009 HK$'000	2008 HK$'000
Salaries and other benefits	**1,412**	1,066
Contributions to defined contribution retirement scheme	**28**	24
	1,440	1,090

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

	Number of employees	**Number of employees**
HK$Nil to HK$1,000,000	**3**	2

(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 during the year.

12. DIVIDEND

No dividend was paid or declared by the Company during the year ended 31 December 2009 (2008: Nil).

The directors did not recommend the payment of any dividend for the year (2008: Nil).

13. LOSS PER SHARE

(a) The calculation of basic loss per share attributable to owners of the Company is based on the following data:—

	2009 **HK$'000**	2008 HK$'000
Loss for the year attributable to owners of the Company	**(3,925)**	(37,865)

(b) Weighted average number of ordinary shares

The weighted average number of ordinary shares in issue during the year ended 31 December 2009 was 8,879,218,881 (2008: 2,791,492,853).

	2009	2008
Basic loss per share (HK cents)	**(0.04)**	(1.36)

(c) Diluted loss per share was not presented for both years as the potential ordinary shares are anti-dilutive.

(d) The consolidated loss attributable to equity owners of the Company includes a loss of HK$23,902,000 (2008: loss of HK$2,271,000) which has been dealt with in the financial statements of the Company.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings, plant and equipment HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
The Group					
Cost:					
As at 1 January 2008	2,658	718	3,162	2,282	8,820
Through disposal of subsidiaries	—	—	(370)	—	(370)
Additions	—	—	502	—	502
Disposals	(85)	—	(364)	(1,452)	(1,901)
Exchange adjustments	168	15	112	64	359
As at 31 December 2008	2,741	733	3,042	894	7,410
Through acquisition of net assets (Note 34)	—	139	513	2,472	3,124
Additions	—	231	1,094	2,965	4,290
Disposals	—	—	(450)	(375)	(825)
Exchange adjustments	5	—	5	9	19
As at 31 December 2009	2,746	1,103	4,204	5,965	14,018
Accumulated depreciation:					
As at 1 January 2008	315	134	1,277	1,463	3,189
Charge for the year (Note 9)	131	212	358	396	1,097
Written back on disposals	—	—	(364)	(1,312)	(1,676)
Through disposal of subsidiaries	—	—	(352)	—	(352)
Exchange adjustments	20	5	32	40	97
As at 31 December 2008	466	351	951	587	2,355
Charge for the year (Note 9)	124	281	695	617	1,717
Written back on disposals	—	—	(47)	(70)	(117)
Exchange adjustments	1	—	2	2	5
As at 31 December 2009	591	632	1,601	1,136	3,960
Carrying amount:					
As at 31 December 2009	2,155	471	2,603	4,829	10,058
As at 31 December 2008	2,275	382	2,091	307	5,055

Note:

ASSETS PLEDGED AS SECURITY

The Group has pledged buildings, plant and equipment having a carrying amount at 31 December 2009 of HK$1,446,000 (2008: HK$1,505,000) to secure banking facilities granted to the Group (Note 27).

15. CONCESSION INTANGIBLE ASSETS

	The Group HK$'000
Cost:	
As at 1 January 2008	
— reclassification from property, plant and equipment and construction in progress	352,777
Additions	35,276
VAT refund for additions	(9,597)
Exchange adjustments	22,288
As at 31 December 2008	400,744
Exchange adjustments	741
As at 31 December 2009	401,485
Accumulated amortisation:	
As at 1 January 2008	—
Charge for the year (Note 9)	19,056
Exchange adjustments	27
As at 31 December 2008	19,083
Charge for the year (Note 9)	19,129
Exchange adjustments	69
As at 31 December 2009	38,281
Carrying amount:	
As at 31 December 2009	363,204
As at 31 December 2008	381,661

Notes:

a) The Group has been granted by the Dongguan Provincial Government the concession for operating waste incineration power generation plant in Dongguan for a period of 25 years from November 2003.

The concession intangible assets are amortised on a straight-line basis over the remaining duration of the concessionary period from 1 January 2008.

b) VAT refund represents refund by the PRC government for purchases of plant and machinery manufactured in the PRC which are used in the PRC.

c) Assets pledged as security

The Group has pledged concession intangible assets having a carrying amount at 31 December 2009 of HK$363,204,000 (2008: HK$381,661,000) to secure banking facilities granted to the Group (Note 27).

16. LAND USE RIGHTS

	The Group HK$'000
Cost:	
As at 1 January 2008	4,570
Exchange adjustments	288
As at 31 December 2008	4,858
Exchange adjustments	9
As at 31 December 2009	4,867
Accumulated amortisation:	
As at 1 January 2008	123
Charge for the year (Note 9)	82
Exchange adjustments	7
As at 31 December 2008	212
Charge for the year (Note 9)	82
Exchange adjustments	1
As at 31 December 2009	295
Carrying amount:	
As at 31 December 2009	4,572
As at 31 December 2008	4,646

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

17. CONSTRUCTION IN PROGRESS

	The Group	
	2009	2008
	HK$'000	HK$'000
Cost:		
As at beginning of year	**—**	—
Additions through acquisition of net assets (Note 34)	**643,698**	—
Additions	**171,121**	3,459
Impairment loss (Note 9)	**—**	(3,459)
Exchange adjustments	**1,297**	—
As at end of year	**816,116**	—

Construction in progress represents railway construction costs in the PRC.

18. INTERESTS IN SUBSIDIARIES

	The Company	
	2009	2008
	HK$'000	HK$'000
Unlisted shares, at cost	**1**	1
Amounts due from subsidiaries	**668,349**	299,632
	668,350	299,633
Less: Impairment loss	**(244,061)**	(244,076)
	424,289	55,557

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.

18. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the Company's principal subsidiaries as at 31 December 2009 are as follows:

Name of subsidiary	Country of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest		Principal activities
			Directly held	Indirectly held	
Teleroute Enterprises Limited	British Virgin Islands	1 ordinary share of US$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%	Investment holding
東莞中科環保電力有限公司 (“東莞中科”)	PRC, limited liability company	RMB110,000,000	–	100%	Waste incineration power generation business
桂林中科環保電力有限公司 (“桂林中科”)	PRC, limited liability company	RMB41,471,279	–	100%	Waste incineration power generation business
Sharprise Holdings Limited	British Virgin Islands	1 ordinary share of US$1	–	100%	Investment holding
Gofar Holdings Limited	British Virgin Islands	1 ordinary share of US$1	–	70%	Investment holding
Top Fast Holdings Limited	British Virgin Islands	1 ordinary share of US$1	–	100%	Investment holding
China Railway Logistic Holdings Ltd	Hong Kong	1 ordinary share of HK$1	–	100%	Investment holding
Chengde Zunxiao Railway Ltd (“Zunxiao Company”) (承德遵小鐵路有限公司)	PRC, limited liability company	RMB224,000,000	–	62.5%	Railway construction and operations
Chengde Kuanping Railway Ltd (“Kuanping Company”) (承德寬平鐵路有限公司)	PRC, limited liability company	RMB62,150,000	–	62.5%	Railway construction and operations
Tangshan Tangcheng Railway Transportation Company Ltd (“Tangcheng Company”) (唐山唐承鐵路運輸有限責任公司)	PRC, limited liability company	RMB205,000,000	–	51%	Railway operations
Bright Master Investments Limited (耀鋒投資有限公司)	Hong Kong	1 ordinary share of HK$1	–	100%	Investment holding

18. INTERESTS IN SUBSIDIARIES *(Continued)*

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.

The consolidated financial statements for both years have not included certain subsidiaries which were in the course of liquidation for which the appointed liquidators had assumed overall control of those companies' financial and operating policies. The results and cash flows of these subsidiaries up to the respective dates of appointment of liquidators have not been consolidated as the amounts involved are immaterial.

19. PLEDGED BANK DEPOSITS

As at 31 December 2009, the Group had pledged bank deposits of RMB15,000,000, equivalent to HK$17,070,000 (2008: RMB15,000,000, equivalent to HK$17,038,000) to secure certain bank loans granted to the Group (Note 27).

20. GOODWILL

	The Group HK$'000
Cost:	
As at 1 January 2008	71,584
Adjustment on liquidation and disposal of subsidiaries	(33,258)
Exchange adjustment	2,421
As at 31 December 2008	40,747
Exchange adjustment	75
As at 31 December 2009	40,822
Accumulated impairment:	
As at 1 January 2008	45,942
Adjustment on liquidation and disposal of subsidiaries	(33,258)
Exchange adjustment	802
As at 31 December 2008	13,486
Exchange adjustment	24
As at 31 December 2009	13,510
Carrying amount:	
As at 31 December 2009	27,312
As at 31 December 2008	27,261

20. GOODWILL *(Continued)*

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

During the year, the Group assessed the recoverable amount of goodwill, and determined that no additional 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. The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. Key assumptions used for value-in-use calculations are as follows:

	2009 HK$'000	2008 HK$'000
Growth rate	**2.5%**	3.00%
Discount rate	**16.73%**	15.30%

Management estimated the budgeted gross margin based on the past performance and their expectations for market development. The discount rate used is pre-tax and reflects specific risks relating to the relevant segments.

21. INTEREST IN AN ASSOCIATE

	The Group	
	2009 HK$'000	2008 HK$'000
Unlisted shares, at cost	**—**	—
Loan to an associate (note)	**37,000**	—

Note: The loan is unsecured, interest bearing at 3% per annum and repayable on demand.

21. INTEREST IN AN ASSOCIATE *(Continued)*

Details of the associate are as follows:

Name	Form of business structure	Place of incorporation and operation	Principal activity	Percentage of ownership interests
Brilliant Success Asia Limited	Limited company	Hong Kong	Investment holding	30%

The summarised financial information in respect of the Group's associate is set out below:

	The Group	
	2009	2008
	HK$'000	HK$'000
Total assets	**34,625**	—
Total liabilities	**(37,319)**	—
Net liabilities	**(2,694)**	—
Group's share of net assets of associates	**—**	—
Total revenue	**1,141**	—
Total loss for the period	**(2,702)**	—
Group's share of loss of associate for the period	**(2)**	—

22. INVENTORIES

	The Group	
	2009	2008
	HK$'000	HK$'000
Fuel and supplies for power generation	**1,618**	12,312

23. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables	**16,853**	11,165	**—**	—
Other receivables	**93,406**	117,747	**35,922**	36,628
Less: Allowance for doubtful debts	**(77,744)**	(77,667)	**(35,900)**	(35,900)
Other receivables, net	**15,662**	40,080	**22**	728
	32,515	51,245	**22**	728

23. TRADE AND OTHER RECEIVABLES *(Continued)*

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	
	2009	2008
	HK$'000	HK$'000
At beginning of the year	**–**	3,008
Provision attributable to liquidated and disposed subsidiaries	**–**	(3,008)
At end of the year	**–**	–

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.

