NOTES TO FINANCIAL STATEMENTS

For the period from 1st July, 2004 to 31st December, 2005

1. GENERAL AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office and principal place of business of the Company is disclosed in the section under Corporate Information.

The financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

The Company is an investment holding company. The activities of its principal subsidiaries, associates and jointly controlled entities are set out in notes 43, 17 and 18 respectively.

The consolidated financial statements for the current period cover eighteen months ended 31st December, 2005. The corresponding comparative amounts shown for the consolidated income statement, consolidated statement of changes in equity, consolidated cash flow statement and related notes cover a twelve-month period from 1st July, 2003 to 30th June, 2004 and therefore may not be comparable with amounts shown for the current period. The period covered by the 2005 consolidated financial statements is greater than twelve months because the directors of the Company determined to bring the balance sheet date of the Company in line with that of major operating subsidiaries established in the People's Republic of China other than Hong Kong (the "PRC") and with that of its single largest shareholder.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

On 1st July, 2004, the Group has early applied all of the new Hong Kong Financial Reporting Standards (HKFRSs), Hong Kong Accounting Standards (HKASs) and Interpretations (hereinafter collectively referred to as the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and the consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates and jointly controlled entities has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and/or prior accounting periods are prepared and presented:

Business combinations

In the current period, the Group has applied HKFRS 3 "Business Combinations" which is effective for business combinations for which the agreement date is on or after 1st July, 2004 and for existing goodwill as at 1st July, 2004. The principal effects of the application of transitional provision of HKFRS 3 to the Group are summarised below:

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

Goodwill

In previous years, goodwill arising on acquisitions was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously capitalised on the balance sheet, the Group on 1st July, 2004 eliminated the carrying amount of the related accumulated amortisation of HK$2,583,000 with a corresponding decrease in the cost of goodwill (see note 15). The Group has discontinued amortising such goodwill from 1st July, 2004 onwards and such goodwill will be tested for impairment at least annually and in the financial year in which the acquisition takes place. Goodwill arising on acquisitions after 1st July, 2004 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period. Comparative figures for 2004 have not been restated (see note 3 for the financial impact).

In the current period, the Group has also applied HKAS 21 "The Effects of Changes in Foreign Exchange Rates" which requires goodwill to be treated as assets and liabilities of the foreign operation and translated at closing rate at each balance sheet date. Previously, goodwill arising on acquisitions of foreign operations was reported at the historical rate at each balance sheet date. In accordance with the relevant transitional provisions in HKAS 21, goodwill arising on acquisitions prior to 1st July, 2004 is treated as a non-monetary foreign currency item. Therefore, no prior period adjustment has been made. In the current period, the Group acquired a foreign operation, and goodwill arose on the acquisition of that foreign operation has been translated at the closing rate at 31st December, 2005, however, no material impact on the balance of the exchange reserve at 31st December, 2005.

Financial instruments

In the current period, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. The application of HKAS 32 has had no material effect on the presentation of financial instruments in the financial statements of the Group. HKAS 39 generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

NOTES TO FINANCIAL STATEMENTS

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39. By 30th June, 2004, the Group classified and measured its equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 "Accounting for Investment in Securities" (SSAP 24). Under SSAP 24, investments equity securities are classified as "investment securities" and "other investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in the profit or loss. On 1st July, 2004, the Group classifies and measures its equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". The classification depends on the purpose for which the assets are acquired. "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Available-for-sale financial assets" are carried at cost less impairment, when fair value cannot be reliably measured. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method. On 1st July, 2004, the Group reclassified the investments in securities in accordance with the requirement of HKAS 39 (see note 3 for the financial impact). The Group reclassified its "investment securities" as available-for-sale investments, which are unlisted equity securities whose fair value cannot be measured reliably and hence are stated at cost less impairment loss. Impairment loss for financial assets carried at cost cannot be reversed subsequently. The Group reclassified its "other investments" as investments held for trading that no adjustment to the carrying amount at 1st July, 2004 is required.

Financial assets and financial liabilities other than debt and equity securities

From 1st July, 2004 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Other financial liabilities" are carried at amortised cost using the effective interest method. Adjustments to the previous carrying amounts of assets or liabilities at 1st July, 2004 have been made to the Group's accumulated losses and minority interests respectively (see note 3 for the financial impact).

Owner-occupied leasehold interest in land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current period, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments on land use rights under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see note 3 for the financial impact).

NOTES TO FINANCIAL STATEMENTS

For the period from 1st July, 2004 to 31st December, 2005

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (Continued)

Impacts on the balance sheet of the Company

Prior to the application of HKAS 39, the interest-free non-current amounts due from subsidiaries were stated at the nominal amount. HKAS 39 requires all financial assets and financial liabilities to be measured at fair value on initial recognition. Such interest-free receivables are measured at amortised cost determined using the effective interest method at subsequent balance sheet dates. The Company has applied the relevant transitional provisions in HKAS 39. As a result of this change in the accounting policy, the carrying amount of the amounts due from subsidiaries as at 1st July, 2004 has been decreased by HK$7,508,000 in order to state the amounts at amortised cost in accordance with HKAS 39. The Company's accumulated losses as at 1st July, 2004 has been increased by HK$7,508,000 correspondingly, which represents the impairment loss made on the deemed capital contribution to the subsidiaries upon recognition of the amounts due from subsidiaries.

However, the Group has not early applied the following new standards and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these Standards or Interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment[3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economics[4]

[1] Effective for annual periods beginning on or after 1st January, 2007.
[2] Effective for annual periods beginning on or after 1st January, 2006.
[3] Effective for annual periods beginning on or after 1st December, 2005.
[4] Effective for annual periods beginning on or after 1st March, 2006.

NOTES TO FINANCIAL STATEMENTS

For the period from 1st July, 2004 to 31st December, 2005

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES ON THE GROUP

The effects of the changes in the accounting policies described above on the results for the current and prior period/year are as follows:

	1.7.2004 to 31.12.2005 HK$'000	1.7.2003 to 30.6.2004 HK$'000
Decrease in amortisation of goodwill	**7,473**	–
Decrease in amortisation of goodwill arising on acquisition of associates included in share of losses of associates	**6,643**	–
Increase in impairment loss recognised in respect of interests in associates	**(4,305)**	–
Increase in taxation for associates included in share of losses of associates	**(195)**	(38)
Decrease in taxation for associates included in taxation	**195**	38
Increase in imputed interest expense on other borrowings and loan from an associate included in finance costs	**(4,301)**	–
Decrease in loss for the period/year	**5,510**	–

NOTES TO FINANCIAL STATEMENTS

For the period from 1st July, 2004 to 31st December, 2005

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES ON THE GROUP (Continued)

The cumulative effects of the application of the new HKFRSs as at 30th June, 2004 and 1st July, 2004 are summarised below:

	As at 30.6.2004 (originally stated)	**Effect of HKAS 1**	**Effect of HKAS 17**	**As at 30.6.2004 (restated)**	**Effect of HKAS 39**	**As at 1.7.2004 (restated)**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance sheet items affected:						
Property, plant and equipment	26,371	–	(485)	25,886	–	25,886
Prepaid lease payments on land use rights	–	–	485	485	–	485
Investments in securities	152,202	–	–	152,202	(152,202)	–
Available-for-sale investments	–	–	–	–	140,934	140,934
Investments held for trading	–	–	–	–	11,268	11,268
Loan from an associate	(14,130)	–	–	(14,130)	1,190	(12,940)
Borrowings	(37,500)	–	–	(37,500)	3,657	(33,843)
Total effects on assets and liabilities	126,943	–	–	126,943	4,847	131,790
Accumulated losses	(1,099,734)	–	–	(1,099,734)	4,264	(1,095,470)
Minority interests	–	25,637	–	25,637	583	26,220
Total effects on equity	(1,099,734)	25,637	–	(1,074,097)	4,847	(1,069,250)
Minority interests	25,637	(25,637)	–	–	–	–

For the application of the new HKFRSs, there has been no material impact on the Group's equity as at 1st July, 2004.

NOTES TO FINANCIAL STATEMENTS

For the period from 1st July, 2004 to 31st December, 2005

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at revalued amounts or fair values, as explained in the accounting policies set out below.

The financial statements have been prepared in accordance with the new HKFRSs issued by the HKICPA. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Companies Ordinance.

Basis of consolidation

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

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

All significant inter-company transactions and balances within the Group have been eliminated on consolidation.

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

Goodwill

Goodwill arising on acquisitions prior to 1st July, 2004

Goodwill arising on an acquisition of a subsidiary or an associate for which the agreement date is before 1st July, 2004 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary or associate at the date of acquisition.

For previously capitalised goodwill arising on acquisitions after 1st January 2001, the Group has discontinued amortisation from 1st July, 2004 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired.

Goodwill arising on acquisitions on or after 1st July, 2004

Goodwill arising on an acquisition of a subsidiary or an associate for which the agreement date is on or after 1st July, 2004 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant a subsidiary or an associate at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

Goodwill arising on acquisitions on or after 1st July, 2004 (Continued)

Capitalised goodwill arising on an acquisition of an associate (which is accounted for using the equity method) is included in the cost of the investment of the relevant associate.

For the purposes of impairment testing, goodwill arising from an acquisition of subsidiary is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, an associate or a jointly controlled entity, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Additional interests in subsidiaries are measured at the aggregate of the carrying amounts of identified assets and liabilities of the subsidiaries and any excess of the consideration over the net assets acquired are accounted for as goodwill.

