New Smart Group

(Stock code : 91)

NEW SMART ENERGY GROUP LIMITED

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Tong Nai Kan *(Chairman)*
Chow Sim Chu, Shirley
Tan Chuanrong

Non-Executive Director

Ko Ming Tung, Edward

Independent Non-Executive Directors

Chan Kin Sang
Lam Yat Fai
Liu Ngai Wing
Tang Tin Sek

AUDIT COMMITTEE

Tang Tin Sek *(Chairman)*
Chan Kin Sang
Lam Yat Fai
Liu Ngai Wing

REMUNERATION COMMITTEE

Lam Yat Fai *(Chairman)*
Liu Ngai Wing
Tang Tin Sek

COMPANY SECRETARY

Lee Kuen Chiu, Sherman

QUALIFIED ACCOUNTANT

Lee Kuen Chiu, Sherman

PRINCIPAL BANKERS

Bank of Communications Co., Ltd.
The Hongkong and Shanghai Banking
Corporation Limited
DBS Bank (Hong Kong) Limited
Hang Seng Bank Limited

SOLICITORS

Angela Ho & Associates
Stephenson Harwood & Lo

AUDITOR

PricewaterhouseCoopers
22nd Floor, Prince's Building,
Central, Hong Kong

REGISTERED OFFICE

19th Floor,
Bank of East Asia Harbour View Centre,
56 Gloucester Road,
Wanchai, Hong Kong

SHARE REGISTRARS

Tricor Standard Limited
26th Floor, Tesbury Centre,
28 Queen's Road East,
Wanchai, Hong Kong

LISTING EXCHANGE

The Stock Exchange of Hong Kong Limited
Stock code : 91

COMPANY WEBSITE

www.newsmartgroup.com

NOTICE IS HEREBY GIVEN that the annual general meeting (the "Meeting") of New Smart Energy Group Limited (the "Company") will be held at 19th Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong on Wednesday, 25 June 2008 at 4:00 p.m. for the following purposes:-

1. To receive and consider the audited financial statements and the reports of the directors and auditor for the year ended 31 December 2007.

2. To re-elect the retiring directors.

ORDINARY RESOLUTIONS

3. As special business, to consider and, if thought fit, to pass with or without modification the following resolutions as ordinary resolutions:

(A) **"THAT:**

(a) subject to paragraph (c), the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such power be generally and unconditionally approved;

(b) the approval in paragraph (a) shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such power after the end of the Relevant Period;

(c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the directors of the Company pursuant to the approval in paragraph (a), otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); (ii) the exercise of options granted under any share option scheme adopted by the Company; or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the articles of association of the Company (the "Articles of Association"), shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this resolution and the said approval shall be limited accordingly; and

(d) for the purpose of this resolution:

"Relevant Period" means the period from the passing of this resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association or any applicable law to be held; or

(iii) the revocation or variation of the authority given under this resolution by ordinary resolution of the shareholders in general meeting.

"Rights Issue" means an offer of shares open for a period fixed by the directors of the Company to holders of shares of the Company or any class thereof on the register on a fixed record date in proportion to their then holdings of such shares (subject to such exclusion or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, Hong Kong or any territory outside Hong Kong).";

(B) **"THAT:**

(a) subject to paragraph (b) below, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to purchase shares of the Company, subject to and in accordance with all applicable laws and requirements of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), be generally and unconditionally approved;

(b) the aggregate nominal amount of shares which may be purchased on the Stock Exchange or any other stock exchange on which the securities of the company may be listed and which is recognised for this purpose by the Securities and Futures Commission of Hong Kong and the Stock Exchange under the Hong Kong Code on Share Repurchases pursuant to the approval in paragraph (a) above shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this resolution and the said approval shall be limited accordingly; and

(c) for the purpose of this resolution:

"Relevant Period" means the period from the passing of this resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association or any applicable law to be held; or

(iii) the revocation or variation of the authority given under this resolution by ordinary resolution of the shareholders in general meeting."; and

(C) **"THAT** conditional upon the passing of resolutions 3(A) and 3(B) as set out in this notice convening the Meeting of which this resolution forms part, the general mandate granted to the directors of the Company pursuant to resolution 3(A) as set out in this notice convening the Meeting of which this resolution forms part be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of share capital of the Company purchased by the Company under the authority granted pursuant to resolution 3(B) as set out in this notice convening the Meeting of which this resolution forms part, provided that such amount shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing this resolution."

