## 1 GENERAL INFORMATION

New Smart Energy Group Limited (the "Company") is a limited liability company incorporated in Hong Kong and has its primary listing on the Main Board of The Stock Exchange of Hong Kong Limited. By a special resolution passed on 6 September 2006, the name of the Company was changed from New Smart Holdings Limited to New Smart Energy Group Limited, effective on 22 September 2006. The address of its registered office is Floor 19th, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.

The principal activities of the Company and its subsidiaries (together the "Group") are property investment and technology related business. During the year, the Group also engaged in the selling and distribution of natural gas for residential, commercial and industrial consumption in Chongqing, Mainland China.

These financial statements have been approved by the Board of Directors on 18 April 2007.

## 2 BASIS OF PREPARATION

The financial statements of the Company and the Group have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, which are carried at fair values.

The preparation of the financial statements in conformity with Hong Kong Financial Reporting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the processes of applying the accounting policies of the Group. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 5 below.

In 2006, the Group has adopted the amendments and interpretations to existing standards, which are effective for accounting period commencing on or after 1 January 2006 and relevant to the operations of the Group. However, the adoption of these amendments and interpretation does not have any material effect on the accounting policies of the Group.

There are also certain new amendments and interpretations to the existing standards, which have been published that are mandatory for accounting periods beginning on or after 1 January 2007 or later periods but which the Group has not early adopted. The Group has assessed the impact of these new amendments and interpretations and considers that they would not have any significant impact on the results of operations and financial position of the Group.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements, which have been consistently applied to all the years presented, are set out below.

### (a) Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December and share of post acquisition results and reserves of its associated companies attributable to the Group.

Results attributable to subsidiaries and associated companies acquired or disposed of during the financial period are included in the consolidated profit and loss account from the date of acquisition or to the date of disposal, as applicable.

The profit or loss on disposal of subsidiaries or associated companies is calculated by reference to the share of net assets at the date of disposal including the attributable amount of goodwill not yet written off.

### (b) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies of the entity, generally accompanying a direct or indirect shareholding of more than one half of the voting power or issued equity capital. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the share of the identifiable net assets acquired by the Group is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the profit and loss account.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(b) Subsidiaries (Continued)**

In the balance sheet of the Company, investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividend income.

**(c) Minority interests**

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the profit and loss account. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share of the carrying value of net assets of the subsidiary being acquired.

**(d) Associated companies**

Associated companies are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associated companies are accounted for by the equity method of accounting and are initially recognised at cost. The investments in associated companies include goodwill, net of any accumulated impairment loss, identified on acquisition.

The share of post-acquisition profits or losses of associated companies attributable to the Group is recognised in the profit and loss account, and the share of post-acquisition movements in reserves is recognised in equity. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the share of losses of the Group in an associated company equals or exceeds its interest in the associated company, including any other unsecured receivable, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated company.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the interest in the associated companies held by the Group. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associated companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the balance sheet of the Company, investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies are accounted for by the Company on the basis of dividend income.

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(e) Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the share of the net identifiable assets of the acquired subsidiary attributable to the Group at the effective date of acquisition, and, in respect of an increase in holding in a subsidiary, the excess of the cost of acquisition and the carrying amount of the proportion of the minority interests acquired. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Goodwill on acquisitions of subsidiaries is included in intangible assets while goodwill on acquisitions of associated companies is included in investments in associated companies. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

If the cost of acquisition is less than the fair value of the net assets acquired or the carrying amount of the proportion of the minority interests acquired, the difference is recognised directly in the profit and loss account.

**(f) Property, plant and equipment**

Property, plant and equipment are stated at historical cost less accumulated depreciation and any impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the assets. Subsequent costs are included in the carrying amount of the asset or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. All other repairs and maintenance costs are expensed in the profit and loss account during the financial period in which they are incurred.

Depreciation and amortisation of property, plant and equipment are calculated to write off their costs over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method, at the following annual rates:

| | |
|---|---|
| Buildings | remaining lease term |
| Leasehold improvements | remaining lease term |
| Furniture and fixtures | 10 to 20% |
| Gas pipelines | 5% |
| Motor vehicles | 10 to 20% |
| Plant and equipment | 10 to 33.3% |

The residual values and useful lives of the assets are reviewed, and adjusted if appropriate, at each balance sheet date. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its estimated recoverable amount.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (f) Property, plant and equipment (Continued)

The gain or loss on disposal of a property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

### (g) Construction in progress

Construction in progress, which includes all development expenditure and other direct costs attributable to such projects, is carried at cost less any accumulated impairment losses. Construction in progress is not depreciated until completion of construction and are then transferred to other categories of property, plant and equipment.

### (h) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, but are tested at least annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the fair value of an asset less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each balance sheet date.

### (i) Investments

The Group classifies its investments in the categories of financial assets at fair value through profit or loss (trading investments), loans and receivables, and available-for-sale financial assets. Management determines the classification of its investments at initial recognition depending on the purpose for which the investments were acquired and re-evaluates this designation at every balance sheet date.

Financial assets at fair value through profit or loss are classified as current assets if they are either held for trading or are expected to be realised within twelve months of the balance sheet date. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Loans and receivable are non-derivative financial assets with fixed or determinable payment that are not quoted in an active market. They are included in current assets, except for maturities greater than twelve months after the balance sheet date, which are classified as non-current assets. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within twelve months of the balance sheet date.

3 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(i) **Investments (Continued)**

Financial assets at fair value through profit or loss are initially recognised at fair value and subsequently, carried at fair value. Transaction costs are expensed in the profit and loss account. Loans and receivable are carried at amortised cost using the effective interest method. Available for-sale financial assets are initially recognised at fair value plus transaction cost and subsequently carried at fair value.

Regular purchases and sales of investments are recognised on trade date, which is the date on which the Group commits to purchase or sell the asset. Investments are derecognised when the right to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Realised and unrealised gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss are included in the profit and loss account in the financial period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary available-for-sale investments are recognised in equity. When available-for-sale investments are sold or impaired, the accumulated fair value adjustments are included in the profit and loss account as gains or losses from investments. In cases where the investments do not have a quoted market price in an active market, they are carried at cost less any accumulated impairment loss.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of available-for-sale investments, a significant or prolonged decline in the fair value of the investment below its cost is considered as an indicator in determining whether the investments are impaired. If any such evidence exists for available-for-sale investments, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the profit and loss account is removed from equity and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on available-for-sale investments are not reversed through the profit and loss account.

(j) **Debtors and prepayments**

Debtors and prepayments are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment, which is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivable. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account within administrative expenses. Subsequent recoveries of amounts previously provided for are credited against administrative expenses in the profit and loss account.

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(k) Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated on the first-in, first-out basis. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

**(l) Cash and cash equivalents**

Cash and cash equivalents comprise cash in hand, bank balances, amounts repayable on demand from banks and financial institutions within three months from the date of placement, less bank overdrafts and advances from banks and financial institutions repayable within three months from the date of advance.

**(m) Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds, net of transaction costs, and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

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

**(n) Convertible notes**

*(i) Convertible notes with equity component*

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

At initial recognition, the liability component of the convertible notes is determined using a market interest rate for an equivalent non-convertible note. The remainder of the proceeds is allocated to the conversion option as equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost, calculated using the effective interest method, until extinguished on conversion or maturity. The equity component is recognised in equity, net of any tax effects.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (n) Convertible notes (Continued)

*(i) Convertible notes with equity component (Continued)*

When the note is converted, the relevant equity component and the carrying amount of the liability component at the time of conversion are transferred to share capital and share premium for the shares issued. When the note is redeemed, the relevant equity component is transferred to retained profit.

*(ii) Convertible notes without equity component*

All other convertible notes which do not exhibit the characteristics mentioned in (i) above are accounted for as hybrid instruments consisting of an embedded derivative and a host debt contract.

At initial recognition, the embedded derivative of the convertible notes is accounted for as derivative financial instruments and is measured at fair value. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as liability under the contract. Transaction costs that relate to the issue of the convertible note are allocated to the liability under the contract.

The derivative component is subsequently carried at fair value and changes in fair value are recognised in the profit and loss account. The liability under the contract is subsequently carried at amortised cost, calculated using the effective interest method, until extinguished on conversion or maturity.

When the note is converted, the carrying amount of the liability under the contract together with the fair value of the relevant derivative component at the time of conversion are transferred to share capital and share premium as consideration for the shares issued. When the note is redeemed, any difference between the redemption amount and the carrying amounts of both components is recognised in profit or loss account.