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	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
At beginning of the year	**77,667**	151,069	**35,900**	35,900
Reversal of provision	**–**	(13,405)	**–**	–
Provision attributable to liquidated and disposed subsidiaries	**–**	(63,259)	**–**	–
Exchange adjustments	**77**	3,262	**–**	–
At end of the year	**77,744**	77,667	**35,900**	35,900

23. TRADE AND OTHER RECEIVABLES *(Continued)*

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 reporting date is as follows:

	The Group	
	2009	2008
	HK$'000	HK$'000
Trade receivables		
— 0 to 30 days	**16,853**	10,281
— Over 30 days	**—**	884
	16,853	11,165

iv) The directors consider the carrying amounts of trade and other receivables approximate their fair values.

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

	The Group	
	2009	2008
	HK$'000	HK$'000
Neither past due nor impaired	**16,853**	10,281
Less than 1 month past due	**—**	884
	16,853	11,165

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

Trade receivables that were past due but not impaired last year 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.

23. TRADE AND OTHER RECEIVABLES *(Continued)*

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

	The Group		The Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong dollars	**2,983**	36,926	**22**	728
Renminbi	**29,532**	14,319	**—**	—
	32,515	51,245	**22**	728

24. TRADING SECURITIES

	The Group and Company	
	2009	2008
	HK$'000	HK$'000
Hong Kong listed equity securities at market value	**130,994**	—

25. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**62,691**	11,240	**10,394**	1,667
Time deposits	**—**	242,852	**—**	242,852
	62,691	254,092	**10,394**	244,519

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.

25. CASH AND CASH EQUIVALENTS *(Continued)*

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

	The Group		The Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong dollars	**13,014**	244,829	**10,394**	244,519
Renminbi	**49,677**	9,263	**—**	—
	62,691	254,092	**10,394**	244,519

Renminbi ("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.

26. TRADE AND OTHER PAYABLES

The analysis of trade payables (all aged within 30 days) and other payables as at the reporting date is as follows:

	The Group		The Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables	**21,517**	32,469	**—**	—
Construction cost payables	**97,287**	32,756	**—**	—
Other payables	**35,645**	9,664	**3,968**	4,296
	154,449	74,889	**3,968**	4,296

26. TRADE AND OTHER PAYABLES *(Continued)*

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

	The Group		The Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong dollars	**7,132**	5,252	**3,968**	4,296
Renminbi	**147,317**	69,637	**—**	—
	154,449	74,889	**3,968**	4,296

The directors consider the carrying amounts of trade and other payables approximate their fair values.

27. BANK LOANS

	The Group	
	2009	2008
	HK$'000	HK$'000
Short term bank loans (i)	**34,140**	—
Bank loans wholly repayable after two years but within five years (ii)	**256,050**	258,968
	290,190	258,968

(i) The amount of the loan in the original denominated borrowing currency is RMB30,000,000. The loan is bearing interest at 6.5% per annum and is repayable in February 2010.

(ii) The amount of bank loans in the original denominated borrowing currency is RMB225,000,000 (2008: RMB228,000,000). The average effective interest rate for the year is 6.29% (2008: 7.98%) 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 HK$17,070,000 (Note 19) (2008: RMB15,000,000 equivalent to HK$17,038,000). In addition, the Group pledged with the bank property, plant and equipment amounted to RMB1,271,000 equivalent to HK$1,446,000 (Note 14) (2008: RMB1,325,000 equivalent to HK$1,505,000) and concession intangible assets amounted to RMB319,160,000 equivalent to HK$363,204,000 (Note 15) (2008: RMB335,999,000 equivalent to HK$381,661,000) in respect of the waste incineration power generation plant in the PRC, corresponding waste incineration licence and related income generated from the project (including waste handling income and electricity generation income).

28. CONVERTIBLE BONDS

On 30 September 2008, the Company issued 2% convertible bonds at a nominal value of HK$200,000,000 with interest payable annually. The convertible bonds have a maximum maturity period of 2 years from the issue date and are convertible into ordinary shares of the Company at a conversion price of HK$0.05 each at the holder's option. This conversion price is subject to adjustments under certain circumstances as stipulated in the terms and conditions of the convertible bonds contemplated under the Subscription Agreements.

As the convertible bonds do not entitle their holders to convert them into a fixed number of equity instruments of the Company at a fixed conversion price, they are regarded as financial liabilities consisting of liability and derivative components.

At the date of issue, the fair value of the derivative component was estimated by a firm of professional valuers using Black-Scholes Option Pricing Model, and this amount is carried as a derivative liability until extinguished on conversion or redemption. The balance of the proceeds of the convertible bonds was allocated to the liability component and is carried as a liability at amortised cost using the effective interest method until extinguished on conversion or redemption. The derivative component is measured at fair value with gains or losses recognised in profit or loss. The assumptions of the valuation of the derivative component of the convertible bonds are set out as follows:

	31 December 2009	31 December 2008
Share price	**HK$0.181**	HK$0.080
Exercise price	**HK$0.040**	HK$0.050
Expected volatility	**72.05%**	65.27%
Expected option life	**0.75 year**	1.75 years
Expected dividends	**Nil**	Nil
Risk-free interest rate	**0.190%**	0.549%

28. CONVERTIBLE BONDS *(Continued)*

The movement of the convertible bonds is summarised as follows:

	Liability component HK$'000	Derivative component HK$'000	Total HK$'000
As at 1 January 2008	68,240	131,760	200,000
Transaction costs	(381)	—	(381)
Imputed interest (Note 8)	675	—	675
Changes in fair value (Note 9)	—	6,943	6,943
Partial conversion into ordinary shares	(51,121)	(98,820)	(149,941)
As at 31 December 2008	17,413	39,883	57,296
Imputed interest (Note 8)	1,633	—	1,633
Changes in fair value (Note 9)	—	13,660	13,660
Partial conversion into ordinary shares	(17,122)	(35,895)	(53,017)
As at 31 December 2009	1,924	17,648	19,572

During the year, convertible bonds in an aggregate principal amount of HK$45,000,000 (2008: HK$150,000,000) were converted into 900,000,000 (2008: 3,000,000,000) ordinary shares of the Company at a conversion price of HK$0.05 each. Convertible bonds in the principal amount of HK$5,000,000 were still outstanding as at 31 December 2009 (2008: HK$50,000,000). During the year, there was a placing of the Company's shares at a price lower than 95% of the market price on the last dealing day preceding the date of announcement of the terms of such placing, and this triggered the adjustment to the exercise price from HK$0.05 per share to HK$0.04 per share for the convertible bonds.