4. To appoint auditor and authorise the board of directors to fix the remuneration.

By Order of the Board
Sherman K C Lee
Company Secretary

Hong Kong, 29 April 2008

Notes:

1. The register of members of the Company will be closed from Monday, 23 June 2008 to Wednesday, 25 June 2008, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attending the Meeting, all duly completed and signed transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrars, Tricor Standard Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than 4:00 p.m. on Friday, 20 June 2008.

2. Any member entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.

3. To be valid, the form of proxy, together with any power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited at the office of the Company's share registrars, Tricor Standard Limited at the abovesaid address not less than 48 hours before the time appointed for holding the Meeting or adjourned meeting thereof.

4. With reference to resolution 2 set out in this notice, Mr. Lam Yat Fai and Mr. Liu Ngai Wing are due to retire by rotation at the Meeting and, being eligible, offer themselves for re-election pursuant to Articles 104 and 105 of the Company's Articles of Association. Also, Mr. Ko Ming Tung, Edward is due to retire at the Meeting and, being eligible, offer himself for re-election pursuant to Article 110 of the Company's Articles of Association. Neither Mr. Lam, Mr. Liu and Mr. Ko has entered into any service contract with the Company. The details of Mr. Lam, Mr. Liu and Mr. Ko are set out in a circular which will be sent to members together with the Company's 2007 Annual Report.

5. With reference to resolutions 3(A) to 3(C) set out in this notice, the directors wish to state that they have no immediate plans to repurchase any existing shares or to issue any new shares pursuant to the relevant mandate. An explanatory statement containing further details regarding the general mandate to repurchase shares as referred to in resolution 3(B) is set out in a circular which will be sent to members together with the Company's 2007 Annual Report.

The Board of Directors (the "Board" or "Directors") of New Smart Energy Group Limited (the "Company") is pleased to present the Group's annual report for the year ended 31 December 2007.

RESULTS

The Group's turnover for the year under review was HK$135,113,000 (2006: HK$104,864,000), representing an increase of 28.8%. Such increase of turnover was mainly due to the full-year contribution from the natural gas operating subsidiaries in Chongqing amounted to HK$75,655,000 and was 56.0% of the Group's 2007 turnover. The revenues generated by the sales of electronic components decreased by 23.0% from HK$77,261,000 in 2006 to HK$59,458,000 in 2007, representing 44.0% of the Group's turnover. The gross profit increased by 89.7% to HK$56,900,000 from HK$29,993,000. Excluding the accounting loss for the extinguishment of promissory notes and fair value change on embedded financial derivatives in respect of convertible bonds, the loss for the year was HK$46,149,000, an increase in loss of 63.6% over last year. Including the accounting loss on extinguishment of promissory notes and fair value change on embedded financial derivatives in respect of the convertible bonds of HK$155,398,000, the loss attributable to shareholder of the Company for the year was HK$201,547,000 (2006: HK$28,208,000), representing an increase of 614.5%. The Board was of the opinion that the substantial loss incurred by the accounting loss on extinguishment of promissory notes and fair value change on embedded financial derivatives in respect of the convertible bonds shall not have actual negative impact on the cashflow position of the Group. As of the date of this report, all the convertible bonds have either been redeemed or converted into shares of the Company.

The profit after tax but before interest expense for the natural gas business in 2007 was HK$26,055,000 (2006: HK$13,674,000) and the loss after tax for the sales of electronic components was HK$1,679,000 for 2007 (profit of HK$520,000 in 2006). The administrative cost increased 74.0% from HK$50,479,000 in 2006 to HK$87,689,000 in 2007, because of the inclusion of operating expenses of approximately HK$19,101,000 (2006: HK$7,259,000) for the natural gas business and the staff cost of HK$23,880,000 (2006: HK$12,357,000) in respect of granting of share options.

DIVIDENDS

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2007.

BUSINESS REVIEW

The Group is principally engaged in sale and distribution of piped natural gas in Mainland China and technology-related business.