### (o) Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where a provision is expected to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation, before any tax effects, that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (p) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred taxation arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred taxation is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred taxation assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

### (q) Derivative financial instruments

Derivative financial instruments, including put option of shares and embedded derivative liability of convertible notes, are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

The full fair value of hedging derivative is classified as a non-current asset or liability where the remaining maturity of the hedge item is more than twelve months, and as a current asset or liability, where the remaining maturity of the hedged item is less than twelve months. Trading derivatives are classified as a current asset or liability.

For fair value hedge, where the instruments are designated to hedge fair value of recognised assets or liabilities, changes in the fair value of these derivatives and the changes in the fair value of the hedged assets or liabilities attributable to the hedged risk are recognised in the profit and loss account as finance costs. When the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which effective interest method is used is amortised to profit or loss over the period to maturity.

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(q) Derivative financial instruments (Continued)**

For cash flow hedge, where instruments are designated to hedge against the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account within financial expenses. Amounts accumulated in equity are recycled in the profit and loss account in the financial period when the hedged item affects profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Changes in fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the profit and loss account.

**(r) Leases**

Leases of assets in which substantially all the risks and rewards of ownership are transferred to the Group are classified as finance leases. Finance leases are capitalised at the commencement of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included under current and non-current liabilities. Gross rental payment is allocated between the liability and finance charges, which is recognised in the profit and loss account over the lease period, based on the interest rates implicit in the relevant leases.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessors are classified as operating leases. Rentals payable under operating leases, net of any incentives received from the lessors, are charged to the profit and loss account on a straight-line basis over the period of the leases.

**(s) Revenue recognition**

Revenue comprises the fair value of the consideration for sales of goods and services provided in the normal course of business activities of the Group. Revenue is recognised when the amount can be reliably measured; it is probable that future economic benefits will flow to the Group and specific criteria for each of the activities have been met. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the activity have been resolved. Revenue is shown net of sales tax, returns, rebates and discounts, allowances for credit and other revenue reducing factors.

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(s) Revenue recognition (Continued)**

Sale of natural gas is recognised based on gas consumption derived from meter readings. Gas connection fee is recognised when the outcome of a gas connection contract can be estimated reliably and completion for the connection of the relevant gas meter. Sales of goods, being electronic components and gas appliances, are recognised when goods are delivered and legal title passed to customers. Rental income, net of incentives paid to lessees, under operating leases is recognised over the periods of the respective leases on a straight-line basis. Interest income is recognised on a time proportion basis using the effective interest rate method. Dividend income is recognised when the right to receive payment is established.

**(t) Employee benefits**

Employee entitlements to annual and long service leaves are recognised when they accrued to employees. A provision is made for the estimated liability for annual and long service leaves as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick and maternity leaves are not recognised until the time of leave.

Provision for bonus plans due wholly within twelve months after balance sheet date are recognised when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Contributions under the defined contribution retirement schemes, which are calculated as a percentage of basic salaries of the employees, are charged to the profit and loss account in the financial period to which the contributions relate.

The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the estimates of the number of options that are expected to become exercisable will be revised. The impact of the revision of the original estimates, if any, is recognised in the profit and loss account, and a corresponding adjustment to equity over the remaining vesting period. The proceeds received net of any directly attributable transaction costs for the share options granted are credited to share capital, at nominal value, and share premium when the options are exercised.

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(u) Foreign currency translation**

Transactions included in the financial statements of each of the entities within the Group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Group was Hong Kong dollar. Following the acquisition of the natural gas distribution operation in Mainland China on 7 August 2006, a significant portion of the revenue, expenses, assets and liabilities are denominated in Renminbi and therefore, the Group adopted Renminbi as its functional currency effective from 7 August 2006. All opening assets and liabilities have been translated into Renminbi using the rate of exchange at 7 August 2006.

The financial statements are presented in Hong Kong dollar, which is the presentation currency of the Company. The Directors consider that consistent presentation of the financial statements in Hong Kong dollar will facilitate understanding and analysis of financial information of the Group.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the exchange rates ruling at the balance sheet date are recognised in the profit and loss account, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

The results and financial position of all the entities in the Group that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the rates ruling at the date of that balance sheet;

(ii) income and expenses for each profit and loss account are translated at average exchange rates; and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to equity under exchange reserve. When a foreign operation is sold, such exchange differences are recognised in the profit and loss account as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the rates ruling at the balance sheet date.

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(v) Segment reporting**

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other environments.

**(w) Dividend distribution**

Dividend distribution to the shareholders of the Company is recognised as a liability in the financial statements in the financial period in which the dividend payable becomes legal and constructive obligations of the Company.

**4 FINANCIAL RISK MANAGEMENT**

The activities of the Group expose it to a variety of financial risks, including foreign currency risk, credit risk, liquidity risk and cash flow interest-rate risk. The overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group currently does not use any derivative financial instruments to hedge for its risk exposures.

Financial risk management is carried out by the finance department under policies approved by the Board of Directors. The Board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investing excess liquidity.

**(a) Foreign exchange risks**

The Group operates primarily in both Hong Kong and Mainland China and is exposed to foreign exchange risk arising from various transactions with respect to Hong Kong dollar and Renminbi ("RMB"). Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

**(b) Credit risk**

The Group is exposed to credit risk mainly from trade debtors but there is no significant concentrations of credit risk with any single counterparty or group of countrerparties. It has policies in place to ensure that sales are made to customers with an appropriate credit history and limit the amount of credit exposure to any financial institution.

## 4 FINANCIAL RISK MANAGEMENT (Continued)

### (c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group aims to maintain flexibility in funding by keeping committed credit lines available. The Group also relies on funding from a Director for the provision of a stable stream of cash inflow.

### (d) Cash flow and fair value interest rate risk

As the Group has no significant interest bearing assets, the income and operating cash flows of the Group are substantially independent of changes in market interest rates.

The interest rate risk of the Group arises from short-term bank deposits and long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group maintains its current borrowings in fixed and floating rate instruments.

### (e) Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. In assessing the fair value of non-trading investments and other financial assets, the Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. The fair values of long-term borrowings are estimated using the expected future payments discounted at market interest rates.

The nominal value less any estimated credit adjustments for financial assets and liabilities with maturity of less than one year; debtors and prepayments, cash and bank balances, and creditors and accruals are assumed to approximate their fair values.

## 5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements used in preparing the financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities of the Group are discussed below.

### (a) Impairment of assets

The Group tests at least annually whether goodwill or assets that have indefinite useful lives have suffered any impairment. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount. The recoverable amounts of assets or cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates, such as discount rates, future profitability and growth rates.

### (b) Fair value of available-for-sale investments

The fair value of each investment individually is determined at each balance sheet date by reference to comparable market information. It is also being reviewed whenever events or changes in circumstances indicate that the carrying amount of the asset has been affected. The fair value also reflects any net discounted cashflows that could be expected from the investment.

### (c) Share-based payments

The fair value of the options granted is estimated by independent professional valuers based on the various assumptions on volatility, life of options, dividend paid out rate and annual risk-free interest rate, excluding the impact of any non-market vesting conditions, which generally represent the best estimate of the fair value of the options at the date of granting the options.

### (d) Taxation

The Group is subject to taxation in Hong Kong and Mainland China. Significant judgment is required in determining the provision for taxation. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for potential tax exposures based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred taxation provisions in the financial period in which such determination is made.

**5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)**

**(e) Accounts receivable**

Impairment of accounts receivable is established when there is objective evidence on the ultimate recoverability of the amount due according to the original terms. Estimates are made based on the assessments of the financial position of the debtors, probability of the debtor being bankrupt, default or delinquent. The provision takes into account the present value of the estimated future cashflows, discounted at the effective interest rate.

**(f) Functional currency**

The Group has adopted Renminbi as the functional currency upon acquisition of the subsidiaries in Mainland China, which is the currency of the primary economic environment in which the Group operates. The determination of the functional currency requires significant judgement and the adoption of Renminbi as functional currency of the Group has affected the results and the application of accounting treatment of the Group.

**(g) Fair value of promissory notes**

The fair value of promissory notes is determined by discounting the future contractual cash flows at their redemption value and interest payments, at a rate which approximates to market rate of similar borrowings of the Group. The Group uses its judgement in selecting the discount rate which may have significant impact on the results and financial position of the Group.