29. PROVISION FOR MAINTENANCE OF CONCESSION INTANGIBLE ASSETS

The movement in the provision for maintenance of concession intangible assets during the year is as follows:

	The Group	
	2009 HK$'000	2008 HK$'000
At beginning of the year	**5,419**	—
Additional provision (Note 9)	**5,970**	5,419
Utilised during the year	**(7,968)**	—
Exchange adjustment	**15**	—
At end of the year	**3,436**	5,419

The provision for maintenance of concession intangible assets has been made for the estimated obligations under the service concession for the maintenance of the waste incineration power generation plant and equipment.

30. DEFERRED TAX

No deferred tax liabilities have been recognised in the financial statements as the Group and the Company did not have material temporary differences between the tax bases of assets and liabilities and their carrying amounts as at 31 December 2009 and 2008.

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 the future profits streams against which the asset can be utilised.

At the reporting date, the Group and the Company had unused tax losses of HK$16,920,000 (2008: HK$4,087,000) and HK$3,660,000 (2008: HK$3,660,000) respectively available for offset against future profits. Such losses can be carried forward indefinitely to set off against the future assessable profits of the Group.

31. SHARE CAPITAL

(a) AUTHORISED SHARE CAPITAL

	Number of ordinary shares of HK$0.01 each		Amount	
	2009	2008	**2009**	2008
			HK$'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$0.01 each		Amount	
			HK$'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

31. SHARE CAPITAL *(Continued)*

(a) AUTHORISED SHARE CAPITAL (Continued)

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

Preference Shares Class A

The term of the preference shares class A is 3 years and the holders of the preference shares shall be entitled to a fixed cumulative preferential dividend at the rate of 3% per annum on the issue value. The holders of the preference shares 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 price of the Company's ordinary shares on the Stock Exchange for the five trading days up to and including the conversion date (or, if such day is not a trading day, the last trading day before the conversion day); and (ii) HK$0.50, provided that if trading in the ordinary shares is suspended on any day during such period, the average of the closing prices shall be calculated by reference to the latest five consecutive trading days on which the trading in the ordinary shares is not suspended up to and including the conversion date but subject to a minimum value equivalent to the then nominal value of an ordinary share.

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 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:

31. SHARE CAPITAL *(Continued)*

(a) AUTHORISED SHARE CAPITAL (Continued)

Preference Shares Class B *(Continued)*

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.

During the year, no preference shares have been issued.

(b) ISSUED AND FULLY PAID SHARE CAPITAL

	Number of ordinary shares	Nominal value
Ordinary shares of HK$0.01 each		HK$'000
As at 1 January 2008	1,157,027,100	11,570
New issue and allotment of shares	4,000,000,000	40,000
Issued on the conversion of the convertible bonds (note a and Note 28)	3,000,000,000	30,000
At 31 December 2008	8,157,027,100	81,570
New issue and allotment of shares (note a)	1,200,000,000	12,000
Issued on the conversion of the convertible bonds (note a and Note 28)	900,000,000	9,000
At 31 December 2009	10,257,027,100	102,570

31. SHARE CAPITAL *(Continued)*

(b) ISSUED AND FULLY PAID SHARE CAPITAL (Continued)

Note (a):

The issued share capital of the Company was increased to HK$102,570,000 by:

1) the placement of 1,200,000,000 ordinary shares of HK$0.122 each for cash in July 2009 to provide additional working capital to the Company;

2) the issue of 900,000,000 ordinary shares at the conversion price of HK$0.05 each on the conversion of the convertible bonds during 2009. Such ordinary shares rank pari passu in all respects with the then existing ordinary shares of the Company.

32. SHARE OPTIONS

2002 SHARE OPTION SCHEME

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

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

The subscription price will be determined by the directors, which shall not be less than the higher of the closing price of the shares as stated in the Stock Exchange’s daily quotations sheets on the date of grant of options or the average closing price of the shares as stated in the Stock Exchange’s daily quotations sheets for the five days immediately preceding the date of grant of option.

The 2002 Share Option Scheme was terminated with the passing of an ordinary resolution at the extraordinary general meeting of the Company held on 20 August 2008.

32. SHARE OPTIONS *(Continued)*

2002 SHARE OPTION SCHEME (Continued)

(a) The terms and conditions of the options granted that were outstanding at the reporting date:

Options granted to employees	Number of options ('000) 2009	2008	Vesting condition	Contractual life of options
On 26 May 2005	**700**	700	note	10 years
On 3 August 2005	**500**	500	note	10 years
	1,200	1,200		

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.

32. SHARE OPTIONS *(Continued)*

2002 SHARE OPTION SCHEME (Continued)

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

	2009		2008	
	Number of options '000	Weighted average exercise price HK$	Number of options '000	Weighted average exercise price HK$
Outstanding at the beginning of the year	**1,200**	**0.6892**	36,000	0.4585
Lapsed during the year	**–**	**–**	(34,800)	0.4505
Outstanding at the end of the year	**1,200**	**0.6892**	1,200	0.6892
Exercisable at the end of the year	**1,200**	**0.6892**	1,200	0.6892

The options outstanding at 31 December 2009 had an exercise price between HK$0.688 and HK$0.69 (2008: HK$0.688 and HK$0.69) and a weighted average remaining contractual life of 1.99 years (2008: 2.99 years).