Natural Gas Business

In August 2006, the Group completed the acquisition of the entire issued share capital of Sanxia Gas (BVI) Investment Limited ("Sanxia Gas") from Mr. Tan Chuanrong ("Mr. Tan") at a consideration of HK$250 million, of which HK$35,000,000 was paid in cash, HK$38,125,000 was satisfied by the allotment and issue of 152,500,000 shares of HK$0.25 each and the remaining HK$176,875,000 was satisfied by issuing seven promissory notes to Mr. Tan.

On 7 March 2007, the Company entered into a deed of settlement and a subscription agreement with Mr. Tan pursuant to which Mr. Tan agreed that the promissory notes and accrued interest amounting to HK$178,356,328.12 will be settled by the issuance of convertible bonds to him by the Company. The convertible bonds were issued to Mr. Tan on 22 June 2007 and the Directors are of the opinion that the net asset value, the working capital and the gearing level of the Group would be improved by the issuance of the convertible bonds to settle the promissory notes. At year end, all the convertible bonds have either been redeemed or converted into shares of the Company and the gearing level of the Group have been significantly improved.

Sanxia Gas indirectly owned 100% equity interest of Chongqing Yunyang Natural Gas Company Limited ("First Yunyang"), Yunyang Three Gorges Compressed Natural Gas Company Limited ("Second Yunyang"), Fengjie Three Gorges Wind Natural Gas Company Limited ("Fengjie Gas") and Wushan Three Gorges Wind Natural Gas Company Limited ("Wushan Gas"). The principal activities of these subsidiaries are the sale and distribution of piped natural gas and/or compressed natural gas in Yunyang, Fengjie, Wushan of the Chongqing Province.

For the year 2007, the turnover and profit of Sanxia Gas sub-group was HK$75,655,000 (2006: HK$27,416,000) and HK$26,055,000 (2006: HK$13,674,000). The revenue of Sanxia Gas sub-group mainly comprised of gas connection fee of HK$41,409,000 (2006: HK$15,969,000) and sales of natural gas supply charges of HK$34,175,000 (2006: HK$11,411,000). As at 31 December 2007, the Sanxia Gas sub-group had more than 54,000 customers with details as follows:

No. of customers	**First Yunyang**	**Fengjie Gas**	**Wushan Gas**	**Total**
As at 31 December 2006	26,803	10,907	5,818	43,528
As at 31 December 2007	29,738	15,745	8,777	54,260
% growth	10.95%	44.36%	50.86%	24.66%

Second Yunyang, a natural gas filling station for motor vehicles with gas sales increased 37.25% from 525,000 cubic meters in 2006 to 720,576 cubic meters in 2007.

Technology-related Business

Strong Way International Limited ("SWIL"), the Group's 60% equity interest subsidiary, is principally engaged in design and distribution of "SONIX" brand integrated circuits for toy manufacturing in Hong Kong and the South East Asia Region. During the year, SWIL continuously enlarged its sales network in Mainland China through an established sales agent in Guangzhou which has already built up good business relationship with a number of household appliances manufacturers. The turnover from sales of electronic components amounted to HK$59,458,000 for the year 2007 with a decrease of 23% comparing to HK$77,261,000 in 2006. The segment results was loss of HK$1,679,000 for 2007 (2006: profit of HK$520,000).

FINANCIAL REVIEW

As at 31 December 2007, the Group had current assets of HK$106,159,000 (2006: HK$95,972,000) and current liabilities of HK$65,510,000 (2006: HK$94,250,000) and cash and bank balances of HK$41,511,000 (2006: HK$20,339,000).

By an ordinary resolution passed by the shareholders on 12 September 2007, the authorised share capital of the Company was increased from HK$1,000,000,000 to HK$2,500,000,000 by the creation of 6,000,000,000 new shares of HK$0.25 each.

The Group has successfully raised HK$58,000,000 by top-up placement of 170,000,000 shares and placement of 30,000,000 new shares at subscription price of HK$0.3001 per share on 11 April 2007 for the possible investment in coal-bed methane business in future and for general working capital purpose.

During the year, convertible bonds in the aggregate principal amount of (i) HK$25,001,328.12 have been redeemed by the Company; and (ii) HK$153,355,000 have been converted into 613,420,000 shares at the conversion price of HK$0.25 per share.