**6 TURNOVER**

| | **2006** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Sales of electronic components | **77,261** | 58,368 |
| Gas connection fee | **15,969** | – |
| Sales of natural gas | **11,411** | – |
| Property rental | **187** | 193 |
| Sales of gas appliances | **36** | – |
| Sales of investments | **–** | 18,131 |
| | **104,864** | 76,692 |

## 7 SEGMENT INFORMATION

In accordance with the internal financial reporting and operating activities of the Group, the primary segment reporting is by business segments and the secondary segment reporting is by geographical segments. Segment assets consist primarily of non-current assets, inventories, debtors and prepayments and amounts due from related parties. Segment liabilities comprise creditors and accruals and amounts due to related parties. There are no sales or trading transactions between the business segments. In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

### (a) Business segments

| | Natural gas HK$'000 | Technology HK$'000 | Corporate and others HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **Year ended 31 December 2006** | | | | |
| Turnover | 27,416 | 77,261 | 187 | 104,864 |
| Segment results | 13,714 | 611 | (35,861) | (21,536) |
| Financial expenses | | | | (6,142) |
| Loss before taxation | | | | (27,678) |
| Taxation charge | | | | (530) |
| Loss for the year | | | | (28,208) |
| Capital expenditure | 2,894 | 53 | 1,740 | 4,687 |
| Depreciation | 3,504 | 197 | 630 | 4,331 |
| Amortisation | 271 | – | – | 271 |
| Bad and doubtful debts | – | 137 | – | 137 |
| Impairment of inventories | – | 31 | – | 31 |
| **At 31 December 2006** | | | | |
| Segment assets | 331,551 | 15,651 | 20,066 | 367,268 |
| Unallocated assets | | | | 20,339 |
| Total assets | | | | 387,607 |
| Segment liabilities | 79,573 | 32,293 | 132,177 | 244,043 |
| Unallocated liabilities | | | | 7,037 |
| Total liabilities | | | | 251,080 |

## 7 SEGMENT INFORMATION (Continued)

### (a) Business segments (Continued)

| | Technology HK$'000 | Corporate and others HK$'000 | Total HK$'000 |
|---|---|---|---|
| Year ended 31 December 2005 | | | |
| Turnover | 58,368 | 18,324 | 76,692 |
| Segment results | (10,567) | (23,239) | (33,806) |
| Financial expenses | | | (184) |
| Loss before taxation | | | (33,990) |
| Taxation credit | | | 453 |
| Loss for the year | | | (33,537) |
| Capital expenditure | 24 | – | 24 |
| Depreciation | 343 | 480 | 823 |
| Bad and doubtful debts | 451 | 97 | 548 |
| Impairment of goodwill | 7,219 | – | 7,219 |
| Impairment of inventories | 3,326 | 160 | 3,486 |
| At 31 December 2005 | | | |
| Segment assets | 4,602 | 27,041 | 31,643 |
| Segment liabilities | 21,421 | 15,923 | 37,344 |
| Unallocated liabilities | | | 5,899 |
| Total liabilities | | | 43,243 |

## 7 SEGMENT INFORMATION (Continued)

### (b) Geographical segments

| | Turnover HK$'000 | Total assets HK$'000 | Capital expenditure HK$'000 |
|---|---|---|---|
| **Year ended 31 December 2006** | | | |
| Hong Kong | **77,448** | **38,812** | **1,793** |
| Mainland China | **27,416** | **348,795** | **2,894** |
| | **104,864** | **387,607** | **4,687** |
| Year ended 31 December 2005 | | | |
| Hong Kong | 71,024 | 22,593 | 24 |
| Mainland China | 5,668 | 9,050 | – |
| | 76,692 | 31,643 | 24 |

## 8 OTHER INCOME

| | **2006 HK$'000** | 2005 HK$'000 |
|---|---|---|
| Compensation | **2,824** | – |
| Interest | **136** | 94 |
| Exchange gain | **92** | 36 |
| Gain on deregistration of subsidiaries | **–** | 167 |
| Sundries | **513** | 783 |
| | **3,565** | 1,080 |

## 9 OPERATING LOSS

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Operating loss is stated after charging: | | |
| Cost of inventories sold | **66,345** | 51,096 |
| Depreciation | | |
| Owned assets | **4,045** | 539 |
| Leased assets | **286** | 284 |
| Amortisation | **271** | – |
| Exchange loss, net | **11** | – |
| Staff costs (including Directors' remuneration) *(note 10)* | **32,018** | 17,209 |
| Operating lease rental expense for land and buildings | **1,372** | 787 |
| Loss on disposal of property, plant and equipment | **29** | 153 |
| Bad and doubtful debts | **137** | 548 |
| Impairment loss on inventories | **31** | 3,486 |
| Loss on disposal of available-for-sale financial assets | **1,135** | – |
| Auditors' remuneration | | |
| Audit services | **1,965** | 505 |
| Non-audit services | **583** | 345 |

Operating lease rental expense of HK$1,354,000 (2005: HK$787,000) is included in administrative expenses.

## 10 STAFF COSTS (INCLUDING DIRECTORS' REMUNERATION)

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Salaries and other emoluments | **19,206** | 15,916 |
| Share options *(note 27)* | **12,356** | 994 |
| Defined contribution schemes | **456** | 299 |
| | **32,018** | 17,209 |

Staff costs of HK$31,570,000 (2005: HK$17,209,000) and HK$448,000 (2005: nil) are included in administrative expenses and selling and distribution expenses, respectively.

The Group operates a defined contribution mandatory provident fund scheme for all eligible employees in Hong Kong. The assets of the scehme are held separately from the assets of the Group and contributions are calculated as a percentage of the basic salaries of the employees. All contributions to the scheme are fully vested with the employees and therefore there is no forfeited contributions from the scheme.

**10 STAFF COSTS (INCLUDING DIRECTORS' REMUNERATION) (Continued)**

The Group also makes contributions to the state-managed employee pension scheme for all employees in Mainland China. The scheme is operated by the municipal government in Mainland China which undertakes to assume the retirement benefit obligations of all existing and future retired employees. The obligation of the Group is to make the required contributions under the scheme.

**11 DIRECTORS EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS**

**(a) Directors' emoluments**

| Name | Fees | Salaries and allowances | Defined contribution schemes | Share options | Total |
|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **2006** | | | | | |
| Tong Nai Kan | **150** | **3,882** | **12** | **–** | **4,044** |
| Chow Sim Chu, Shirley | **150** | **600** | **12** | **75** | **837** |
| Bai Yang | **150** | **240** | **12** | **–** | **402** |
| Tsang Kwong Fook, Andrew | **75** | **135** | **5** | **–** | **215** |
| Tang Tin Sek | **150** | **–** | **–** | **75** | **225** |
| Liu Ngai Wing | **150** | **–** | **–** | **75** | **225** |
| Lam Yat Fai | **150** | **–** | **–** | **75** | **225** |
| Chan Kin Sang | **67** | **–** | **–** | **–** | **67** |
| | **1,042** | **4,857** | **41** | **300** | **6,240** |
| 2005 | | | | | |
| Tong Nai Kan | 150 | 3,864 | 12 | – | 4,026 |
| Chow Sim Chu, Shirley | 150 | 600 | 12 | – | 762 |
| Bai Yang | 11 | 17 | – | – | 28 |
| Leung Wai Kwan | 74 | 367 | 6 | – | 447 |
| Tang Tin Sek | 150 | – | – | – | 150 |
| Liu Ngai Wing | 70 | – | – | – | 70 |
| Lam Yat Fai | 63 | – | – | – | 63 |
| Yeung Lok Hang, Brian | 31 | – | – | – | 31 |
| Kwok Wai Ming | 80 | – | – | – | 80 |
| Ko Ming Tung, Edward | 88 | – | – | – | 88 |
| | 867 | 4,848 | 30 | – | 5,745 |

## 11 DIRECTORS EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS (Continued)

### (a) Directors' emoluments (Continued)

None of the Directors has waived the right to receive their emoluments. Fees paid to Independent Non-executive Directors during the year amounted to HK$742,000 (2005: HK$482,000). The Directors represents key management personnel of the Company having authority and responsibility for the planning, directing and controlling the activities of the Group.