(c) Share option expenses of HK$4,000 (2008: HK$13,000) were recognised during the year.

NEW SHARE OPTIONS

Pursuant to the sales and purchase agreement of acquiring 51% interest in 東莞中科 (through acquisition of 100% of interest in Hong Tong Hai Investments Limited), the Company issued 50,000,000 share options ("New Share Options") for a total consideration of HK$1. The New Share Options have an exercise price of HK$0.76 per share to subscribe for one ordinary share of the Company. The holders of New Share Options can exercise the New Share Options at any time during the 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.

32. SHARE OPTIONS *(Continued)*

NEW SHARE OPTIONS (Continued)

The terms and conditions of the New Share Options granted that were outstanding at the reporting date are as follows, whereby all options are settled by physical delivery of shares:

Options granted	Number of options ('000) 2009	2008	Vesting condition ('000)	Contractual life of options
On 5 July 2005	**Nil**	—	Nil	3 years

The number and exercise price of New Share Options are as follows:

	Number of options '000	Exercise price HK$	Number of options '000	Exercise price HK$
Outstanding at the beginning of the year	—	—	42,500	0.76
Lapsed during the year	—	—	(42,500)	0.76
Outstanding at the end of the year	—	—	—	—
Exercisable at the end of the year	—	—	—	—

2008 SHARE OPTION SCHEME

On 20 August 2008, a new share option scheme (the "2008 Share Option Scheme") was adopted by the Company. The purpose of the New Share Option Scheme is to attract, retain and motivate talented participants to strive for future developments and expansion of the Group. The participants are as follows:

(i) any full-time employee and director (including non-executive director and independent non-executive director) of the Group; and any part time employee with weekly working hours of ten hours and above of the Group (collectively "Employee");

32. SHARE OPTIONS *(Continued)*

2008 SHARE OPTION SCHEME (Continued)

(ii) any advisor or consultant to the Group; any provider of goods and/or services to the Group; or any other person who, at the sole determination of the Board, has contributed to the Group (the assessment criteria of which are (a) such person's contribution to the development and performance of the Group; (b) the quality of work performed by such person for the Group; and (c) the initiative and commitment of such person in performing his or her duties; and (d) the length of service or contribution of such person to the Group) (collectively "Business Associate"); and

(iii) the trustee of any trust (whether family, discretionary or otherwise) whose beneficiaries or objects include any Employee or Business Associate of the Group.

The total number of shares which may be issued upon exercise of all options to be granted under the 2008 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 2008 Share Option Scheme was adopted, without prior approval from the Company's shareholders. The total number of shares issued and to be issued upon exercise of the options granted and to be granted to each participant in any 12-month period 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 (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on the date of grant of options; (ii) 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 options; or (iii) the nominal value of an ordinary share.

As at 31 December 2009, no share option had been issued under the 2008 Share Option Scheme.

33. RESERVES

THE COMPANY

	Share capital HK$'000 (Note 31)	Share premium HK$'000 (Note 33)	Capital reserves HK$'000	Share options reserve HK$'000 (Note 32)	Equity Component of convertible preference shares HK$'000	Accumulated losses HK$'000	Total HK$'000
As at 1 January 2008	11,570	459,967	–	7,020	550	(570,201)	(91,094)
Total comprehensive income for the year	–	–	–	–	–	(25,611)	(25,611)
Shares issued at premium	40,000	160,000	–	–	–	–	200,000
Shares issued on conversion of convertible bonds (Note 28)	30,000	119,941	–	–	–	–	149,941
Redemption of convertible preference shares	–	–	–	–	(550)	550	–
Reclassification	–	–	4,190	–	–	–	4,190
Recognition of share option expenses (Note 32)	–	–	–	13	–	–	13
Share options lapsed (Note 32)	–	–	–	(1,291)	–	1,291	–
As at 31 December 2008	81,570	739,908	4,190	5,742	–	(593,971)	237,439
Total comprehensive income for the year	–	–	–	–	–	(23,902)	(23,902)
Shares issued at premium	12,000	130,754	–	–	–	–	142,754
Shares issued on conversion of convertible bonds (Note 28)	9,000	44,017	–	–	–	–	53,017
Recognition of share option expenses (Note 32)	–	–	–	4	–	–	4
As at 31 December 2009	102,570	914,679	4,190	5,746	–	(617,873)	409,312

The Company did not have any reserves available for distribution to shareholders as at 31 December 2009 and 2008. The Company's share premium may be distributed in the form of fully paid bonus shares.

(a) Share premium

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

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

34. ACQUISITION OF NET ASSETS

On 31 July 2009 the Group had completed its acquisition of 70% of the voting equity instruments of Gofar Holdings Limited ("Gofar"), a company incorporated in the BVI with limited liabilities at a cash consideration of US$70 (rounded to HK$1,000) representing the consolidated net asset value of Gofar and its subsidiaries at the date of acquisition. Gofar owns the entire issued share capital of Top Fast Holdings Limited, which in turn owns the entire share capital of China Railway Logistic Holdings Limited. China Railway Logistic Holdings Limited is the beneficial owner of 62.5% equity interest of each of Zunxiao Company and Kuanping Company, and 51% of Tangcheng Company, which are involved in railway construction and operations in the PRC. It is expected that 25 kilometers of the Zunxiao Railway will commence operation in the second quarter of 2010 and the whole Zunxiao Railway will commence operation by the end of 2010. This transaction has been accounted for as an acquisition of assets as Gofar and its subsidiaries have not yet commenced business at the date of acquisition.