During the year, 28,100,000 shares have been issued due to the exercise of share options by the optionholders under the terms of the share option scheme of the Company approved by the shareholders on 29 December 2004.

PROSPECTS

Since the Group has decided to diversify into energy-related business in early 2006, the Group has successfully raised net proceeds exceeding HK$150,000,000 in total by three placements of shares. The acquisition of Sanxia Gas allows the Group to diversify into a solid business with a new array of steady income and the first step for the Group to enter into energy-related business in Mainland China.

As a whole, the Group will actively identify opportunities to invest in the energy-related business, mainly in Mainland China, so as to bring in significant improved returns and contribute enhanced value to our shareholders.

HUMAN RESOURCES

As at 31 December 2007, the Group had 202 employees, of which 41 were in Hong Kong and 161were in Mainland China. Employee remunerations are in accordance with nature of their duties and remain competitive under current market trend. Staff benefits include medical schemes, share options, Mandatory Provident Fund schemes for Hong Kong employees and the state-managed employee pension schemes for employees in Mainland China.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to take this opportunity to express my appreciation to the continuous support of our shareholders and hard work and dedication of all our staff over the past year.

On behalf of the Board

Tong Nai Kan
Chairman

Hong Kong, 23 April 2008

EXECUTIVE DIRECTORS

TONG Nai Kan, aged 49, was appointed as a Managing Director of the Company in March 1999 and was elected as Chairman of the Board of Directors of the Company in May 2000. He was also appointed as the Chief Executive Officer of the Company in February 2008. Mr. Tong has extensive experience in investment in various businesses in Mainland China and has participated in energy-related businesses in recent few years. He was previously the chairman and managing director of China Mining Resources Group Limited (Formerly named as "INNOMAXX Biotechnology Group Limited") ("China Mining"), a company listed in the Stock Exchange of Hong Kong Limited. China Mining is formerly an associated company of the Company.

CHOW Sim Chu, Shirley, aged 35, joined the Company in May 1999 and was appointed as an Executive Director of the Company in July 2000. Ms. Chow was formerly a senior executive of a local property group and is well-experienced in marketing and administration of property development projects in Hong Kong. She holds a Bachelor Degree in Business from RMIT University, Australia. Ms. Chow is the sister-in-law of Mr. Tong Nai Kan, the Chairman and Chief Executive Officer of the Company.

TAN Chuanrong, aged 56, was appointed as an Executive Director of the Company in January 2007. Mr. Tan is currently the chairman of Chongqing Three Gorges Gas (Group) Company Limited. He holds a university degree and has wide experience in natural gas business in the Mainland China. Mr. Tan is also a committee member of the Chongqing Political Consultative Conference in the People's Republic of China (the "PRC") (中國重慶市政協委員), the vice chairman of the China Enterprise Directors Association of Chongqing (中國重慶市企業家聯合會副會長), director of China Society for Promotion of the Guangcai Program (中國光彩事業促進會理事), a member of the China Gas Association (中國城市燃氣協會會員) and a member of Chinese Petroleum Society (中國石油學會會員). Mr. Tan is currently the respective director of Sanxia Gas (BVI) Investment Limited, Chongqing Yunyang Natural Gas Company Limited, Fengjie Three Gorges Wind Natural Gas Company Limited, Wushan Three Gorges Wind Natural Gas Company Limited and Yunyang Three Gorges Compressed Natural Gas Company Limited, the wholly owned subsidiaries of the Company.

NON-EXECUTIVE DIRECTOR

KO Ming Tung, Edward, aged 47, was appointed as a Non-executive Director of the Company in March 2008. Mr. Ko is the principal of Messrs. Edward Ko & Company and has been practicing as a solicitor in Hong Kong for more than 17 years. He was appointed as Deputy Presiding Officer of the Labour Tribunal and is presently a member of the Panel of Adjudicators of the Obscene Articles Tribunal, the Solicitors Disciplinary Tribunal Panel and the Employment Law Committee of The Law Society of Hong Kong. Mr. Ko is appointed as Tribunal Chairman of the Appeal Tribunal Panel under the Buildings Ordinance. He is also a manager of the Chiu Chow Association Secondary School. Mr. Ko was an independent non-executive director of Thiz Technology Group Limited, which is listed on the GEM of the Stock Exchange. He currently serves as an independent non-executive director of Sinofert Holdings Limited, Kai Yuan Holdings Limited and China Pipe Group Limited, which are listed on the Main Board of the Stock Exchange. Mr. Ko obtained an external bachelor of laws degree from the University of London in the United Kingdom. Mr. Ko was an independent non-executive director and non-executive director of the Company before.