### (b) Five highest paid individuals

The five individuals, whose emoluments were the highest in the Group for the year include one (2005: two) Director. The emoluments for the five individuals are as follows:

| | **2006** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Salaries and other emoluments | **7,862** | 8,193 |
| Share options | **749** | – |
| Defined contribution schemes | **40** | 60 |
| | **8,651** | 8,253 |

The emoluments of these individuals fell within the following bands:

| | **Number of individuals** | |
|---|---|---|
| Emoluments bands | **2006** | 2005 |
| Nil to HK$1,000,000 | **1** | 2 |
| HK$1,000,001 to HK$1,500,000 | **3** | 2 |
| HK$4,000,001 to HK$4,500,000 | **1** | 1 |
| | **5** | 5 |

## 12 FINANCIAL EXPENSES

| | **2006** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Interest expense | | |
| Promissory notes not wholly payable within five years | **4,220** | – |
| Bank loans and overdrafts wholly repayable within five years | **1,740** | 13 |
| Short-term loans wholly repayable within five years | **154** | 143 |
| Finance lease obligations wholly payable within five years | **28** | 28 |
| | **6,142** | 184 |

## 13 TAXATION (CHARGE)/CREDIT

| | **2006** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Current taxation | | |
| Hong Kong profits tax | **64** | 453 |
| Deferred taxation | | |
| Mainland China | **(594)** | – |
| | **(530)** | 453 |

Hong Kong profit tax has not been provided as the Group does not have any assessable profit for the year (2005: nil). Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

The subsidiaries in Mainland China are subject to an income tax rate of 15%, being the current preferential tax rate applicable. As approved by the Chongqing Municipal Tax Bureau, the subsidiaries in Mainland China are exempted from enterprise income tax for two years commencing from their first profit-making year of operation in 2006 and thereafter, entitled to a 50% relief from enterprise income tax for the following three years.

**13 TAXATION (CHARGE)/CREDIT (Continued)**

The taxation charge on the loss before taxation differs from the theoretical amount that would arise using the taxation rate of Hong Kong as follows:

| | 2006<br>HK$'000 | 2005<br>HK$'000 |
|---|---|---|
| Loss before taxation | **(27,678)** | (33,990) |
| Tax asset at the rate of 17.5% (2005: 17.5%) | **4,844** | 5,948 |
| Effect of different taxation rates in other countries | **501** | – |
| Tax relief | **1,030** | – |
| Income not subject to taxation | **83** | 683 |
| Expenses not deductible for taxation purposes | **(7,447)** | (5,519) |
| Utilisation of previous unrecognised tax losses | **433** | – |
| Taxation loss not recognised | **–** | (3,586) |
| Recognition of previously unrecognised temporary difference | **26** | 2,927 |
| Taxation (charge)/credit | **(530)** | 453 |

Deferred taxation assets of the Group and the Company amounting to HK$14,683,000 (2005: HK$22,656,000) and HK$3,490,000 (2005: HK$3,490,000), respectively, arising from unused tax losses have not been recognised in the financial statements due to the uncertainty as to their future utilisation. The unused tax losses have no expiry date.

**14 LOSS PER SHARE**

**(a) Basic**

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of shares in issue during the year.

| | 2006 | 2005 |
|---|---|---|
| Loss attributable to equity holders *(HK$'000)* | **(28,208)** | (33,537) |
| Weighted average number of shares in issue | **826,879,432** | 610,584,391 |
| Basic earnings per share *(HK cents)* | **(3.41)** | (5.49) |

**14 LOSS PER SHARE (Continued)**

**(b) Diluted**

Diluted earnings per share is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all dilutive potential shares, being the share options, which is calculated by determining the number of shares that could have been acquired at fair value (determined as the average annual market share price of the shares of the Company) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares as calculated above is compared with the number of shares that would have been issued assuming the exercise of the share options.

| | **2006** | 2005 |
|---|---|---|
| Loss attributable to equity holders *(HK$'000)* | **(28,208)** | (33,537) |
| Weighted average number of shares in issue | **826,879,432** | 610,584,391 |
| Adjustment for share options | **12,367,018** | – |
| Weighted average number of shares for diluted earnings per share | **839,246,450** | 610,584,391 |
| Diluted earnings per share *(HK cents)* | **(3.36)** | (5.49) |

## 15 PROPERTY, PLANT AND EQUIPMENT

**Group**

| | Buildings | Gas pipelines | Construction in progress | Plant and equipment | Furniture and fixtures | Motor vehicles | Leasehold improvements | Total |
|---|---|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 31 December 2004 | | | | | | | | |
| Cost | – | – | – | – | 4,466 | 2,012 | 460 | 6,938 |
| Accumulated depreciation | – | – | – | – | (3,769) | (551) | – | (4,320) |
| Net book amount | – | – | – | – | 697 | 1,461 | 460 | 2,618 |
| Additions | – | – | – | – | 24 | – | – | 24 |
| Disposals | – | – | – | – | (117) | – | (119) | (236) |
| Charge for the year | – | – | – | – | (361) | (370) | (92) | (823) |
| At 31 December 2005 | | | | | | | | |
| Cost | – | – | – | – | 4,209 | 1,852 | 311 | 6,372 |
| Accumulated depreciation | – | – | – | – | (3,966) | (761) | (62) | (4,789) |
| Net book amount | – | – | – | – | 243 | 1,091 | 249 | 1,583 |
| Acquisition of subsidiaries | 9,281 | 105,807 | 4,681 | 4,502 | 348 | 492 | 82 | 125,193 |
| Additions | – | 313 | 1,444 | 225 | 1,902 | 370 | 371 | 4,625 |
| Reclassification | – | 6,065 | (6,065) | – | – | – | – | – |
| Disposals | – | – | – | – | (26) | (27) | – | (53) |
| Changes in exchange rates | 198 | 2,353 | 52 | 95 | 10 | 14 | 6 | 2,728 |
| Charge for the year | (383) | (2,469) | – | (515) | (453) | (424) | (87) | (4,331) |
| **At 31 December 2006** | | | | | | | | |
| Cost | **9,484** | **114,565** | **112** | **4,828** | **4,797** | **2,702** | **770** | **137,258** |
| Accumulated depreciation | **(388)** | **(2,496)** | **–** | **(521)** | **(2,773)** | **(1,186)** | **(149)** | **(7,513)** |
| Net book amount | **9,096** | **112,069** | **112** | **4,307** | **2,024** | **1,516** | **621** | **129,745** |

## 15 PROPERTY, PLANT AND EQUIPMENT (Continued)

The aggregate net book amount of property, plant and equipment amounting to HK$15,836,000 (2005: nil) are pledged as securities for loans of the Group.

The net book value of plant and equipment held under finance leases amounts to HK$497,000 (2005: HK$781,000).

Depreciation of HK$868,000 (2005: HK$823,000) and HK$3,463,000 (2005: nil) have been included in administrative expenses and selling and distribution expenses, respectively.

**Company**

| | **Furniture and fixtures** HK$'000 | **Motor Vehicles** HK$'000 | **Total** HK$'000 |
|---|---|---|---|
| At 31 December 2004 | | | |
| Cost | 2,762 | 592 | 3,354 |
| Accumulated depreciation | (2,568) | (196) | (2,764) |
| Net book amount | 194 | 396 | 590 |
| Charge for the year | (109) | (86) | (195) |
| At 31 December 2005 | | | |
| Cost | 2,762 | 432 | 3,194 |
| Accumulated depreciation | (2,677) | (122) | (2,799) |
| Net book amount | 85 | 310 | 395 |
| Additions | 2,205 | 253 | 2,458 |
| Disposals | (25) | – | (25) |
| Charge for the year | (286) | (99) | (385) |
| **At 31 December 2006** | | | |
| Cost | **3,296** | **686** | **3,982** |
| Accumulated depreciation | **(1,317)** | **(222)** | **(1,539)** |
| Net book amount | **1,979** | **464** | **2,443** |

## 16 LEASEHOLD LAND AND LAND USE RIGHTS

| | HK$'000 |
|---|---|
| At 31 December 2004 and 2005 | – |
| Acquisition of subsidiaries | 2,561 |
| Additions | 62 |
| Charge for the year | (74) |
| Changes in exchange rates | 56 |
| **At 31 December 2006** | **2,605** |
| Mainland China | |
| Over 50 years | **400** |
| 10 to 50 years | **1,198** |
| Less than 10 years | **1,007** |
| | **2,605** |

The leasehold land and land use rights represent prepaid operating lease payments.

Amortisation of HK$74,000 (2005: nil) is included in administrative expenses in the profit and loss account.

Leasehold land and land use rights with an aggregate carrying amount of HK$947,000 (2005: nil) are pledged as securities for bank loans of the Group.

## 17 INTANGIBLE ASSETS

| | Goodwill | Right to use gas pipeline | Total |
|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 |
| At 31 December 2004 | | | |
| Cost | 7,219 | – | 7,219 |
| Accumulated amortisation | – | – | – |
| Net book amount | 7,219 | – | 7,219 |
| Impairment loss | (7,219) | – | (7,219) |
| At 31 December 2005 | | | |
| Cost | – | – | – |
| Accumulated amortisation | – | – | – |
| Net book amount | – | – | – |
| Acquisition of subsidiaries | 146,788 | 6,556 | 153,344 |
| Charge for the year | – | (197) | (197) |
| Changes in exchange rate | 3,206 | 141 | 3,347 |
| **At 31 December 2006** | | | |
| Cost | **149,994** | **6,699** | **156,693** |
| Accumulated amortisation | **–** | **(199)** | **(199)** |
| Net book amount | **149,994** | **6,500** | **156,494** |

Amortisation of HK$197,000 (2005: nil) is included in selling and distribution expenses in the profit and loss account.