For goodwill arising on acquisition of an associate or a jointly controlled entity, the goodwill included in the carrying amount of interests in an associate or a jointly controlled entity is not separately tested for impairment. Instead, the entire carrying amount of the interests in an associate or a jointly controlled entity is tested for impairment by comparing the Group's share of the present value of the estimated future cash flows expected to be generated by the associate or jointly controlled entity with its carrying amount. Any impairment loss identified is recognised and is allocated first to goodwill.

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 sales related taxes.

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

Service income is recognised when services are provided.

Revenue from sale of trading securities are recognised when the relevant sales contracts become unconditional.

NOTES TO FINANCIAL STATEMENTS

For the period from 1st July, 2004 to 31st December, 2005

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Rental income, including rentals invoiced in advance from properties let under operating leases, is recognised in a straight line basis over the term of the relevant lease.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Construction in progress is stated at cost which includes all development expenditure and the direct costs including borrowing costs capitalised attributable to such projects less impairment losses. Construction in progress is not depreciated until the completion of construction. Cost of completed construction work is transferred to appropriate category of property, plant and equipment.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives, using the straight-line method, at the following rates per annum:

Buildings	2%
Leasehold improvements	4% – 20% or over the lease terms, whichever is shorter
Furniture, fixtures and equipment	15% – 25%
Plant and machinery	10% – 20%
Motor vehicles	10% – 25%

Assets held under finance leases are depreciated over their estimated useful lives on the same basis as owned assets.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Assets held under finance leases

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

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in subsidiaries

A subsidiary is an entity, including unincorporated entity, in which the Company has power to govern the financial and operating policies so as to obtain benefits from its activities.

Investments in subsidiaries are included in the Company's balance sheet at cost, less any identified impairment loss.

Investments in associates

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Investments in jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment losses (other than goodwill)

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset 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 in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets at fair value through profit or loss

At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, which represents investment held for trade with changes in fair value recognised directly in profit or loss in the period in which they arise.

Trade receivables, other receivables, deposits, loans to shareholders of associates, amount due from an associate and loan to a partner of a jointly controlled entity

At each balance sheet date subsequent to initial recognition, trade receivables, other receivables, deposits, loans to shareholders of associates, amount due from an associate and loan to a partner of a jointly controlled entity are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories, including financial assets at fair value through profit or loss, loans and receivables and held-to-maturity investments. For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and are subject to an insignificant risk of changes in value.

Bank borrowings and obligations under finance leases

Interest-bearing bank loans and obligations under finance leases are initially recorded at fair value and are subsequently measured at amortised cost, using the effective interest rate method. Finance costs, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis to the income statement using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Other borrowings, trade payables, other payables, amounts due to jointly controlled entities and minority shareholders

Other borrowings, trade payables, other payables, amounts due to jointly controlled entities and minority shareholders are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Taxation

Taxation represents the sum of the tax currently payable and deferred tax.

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

Deferred tax is the tax expected to be payable or recoverable 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 recognised to the extent that it is probable that taxable profits will be available against which 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 assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Retirement benefit scheme

Payments to the retirement benefit schemes and mandatory provident fund schemes are charged as an expenses as they fall due.

NOTES TO FINANCIAL STATEMENTS

For the period from 1st July, 2004 to 31st December, 2005

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Operating leases

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

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, 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.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31st December, 2005, the carrying amount of goodwill arising on acquisition of subsidiaries is HK$100,158,000. Details of recoverable amount calculation are disclosed in note 15.

Estimated impairment loss for trade and other receivables

The Group makes impairment loss for its trade and other receivables based on assessment of the recoverability of these receivables. Impairment losses are made to or reversed from the receivables where events or changes in circumstances indicate that the balances may not be collectible or proved to be collectible respectively. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of the receivables and impairment loss in the period/year in which such estimate has been changed.

6. TURNOVER AND SEGMENT INFORMATION

Turnover is analysed as follows:

	1.7.2004 to 31.12.2005 HK$'000	1.7.2003 to 30.6.2004 HK$'000
Gas related sales	**156,729**	18,205
Sales of investments held for trading/other investments	**14,007**	137,836
Interest income	**1,288**	1,186
	172,024	157,227

NOTES TO FINANCIAL STATEMENTS

For the period from 1st July, 2004 to 31st December, 2005

6. TURNOVER AND SEGMENT INFORMATION (Continued)

Business segments

For management purposes, the Group is organised into three operating divisions – gas related sales, securities trading and investment holding and treasury activities. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

Income statement for the eighteen months ended 31st December, 2005

	Gas related sales HK$'000	Securities trading and investment holding HK$'000	Treasury activities HK$'000	Consolidated HK$'000
TURNOVER				
External	156,729	14,007	1,288	172,024
Segment result	47,073	(165,510)	1,234	(117,203)
Unallocated other income				2,855
Unallocated corporate expenses				(334)
Finance costs				(10,545)
Gain on disposal of subsidiaries				2,917
Gain on disposal of associates				1,446
Gain on disposal of available-for-sale investments				6,123
Impairment loss recognised in respect of interests in associates				(27,980)
Share of results of associates				(826)
Share of results of jointly controlled entities				(235)
Loss before taxation				(143,782)
Taxation				(3,802)
Loss for the period				(147,584)

	Gas related sales HK$'000	Securities trading and investment holding HK$'000	Treasury activities HK$'000	Consolidated HK$'000
OTHER INFORMATION				
Capital expenditure	130,890	18	–	130,908
Depreciation and amortisation	3,054	918	29	4,001

NOTES TO FINANCIAL STATEMENTS

For the period from 1st July, 2004 to 31st December, 2005

6. TURNOVER AND SEGMENT INFORMATION (Continued)

Business segments (Continued)

Balance sheet at 31st December, 2005

	Gas related sales HK$'000	**Securities trading and investment holding HK$'000**	**Treasury activities HK$'000**	**Consolidated HK$'000**
ASSETS				
Segment assets	**361,071**	**21,448**	**32,358**	**414,877**
Interests in associates				**46,859**
Interests in jointly controlled entities				**18,220**
Consolidated total assets				**479,956**
LIABILITIES				
Segment liabilities	**59,030**	**10,993**	**–**	**70,023**
Borrowings				**77,612**
				147,635

Income statement for the year ended 30th June, 2004 (Restated)

	Gas related sales HK$'000	Securities trading and investment holding HK$'000	Treasury activities HK$'000	Consolidated HK$'000
TURNOVER				
External	18,205	137,836	1,186	157,227
Segment result	3,132	(6,279)	351	(2,796)
Unallocated other income				1,213
Unrealised gain on other investments		745		745
Amortisation of goodwill	(1,245)			(1,245)
Unallocated corporate expenses				(6)
Finance costs				(597)
Gain on disposal of subsidiaries				553
Share of results of associates				(1,499)
Share of results of jointly controlled entities				(2,163)
Loss before taxation				(5,795)
Taxation				(111)
Loss for the year				(5,906)

NOTES TO FINANCIAL STATEMENTS

For the period from 1st July, 2004 to 31st December, 2005

6. TURNOVER AND SEGMENT INFORMATION (Continued)

Business segments (Continued)

	Gas related sales HK$'000	Securities trading and investment holding HK$'000	Treasury activities HK$'000	Consolidated HK$'000
OTHER INFORMATION				
Capital expenditure	122,812	2,793	–	125,605
Depreciation and amortisation	1,623	477	114	2,214

Balance sheet at 30th June, 2004

	Gas related sales HK$'000	Securities trading and investment holding HK$'000	Treasury activities HK$'000	Consolidated HK$'000
ASSETS				
Segment assets	187,667	159,604	31,698	378,969
Interests in associates				114,537
Interests in a jointly controlled entity				8,928
Consolidated total assets				502,434
LIABILITIES				
Segment liabilities	47,916	5,295	–	53,211
Borrowings				111,762
Loan from an associate				14,130
Unallocated corporate liabilities				222
				179,325

Geographical segments

The Group's operations are located in the PRC, Hong Kong and Singapore.

The following table provides an analysis of the Group's turnover by geographical market, irrespective of the origin of the goods/services:

	Turnover by geographical market	
	1.7.2004 to 31.12.2005 HK$'000	1.7.2003 to 30.6.2004 HK$'000
The PRC	**157,021**	18,205
Hong Kong	**15,003**	138,841
Singapore	**–**	181
	172,024	157,227

6. TURNOVER AND SEGMENT INFORMATION (Continued)

Geographical segments (Continued)

The following is an analysis of the carrying amount of segment assets and additions to property, plant and equipment and goodwill, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		**Additions to property, plant and equipment and goodwill**	
			1.7.2004	1.7.2003
	At	At	**to**	to
	31.12.2005	30.6.2004	**31.12.2005**	30.6.2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
The PRC	**382,227**	190,275	**130,890**	122,812
Hong Kong	**32,650**	188,694	**18**	2,793
	414,877	378,969	**130,908**	125,605

7. FINANCE COSTS

	1.7.2004 to 31.12.2005	1.7.2003 to 30.6.2004
	HK$'000	HK$'000
Interest on:		
Bank borrowings wholly repayable within five years	**6,055**	562
Other borrowings wholly repayable within five years	**63**	–
Finance leases	**126**	35
Imputed interest expense on other borrowings	**3,111**	–
Imputed interest expense on loan from an associate	**1,190**	–
	10,545	597

NOTES TO FINANCIAL STATEMENTS

For the period from 1st July, 2004 to 31st December, 2005

8. TAXATION

	1.7.2004 to 31.12.2005 HK$'000	1.7.2003 to 30.6.2004 HK$'000 (Restated)
The charge comprises:		
Profit for the period/year		
The PRC	**3,802**	111

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group has no assessable profit for the period.