INDEPENDENT NON-EXECUTIVE DIRECTORS

CHAN Kin Sang, aged 56, was appointed as an Independent Non-executive Director of the Company in July 2006. Mr. Chan is currently the sole proprietor of Messrs. Peter K.S. Chan & Co., Solicitors and Notaries. He has been a practising solicitor in Hong Kong since 1982. Mr. Chan graduated from the University of Hong Kong with a Bachelor of Laws degree in 1979. He was admitted as a Notary Public in 1997 and as a China-appointed Attesting Officer in 2000. He is currently a Fellow of the Hong Kong Institute of Directors. Mr. Chan is currently an independent non-executive director of three Singapore listed companies, namely People's Food Holdings Limited, Sunray Holdings Limited, Luxking Group Holdings Limited and four other Hong Kong listed companies, namely Dynamic Energy Holdings Limited, China Force Oil & Grains Industrial Holdings Co., Limited, Golding Soft Limited and Plus Holdings Limited. Mr. Chan is also a non-executive director of Pan Hong Property Group Limited, which is also a Singapore listed company.

LAM Yat Fai, aged 42, was appointed as an Independent Non-executive Director of the Company in August 2005. Mr. Lam is a Certified Public Accountant (Practising). He worked with Kwan Wong Tan & Fong and Deloitte Touche Tohmatsu for over 10 years and has over 18 years of experience in auditing, taxation, corporate finance and accounting. He is also a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Lam is currently an independent non-executive director of Oriental Press Group Limited, G-Prop (Holdings) Limited and Yunnan Enterprises Holdings Limited, all being listed companies in Hong Kong.

LIU Ngai Wing, aged 57, was appointed as an Independent Non-executive Director of the Company in July 2005. Mr. Liu holds a Master of Science degree in Global Business from the Chinese University of Hong Kong, a Master of Science Degree in Hotel and Tourism Management from the Hong Kong Polytechnic University and a Master Degree in Business Administration from the Open University of Hong Kong. He is also an Associate Member of both the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Secretaries and Administrators, and a Fellow of the Association of Chartered Certified Accountants. Mr. Liu is currently an independent non-executive director of Hang Fung Gold Technology Limited and Daiwa Associate Holdings Limited, and an executive director of eSun Holdings Limited, and he was previously an independent non-executive director of Climax International Company Limited and Orient Industries Holdings Limited, all being listed companies in Hong Kong.

TANG Tin Sek, aged 49, was appointed as an Independent Non-executive Director of the Company in December 1999. Dr. Tang is a Certified Public Accountant and a partner of Terence Tang & Partners. He has over 27 years of experience in corporate finance, business advisory, financial management and auditing. He is also a member of The Chinese Institute of Certified Public Accountants, The Institute of Chartered Accountants in Australia and Chartered Association of Certified Accountants in the United Kingdom. He obtained a Bachelor of Science degree from the University of Hong Kong, a Master of Business Administration degree from the University of Sydney, Australia and a Doctorate in Accountancy from the Hong Kong Polytechnic University. Dr. Tang is currently an independent non-executive director of CEC International Holdings Limited, Sinofert Holdings Limited, Frankie Dominion International Limited and Interchina Holdings Company Limited, all being listed companies in Hong Kong.

CORPORATE GOVERNANCE PRACTICES

The Board of Directors (the "Board" or "Director(s)") of New Smart Energy Group Limited (the "Company") is pleased to present this Corporate Governance Report together with the audited financial statements for the year ended 31 December 2007 (the "Year").

The Company recognises the importance of good corporate governance practices and believes that maintaining high standard of corporate governance practices is crucial to the development of the Company.

During the Year, the Company had complied with the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with an exception of code provisions A.2.1, A.4.1 and A.4.2, details of which will be explained below.