The recoverable amount of goodwill is determined based on value-in-use calculations. These calculations use discounted cash flow projections based on financial budgets approved by management covering a three-year period and extrapolated beyond the seven-year using an estimated growth rate. The growth rate does not exceed the long-term average growth rate for the energy business. The key assumptions used for value-in-use calculations are gross margin, average growth rate and discount rate. Management determined budgeted gross margin based on past performance and its expectations for the market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant segment.

## 18 SUBSIDIARIES

| | Company | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Unlisted shares, at cost | **–** | 10 |
| Amounts receivable, less provision | **123,085** | 8,280 |
| Amounts payable | **(26,818)** | (23,795) |

The amounts receivable and payable are unsecured, interest free and have no specific repayment terms.

Particulars of the principal subsidiaries are as follows:

| Name | Place of incorporation/ operation | Percentage of attributable equity interest 2006 | 2005 | Issued and paid up capital | Principal activities |
|---|---|---|---|---|---|
| Barraza Company Limited | Hong Kong | **100** | 100 | HK$2 | Provision of secretarial services |
| 重慶市雲陽縣天然氣有限責任公司 (Chongqing Yunyang Natural Gas Company Limited) | Mainland China | **100** | – | RMB5,000,000 | Distribution of natural gas |
| Echo Peak Investment Limited | Hong Kong | **100** | 100 | HK$10,000 | Property investment |
| * Ever Double Investments Limited | British Virgin Islands/ Hong Kong | **100** | 100 | US$1 | Investment holding |
| 奉節縣三峽風天然氣有限責任公司 (Fengjie Three Gorges Wind Natural Gas Company Limited) | Mainland China | **100** | – | RMB6,000,000 | Distribution of natural gas |

**18 SUBSIDIARIES (Continued)**

| Name | Place of incorporation/ operation | Percentage of attributable equity interest 2006 | 2005 | Issued and paid up capital | Principal activities |
|---|---|---|---|---|---|
| Hong Kong Sanxia Gas Investment Limited | Hong Kong | **100** | – | HK$1 | Investment holding |
| Keenland Company Limited | Hong Kong | **100** | 100 | HK$100,100 | Property investment |
| * Marvel Time Holdings Limited | British Virgin Islands | **100** | 100 | US$1 | Investment holding |
| # Sanxia Gas (BVI) Investment Limited | British Virgin Islands | **100** | – | US$1 | Investment holding |
| Springdale Investment Company Limited | Hong Kong | **100** | 100 | HK$100,000 | Property investment |
| Strong Way International Limited | Hong Kong | **60** | 60 | HK$1,000,000 | Electronic components trading |
| U-Cyber Investment Holdings (China) Limited | Hong Kong | **100** | 100 | HK$20 | Investment holding |
| U-Cyber Property Development Company Limited | Hong Kong | **100** | 100 | HK$2 | Investment holding |
| * Universal Cyber Technology Holding Limited | Hong Kong | **100** | 100 | HK$2 | Property investment |
| * Well Peace Investment Limited | Hong Kong | **100** | 100 | HK$2 | Investment holding |
| 巫山縣三峽風天然氣有限責任公司 (Wushan Three Gorges Wind Natural Gas Company Limited) | Mainland China | **100** | – | RMB10,000,000 | Distribution of natural gas |

## 18 SUBSIDIARIES (Continued)

| Name | Place of incorporation/ operation | Percentage of attributable equity interest 2006 | 2005 | Issued and paid up capital | Principal activities |
|---|---|---|---|---|---|
| 雲陽縣三峽壓縮天然氣有限公司 (Yunyang Three Gorges Compressed Natural Gas Company Limited) | Mainland China | **100** | – | RMB2,900,000 | Distribution of compressed natural gas |

* Subsidiaries directly held by the Company

# The share of this subsidiary has been pledged as security for the payment of the promissory notes (note 29c).

## 19 ASSOCIATED COMPANY

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Unlisted shares, at cost less provision | **–** | 50 | **–** | 50 |

The associated company does not have any profit or loss for the year or reserve as at 31 December 2006.

Particulars of the associated company are as follows:

| Name | Place of incorporation/ operation | Percentage of attributable equity interest 2006 | 2005 | Principal activities |
|---|---|---|---|---|
| Zhong Hang Yu (H.K.) Limited | Hong Kong | **50** | 50 | Inactive |

## 20 AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | Group | Company |
|---|---|---|
| | HK$'000 | HK$'000 |
| At 31 December 2004 | 12,767 | 3,030 |
| Change in fair value | (343) | (343) |
| At 31 December 2005 | 12,424 | 2,687 |
| Acquisition of subsidiaries | 20 | – |
| Disposal | (9,737) | – |
| Change in fair value | 84 | 84 |
| **At 31 December 2006** | **2,791** | **2,771** |

Available-for-sale financial assets include the following:

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Unlisted shares | **20** | 9,737 | **–** | – |
| Club debentures | **2,771** | 2,687 | **2,771** | 2,687 |
| | **2,791** | 12,424 | **2,771** | 2,687 |

The unlisted shares are denominated in Renminbi and club debentures are mainly denominated in Hong Kong dollar.

## 21 INVENTORIES

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Finished goods | **832** | 2,118 |
| Spare parts | **1,109** | – |
| Construction materials | **942** | – |
| | **2,883** | 2,118 |

## 22 DEBTORS AND PREPAYMENTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Trade debtors | **16,508** | 9,080 | **–** | – |
| Provision for impairment | **(137)** | – | **–** | – |
| Trade debtors, net | **16,371** | 9,080 | **–** | – |
| Other debtors | **32,485** | – | **33** | – |
| Deposits and prepayments | **4,419** | 2,412 | **2,801** | 2,017 |
| | **53,275** | 11,492 | **2,834** | 2,017 |

The credit terms granted to trade debtors in respect of sales of electronic components are usually 30 to 90 days. Sales of natural gas and gas connection fees are due upon presentation of payment advice.

## 22 DEBTORS AND PREPAYMENTS (Continued)

The ageing analysis of the trade debtors of the Group, based on the dates of the invoices net of provision for impairment, is as follows:

| | **2006** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Below 30 days | **5,331** | 3,174 |
| 30 to 90 days | **6,202** | 4,497 |
| 91 to 180 days | **4,309** | 1,264 |
| Over 180 days | **529** | 145 |
| | **16,371** | 9,080 |

The carrying amounts of debtors and prepayments of the Group are denominated in the following currencies:

| | **2006** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Hong Kong dollar | **43,029** | 11,492 |
| Renminbi | **9,079** | – |
| United States dollar | **1,167** | – |
| | **53,275** | 11,492 |

## 23 AMOUNTS DUE FROM RELATED PARTIES

| | **2006** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| 重慶市萬州區巨龍房地產開發有限公司 | **4,502** | – |
| 重慶三峽燃氣(集團)有限公司 | **14,947** | – |
| | **19,449** | – |

The above entities are beneficially owned by Mr. Tan Chuanrong, a director of the gas operating subsidiaries in Mainland China, and appointed Director of the Company on 22 January 2007. The amounts receivable are unsecured, interest free and have no fixed repayment terms.

## 24 TRADING INVESTMENT

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Listed in Hong Kong, at market value | **26** | – |

## 25 CASH AND BANK BALANCES

Cash and bank balances include short-term deposits amounting to HK$2,126,000 (2005: HK$2,082,000), with effective interest of 3.7% (2005: 3.2%) per annum and average maturity of about 17 days (2005: 30 days). The short-term bank deposits have been pledged as securities for bank facilities granted to the Group.

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

| | **2006** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Renminbi | **13,516** | 10 |
| Hong Kong dollar | **5,891** | 3,357 |
| Other currencies | **932** | 609 |
| | **20,339** | 3,976 |

## 26 SHARE CAPITAL

| | **Number of shares** | **HK$'000** |
|---|---|---|
| Authorised: | | |
| At 31 December 2004 and 2005 | 1,000,000,000 | 250,000 |
| Increase during the year | 3,000,000,000 | 750,000 |
| **At 31 December 2006** | **4,000,000,000** | **1,000,000** |
| Issued and fully paid: | | |
| At 31 December 2004 and 2005 | 610,584,391 | 152,646 |
| Issue of new shares for cash | 266,000,000 | 66,500 |
| Issue of new shares for acquisition of subsidiaries | 152,500,000 | 38,125 |
| Share options exercised | 29,830,000 | 7,458 |
| **At 31 December 2006** | **1,058,914,391** | **264,729** |

## 26 SHARE CAPITAL (Continued)

By an ordinary resolution passed by the shareholders on 6 September 2006, the authorised share capital of the Company was increased from HK$250,000,000 to HK$1,000,000,000 by the creation of 3,000,000,000 new shares of HK$0.25 each.