Taxation arising in other jurisdictions was calculated at the rates prevailing in the respective jurisdictions.

The tax charge for the period/year can be reconciled to the loss before taxation per the consolidated income statement as follows:

	1.7.2004 to 31.12.2005 HK$'000	1.7.2003 to 30.6.2004 HK$'000 (Restated)
Loss before taxation	**(143,782)**	(5,795)
Tax at the Hong Kong Profits Tax rate of 17.5%	**(25,162)**	(1,014)
Tax effect of share of results of associates and jointly controlled entities	**186**	641
Tax effect of expenses not deductible for tax purpose	**32,019**	279
Tax effect of income not taxable for tax purpose	**(3,349)**	(364)
Tax effect of tax losses not recognised	**2,703**	1,319
Tax effect of utilisation of tax losses previously not recognised	**–**	(283)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(3,269)**	186
Others	**674**	(653)
Tax charge for the period/year	**3,802**	111

NOTES TO FINANCIAL STATEMENTS

9. LOSS FOR THE PERIOD/YEAR

	1.7.2004 to 31.12.2005 HK$'000	1.7.2003 to 30.6.2004 HK$'000
Loss for the period/year has been arrived at after charging (crediting):		
Auditors' remuneration:		
Current year	**1,443**	1,140
Underprovision in prior year	**120**	230
	1,563	1,370
Depreciation:		
Owned assets	**3,230**	726
Assets held under finance leases	**771**	243
Amortisation of prepaid lease payments	**10**	–
Operating lease rentals in respect of rented premises	**3,363**	574
Loss on disposal of property, plant and equipment	**3,038**	–
Staff costs including directors' remuneration	**16,914**	8,102
Reversal of impairment loss on trade receivables (as the amounts recovered during the period/year)	**(10,809)**	(200)
Cost of inventories recognised as expenses	**99,245**	12,606
Cost of investments held for trading/other investments recognised as expense	**14,122**	130,998
Net exchange loss	**1,214**	272

Contributions to retirement benefit scheme amounting to HK$302,000 (1.7.2003 to 30.6.2004: HK$278,000) are included in staff costs.

Operating lease rentals amounting to HK$442,000 in respect of rent-free accommodation are included in staff costs for the year ended 30th June, 2004.

NOTES TO FINANCIAL STATEMENTS

For the period from 1st July, 2004 to 31st December, 2005

10. DIRECTORS' REMUNERATION

The emoluments paid or payable to each of the 18 (1.7.2003 to 30.6.2004: 15) directors were as follows:

1st July, 2004 to 31st December, 2005

		Other emoluments			
	Fees	Basic salaries and allowances	Performance related incentive payments	Retirement benefit scheme contributions	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Ji Guirong	–	–	–	–	–
Lo Chi Ho, William	–	600	4,020	6	4,626
Sun Wenhao	–	–	–	–	–
Wu Ding	–	–	–	–	–
Ji Hui	–	300	–	5	305
George Han Hsiao Yue	–	216	–	17	233
Liu Yangu	–	–	–	–	–
Ka Ying	–	–	–	–	–
Bruce Cheung Kang Tong	–	619	–	31	650
Wen Tong Yun	–	–	–	–	–
Yang Yingsong	–	–	–	–	–
Wang Zhonghua	–	–	–	–	–
Zhong Qiang	–	–	–	–	–
Xiao Wei	–	–	–	–	–
Li Xinzhong	105	–	–	–	105
Tian Jianli	–	–	–	–	–
Li Zheng	–	–	–	–	–
Gerald Godfrey	37	–	–	–	37
Total	142	1,735	4,020	59	5,956

NOTES TO FINANCIAL STATEMENTS

For the period from 1st July, 2004 to 31st December, 2005

10. DIRECTORS' REMUNERATION (Continued)

1st July, 2003 to 30th June, 2004

		Other emoluments			
	Fees	Basic salaries and allowances	Performance related incentive payments	Retirement benefit scheme contributions	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Savio Kwong Chi Shing	–	2,217	–	76	2,293
Fung See Man	–	555	90	35	680
Ka Ying	–	–	–	–	–
Wen Tong Yun	–	–	–	–	–
Bruce Cheung Kang Tong	–	1,859	–	55	1,914
George Han Hsiao Yue	–	332	–	1	333
Jackson Kung Ming Foo	–	–	–	–	–
Liu Yangu	–	–	–	–	–
Yang Yingsong	–	–	–	–	–
Liu Cho Chit	–	–	–	–	–
Li Zheng	–	–	–	–	–
Gerald Godfrey	150	–	–	–	150
Michael Kan Yuet Yun	138	–	–	–	138
Li Xinzhong	–	–	–	–	–
Tian Jianli	–	–	–	–	–
Total	288	4,963	90	167	5,508

No directors waived any emoluments in the period ended 31st December, 2005 and year ended 30th June, 2004.

NOTES TO FINANCIAL STATEMENTS

For the period from 1st July, 2004 to 31st December, 2005

11. EMPLOYEES' REMUNERATION

The five highest paid individuals of the Group included two (1.7.2003 to 30.6.2004: four) executive directors of the Company, whose emoluments are included in note 10 above. The emoluments of the remaining three (1.7.2003 to 30.6.2004: one) individuals are as follows:

	1.7.2004 to 31.12.2005 HK$'000	1.7.2003 to 30.6.2004 HK$'000
Basic salaries and allowances	**2,463**	621
Retirement benefit scheme contribution	**159**	62
	2,622	683

	Number of individuals	
	1.7.2004 to 31.12.2005	1.7.2003 to 30.6.2004
Nil – HK$1,000,000	**2**	1
HK$1,000,001 – HK$1,500,000	**1**	–
	3	1

12. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss attributable to equity holders of the parent for the period from 1st July, 2004 to 31st December, 2005 of HK$159,767,000 (1.7.2003 to 30.6.2004: HK$7,028,000), and on the weighted average number of 500,391,862 shares (1.7.2003 to 30.6.2004: 268,111,113 shares) in issue during the period.

The weighted average number of shares for the purpose of calculation of basic loss per share has been adjusted for the consolidation of the Company's shares on 7th October, 2005.

The following table summarises the impact on basic loss per share as a result of:

	1.7.2004 to 31.12.2005 HK Cents	1.7.2003 to 30.6.2004 HK Cents
Reported figures before adjustments	**(33.03)**	(2.62)
Adjustments arising from changes in accounting policies *(note 3)*	**1.10**	–
Restated	**(31.93)**	(2.62)

The computation of diluted loss per share for the period did not assume the exercise of the Company's outstanding warrants as their exercise would result in a decrease in net loss per share for the period. The Company did not have any potential ordinary shares during the prior year.

NOTES TO FINANCIAL STATEMENTS

For the period from 1st July, 2004 to 31st December, 2005

13. PROPERTY, PLANT AND EQUIPMENT

THE GROUP

	Buildings situated in the PRC HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
COST							
At 1st July, 2003	–	826	2,601	–	455	–	3,882
Acquisition of subsidiaries	12,300	–	863	3,727	2,017	3,861	22,768
Additions	–	–	176	120	2,889	–	3,185
At 30th June, 2004	12,300	826	3,640	3,847	5,361	3,861	29,835
Acquisition of subsidiaries	3,514	–	109	133	411	32,376	36,543
Additions	11,780	–	292	502	1,398	78,642	92,614
Disposal of subsidiaries	–	–	(32)	–	(455)	(1,949)	(2,436)
Disposals	(4,006)	–	(9)	–	(1,463)	(1,538)	(7,016)
At 31st December, 2005	23,588	826	4,000	4,482	5,252	111,392	149,540
DEPRECIATION							
At 1st July, 2003	–	545	2,408	–	27	–	2,980
Provided for the year	158	165	210	127	309	–	969
At 30th June, 2004	158	710	2,618	127	336	–	3,949
Provided for the period	1,439	115	373	783	1,291	–	4,001
Disposal of subsidiaries	–	–	(28)	–	(170)	–	(198)
Eliminated on disposals	(898)	–	(2)	–	(454)	–	(1,354)
At 31st December, 2005	699	825	2,961	910	1,003	–	6,398
CARRYING VALUES							
At 31st December, 2005	22,889	1	1,039	3,572	4,249	111,392	143,142
At 30th June, 2004	12,142	116	1,022	3,720	5,025	3,861	25,886

The net book value of motor vehicles included an amount of HK$877,000 (30.6.2004: HK$2,861,000) in respect of assets held under finance leases.

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

THE COMPANY

	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
COST				
At 1st July, 2003	826	2,578	–	3,404
Additions	–	93	2,700	2,793
At 30th June, 2004	826	2,671	2,700	6,197
Additions	–	18	–	18
Disposal	–	–	(1,350)	(1,350)
At 31st December, 2005	826	2,689	1,350	4,865
DEPRECIATION				
At 1st July, 2003	545	2,389	–	2,934
Provided for the year	165	172	135	472
At 30th June, 2004	710	2,561	135	3,406
Provided for the period	115	61	743	919
Eliminated on disposal	–	–	(405)	(405)
At 31st December, 2005	825	2,622	473	3,920
CARRYING VALUES				
At 31st December, 2005	1	67	877	945
At 30th June, 2004	116	110	2,565	2,791

Motor vehicles of the Company are held under finance leases.