In order to protect and enhance the benefits of shareholders, the Board and its executive management will continue to monitor the governance policies to ensure that such policies meet the general rules and standards.

DIRECTORS' SECURITIES TRANSACTION

The Company has adopted a code of conduct regarding the directors' securities transactions on exactly the terms and required standard contained in the Model Code for Securities Transactions by Directors (the "Model Code") set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors, all the Directors confirmed that they have complied with the required standards set out in the Model Code and its code of conduct regarding directors' securities transactions throughout the Year.

BOARD OF DIRECTORS RESPONSIBILITIES

The primary responsibilities of the Board are to make decision on the objectives, strategic plans, budgets and management structure of the Company; to oversee the management of the business and affairs of the Company and its subsidiaries (collectively the "Group"); to supervise the management of the business and affairs with the objective of enhancing the Company and shareholders' value with the proper delegation of the power to the management for its day-to-day operation of the Company, implementation of the budgets and strategic plans and development of the organisation of the Company for implementing the Board's decision.

The Board has reviewed, inter alia, the performance and formulated business strategy of the Group during the Year. Also, the Board has reviewed and approved the annual and interim results of the Group for the year ended 31 December 2006 and the six months ended 30 June 2007 respectively.

Composition

The Board reviews and approves corporate matters such as business strategies and investments as well as the general administration and management of the Group. The Board currently consists of three executive Directors, one non-executive Director and four independent non-executive Directors ("INEDs"):

Executive Directors:
Mr. Tong Nai Kan *(Chairman and Chief Executive Officer)*
Ms. Chow Sim Chu, Shirley
Mr. Tan Chuanrong

Non-executive Director:
Mr. Ko Ming Tung, Edward

Independent non-executive Directors:
Mr. Chan Kin Sang
Mr. Lam Yat Fai
Mr. Liu Ngai Wing
Dr. Tang Tin Sek

The Directors as aforesaid, accompanied by their respective biographical details, are listed in the section of "Biographical Details of Directors" in this annual report and that the INEDs are expressly identified in all the Company's publication such as announcement, circular or relevant corporate communications in which the names of Directors of the Company as disclosed.

Four INEDs, who represent half of the Board, include all with appropriate professional qualifications and accounting and related financial management expertise required under rule 3.10(2) of the Listing Rules. Each of the INEDs has made an annual confirmation of independence as required under Rule 3.13 of the Listing Rules. The Company considered all INEDs are independent.

Except the following, there is no other financial, business, family or other material/relevant relationships between the Directors and the Company:

1. Ms. Chow Sim Chu, Shirley is the sister-in-law of Mr. Tong Nai Kan;

2. On 7 March 2007, the Company and its wholly-owned subsidiary, Marvel Time Holdings Limited, entered into the Deed of Settlement (the "Deed of Settlement") with Mr. Tan Chuanrong whereby Mr. Tan irrevocably agreed that an Indebtedness of HK$178,356,328.12 (the "Indebtedness") be settled by the issuance of the convertible bond by the Company to Mr. Tan in the aggregate principal amount of HK$178,356,328.12 with a term of 5 years (the "Bond").

In consideration of Mr. Tan agreeing to settle the Indebtedness pursuant to the Deed of Settlement, the Company entered into the Subscription Agreement (the "Subscription Agreement") with Mr. Tan on 7 March 2007. Pursuant to the Subscription Agreement, the Company agreed to issue and Mr. Tan agreed to subscribe for the Bond.

3. Mr. Tan is the father of Ms. Tan Yinan, one of the vendor of the very substantial acquisition regarding the acquisition of 56% effective interest of Shanxi Tongyu Coalbed Methane Transportation Limited as mentioned in the announcement of the Company dated 4 December 2007. This acquisition was subsequently terminated as mentioned in the announcement of the Company dated 26 February 2008.

The Company considers that the Board has the necessary skills and experience appropriate for discharging their duties as Directors in the best interest of the Company and that the current Board size as adequate for its present operations. Each of the Directors keeps abreast of his/her responsibilities as a Director of the Company and of the conduct, business activities and development of the Company. All Directors are updated from time to time with development in the laws and regulations applicable to the Company.