On 19 May 2006 and 14 July 2006, the Company alloted and issued 120,000,000 and 146,000,000 new shares of HK$0.25 each at the issue price of HK$0.25 and HK$0.45 per share, respectively, for cash. Net proceeds from the placing have been applied as part of the consideration for the acquisition of the entire equity interest in Sanxia Gas (note 36) and part as general working capital.

On 7th August 2006, the Company allotted and issued 152,500,000 new shares of HK$0.25 each as part of the consideration for the acquisition of the entire equity interest in Sanxia Gas (note 36).

All the new shares rank pari passu to the existing shares.

## 27 SHARE OPTION SCHEME

The Company operates a share option scheme (the “Scheme”) approved by the shareholders on 29 December 2004, under which the Directors of the Company may, at their discretion, offer any eligible participants (including any Directors) of the Company or of any of its subsidiaries options to subscribe for shares in the Company subject to the terms and conditions stipulated in the Scheme. For each lot of the share options granted, the participants will pay a nominal consideration of HK$1. The period within which the shares must be taken up under an option is determined by the Board from time to time, except that such period shall not expire more than ten years from the date of grant of the options.

Movements in the number of share options outstanding during the year are as follows:

| | Number of share options | |
|---|---|---|
| | **2006** | 2005 |
| At beginning of the year | **43,620,000** | – |
| Granted *(note a)* | **97,620,000** | 43,620,000 |
| Cancelled *(note b)* | **(17,780,000)** | – |
| Exercised *(note c)* | **(29,830,000)** | – |
| At end of the year *(note d)* | **93,630,000** | 43,620,000 |

## 27 SHARE OPTION SCHEME (Continued)

### (a) Options granted

| Date of grant | Exercisable period | Exercise price | Number of share options |
|---|---|---|---|
| | | HK$ | |
| 8 March 2006 | 8 April 2006 to 7 March 2011 | 0.2648 | 8,140,000 |
| 8 March 2006 | 8 September 2006 to 7 March 2011 | 0.2648 | 6,100,000 |
| 1 June 2006 | 1 July 2006 to 31 May 2011 | 0.2900 | 72,900,000 |
| 1 November 2006 | 1 March 2007 to 29 February 2012 | 0.4140 | 10,480,000 |
| | | | 97,620,000 |

### (b) Options cancelled

| Exercisable period | Exercise price | Number of share options |
|---|---|---|
| | HK$ | |
| 1 July 2006 to 31 May 2011 | 0.2648 | 17,780,000 |

**27 SHARE OPTION SCHEME (Continued)**

**(c) Options exercised**

| **Exercise date** | **Share price at exercise date** | **Exercise price** | **Number of share options** |
|---|---|---|---|
| | HK$ | HK$ | |
| 2 June 2006 | 0.3300 | 0.2500 | 9,400,000 |
| 5 June 2006 | 0.3750 | 0.2500 | 620,000 |
| 12 June 2006 | 0.4200 | 0.2500 | 1,900,000 |
| 16 June 2006 | 0.4900 | 0.2500 | 1,000,000 |
| 21 June 2006 | 0.4950 | 0.2500 | 710,000 |
| 26 June 2006 | 0.4750 | 0.2500 | 1,000,000 |
| 5 July 2006 | 0.4700 | 0.2500 | 100,000 |
| 10 July 2006 | 0.4400 | 0.2500 | 3,100,000 |
| 17 July 2006 | 0.4400 | 0.2500 | 800,000 |
| 20 July 2006 | 0.4100 | 0.2500 | 100,000 |
| 1 August 2006 | 0.3750 | 0.2500 | 1,000,000 |
| 30 August 2006 | 0.4500 | 0.2500 | 600,000 |
| 11 September 2006 | 0.4900 | 0.2648 | 6,100,000 |
| 2 November 2006 | 0.4050 | 0.2500 | 800,000 |
| 20 November 2006 | 0.3500 | 0.2500 | 800,000 |
| 22 November 2006 | 0.3700 | 0.2500 | 1,800,000 |
| | | | 29,830,000 |

### 27 SHARE OPTION SCHEME (Continued)

#### (d) Outstanding options

| Exercisable period | Exercise price | Number of share options |
|---|---|---|
| | HK$ | |
| *Directors* | | |
| 8 April 2006 to 7 March 2011 | 0.2648 | 1,830,000 |
| *Employees* | | |
| 27 October 2005 to 26 September 2010 | 0.2500 | 20,400,000 |
| 27 March 2005 to 26 September 2010 | 0.2500 | 100,000 |
| 8 April 2006 to 7 March 2011 | 0.2648 | 5,700,000 |
| 1 July 2006 to 31 May 2011 | 0.2900 | 55,120,000 |
| 1 March 2007 to 29 February 2012 | 0.4140 | 10,480,000 |
| | | 93,630,000 |

#### (e) Fair value of options and assumptions

The fair value of the options granted and vested during the year is HK$12,356,000, as determined using the Black-Scholes valuation model, at their respective dates of grant. The significant inputs into the model are share price of HK$0.25, HK$0.29 and HK$0.414 at the respective date of granting the options, respective exercise price of HK$0.2648, HK$0.29 and HK$0.414 per share, standard deviation of expected share price returns of about 73%, expected life of the options of 2 to 3 years, expected dividend paid out rate of zero and annual risk-free interest rate of 4.17% to 4.54%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last three years.

## 28 RESERVES

### Group

| | Share premium | Capital redemption reserve | Capital reserve | Share option reserve | Investment reserve | Exchange reserve | Statutory reserve | Accumulated loss | Total |
|---|---|---|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 31 December 2004 | 12,034 | 5,318 | 1,805 | – | 12,513 | 538 | – | (152,573) | (120,365) |
| Changes in exchange rates | – | – | – | – | – | (97) | – | – | (97) |
| Realised on disposal of investment | – | – | – | – | (11,425) | – | – | – | (11,425) |
| Change in fair value of available-for-sale financial assets | – | – | – | – | (343) | – | – | – | (343) |
| Dividend forfeited | – | – | – | – | – | – | – | 504 | 504 |
| Share options at fair value | – | – | – | 994 | – | – | – | – | 994 |
| Loss for the year | – | – | – | – | – | – | – | (33,537) | (33,537) |
| At 31 December 2005 | 12,034 | 5,318 | 1,805 | 994 | 745 | 441 | – | (185,606) | (164,269) |
| Changes in exchange rates | – | – | – | – | – | 5,325 | – | – | 5,325 |
| Issue of new shares for cash, net of expenses | 26,443 | – | – | – | – | – | – | – | 26,443 |
| Issue of new shares for acquisition of subsidiaries | 19,825 | – | – | – | – | – | – | – | 19,825 |
| Issue of shares upon exercise of share options | 1,436 | – | – | (1,337) | – | – | – | – | 99 |
| Change in fair value of available-for-sale financial assets | – | – | – | – | 204 | – | – | – | 204 |
| Share options at fair value | – | – | – | 12,356 | – | – | – | – | 12,356 |
| Share options cancelled | – | – | – | (2,631) | – | – | – | 2,631 | – |
| Transfer to statutory reserve | – | – | – | – | – | – | 1,473 | (1,473) | – |
| Loss for the year | – | – | – | – | – | – | – | (28,208) | (28,208) |
| **At 31 December 2006** | **59,738** | **5,318** | **1,805** | **9,382** | **949** | **5,766** | **1,473** | **(212,656)** | **(128,225)** |

## 28 RESERVES (Continued)

### Company

| | Share premium HK$'000 | Capital redemption HK$'000 | Share option reserve HK$'000 | Investment reserve HK$'000 | Exchange reserve HK$'000 | Accumulated loss HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| At 31 December 2004 | 12,034 | 5,318 | – | 1,088 | – | (146,446) | (128,006) |
| Change in fair value of available-for-sale financial assets | – | – | – | (343) | – | – | (343) |
| Dividend forfeited | – | – | – | – | – | 504 | 504 |
| Share options at fair value | – | – | 994 | – | – | – | 994 |
| Loss for the year | – | – | – | – | – | (47,716) | (47,716) |
| At 31 December 2005 | 12,034 | 5,318 | 994 | 745 | – | (193,658) | (174,567) |
| Changes in exchange rates | – | – | – | – | (23) | – | (23) |
| Issue of new shares for cash, net of expenses | 26,443 | – | – | – | – | – | 26,443 |
| Issue of new shares for acquisition of subsidiaries | 19,825 | – | – | – | – | – | 19,825 |
| Issue of shares upon exercise of share options | 1,436 | – | (1,337) | – | – | – | 99 |
| Change in fair value of available-for-sale financial assets | – | – | – | 204 | – | – | 204 |
| Share options at fair value | – | – | 12,356 | – | – | – | 12,356 |
| Share options cancelled | – | – | (2,631) | – | – | 2,631 | – |
| Loss for the year | – | – | – | – | – | (45,014) | (45,014) |
| **At 31 December 2006** | **59,738** | **5,318** | **9,382** | **949** | **(23)** | **(236,041)** | **(160,677)** |

The loss attributable to shareholders for the year is dealt with in the financial statements of the Company to the extent of HK$45,014,000 (2005: HK$47,716,000).