14. PREPAID LEASE PAYMENTS ON LAND USE RIGHTS

	THE GROUP 31.12.2005 HK$'000	30.6.2004 HK$'000
Prepaid lease payments on land use rights in the PRC under medium-term lease	**3,497**	485
Analysed for reporting purposes as:		
Non-current asset	**3,365**	475
Current asset	**132**	10
	3,497	485

NOTES TO FINANCIAL STATEMENTS

For the period from 1st July, 2004 to 31st December, 2005

15. GOODWILL

THE GROUP

	HK$'000
COST	
At 1st July, 2003	1,338
Arising on acquisition of subsidiaries	99,652
At 30th June, 2004	100,990
Elimination of accumulated amortisation upon the application of HKFRS 3 *(See note 2)*	(2,583)
Arising on acquisition of additional interests in subsidiaries	1,466
Arising on acquisition of subsidiaries	285
At 31st December, 2005	100,158
AMORTISATION	
At 1st July, 2003	1,338
Charge for the year	1,245
At 30th June, 2004	2,583
Elimination of accumulated amortisation upon the application of HKFRS 3 *(See note 2)*	(2,583)
At 31st December, 2005	–
CARRYING VALUES	
At 31st December, 2005	100,158
At 30th June, 2004	98,407

Until 30th June, 2004, goodwill is amortised using the straight-line method over its estimated useful life of 5 to 20 years.

For the purposes of impairment testing, the goodwill is mainly attributable to an individual cash generating unit, comprising Global King Investments Limited and its subsidiaries in the segment of gas related sales.

During the period ended 31st December, 2005, management of the Group determined that there are no impairment of the unit containing the goodwill by reference to the estimated recoverable amounts of the unit. The recoverable amounts of the units have been determined based on value in use calculations. That calculation uses cash flow projections based on financial budgets approved by management covering 2-year period, and discount rate of 15.9%. The units' cash flows beyond 2-year period are extrapolated using a zero growth rate. Another key assumption for the value in use calculations is the budgeted gross margin, which is determined based on the equivalent unit's past performance and management's expectations of the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the units to exceed the aggregate recoverable amount of the units.

NOTES TO FINANCIAL STATEMENTS

For the period from 1st July, 2004 to 31st December, 2005

16. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	31.12.2005	30.6.2004
	HK$'000	HK$'000
Unlisted shares, at cost	**12,405**	11,088
Amounts due from subsidiaries	**218,572**	559,568
	230,977	570,656
Impairment loss and allowance recognised	**(45,829)**	(456,886)
	185,148	113,770

The amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment. The Company has agreed not to demand repayment in the next twelve months from the balance sheet date and accordingly, the amounts are shown as non-current assets and measured at amortised cost at the effective interest rate of 6.7% per annum.

The investment costs of and amounts due from certain subsidiaries had been impaired by reference to the relevant discontinued future cash flows generated from the interests in subsidiaries as these subsidiaries were loss-making or inactive as at balance sheet date.

Particulars of the Company's principal subsidiaries as at 31st December, 2005 are set out in note 43.

17. INTERESTS IN ASSOCIATES

	THE GROUP	
	31.12.2005	30.6.2004
	HK$'000	HK$'000
Cost of investment in unlisted associates	**74,111**	114,929
Impairment loss on cost of investment	**(27,980)**	–
	46,131	114,929
Share of post-acquisition profit (loss)	**728**	(392)
	46,859	114,537

The cost of investment in the associates had been impaired to the extent of the shortfall of the estimated recoverable amounts from the cost of investment as detailed below.

NOTES TO FINANCIAL STATEMENTS

For the period from 1st July, 2004 to 31st December, 2005

17. INTERESTS IN ASSOCIATES (Continued)

Included in the cost of investment in the associates is goodwill of HK$30,784,000 (30.6.2004: HK$58,764,000) arising on acquisitions of the associates in prior years. The movement of goodwill is set out below.

	HK$'000
COST	
At 1st July, 2003	–
Arising on acquisitions of the associates	59,871
At 30th June, 2004	59,871
Elimination of accumulated amortisation upon the application of HKFRS 3	(1,107)
At 31st December, 2005	58,764
AMORTISATION	
At 1st July, 2003	–
Charge for the year	1,107
At 30th June, 2004	1,107
Elimination of accumulated amortisation upon the application of HKFRS 3	(1,107)
At 31st December, 2005	–
IMPAIRMENT	
At 1st July, 2003 and 1st July, 2004	–
Impairment loss recognised for the period	27,980
At 31st December, 2005	27,980
CARRYING VALUES	
At 31st December, 2005	30,784
At 30th June, 2004	58,764

Until 30th June, 2004, goodwill had been amortised over a period ranging from 10 to 20 years.

For the purposes of impairment testing, the goodwill is mainly attributable to two individual cash generating units for two associate groups respectively, including Tone Communication Limited and its subsidiaries ("Tone") in the segment of development and manufacture of bio-agricultural pesticide products and Solution Technology Limited and its subsidiary ("Solution") in provision of gas related services. The carrying amounts of goodwill (net of accumulated impairment loss) as at 31st December, 2005 are fully attributable to Solution as the goodwill for Tone had been fully impaired.

During the period ended 31st December, 2005, the Group recognised an impairment loss of HK$27,980,000 in relation to goodwill arising on acquisition of Tone. Due to increased competition in the market and deteriorating cash flow forecasts for this unit, management has therefore recognised full impairment on the goodwill.

NOTES TO FINANCIAL STATEMENTS

For the period from 1st July, 2004 to 31st December, 2005

17. INTERESTS IN ASSOCIATES (Continued)

The recoverable amounts of Solution have been determined based on value in use calculations. That calculation uses cash flow projections based on financial budgets for 2 years approved by management, and discount rate of 15.9%. The units' cash flows beyond financial budget period are extrapolated by 8 years using a zero growth rate. Another key assumption for the value in use calculations is the budgeted gross margin, which is determined based on the equivalent unit's past performance and management's expectations of the market development.

Particulars of the Group's associates as at 31st December, 2005 are as follows:

Name of company	Form of business structure	Place of incorporation/ establishment and operation	Proportion of nominal value of issued ordinary capital/ registered capital held by the Group %	Principal activities
Tone Communication Limited	Incorporated	British Virgin Islands	30	Investment holding
Trend Technology Limited	Incorporated	British Virgin Islands	21.6	Investment holding
趨勢(鄂州)科技有限公司 Trend (Ezhou) Technology Limited	Incorporated	The PRC	21.6	Development and manufacture of bio-agricultural pesticide products
Solution Technology Limited	Incorporated	British Virgin Islands	49	Investment holding
銀川潔能科技有限公司 Yinchuan Sinogas Company Limited	Incorporated	The PRC	34.3	Gas related services

During the period, the Group disposed of its interests in certain associates, including 上海中油企業集團有限公司, 上海中油投資擔保有限公司 and 上海企發石油化工有限公司.

The above table lists the associates of the Group as at 31st December, 2005 which, in the opinion of the directors, principally affected the results for the period or formed a substantial portion of the assets of the Group. To give details of the other associates would, in the opinion of the directors, result in particulars of excessive length.

NOTES TO FINANCIAL STATEMENTS

For the period from 1st July, 2004 to 31st December, 2005

17. INTERESTS IN ASSOCIATES (Continued)

Summarised financial information in respect of the Group's associates is set out below:

Post-acquisition results for the period/year

	1.7.2004 to 31.12.2005 HK$'000	1.7.2003 to 30.6.2004 HK$'000
Turnover	**424,376**	35,485
Loss for the period/year	**(1,467)**	(1,203)
Group's share of associates' loss for the period/year	**(826)**	(1,499)

Financial position

	31.12.2005 HK$'000	30.6.2004 HK$'000
Total assets	**91,581**	399,490
Total liabilities	**(29,897)**	(239,700)
Net assets	**61,684**	159,790
Group's share of associates' net assets	**16,075**	55,773

18. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	THE GROUP	
	31.12.2005 HK$'000	30.6.2004 HK$'000
Cost of investment in unlisted jointly controlled entities	**18,420**	11,105
Share of post-acquisition losses	**(200)**	(2,177)
	18,220	8,928

Particulars of the Group's jointly controlled entities as at 31st December, 2005 are as follows:

Name of company	Form of business structure	Place of establishment and operation	Proportion of nominal value of registered capital held by the Group %	Principal activities
中油潔能(珠海)石化有限公司 Sino Gas (Zhuhai) Limited	Incorporated	The PRC	50	Gas related services
山東中油潔能天然氣有限公司 Shandong Sinogas Company Limited	Incorporated	The PRC	50	Gas related services

NOTES TO FINANCIAL STATEMENTS

For the period from 1st July, 2004 to 31st December, 2005

18. INTERESTS IN JOINTLY CONTROLLED ENTITIES (Continued)

During the period, the Group disposed of 60% interest in a jointly controlled entity, Shandong International Economic Development Corporation ("SIEDC"), following the disposal of its immediate holding company.

The Group holds 60% of the registered capital of SIEDC and controls voting power of 5 out of 9 in general meeting. However, under a shareholder's agreement, SIEDC is jointly controlled by the Group and the other significant shareholders. Therefore, SIEDC is classified as a jointly controlled entity of the Company.