Details of the net assets and liabilities acquired and purchase consideration at date of acquisition are as follows:

	HK$'000
Assets and liabilities acquired:—	
Property, plant and equipment	3,124
Construction in progress (Note 17)	643,698
Trade and other receivables	4,703
Cash and cash equivalents	28,382
Trade and other payables	(264,369)
Advance from shareholders	(98,216)
Amount due to minority equity owners	(85,553)
Net identifiable assets	231,769
Non-controlling interests	(231,768)
Net assets acquired	1
Net cash inflow arising on acquisition:	
Cash consideration paid	(1)
Cash and cash equivalents acquired	28,382
	28,381

The above subsidiaries did not contribute any revenue to the Group and contributed loss of approximately HK$3,772,000 to the Group during the period from the date of acquisition to 31 December 2009.

35. ACQUISITION OF NON-CONTROLLING INTERESTS

On 13 August 2009, a subsidiary of the Company entered into an agreement with the shareholder of Anabell Hong Kong Limited ("Anabell") to acquire 100% equity interest of Anabell, which holds the remaining 10% equity interest in Dongguan China Sciences Conservational Power Limited ("Dongguan CSCP"), a subsidiary of the Company. The consideration was satisfied by cash consideration of HK$9,800,000. The transaction was completed on 13 August 2009 and Dongguan CSCP became a wholly-owned subsidiary of the Group. The differences between the consideration paid and the carrying value of net assets owned by Anabell at the time of acquisition, amounting to HK$6,958,000, had been recorded as a debit to accumulated losses in the consolidated financial statements of the Group in accordance with accounting policy as set out in Note 3(c).

36. RETIREMENT BENEFITS SCHEMES

The Company's subsidiaries in the PRC, in compliance with the applicable regulations of the PRC, participated in retirement benefits schemes 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 2009 were based on 2-20% (2008: 12%) of the employees' basic salaries in accordance with the relevant regulations in the PRC and amounted to HK$626,000 (2008: HK$577,000) which are charged to profit or loss as incurred. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under the schemes. 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 Scheme") in compliance with the applicable regulations in Hong Kong for its staff at the end of 2000. The Group's contribution to the MPF Scheme amounted to HK$188,000 during the year (2008: HK$155,000).

37. CAPITAL COMMITMENTS

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

	The Group	
	2009	2008
	HK$'000	HK$'000
Authorised and contracted for in respect of:—		
— concession intangible assets	**–**	369
— construction of railway:—		
— Zunxiao Company	**123,180**	—
— Kuanping Company	**40,330**	—
— Tangcheng Company	**192,947**	—
	356,457	369

These commitments was entered into by three PRC non-wholly owned subsidiaries. The Group's effective interest in Zunxiao Company, Kuanping Company and Tangcheng Company is 43.75%, 43.75% and 35.7% respectively.

38. OPERATING LEASE COMMITMENTS

	The Group	
	2009	2008
	HK$'000	HK$'000
Minimum lease payments under operating leases charged as expense in the year	**1,864**	1,836

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

	The Group	
	2009	2008
	HK$'000	HK$'000
Within one year	**1,802**	1,717
In the second to fifth years inclusive	**284**	1,058
	2,086	2,775

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.

(a) The amounts due to a shareholder, minority equity owners of subsidiaries, related companies and subsidiaries are unsecured, interest-free and repayable on demand.

(b) On 13 February 2009, Palace View International Limited, a wholly-owned subsidiary of the Company, entered into an operation consultation agreement with Shanghai GCL- Poly Electricity Operating Management Co. Ltd. ("Shanghai GCL") to provide consultation service in respect of the operation of the municipal solid waste incineration power plant owned by the Group. Mr. Zhu Gongshan is a director of the subsidiary of the Company, and also a director and a deemed Controlling Shareholder of GCL-Poly Energy Holdings Limited, the ultimate holding company of Shanghai GCL. Therefore, this transaction also constitutes continuing connected transaction as defined under the Listing Rules. Total management fee paid during the current year amounted to approximately HK$2,250,000 (2008: HK$nil).

(c) Members of key management during the year comprised the directors only whose remuneration is set out in Note 11.

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 owners 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 statement of financial position less pledged bank deposits and cash and bank balances. Total capital is calculated as equity, as shown in the statement of financial position, plus net debt.

During the year ended 31 December 2009, the Group's strategy, which was unchanged from 2008, was to maintain a gearing ratio of not more than 100%.

The gearing ratios as at 31 December 2009 and 2008 were as follows:

	The Group	
	2009 **HK$'000**	2008 HK$'000
Current liabilities	**455,649**	75,330
Non-current liabilities	**279,058**	321,701
Total borrowings	**734,707**	397,031
Less: Pledged bank deposits (Note 19)	**(17,070)**	(17,038)
Less: Cash and cash equivalents (Note 25)	**(62,691)**	(254,092)
Net debt	**654,946**	125,901
Total equity	**768,443**	356,279
Total capital	**1,423,389**	482,180
Gearing ratio	**46%**	26%

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, currency risk and equity price risk arising from movements in its own equity share price.

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.

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

(a) CREDIT RISK

The Group 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 in which customers operate also has an influence on credit risk but to a lesser extent. At the reporting date, the Group has a concentration of credit risk as over 63% (2008: 87%) and over 84% (2008: 99%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively. The credit risk arising from the Group's largest customer is not considered to be high as it is a local government authority.

The maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as at the end of the financial year in relation to trade receivables are the carrying amount of trade receivables as stated in the statement of financial position. Further quantitative disclosures in respect of the Company's exposure to credit risk arising from trade receivables are set out in Note 23.

(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 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 long term.

41. FINANCIAL RISK MANAGEMENT *(Continued)*

(b) LIQUIDITY RISK (Continued)

The following table details the remaining contractual maturities at the reporting 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 reporting date) and the earliest date the Group and the Company can be required to pay:

The Group

2009	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	154,449	154,449	154,449	–	–	–
Amount due to equity owners of subsidiaries	259,230	259,230	259,230	–	–	–
Amount due to related companies	80	80	80	–	–	–
Convertible bonds	19,572	5,075	5,075	–	–	–
Bank loans	290,190	364,900	50,511	16,093	298,296	–
	723,521	783,734	469,345	16,093	298,296	–

2008	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	74,889	74,889	74,889	–	–	–
Amount due to a shareholder	441	441	441	–	–	–
Convertible bonds	57,296	52,130	1,382	50,748	–	–
Bank loans	258,986	366,700	18,598	18,598	55,795	273,709
	391,612	494,160	95,310	69,346	55,795	273,709

41. FINANCIAL RISK MANAGEMENT *(Continued)*

(b) LIQUIDITY RISK (Continued)

The Company

2009	**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**
Other payables	**3,968**	**3,968**	**3,968**	**—**
Amounts due to subsidiaries	**1,332**	**1,332**	**1,332**	**—**
Amount due to a shareholder	**441**	**441**	**441**	**—**
Loan from related companies	**80**	**80**	**80**	**—**
Convertible bonds	**19,572**	**5,075**	**5,075**	**—**
	25,393	**10,896**	**10,896**	**—**

2008	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
Other payables	4,296	4,296	4,296	—
Amounts due to subsidiaries	1,332	1,332	1,332	—
Amount due to a shareholder	441	441	441	—
Convertible bonds	57,296	52,130	1,382	50,748
	63,365	58,199	7,451	50,748

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. The Group's interest rate profile as monitored by management is set out below:

	The Group			
	Effective Interest Rate %	**2009 HK$'000**	Effective Interest Rate %	2008 HK$'000
Fixed rate borrowings:				
Convertible bonds	**2%**	**19,572**	2%	57,296
Bank loans	**6.5%**	**34,140**	—	—
Variable rate borrowings:				
Bank loans	**6.29%**	**256,050**	7.98%	258,986
		309,762		316,282
Total borrowings				
Fixed rate borrowings as a percentage of total borrowings		**17%**		18%

	The Company			
	Effective Interest Rate %	**2009 HK$'000**	Effective Interest Rate %	2008 HK$'000
Fixed rate borrowings:				
Convertible bonds	**2%**	**19,572**	2%	57,296

At 31 December 2009, 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 HK$2,560,000 (2008: HK$2,590,000) respectively.

41. FINANCIAL RISK MANAGEMENT *(Continued)*

(c) INTEREST RATE RISK (Continued)

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the reporting 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 reporting date. The analysis is performed on the same basis for year ended 31 December 2008.

(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 of the Group's sensitivity to a 4% fluctuation in the exchange rate between RMB and HKD was performed assuming that the change in the exchange rate had occurred at the reporting date. 4% 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 4% change in foreign currency rate. Where RMB strengthens against HKD by 4%, the Group's loss will be increased by HK$2,749,000 (2008: HK$1,682,000) and the accumulated losses will be increased by the same amount. For a weakening of RMB against HKD, there would be an equal and opposite impact on the loss for the year and accumulated losses.

(e) EQUITY PRICE RISK

The Group is exposed to equity price risk arising from changes in the Company's own share price to the extent that the Company's own equity instruments underlie the fair values of derivatives of the Group. As at the reporting date the Group is exposed to this risk through the conversion rights attached to the convertible bonds issued by the Company as disclosed in Note 28.

Sensitivity analysis

The following table indicates the approximate change in the Group's loss for the year and other components of consolidated equity in response to reasonably possible changes in the Company's own share price (for the conversion option of the convertible bonds) and the share prices of the Group's trading securities at the reporting date. A positive number below indicates an increase in loss for the year and accumulated losses and a negative number below indicates a decrease in loss for the year and accumulated losses where the relevant equity prices increased by 10%. Had the relevant equity prices been 10% lower, there would be an equal and opposite effect on the loss for the year and accumulated losses.

41. FINANCIAL RISK MANAGEMENT *(Continued)*

(e) EQUITY PRICE RISK (Continued)

Sensitivity analysis *(Continued)*

	2009			2008		
The Group and Company	Increase in the relevant risk variable	Effect on loss for the year and accumulated losses HK$'000	Effect on other components of equity HK$'000	Increase in the relevant risk variable	Effect on loss for the year and accumulated losses HK$'000	Effect on other components of equity HK$'000
– Company's own share price	10%	2,257	–	10%	6,811	–
– financial assets at fair value through profit or loss	10%	(13,099)	–	10%	–	–
	10%	(10,842)	–	10%	6,811	–

The sensitivity analysis has been determined assuming that the reasonably possible change in the relevant risk variables had occurred at the reporting date and had been applied to the exposure to equity price risk in existence at that date. It is also assumed that the fair value of the Group's equity would change in accordance with the historical correlation with the relevant risk variables and that all other variables remain constant. The stated change represents management's assessment of reasonably possible change in the relevant risk variable over the period until the next annual reporting date.

(f) FAIR VALUES ESTIMATION

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2009 and 2008.