The Company does not have any reserves available for distribution to the shareholders as calculated under Section 79B of the Hong Kong Companies Ordinance.

**28 RESERVES (Continued)**

Pursuant to the reduction in capital of the Company in 2003, the Company has undertaken that in the event of its making any future recoveries in respect of the provisions against certain specific subsidiary companies by the Company as at 31 December 2002, all such recoveries up to a maximum amount of HK$367,938,293, will be credited to a special capital reserve of the Company and shall not be available for distribution to the shareholders of the Company.

According to the bye-laws of each of the subsidiaries established in Mainland China, a percentage of the net profit as reported in their statutory financial statements have to be transferred to reserve fund and enterprise expansion reserve. The percentage of appropriation is determined at the discretion of the board of directors of the respective subsidiaries. The reserve fund can be used to set off accumulated loss whilst the enterprise expansion reserve can be used for expansion of production facilities or increase in capital.

**29 BORROWINGS**

**Group**

| | **2006** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Secured bank loans wholly repayable within five years | **48,283** | – |
| Short term loans, unsecured | **808** | – |
| Promissory notes | **148,900** | – |
| Finance lease obligations wholly repayable within five years | **388** | 679 |
| | **198,379** | 679 |
| Current portion included in current liabilities | | |
| Bank loans | **25,650** | |
| Short term loans | **808** | – |
| Promissory notes | **21,746** | – |
| Finance lease obligations | **291** | 291 |
| | **48,495** | 291 |
| | **149,884** | 388 |

**29 BORROWINGS (Continued)**

(a) The maturity of the borrowings of the Group is as follows:

| | Bank loans | Short term loans | Promissory notes | Finance lease Present value | Finance lease Minimum lease payment |
|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **At 31 December 2006** | | | | | |
| 2007 | **25,650** | **808** | **21,746** | **291** | **319** |
| 2008 | **12,574** | **–** | **18,377** | **97** | **106** |
| 2009 | **8,047** | **–** | **19,289** | **–** | **–** |
| 2010 | **2,012** | **–** | **20,264** | **–** | **–** |
| 2011 | **–** | **–** | **21,307** | **–** | **–** |
| 2012 onwards | **–** | **–** | **47,917** | **–** | **–** |
| | **48,283** | **808** | **148,900** | **388** | **425** |

| | Bank loans | Short term loans | Promissory notes | Finance lease Present value | Finance lease Minimum lease payment |
|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 31 December 2005 | | | | | |
| 2006 | – | – | – | 291 | 319 |
| 2007 | – | – | – | 291 | 319 |
| 2008 | – | – | – | 97 | 106 |
| | – | – | – | 679 | 744 |

(b) Bank loans amounting to HK$ 39,231,000 (2005: nil) is secured by the right to collect revenue on sales of natural gas of the gas operating subsidiaries.

(c) On 7 August 2006, the Group issued seven promissory notes at an nominal amount of HK$176,875,000 as part of the consideration for the acquisition of the entire equity interest in Sanxia Gas (note 36). The promissory notes carry interest at 1.5% per annum, repayable annually until 7 August 2013 and are secured by the share of Sanxia Gas. The carrying value of the promissory notes is calculated at a discount rate of 7%.

**29 BORROWINGS (Continued)**

(d) The effective interest rates at the balance sheet date are as follows:

| | 2006 | | 2005 |
|---|---|---|---|
| | **HK$** | **RMB** | HK$ |
| Bank loans | **–** | **7.27%** | – |
| Promissory notes | **7.00%** | **–** | – |
| Finance lease | **3.79%** | **–** | 3.79% |

The borrowings of the Group amounting to HK$149,288,000 (2005: HK$679,000) carry fixed interest rates and borrowings of HK$49,091,000 (2005: nil) are subject to floating interest rates.

(e) The carrying amounts of the borrowings of the Group are denominated in the following currencies:

| | 2006 | 2005 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Hong Kong dollar | **149,288** | 679 |
| Renminbi | **49,091** | – |
| | **198,379** | 679 |

**30 DEFERRED TAXATION LIABILITIES**

**Group**

| | 2006 | 2005 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| At beginning of the year | **–** | – |
| Acquisition of subsidiaries | **6,210** | – |
| Charge to profit and loss account | **594** | – |
| Changes in exchange rates | **142** | – |
| At end of the year | **6,946** | – |

**30 DEFERRED TAXATION LIABILITIES (Continued)**

The movements in deferred taxation liabilities prior to offsetting of balances within same jurisdiction during the year are as follows:

| | Temporary differences HK$'000 | Fair value adjustment on acquisition HK$'000 | Total HK$'000 |
|---|---|---|---|
| At 31 December 2004 and 2005 | – | – | – |
| Acquisition of subsidiaries | 5,571 | 639 | 6,210 |
| Charge to profit and loss account | 693 | (99) | 594 |
| Changes in exchange rates | 130 | 12 | 142 |
| **At 31 December 2006** | **6,394** | **552** | **6,946** |

**31 CREDITORS AND ACCRUALS**

| | Group | | Company | |
|---|---|---|---|---|
| | **2006 HK$'000** | 2005 HK$'000 | **2006 HK$'000** | 2005 HK$'000 |
| Trade creditors | **25,685** | 19,520 | **–** | – |
| Other creditors | **5,760** | 4,975 | **763** | 1,606 |
| Accrued operating expenses | **7,465** | 3,884 | **1,316** | 2,018 |
| | **38,910** | 28,379 | **2,079** | 3,624 |

The ageing analysis of the trade creditors of the Group, based on the dates of the invoices, is as follows:

| | **2006 HK$'000** | 2005 HK$'000 |
|---|---|---|
| Below 30 days | **4,662** | 2,932 |
| 30 to 90 days | **8,901** | 7,374 |
| 91 to 180 days | **9,272** | 8,770 |
| Over 180 days | **2,850** | 444 |
| | **25,685** | 19,520 |

## 31 CREDITORS AND ACCRUALS (Continued)

The carrying amounts of the creditors and accruals of the Group are denominated in the following currencies:

| | **2006** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| United States dollar | **20,655** | 18,803 |
| Renminbi | **10,185** | – |
| Hong Kong dollar | **8,070** | 9,576 |
| | **38,910** | 28,379 |

## 32 AMOUNTS DUE TO RELATED PARTIES

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| A Director | | | | |
| Mr. Tong Nai Kan | **468** | 5,730 | **468** | 5,730 |
| An associated company | | | | |
| Zhong Hang Yu (H.K.) Limited | **–** | 38 | **–** | 38 |
| A related party | | | | |
| Mr. Tan Chuanrong | **1,744** | – | **–** | – |
| Related companies | | | | |
| 重慶市三峽燃氣(集團) 有限公司 | **4,542** | – | **–** | – |
| Lap Ho Properties Limited | **–** | 2,518 | **–** | 2,518 |
| | **6,754** | 8,286 | **468** | 8,286 |

All amounts payable are unsecured, interest free and have no specific repayment terms.

Mr. Tan Chuanrong is a director of the gas operating subsidiaries in Mainland China, and appointed Director of the Company on 22 January 2007. 重慶市三峽燃氣(集團) 有限公司 is beneficially owned by Mr. Tan Chuanrong and Lap Ho Properties Limited is beneficially owned by Mr. Tong Nai Kan.