Summarised financial information in respect of the Group's jointly controlled entities is set out below:

Post-acquisition results for the period/year

	1.7.2004 to 31.12.2005 HK$'000	1.7.2003 to 30.6.2004 HK$'000
Turnover	**–**	–
Loss for the period/year	**(419)**	(3,605)
Group's share of jointly controlled entities' loss for the period/year	**(235)**	(2,163)

Financial position

	31.12.2005 HK$'000	30.6.2004 HK$'000
Total assets	**26,602**	15,132
Total liabilities	**(934)**	(252)
Net assets	**25,668**	14,880
Group's share of jointly controlled entities' net assets	**18,220**	8,928

NOTES TO FINANCIAL STATEMENTS

For the period from 1st July, 2004 to 31st December, 2005

19. AVAILABLE-FOR-SALE INVESTMENTS/INVESTMENT SECURITIES

	Available–for-sale investments 31.12.2005 HK$'000	Investment securities 30.6.2004 HK$'000
THE GROUP		
Unlisted overseas equity securities	**148,208**	146,796
Impairment loss recognised	**(144,889)**	(5,862)
	3,319	140,934
THE COMPANY		
Unlisted overseas equity securities	**145,665**	145,666
Impairment loss recognised	**(144,889)**	(5,862)
	776	139,804

All available-for-sale investments are measured at cost less impairment at the balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

Available-for-sale investments include the Company's investment in 35% interest in the issued shares of CMEP Limited ("CMEP") at cost of HK$137,858,000 (30.6.2004: HK$137,858,000). CMEP is a private entity incorporated in the British Virgin Islands and is principally engaged in holding of a contractual right to receive fees from the business of trading of television commercial airtime in the PRC.

Pursuant to the agreement in relation to the sale and purchase of 35% of the issued share capital in CMEP (the "Sale and Purchase Agreement") dated 2nd January, 2003 entered into between China Media International Group Limited ("CMI") and the Company, the Company acquired 35% interest in CMEP at a consideration of HK$105,000,000 from CMI. The consideration was satisfied by cash of HK$82,000,000 and by the allotment and issue of 200,000,000 new ordinary shares in the Company of HK$0.02 (before share consolidation) each at an issue price of HK$0.115 each. However, the new ordinary shares were issued by reference to the closing market price of the shares of the Company at 10th February, 2003, the date of the allotment of shares, of HK$0.275 per share.

19. AVAILABLE-FOR-SALE INVESTMENTS/INVESTMENT SECURITIES (Continued)

In accordance with the Sale and Purchase Agreement, CMI undertook to the Company that the net profit after tax of CMEP for the period from 27th May, 2002 (the date of incorporation of CMEP) to 30th June, 2003, as shown in the audited financial statements of CMEP for such period, should not be less than HK$100,000,000, and that for each of the years ended 30th June, 2004 and 30th June, 2005 should not be less than HK$150,000,000. If the amount of the net profit after tax fall short of the undertaking amount, CMI should pay to or cause CMEP to pay, out of CMI's entitlement in CMEP's net profit for that period, to the Company the amounts of downward adjustment to the consideration. Furthermore, CMI undertook to procure at least 80% of the accounts receivables at 30th November, 2002 could be recovered in full within 9 months from the date of the Sale and Purchase Agreement. In other case, CMI undertook to pay to the Company an amount equal to 35% of the corresponding amount after tax net profit on the difference between the actual amount recovered and 100% of the accounts receivables at 30th November, 2002.

In addition, pursuant to the shareholders agreement dated 10th February, 2003 entered into between CMI and the Company (the "Shareholders Agreement"), the board of directors of CMEP shall comprise not less than two and not more than three directors, in which the Company should be entitled to appoint one director and CMI should be entitled to appoint up to two directors. However, after continuous negotiations between the Company and CMI, the Company could not appoint any representative to the board of CMEP. Since the Company did not have the ability to exercise significant influence over CMEP, the investment in CMEP was classified as investments in securities at that time.

The audited financial statements of CMEP for the period from 27th May, 2002 (date of incorporation of CMEP) to 30th June, 2003 have not been available to the Company for the period of time subsequent to 30th June, 2003.

As such, the Company issued a writ of summons in the Court of First Instance in Hong Kong against CMI on 18th February, 2004 to claim for, among others, damages for breach of the Sale and Purchase Agreement and the Shareholders Agreement. The writ served on CMI on 19th February, 2004 and a settlement was made between CMI and the Company in May 2004 and a consent order dated 6th May, 2004 was granted by the Court of First Instance wherein (i) CMI was obliged to deliver to the Company signed copies of the auditors' report of CMEP for the year 2003 together with a certificate of the amount of adjustment which is required to be made to the purchase consideration of the 35% of the issued share capital in CMEP for the year 2003 on or before 20th June, 2004; (ii) CMI should provide all necessary information, including but not limited to all necessary management accounts and/or consolidated accounts and/or other accounts and/or records, to ascertain the amount of the unrecovered portion on the accounts receivable of CMEP which the Company is entitled to receive under the Sale and Purchase Agreement; and (iii) CMI should pay the Company all sums due from CMI to the Company pursuant to the Sale and Purchase Agreement within 30 days of the date of delivery of the auditors report and information as referred to above.

NOTES TO FINANCIAL STATEMENTS

For the period from 1st July, 2004 to 31st December, 2005

19. AVAILABLE-FOR-SALE INVESTMENTS/INVESTMENT SECURITIES (Continued)

However, CMI has failed and/or refused to comply with any of the terms of the said order and therefore an application for judgment against CMI was made by the Company on 9th July, 2004. The hearing of application of judgement in respect of the action was conducted on 14th July, 2005. An interlocutory judgment was granted in favour of the Company and the Company would be compensated for, amongst other things, the damages suffered and the sum entitled under the Sale and Purchase Agreement.

Nevertheless, in the opinion of the directors, it is unable to assess the recoverability of the damages and the sum entitled, if any, due to the unavailable of the audited financial statements of CMEP for the period from 27th May, 2002 (date of incorporation of CMEP) to 30th June, 2003 and any subsequent periods. In addition, the directors of the Company could not contact the management of CMI to demand the damages and the sum entitled. Impairment loss of HK$137,858,000 (30.6.2004: nil) in respect of the investment in CMEP was recognised during the period since the directors considered that the investment is fully impaired as at 31st December, 2005.

The remaining impairment losses of HK$7,031,000 (30.6.2004: HK$5,862,000) as at 31st December, 2005 represent impairment losses recognised in respect of another available-for-sale investment in a private entity which determined by the directors with reference to the present value of the estimated cash flow of that investment.

20. INVENTORIES

	THE GROUP	
	31.12.2005	30.6.2004
	HK$'000	HK$'000
Conversion parts	**3,306**	9,619
Gas station equipment	**6,293**	5,683
Natural gas	**1,034**	2,112
	10,633	17,414

NOTES TO FINANCIAL STATEMENTS

For the period from 1st July, 2004 to 31st December, 2005

21. TRADE RECEIVABLES

	THE GROUP	
	31.12.2005	30.6.2004
	HK$'000	HK$'000
Trade receivables	**16,202**	20,302
Less: accumulated impairment	**–**	(10,809)
	16,202	9,493

The Group allowed an average credit period of 90 to 120 days to its trade customers.

The following is an aged analysis of trade receivables at the reporting date:

	THE GROUP	
	31.12.2005	30.6.2004
	HK$'000	HK$'000
0 – 90 days	**14,019**	2,343
91 – 120 days	**286**	1,267
Over 120 days	**1,897**	5,883
	16,202	9,493

The directors consider the carrying amounts of the trade receivables approximate their fair values.

22. LOANS TO SHAREHOLDERS OF ASSOCIATES

THE GROUP AND THE COMPANY

The loans are unsecured, bearing interest at 4% per annum and repayable within one year. The directors consider the carrying amounts of the loans approximate their fair values.

23. LOAN TO A SUBSIDIARY

THE COMPANY

The loan is unsecured, bearing interest at 3-month Hong Kong Interbank Offered Rate plus 2.5% per annum and repayable within one year.

The directors consider the carrying amount of the loan approximates its fair value.

NOTES TO FINANCIAL STATEMENTS

For the period from 1st July, 2004 to 31st December, 2005

24. OTHER FINANCIAL ASSETS

Other financial assets include other receivables, purchase and other deposits, amount due from an associate, loan to a partner of a jointly controlled entity and bank balances and cash.

Amount due from an associate is unsecured, interest free and repayable on demand.

Loan to a partner of a jointly controlled entity is unsecured, bearing interest at 3% per annum and repayable within one year.

Short term bank deposits and bank balances and cash comprise cash held by the Group with an original maturity of three months or less. The average interest rate is 1.15% per annum (1.7.2003 to 30.6.2004: 0.5% per annum).

The directors consider the carrying amounts of the other receivables, purchase and other deposits, amount due from an associate, loan to a partner of a jointly controlled entity and bank balances and cash approximate their fair values.

25. TRADE PAYABLES

The following is an aged analysis of trade payables at the reporting date:

	THE GROUP	
	31.12.2005	30.6.2004
	HK$'000	HK$'000
0 – 90 days	**3,315**	7,444
91 – 120 days	**–**	184
Over 120 days	**6,585**	265
	9,900	7,893

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

NOTES TO FINANCIAL STATEMENTS

For the period from 1st July, 2004 to 31st December, 2005

26. BORROWINGS

	THE GROUP		THE COMPANY	
	31.12.2005	30.6.2004	**31.12.2005**	30.6.2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank loans *(note a)*				
Secured	**–**	9,420	**–**	–
Unsecured	**37,680**	7,536	**–**	–
	37,680	16,956	**–**	–
Other loans *(note b)*	**39,104**	92,179	**2,150**	–
	76,784	109,135	**2,150**	–
The maturity of borrowings is as follows:				
Within one year	**76,784**	71,635	**2,150**	–
In the second year	**–**	37,500	**–**	–
	76,784	109,135	**2,150**	–
Less: Amounts due within one year shown under current liabilities	**(76,784)**	(71,635)	**(2,150)**	–
Amount due after one year	**–**	37,500	**–**	–

Notes:

(a) The Group obtained bank loans upon the acquisition of certain subsidiaries in March 2004. The loans bear interest at market rates and are repayable within one year. At 30th June, 2004, bank loan amounting to HK$9,420,000 was secured by a gas station and the shares of certain subsidiaries of the Company. The amount was repaid during the period. All of the bank loans are denominated in Renminbi and at floating interest rates, the average interest rates paid for the period were 6.7% per annum (1.7.2003 to 30.6.2004: 6% per annum).