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 2009 and 2008 may be categorised as follows:

	The Group	
	2009	2008
	HK$'000	HK$'000
Financial assets		
Fair value through profit or loss	**130,994**	—
Loans and receivables (including cash and bank balances	**112,276**	322,375
Financial liabilities		
Fair value through profit or loss		
— Derivative component of convertible bonds	**17,648**	39,883
Financial liabilities measured at amortised cost	**709,750**	357,148

HKFRS 7 requires disclosure for financial instruments that are carried at fair value by level of the following fair value measurement hierarchy:

Level 1 — Quoted price (unadjusted) in active markets for identical assets or liabilities.

Level 2 — Inputs other than quoted price included within Level 1 that are observable for the assets or liabilities, either directly or indirectly.

Level 3 — Inputs for the asset or liability that are not based on observable market data.

At 31 December 2009, the Group's trading securities and derivative component of convertible bonds are measured at fair value. During the year, there were no transfers between instruments in Level 1 and Level 2.

	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
Assets				
Trading securities	130,994	—	—	130,994
Liabilities				
Derivative component of convertible bonds	—	—	17,648	17,648

43. SUBSEQUENT EVENTS

(a) On 24 August 2009, the Group entered into a sales and purchase agreement with Fast Sky Holdings Limited (the "Vendor"), pursuant to which the Group agreed to acquire from the Vendor the remaining 30% equity interest in Gofar of which the Group is interested in as to 70% at a consideration of HK$61,200,000 satisfied by the Group by procuring the Company to issue 1,000,000,000 consideration shares at HK$0.0612 each upon completion. The acquisition of the remaining 30% interest had been completed on 11 February 2010, and Gofar became the wholly-owned subsidiary of the Group.

(b) On 18 December 2009, Ocean Path Limited, a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement with Golden Concord Group Limited for the acquisition of 100% equity interest in Ocean Jade Investments Limited ("Ocean Jade") which has entered into an agreement with Waibert Navigation Company Limited, the holding company of which is Guangdong Province Navigation Holdings Co. Ltd., a state-owned enterprise, to establish a joint-venture company for carrying out shipment business. The total consideration of this acquisition shall not be less than HK$150,000,000. As the acquisition of Ocean Jade has not been completed before the date of approval of these financial statements, it is not practical to disclose further details about the acquisition.

(c) Pursuant to a placing agreement dated 15 January 2010 between the Company, King Castle Enterprises Limited, CITIC Securities Brokerage (HK) Limited (the Placing Agent") and Mr. Ko Fong, the Company agreed to place through the Placing Agent 1,500,000,000 shares of the Company at the placing price of HK$0.159 per share. The placing was completed on 29 January 2010 and net proceeds of approximately HK$238,500,000 were received on 21 January 2010.

44. LITIGATIONS

There are three outstanding litigation cases between the Company and Mr. Chan Tat Chee ("Mr. Chan"), a former director of the Company, particulars are set out as follows:-

(a) On 6 January 2009, the Company sued against Mr. Chan for the return of a sum of HK$3,000,000. Mr. Chan defended and counterclaimed the Company for a total sum of HK$17,046,206. The case was adjourned pending the disposal of the Company's interlocutory applications under the case referred to in note (c) below.

(b) On 9 March 2009, Mr. Chan claimed against the Company for a sum of HK$1,500,000 being his loan advanced to the Company and the Company defended the suit. The case was adjourned pending the disposal of the Company's interlocutory applications under the case referred to in note (c) below.

(c) On 27 March 2009, the Company issued a writ of summons against Mr. Chan to claim against him for a total sum of HK$25,183,600 being funds Mr. Chan admitted to have been stolen and/or misappropriated by him, either personally or conspired with others, from the Company. The Company took out two interlocutory applications to enter judgment against Mr. Chan summarily. By a written decision handed down by the High Court of the Hong Kong Special Administrative Region, Court of First Instance on 19 January 2010, judgment was awarded against Mr. Chan and he shall pay to the Company the claimed sum of HK$25,183,600 together with the costs and interest thereon (the "Judgment"). The Defendant is applying to appeal against the Judgment out of time although the time for appeal allowed had lapsed. The Company had opposed to such application.

The directors are of the view that the above outstanding litigation cases will not have any material impact on the financial statements.

FIVE-YEAR FINANCIAL SUMMARY

Year ended 31st December 2009

	2009 HK$'000	2008 HK$'000	2007 HK$'000 (restated)	2006 HK$'000	2005 HK$'000
RESULTS					
Turnover:					
Continuing operation	**111,687**	108,130	81,428	24,965	—
Discontinued operations	**—**	—	—	31,666	707,003
	111,687	108,130	81,428	56,631	707,003
Proft/(loss) before tax:					
Continuing operation	**1,231**	(40,719)	(35,628)	(31,289)	(261,013)
Discontinued operations	**—**	—	246	(1,004)	(9,058)
	1,231	(40,719)	(35,382)	(32,293)	(270,071)
Income Tax	**(7,309)**	3	—	—	—
Loss for the year	**(6,078)**	(40,716)	(35,382)	(32,293)	(270,071)
Non-controlling interest	**(2,153)**	(2,851)	(4,271)	(605)	(415)
Loss attributable to equity holders of the Company	**(3,925)**	(37,865)	(31,111)	(31,688)	(269,656)
ASSETS AND LIABILITIES					
Total assets	**1,503,150**	753,310	478,653	433,193	412,144
Total liabilities	**(734,707)**	(397,031)	(440,498)	(344,302)	(294,466)
	768,443	356,279	38,155	88,891	117,678
Equity attribute to equity holders of the Company	**538,626**	353,257	32,627	79,559	108,086
Non-controlling interest	**229,817**	3,022	5,528	9,332	9,592
	768,443	356,279	38,155	88,891	117,678