## 33 OPERATING LEASE COMMITMENTS

The future aggregate minimum lease rental expense of the Group in respect of land and buildings under non-cancellable operating leases is payable in the following years:

| | **2006** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| 2006 | **–** | 1,637 |
| 2007 | **4,583** | 191 |
| 2008 | **1,986** | – |
| 2009 | **583** | – |
| 2010 | **629** | – |
| 2011 | **270** | – |
| | **8,051** | 1,828 |

## 34 FINANCIAL GUARANTEES AND UNDERTAKING

The Company has provided guarantees in respect of finance lease obligations granted to a subsidiary amounting to HK$388,000 (2005: HK$679,000).

Pursuant to the acquisition agreement of Sanxia Gas (note 36), the Group has granted an unconditional and irrevocable pre-emption right to the vendor on the entire equity interest in Sanxia Gas for a period of seven years from the date of completion of the acquisition at the same consideration of HK$ 250 million. As part of the agreement, the Group also undertakes not to transfer any of the shares, business, properties or assets of the Sanxia Gas Group prior to the full settlement of all the promissory notes issued as part consideration of the acquisition.

## 35 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

### (a) Reconciliation of operating loss to cash used in operations

| | 2006 | 2005 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Operating loss | (21,536) | (33,806) |
| Interest income | (136) | (94) |
| Depreciation | 4,331 | 823 |
| Amortisation | 271 | – |
| Share options granted | 12,356 | 994 |
| Impairment of goodwill | – | 7,219 |
| Gain on deregistration of subsidiaries | – | (167) |
| Fair value gain on trading investment | (26) | – |
| Loss on sale of trading investment | – | 5,600 |
| Loss on disposal of an available-for-sale financial asset | 1,255 | – |
| Loss on disposal of property, plant and equipment | 29 | 153 |
| Operating loss before working capital changes | (3,456) | (19,278) |
| Decrease in inventories | 2,297 | 6,234 |
| Increase in net amounts due from related parties | (9,995) | – |
| Increase in debtors and prepayments | (31,517) | (3,188) |
| Decrease in creditors and accruals | (3,567) | (3,908) |
| Cash used in operations | (46,238) | (20,140) |

**35 NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Continued)**

**(b) Analysis of changes in financing activities**

| | Share capital and premium | Loans and finance lease obligations | Share option reserve | Total |
|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 31 December 2004 | 164,680 | 970 | – | 165,650 |
| Share options granted | – | – | 994 | 994 |
| Net cash outflow from financing activities | – | (291) | – | (291) |
| At 31 December 2005 | 164,680 | 679 | 994 | 166,353 |
| Issue of new shares | 57,950 | – | – | 57,950 |
| Fair value of promissory notes | – | 144,680 | – | 144,680 |
| Acquisition of subsidiaries | – | 54,580 | – | 54,580 |
| Share options granted | – | – | 12,356 | 12,356 |
| Share options cancelled | – | – | (2,631) | (2,631) |
| Net cash inflow/(outflow) from financing activities | 101,837 | (5,781) | (1,337) | 94,719 |
| **At 31 December 2006** | **324,467** | **194,158** | **9,382** | **528,007** |

## 36 BUSINESS COMBINATION

On 7 August 2006, the Group acquired the entire share capital of Sanxia Gas (BVI) Investment Limited ("Sanxia Gas"), which is the parent company of the subsidiaries engaged in the distribution of natural gas in Chongqing, Mainland China, for a total consideration HK$250 million. Details of the net assets acquired and goodwill are as follows:

| | **Carrying amounts** HK$'000 | **Fair value** HK$'000 |
|---|---|---|
| Net assets acquired | | |
| Property, plant and equipment | 122,821 | 125,193 |
| Leasehold land and land use rights | 673 | 2,561 |
| Intangible assets | 6,556 | 6,556 |
| Inventories | 3,062 | 3,062 |
| Debtors and prepayments | 6,537 | 6,537 |
| Amounts due from related parties | 9,404 | 9,404 |
| Cash and bank balances | 12,884 | 12,884 |
| Creditors and accruals | (12,566) | (12,566) |
| Borrowings | (54,580) | (54,580) |
| Taxation payable | (428) | (428) |
| Deferred taxation liabilities | – | (6,210) |
| | 94,363 | 92,413 |
| Purchase consideration | | |
| Cash consideration | 35,000 | 35,000 |
| New shares issued *(note a)* | 38,125 | 57,950 |
| Promissory notes *(note b)* | 176,875 | 144,680 |
| | 250,000 | 237,630 |
| Direct costs relating to the acquisition | | 1,571 |
| Total acquisition cost | | 239,201 |
| Goodwill *(note 17)* | | 146,788 |
| Cash consideration | | 35,000 |
| Direct costs relating to the acquisition | | 1,571 |
| Cash and bank balances acquired | | (12,884) |
| Net cash outflow on acquisition | | 23,687 |

**36 BUSINESS COMBINATION (Continued)**

(a) Part of the consideration amounting to HK$38,125,000 was settled by the allotment and issue of 152,500,000 new shares of HK$0.25 each at the issue price of HK$0.25 per share. However, prevailing accounting standards require the fair value of the share consideration for accounting purposes to be determined at the date that the control over the net assets attributable to the acquisition becomes effective. At the completion date of the purchase, the mid-market price of the shares in the Company was HK$0.38. Accordingly, the fair value of the share consideration for this acquisition was HK$57,950,000.

(b) Part of the consideration amounting to HK$176,875,000 was settled by the issue of seven promissory notes in the aggregate principal amount of HK$176,875,000, each maturing annually until 7 August 2013. The notes carry interest at 1.5% per annum, and are secured by the share in Sanxia Gas. Prevailing accounting standards require these promissory notes to be accounted for at the fair value at date of issue. Based on a discount rate of 7% per annum, which approximates to market rate of similar borrowings of the Group, the fair value of the notes, being the present value of their redemption value and interest payable, at the date of issue was HK$144,681,000.

(c) Pursuant to the acquisition agreement of Sanxia Gas, the vendor has guaranteed that the audited consolidated net profit of the Sanxia Gas group for each of the two years ending 31 December 2006 and 2007, to be determined under Hong Kong Financial Reporting Standards, will not be less than HK$25 million. In the event of the audited consolidated net profit for any of the years being less than HK$25 million, the purchase consideration will be adjusted based on the agreed price earning multiple of ten times. The actual results of the Sanxia Gas group in 2006, however do not warrant any adjustment to the purchase consideration.

The acquired business contributed revenue of HK$27,308,000 and net profit of HK$12,843,000 to the Group for the period since acquisition. If the acquisition had occurred on 1 January 2006, revenue of the Group would have been HK$137,723,000, and loss for the year would have been HK$15,604,000.

There was no acquisition of subsidiary for the year ended 31 December 2005.

**37 SUBSEQUENT EVENTS**

(a) On 28 March 2007, the Company allotted and issued 200,000,000 new shares of HK$0.25 each at an issue price of HK$0.3001 per share for cash. Part of the net proceeds will be applied to invest into a coal-bed methane related project, which is currently under preliminary negotiations, in Mainland China, and general working capital.

(b) On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the new "CIT Law"). The new CIT Law increases the corporate income tax rate for foreign invested enterprises from 15% to 25% with effect from 1 January 2008. The new CIT Law also provides for preferential tax rates, tax incentives for prescribed industries and activities, grandfathering provisions as well as determination of taxable profit. However, detailed measures concerning these matters have yet to be issued by the State Council. Consequently, the Group is not in a position to assess the impact, if any, to the carrying value of deferred taxation liabilities as at 31 December 2006. The Group will continue to evaluate the impact as more detailed regulations are announced.

(c) On 7 March 2007, the Company entered into an agreement with Mr Tan Chuanrong, the vendor of Sanxia Gas, under which Mr Tan irrevocably agreed that the outstanding promissory notes, issued as part consideration for the acquisition of the entire equity interest of Sanxia Gas, with an aggregate principal of HK$176,875,000 and accrued interest, will be settled by the issuance of convertible bonds of the same amount by the Company. The bonds which will mature on the fifth anniversary of the date of issue, do not carry any interest and entitle the holders the right to convert into shares of the Company at the conversion price of HK$0.25 per share, subject to adjustment. However, the holders of the bonds are restricted to exercise the conversion rights attaching to the bonds to the extent that no holders, and parties in concert, shall control 30% or more of the voting rights in the Company immediately upon conversion. The Company is not entitled to redeem the bonds unless obtaining written confirmation from the holders. Unless previously redeemed or converted, the bonds will be redeemed at par in cash on maturity.

The issuance of the bonds for the settlement of the promissory notes is subject to the approval of the independent shareholders of the Company at an Extraordinary General Meeting to be held on 30 April 2007 and the permission of the Stock Exchange to deal with the shares which will be issued upon conversion of the bonds.