(b) The amount at 31st December, 2005 included promissory note with a face value of HK$37,500,000 (30.6.2004: HK$37,500,000) issued upon the Group's acquisition of the 49% interest in Solution Technology Limited and its subsidiary in March 2004. The amount is unsecured, interest free and repayable in 2006. The remaining amount represented other loan of HK$2,150,000 (30.6.2004: nil) advanced from a third party. It is unsecured, interest free and repayable within one year. The amounts are measured at amortised cost at the balance sheet date with effective interest rate of 6% per annum.

At 30th June, 2004, the other loans also included promissory notes of HK$54,679,000 issued upon acquiring 51% interest in Global King Investments Limited and 30% interest of Tone Communication Limited. The amounts were repaid during the period.

(c) The directors consider the carrying amounts of the borrowings approximate their fair values.

NOTES TO FINANCIAL STATEMENTS

For the period from 1st July, 2004 to 31st December, 2005

27. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	31.12.2005	30.6.2004	**31.12.2005**	30.6.2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
THE GROUP				
Amount payable under finance leases				
Within one year	**267**	632	**236**	527
In the second year	**267**	632	**247**	551
In the third to fifth year inclusive	**356**	1,644	**345**	1,549
	890	2,908	**828**	2,627
Less: future finance charges	**(62)**	(281)	**–**	–
Present value of lease obligations	**828**	2,627	**828**	2,627
Less: Amount due within one year shown under current liabilities			**(236)**	(527)
Amount due after one year			**592**	2,100

NOTES TO FINANCIAL STATEMENTS

For the period from 1st July, 2004 to 31st December, 2005

27. OBLIGATIONS UNDER FINANCE LEASES (Continued)

	Minimum lease payments		Present value of minimum lease payments	
	31.12.2005	30.6.2004	**31.12.2005**	30.6.2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
THE COMPANY				
Amount payable under finance leases				
Within one year	**267**	534	**236**	443
In the second year	**267**	534	**247**	462
In the third to fifth year inclusive	**356**	1,513	**345**	1,423
	890	2,581	**828**	2,328
Less: future finance charges	**(62)**	(253)	**–**	–
Present value of lease obligations	**828**	2,328	**828**	2,328
Less: Amount due within one year shown under current liabilities			**(236)**	(443)
Amount due after one year			**592**	1,885

It is the Group's policy to lease certain motor vehicles under finance lease. The lease term is 5 years. For the period ended 31st December, 2005, the effective borrowing rates were 5% per annum (1.7.2003 to 30.6.2004: 5% per annum). Interest rates are fixed at the contract date. The lease is on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The directors consider the carrying amounts of the obligations under finance leases approximate their fair values.

28. OTHER FINANCIAL LIABILITIES

Other financial liabilities include other payables, amounts due to an associate, jointly controlled entities, minority shareholders and loan from an associate.

Amounts due to an associate, jointly controlled entities and minority shareholders are unsecured, interest free and have no fixed terms of repayment.

Loan from an associate is unsecured, interest free and due on 31st December, 2005 and the amount was repaid during the period.

The directors consider the carrying amounts of other payables, amounts due to an associate, jointly controlled entities, minority shareholders and loan from an associate approximate their fair values.

NOTES TO FINANCIAL STATEMENTS

29. SHARE CAPITAL

Shares

	THE GROUP AND THE COMPANY	
	Number of ordinary shares	**Nominal value**
	'000	HK$'000
Authorised:		
Ordinary shares of HK$0.02 each at 1st July, 2003 and 30th June, 2004	100,000,000	2,000,000
Consolidation of every 10 ordinary shares of HK$0.02 each to one ordinary share of HK$0.20 each	(90,000,000)	–
Ordinary shares of HK$0.20 each at 31st December, 2005	10,000,000	2,000,000
Issued and fully paid:		
Ordinary shares of HK$0.02 each at 1st July, 2003	1,853,011	37,060
Issue of shares by placements	370,000	7,400
Issue of right shares	926,506	18,530
Ordinary shares of HK$0.02 each at 30th June, 2004	3,149,517	62,990
Issue of shares by placements	200,000	4,000
Issue of shares by open offer	6,699,033	133,981
Consolidation of every 10 ordinary shares of HK$0.02 each to one ordinary share of HK$0.20 each	(9,043,695)	–
Ordinary shares of HK$0.20 each at 31st December, 2005	1,004,855	200,971

(a) On 25th August, 2004, the Company entered into two Placing Agreements (the "Placing") with Asian Basin Limited and Helmsman Limited (the "Placees"). As a result, an aggregate of 200,000,000 shares at the price of HK$0.095 per share were placed to the Placees. The placements were completed on 20th September, 2004.

(b) On 7th July, 2005, the Company made an open offer of new ordinary shares on the basis of two offer shares for every existing share. On 17th August, 2005, 6,699,033,510 ordinary shares of HK$0.02 each were issued at par upon completion of the new offer.

(c) Pursuant to the extraordinary general meeting held on 6th October, 2005, shareholders of the Company approved that every 10 issued and unissued ordinary shares of HK$0.02 each were consolidated into one ordinary share of HK$0.2 each. The consolidated shares are rank pari passu in all respects with the shares in issue prior to the share consolidation. The share consolidation took effect on 7th October, 2005.

NOTES TO FINANCIAL STATEMENTS

For the period from 1st July, 2004 to 31st December, 2005

29. SHARE CAPITAL (Continued)

Unlisted warrants

In connection with the Placing mentioned above, the Company also placed (a) HK$19,200,000 2005-warrants, with an issue price of HK$0.003 per unit, at an initial subscription price of HK$0.096 (subject to adjustment) for a period of twelve months commencing from the date of allotment and issue of 2005-warrants; and (b) HK$19,600,000 2006-warrants, with an issue price of HK$0.005 per unit, at an initial subscription price of HK$0.098 (subject to adjustment) for a period of twenty four months commencing from the date of allotment and issue of 2006-warrants, to the Placees.

As a consequence of the open offer announced on 16th August, 2005, the subscription price for new shares under the terms of relevant warrants were adjusted downwards with effect from 17th August, 2005.

	Original subscription price	**Adjusted subscription price**
	HK$	HK$
2005-warrants	0.096	0.056
2006-warrants	0.098	0.057

The 2005-warrants lapsed as of 31st December, 2005.

As a consequence of the share consolidation announced on 6th October, 2005, the subscription price for new shares under the terms of 2006-warrants were adjusted with effect from 7th October, 2005. Accordingly, each 2006-warrants which previously entitled the holder to subscribe HK$0.057 in cash for new shares now entitled the holder to subscribe HK$0.57 in cash for new shares.

No warrant was exercised during the period ended 31st December, 2005.

Options

The Company's share option scheme (the "Scheme"), which was adopted pursuant to a resolution passed on 5th January, 1993 for the purpose of providing incentives to directors and eligible employees, expired on 4th January, 2003.

All options granted under the Scheme had been lapsed before the expiry of the Scheme. A new share option scheme had been adopted by the shareholders on 15th April, 2005 and no share options were granted during the period ended 31st December, 2005.

30. SHARE PREMIUM AND RESERVES

	Share premium HK'000	Special capital reserve HK$'000 *(Note)*	Capital redemption reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
THE COMPANY					
At 1st July, 2003	471,986	828,646	3,865	(1,091,110)	213,387
Share issued at premium	27,750	–	–	–	27,750
Share issue expenses	(2,240)	–	–	–	(2,240)
Net loss for the year	–	–	–	(3,895)	(3,895)
At 30th June, 2004	497,496	828,646	3,865	(1,095,005)	235,002
At 1st July, 2004	497,496	828,646	3,865	(1,095,005)	235,002
Effect of adoption of HKAS 39 *(See note 2)*	–	–	–	(7,508)	(7,508)
As restated	497,496	828,646	3,865	(1,102,513)	227,494
Warrants issued at premium	1,600	–	–	–	1,600
Share issued at premium	15,000	–	–	–	15,000
Share issue expenses	(6,315)	–	–	–	(6,315)
Net loss for the period	–	–	–	(191,699)	(191,699)
At 31st December, 2005	507,781	828,646	3,865	(1,294,212)	46,080

Note: A summary of the terms of the undertaking given by the Company (the "Undertaking") in connection with the capital reduction during the year ended 31st March, 2000 (the "Capital Reduction") in respect of the application of the special capital reserve is set out below:

(i) The reserve shall not be treated as realised profits; and

(ii) The reserve shall be treated as an undistributable reserve for as long as there shall remain any outstanding debts or claims which were in existence on the date of the cancellation of the shares of the Company pursuant to the Capital Reduction, provided that the amount of the reserve may be reduced by the amount of any future increase in the share capital and the share premium account. Any part of the reserve so reduced is released from the terms of the Undertaking and the Company may apply that part so released as a distributable reserve.

In the opinion of the directors, the Company did not have any distributable reserve as at 31st December, 2005 and 30th June, 2004 respectively.

NOTES TO FINANCIAL STATEMENTS

For the period from 1st July, 2004 to 31st December, 2005

31. ACQUISITION OF SUBSIDIARIES

	2005 HK$'000	2004 HK$'000
Net assets acquired:		
Property, plant and equipment	**36,543**	22,768
Prepaid lease payments	**–**	485
Deposits paid for acquisition of plant and machinery	**20,724**	–
Interests in associates	**–**	40,818
Investments in securities	**–**	1,130
Inventories	**512**	7,454
Trade receivables	**118**	16,802
Other receivables, deposits and prepayments	**9,963**	48,890
Bank balances and cash	**2,828**	6,457
Trade payables	**(18,248)**	(7,784)
Other payables and accrued charges	**(9,384)**	(21,088)
Amount due to an associate	**–**	(2,334)
Tax payable	**–**	(468)
Borrowings	**–**	(48,042)
Loan from an associate	**–**	(14,130)
Minority interests	**(2,835)**	(24,515)
Net assets acquired	**40,221**	26,443
Goodwill arising on acquisition	**285**	99,652
	40,506	126,095
Satisfied by:		
Offset with consideration received from disposal of associates from which these subsidiaries had been acquired during the period	**26,188**	–
Cash consideration paid	**14,318**	81,095
Promissory notes	**–**	45,000
	40,506	126,095
Net cash outflow arising on acquisition:		
Cash consideration	**14,318**	81,095
Bank balances and cash acquired	**(2,828)**	(6,457)
	11,490	74,638

31. ACQUISITION OF SUBSIDIARIES (Continued)

On 13th December, 2005, an existing subsidiary of the Group, in which the Company owns 69% equity interest, acquired 70%, 100% and 100% of the registered capital of 宣城市城市燃氣有限公司, 南京中油燃氣有限公司, 無錫市中奧加油有限公司 respectively for total consideration of HK$40,506,000. The transactions has been accounted for by the purchase method of accounting. The directors of the Company determined that the fair value of the assets and liabilities of the subsidiaries acquired approximate to their carrying amounts before combination, accordingly no fair value adjustments have been put through.

The goodwill arising on the acquisition of the subsidiaries is attributable to the anticipated profitability of the Group's gas related activities in regional markets and the anticipated future operating synergies from the combination.

The subsidiaries acquired during the period did not make significant contribution to the Group's cash flows or operating results for the period.

However, if the acquisition has been completed on 1st July, 2004, total group revenue for the period would have been similar as current period actual amount but the loss for the period would have been increased to HK$164 million. The proforma information is for illustration purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1st July, 2004, nor is it intended to be a projection of future results.

During the prior year, the Group acquired 51% of the issued share capital of Global King Investments Limited ("Global King"). The acquisition of Global King and its subsidiaries had been accounted for by the purchase method of accounting. The amount of goodwill arising as a result of the acquisition was HK$99,652,000.

The subsidiaries acquired during the prior year generated HK$27,629,000 from the operating activities, and used HK$392,000 and HK$31,086,000 in respect of investing activities and financing activities respectively.

The subsidiaries acquired during the prior year contributed HK$18,205,000 to the Group's turnover and HK$1,887,000 to the Group's results for the prior year.

NOTES TO FINANCIAL STATEMENTS

For the period from 1st July, 2004 to 31st December, 2005

32. DISPOSAL OF SUBSIDIARIES

	2005 HK$'000	2004 HK$'000
Net assets disposed of:		
Property, plant and equipment	2,238	–
Interest in a jointly controlled entity	8,773	–
Inventories	12	–
Other receivables, deposits and prepayments	418	–
Bank balances and cash	71	–
Trade payables	(306)	–
Other payables and accrued charges	(1,148)	–
Amount due to an associate	(265)	–
Obligations under a finance lease	(272)	–
Minority interests	(141)	–
Net assets disposed of	9,380	–
Capital reserve released	(1,647)	–
Exchange reserve released	(2,562)	(253)
Gain on disposal of subsidiaries	2,917	553
Total consideration	8,088	300
Satisfied by:		
Cash consideration	8,088	300
Net cash inflow arising on disposal:		
Cash consideration	8,088	300
Bank balances and cash disposed of	(71)	–
	8,017	300

The subsidiaries disposed of during the current period and prior year did not have significant contribution to the Group's cash flows or operating results for the period/year.

NOTES TO FINANCIAL STATEMENTS

33. MAJOR NON-CASH TRANSACTIONS

During the period/year, the Group entered into the following major non-cash transactions:

(a) The Group acquired certain subsidiaries with part of the considerations of HK$26,188,000 settled by offsetting the proceeds receivable from disposal of associates during the period.

(b) The Group acquired certain subsidiaries and associates with part of the considerations of HK$92,179,000 by way of issuing promissory notes and included in the balance of the borrowings in prior year. In addition, part of the remaining consideration of HK$4,245,000 was not yet settled on the balance sheet date and included in the balance of other payables and accrued charges.

(c) In prior year, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of HK$2,400,000.

34. DEFERRED TAXATION

At the balance sheet date, the Group has unutilised tax losses of HK$132,665,000 (30.6.2004: HK$209,401,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unutilised tax losses due to the unpredictability of future profit streams.

35. RETIREMENT BENEFIT SCHEME

Prior to 1st December, 2000, the Group operated a defined contribution retirement benefit scheme ("Defined Contribution Scheme") for its qualifying employees in Hong Kong. The assets of the scheme were held separately from those of the Group in funds under the control of independent trustees. Where there are employees who leave the Defined Contribution Scheme prior to vesting fully in the contributions, the amounts of the forfeited contributions would be used to reduce future contributions payable by the Group.

With effect from 1st December, 2000, the Group has joined a Mandatory Provident Fund Scheme ("MPF Scheme") for all employees in Hong Kong joined the Group thereafter. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of independent trustees.

Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect of MPF scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years under the MPF Scheme.

The PRC employees of the subsidiaries in the PRC are members of the pension scheme operated by the PRC local government. The subsidiaries are required to contribute a certain percentage of the relevant payroll of these employees to the pension scheme to fund the benefits. The only obligation for the Group with respect of the pension scheme is the required contributions under the pension scheme.

NOTES TO FINANCIAL STATEMENTS

For the period from 1st July, 2004 to 31st December, 2005

35. RETIREMENT BENEFIT SCHEME (Continued)

During the period, the retirement benefits scheme contribution, net of forfeited contributions utilised of approximately HK$316,000 (1.7.2003 to 30.6.2004: nil), amounted to approximately HK$302,000 (1.7.2003 to 30.6.2004: HK$278,000).

At the balance sheet date, the Group had forfeited contributions of approximately HK$316,000 (30.6.2004: nil) available to reduce the contributions payable by the Group in the future years.

36. OPERATING LEASE ARRANGEMENTS

As lessee

At the balance sheet date, the Group and the Company had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	THE GROUP		THE COMPANY	
	31.12.2005	30.6.2004	**31.12.2005**	30.6.2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**2,511**	1,199	**793**	865
In the second to fifth year inclusive	**2,633**	1,618	**–**	1,081
More than five years	**994**	–	**–**	–
	6,138	2,817	**793**	1,946

Operating lease payments represent rentals payable by the Group and the Company for certain of its gas stations and office properties. Leases are negotiated for an average term of three years and rentals fixed over the terms of the leases.

As lessor

Property rental income earned during the period was HK$300,000 (1.7.2003 to 30.6.2004: HK$247,000). Certain of the rented premises have been sub-leased and have committed tenants for the next two years.

At the balance sheet date, the Group and the Company had contracted with tenants for the following future minimum lease payments:

	THE GROUP AND THE COMPANY	
	31.12.2005	30.6.2004
	HK$'000	HK$'000
Within one year	**183**	200
In the second to fifth year inclusive	**–**	283
	183	483

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37. CAPITAL COMMITMENTS

At the balance sheet date, the Group had capital commitments in respect of the acquisition of property, plant and equipment of HK$22,295,000 (30.6.2004: HK$50,000) contracted for but not provided in the financial statements.

38. PLEDGE OF ASSETS

At 30th June, 2004, the Group had pledged land and building with net book value of HK$7,968,000 and equity interests in certain subsidiaries as collateral for loan facilities of HK$9,420,000 granted to the Group by a bank. The pledge of assets was released during the period.

39. PENDING LITIGATIONS

In addition to the pending litigation set out in note 19 above, the Group had the following significant pending litigations as at 31st December, 2005:

(a) The Company was served on a writ of summons under High Court Action No. 1938 of 2005 (the "Action") in October 2005 wherein the plaintiff claimed against the Company for the sum of HK$2,150,000 being an alleged debt due and owing by the Company under a loan agreement dated 12th October, 2004 together with interest thereon since 12th February, 2005. The Company disputes the validity of such claims and is in the course of defending the Action. However, the loan had been provided for in the financial statements at the balance sheet date.

(b) The Company in October 2005 commenced High Court Action No. 2001 of 2005 against Mr. Zhang Jiahua and Ms. Wen Fu Rong, shareholders of an associate of the Group (details please see note (c) below) for sums including HK$2,300,000 and HK$12,000,000, and interest, due and owing to the Company under two loan agreements. In January 2006, the Company obtained judgment against the defendants for the sums of HK$2,436,000 and HK$12,509,000 plus further interest, and indemnities and costs to be assessed. The Company is taking enforcement action against the defendants in respect of the judgment and the directors believe that the full amounts can be recovered.

(c) Speed Wealth Enterprises Limited ("Speed Wealth") (a wholly owned subsidiary of the Company) in November 2005 commenced High Court Action No. 2302 of 2005 against Mr. Zhang Jiahua and Ms. Wen Fu Rong seeking various remedies in respect of the breach of a shareholders agreement dated 29th March, 2004. Speed Wealth and the defendants are shareholders in an investment holding company, Solution Technology Limited. Speed Wealth is the beneficial owner of 49% of the shares in Solution Technology Limited, and each of the defendants is a beneficial owner of 25.5% of the shares. Speed Wealth is in the course of serving the writ of summons upon the defendants.

However, in the opinion of the directors, there had been no material impact on the financial statements for the period ended 31st December, 2005.

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For the period from 1st July, 2004 to 31st December, 2005

40. CONTINGENT LIABILITIES

At the balance sheet date, the Group had contingent liabilities in respect of guarantees issued for banking facilities granted to a customer amounting to HK$19,240,000 (30.6.2004: nil).

At the balance sheet date, the Company had contingent liabilities in respect of guarantees issued for banking facilities granted to a subsidiary amounting to HK$40,000,000 (30.6.2004: nil).

41. POST BALANCE SHEET EVENTS

Subsequent to 31st December, 2005, the following significant subsequent events took place:

(a) On 1st February, 2006, the Company had entered into a sale and purchase agreement (the "Agreement") with Bonus World Limited ("Bonus World") and Mr. Zhou Fang Yi pursuant to which the Company agreed to acquire and Bonus World agreed to dispose of the entire issued share capital of Jetco Innovations Limited for an aggregate consideration of HK$31,859,000, of which HK$31,748,000 had been satisfied by the allotment of 124,500,000 new shares in the Company of HK$0.20 each at an issue price of HK$0.255 per share and the remaining HK$111,000 had been satisfied by the issue of 55,500,000 2008-warrants at an issue price of HK$0.002 per unit. Pursuant to the Agreement, Bonus World also agreed to assign a shareholder's loan indebted to Bonus World in the amount of approximately HK$4,580,000 to the Company upon completion. Details of the acquisition are set out in the Company's circular dated 15th February, 2006. As the transaction was just completed before the report date, the directors consider that it is impracticable to quantify the amounts recognised at the acquisition date for each class of the acquiree's assets, liabilities and contingent liabilities as well as its related goodwill arising on the acquisition, if any.

(b) On 15th March, 2006, the Company announced that Billirich Investment Limited ("Billirich"), a substantial shareholder of the Company and also a wholly-owned subsidiary of CATIC International Holdings Limited ("CATIC International"), had entered into a placing agreement with ABN AMRO Bank N.V., Hong Kong Branch, in which Billirich conditionally agreed to sell, and ABN AMRO Bank N.V., Hong Kong Branch conditionally agreed, as the agent of Billirich, to procure ABN AMRO Bank N.V., London Branch and Sun Shining Investment Corp to purchase, an aggregate of 100,000,000 existing shares of the Company at a price of HK$0.52 per share (the "Placing"). The Placing was completed on 22nd March, 2006.

(c) On 15th March, 2006, the Company also announced that Billirich, conditionally agreed to subscribe for 100,000,000 new shares in the Company of HK$0.20 each at the subscription price of HK$0.52 per share (the "Subscription"). The net proceeds from the Subscription are estimated to be approximately HK$50 million. The Subscription was completed on 24th March, 2006.

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42. RELATED PARTY TRANSACTIONS

During the period, the Group has entered into the following transactions with related parties:

(a) the Group sold goods to associates amounting to HK$211,000 (1.7.2003 to 30.6.2004: nil) and purchased goods from associates amounting to HK$34,000 (1.7.2003 to 30.6.2004: HK$4,233,000). The directors consider that the sales and purchases were made according to prices and conditions similar to those offered to / by non-related customers and suppliers of the Group.

(b) The Group sold goods to a jointly controlled entity amounting to HK$8,919,000 (1.7.2003 to 30.6.2004: nil). The directors consider that the sales were made according to prices and conditions similar to those offered to non-related customers of the Group.

(c) The Group entered into loan agreements with CATIC International, a holding company of a substantial shareholder of the Company, in which CATIC International granted loans in aggregate of HK$5,350,000 (30.6.2004: nil) to the Group. The loans were unsecured, bore interest at 2.5% over the 3-month Hong Kong Interbank Offered Rate per annum and were repaid during the period. During the period, interests on these loans of HK$63,000 (1.7.2003 to 30.6.2004: nil) were paid to CATIC.

(d) The Group entered into a loan agreement with Sanlin Resources Limited ("Sanlin"), a partner of a jointly controlled entity in which the Group granted loan in aggregate of HK$2,700,000 (30.6.2004: nil). The loan was unsecured, bore interest at 3% per annum and was repayable within one year. During the period, interests on this loan of HK$5,000 (1.7.2003 to 30.6.2004: nil) was received by the Group.

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31st December, 2005 are as follows:

Name of company	Place of incorporation/ establishment and operation	Issued and paid up ordinary share capital	Proportion of nominal value of issued/registered capital held by the Company Directly %	Indirectly %	Principal activities
Global King Investments Limited	British Virgin Islands	US$32,000	–	69.4	Investment holding
北京中油潔能科技有限責任公司	The PRC#	RMB100,000,000	–	69.4	Trading of conversion parts and gas station equipment and operation of gas station
儋州中油暢通管道燃氣有限公司	The PRC#	RMB10,000,000	–	41.64*	Not yet commenced business
吉林中油潔能環保有限責任公司	The PRC#	RMB8,000,000	–	35.39*	Trading of conversion parts and gas station equipment and operation of gas station
青島中油環保科技有限公司	The PRC#	RMB10,000,000	–	65.93	Trading of conversion parts and gas station equipment and operation of gas station
新疆中油潔能環保科技發展有限責任公司	The PRC#	RMB500,000	–	41.64*	Trading of conversion parts and gas station equipment

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43. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and paid up ordinary share capital	Proportion of nominal value of issued/registered capital held by the Company Directly %	Indirectly %	Principal activities
廣州潔能燃氣技術有限公司	The PRC#	RMB10,000,000	–	62.46	Operation of gas station
鄭州中油潔能巴士燃氣有限公司	The PRC#	RMB22,000,000	–	41.64*	Operation of gas station
宣城市城市燃氣有限公司	The PRC#	RMB50,000,000	–	48.58*	Trading of conversion parts and gas station equipment and operation of gas station
南京中油燃氣有限公司	The PRC#	RMB2,662,500	–	69.4	Operation of gas station
無錫市中奧加油有限公司	The PRC#	RMB12,900,000	–	69.4	Trading of conversion parts and gas station equipment and operation of gas station
安徽中油潔能燃氣有限公司	The PRC#	HK$20,000,000	–	100	Operation of gas station
長春環球潔能燃氣有限公司	The PRC#	RMB12,639,025	–	90	Operation of gas station
Sino Bloom Investments Limited	British Virgin Islands	US$1	100%	–	Investment holding
China Source Enterprises Limited	British Virgin Islands	US$1	100%	–	Investment holding
Great Concept Investments Holdings Limited	British Virgin Islands	US$1	100%	–	Investment holding
Sino Gas Group Hong Kong Limited	British Virgin Islands	US$1	100%	–	Investment holding
Grand Corporate Investments Limited	British Virgin Islands	US$1	100%	–	Investment holding
Speed Wealth Enterprises Limited	British Virgin Islands	US$1	100%	–	Investment holding
Fortune Achieve Limited	British Virgin Islands	US$1	100%	–	Investment holding

Equity joint venture established in the PRC.

* The Company has control over these subsidiaries as they are directly held by北京中油潔能科技有限責任公司, a subsidiary in which the Company has 69.4% equity interest.

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For the period from 1st July, 2004 to 31st December, 2005

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

The above table lists the subsidiaries of the Company as at 31st December, 2005 which, in the opinion of the directors, principally affected the results for the period or formed a substantial portion of the assets of the Group. To give details of the other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries has issued any debt securities at the end of the period.

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December, 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Foreign currency risk

The Group's functional currency is Renminbi since the operations of its major subsidiaries are mainly in the PRC.

The Group's transactions were mainly conducted in Renminbi and Hong Kong dollars and its major trade receivables and borrowings are denominated in Renminbi, hence the exposure to foreign currency risk is minimal. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Interest rate risk

The Group obtained financing through bank borrowings. All bank borrowings bear interests on floating rates and matured within one year. The Group exposes to cash flow interest rate risk and management monitors the exposure and will consider hedging by interest rate swaps for significant cash flow risk should the need arises.

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

The Group exposed to liquidity risk as it has net current liabilities and operating losses for the period ended 31st December, 2005. However, the Group has detailed operating plans for future development and will also consider arranging necessary financing through equity or debt fund raising.

Going concern risk

The Group incurred significant losses of HK$147,584,000 for the eighteen months ended 31st December, 2005 and the Group had net current liabilities of HK$33,588,000 as at 31st December, 2005. The directors of the opinion that the preparation of the financial statements are based on going concern. Should there be any problem in the going concern of the Group, all the assets and liabilities have to be stated at net realisable values. In particular, the non-current assets and the non-current liabilities have to be reclassified as current assets and current liabilities respectively. As at 31st December, 2005, the directors had taken into consideration of the recoverable amounts and made adequate impairment loss on all major assets in preparation of the financial statements and were of the view that the carrying amounts of all the assets and liabilities approximate their fair values.