Appointments, Re-election and Removal of Directors (Deviation from Code Provision A.4.2)

The procedures and process of appointment, re-election and removal of Directors are laid down in the Company's articles of association (the "Articles"). The Board as a whole is responsible for reviewing the Board composition, monitoring the appointment of directors and assessing the independence of INEDs.

In accordance with the Articles of the Company, every Director are subject to retirement by rotation at least once every three years and any new Directors appointed to fill a casual vacancy or as an addition to the Board should be subject to election by shareholders at the next following annual general meeting after their appointment.

According to the Company's Articles, the Chairman of the Board and the Managing Director of the Company were not subject to retirement by rotation, which thus constitutes a deviation from the code provision A.4.2. Since the Chairman is responsible for the formulation and implementation of the Company's strategies, which is essential to the stability of the Company's business and thus the Board considers that the deviation is acceptable.

Non-executive Directors (Deviation from Code Provision A.4.1)

Under the code provision A.4.1, non-executive Directors should be appointed for a specific term, subject to re-election.

None of the existing INEDs of the Company is appointed for a specific term. This constitutes a deviation from the code provision A.4.1. However, more than one-third of the Directors of the Company (including executive and non-executive) are subject to retirement by rotation at each annual general meeting under the Articles. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

Number of Meetings and Directors' Attendance

The Board held a total of thirteen Board meetings during the Year under review. The attendance record of each Director at the Board meetings is set out below:

Name of Directors	Attendance/Number of Board Meetings
Mr. Tong Nai Kan	13/13
Ms. Chow Sim Chu, Shirley	12/13
Mr. Tan Chuanrong *(Note 1)*	3/12
Mr. Chan Kin Sang	11/13
Mr. Lam Yat Fai	12/13
Mr. Liu Ngai Wing	10/13
Dr. Tang Tin Sek	13/13
Mr. Bai Yang *(Note 2)*	1/13
Mr. Chen Jiqing *(Note 3)*	0/1

Notes:

1. Mr. Tan Chuanrong appointed as Executive Director on 22 January 2007.

2. Mr. Bai Yang resigned as an Executive Director on 10 December 2007.

3. Mr. Chen Jiqing appointed as an Executive Director on 20 November 2007 and resigned on 26 March 2008.

Practices and Conduct of Meetings

The Board conducts meeting on a regular basis and on an ad hoc basis, as required by business needs. The Articles allows Board meetings to be conducted by way of telephone or otherwise orally and any resolutions to be passed by way of written resolutions circulated to and signed by all Directors from time to time when necessary unless any matters in which a substantial shareholder or a Director has a conflict of interest.

During the Year under review, the Board minutes were kept and available for inspection by the Directors. Also, the Board minutes were recorded in sufficient detail the decisions reached and draft and final versions of the minutes were sent to all Directors for their comments and execution respectively within a reasonable time before/after the Board meeting.

In the said Board Meetings, sufficient fourteen-day notices for regular board meetings and notice in reasonable days for non-regular Board meetings were given to all Directors so as to ensure that each of them had an opportunity to attend the meetings, and agendas and accompanying Board papers were given to all Directors in a timely manner before the appointed date of Board meetings and at least 3 days before the regular meetings. Sufficient information was also supplied by the management to the Board to enable it to make decisions, which are made in the best interests of the Company.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER (Deviation From Code Provision A.2.1)

Under the code provision A.2.1, the roles of chairman and chief executive officer ("CEO") should be separate people and should not be performed by the same individual. The divisions of responsibilities between the chairman and CEO should be clearly established and set out in writing.

Mr. Tong Nai Kan assumed the roles of both the chairman and CEO of the Company from 1 January 2007 to 19 November 2007, which constitutes a deviation from the code provision A.2.1. The Board believes that the vesting of the roles of chairman and CEO in the same person provides the Group with strong and consistent leadership and allows for more effective planning and execution of long-term business strategies, as well as ensuring effective oversight of management.

Mr. Tan Chuanrong, who primarily expertise in the transfer of coalbed methane via pipelines, was appointed as the CEO on 20 November 2007. The roles of the Chairman and the CEO are separate to reinforce their respective independence and accountability. The Chairman of the Company is primarily responsible for the leadership of the Board, while the CEO are responsible for the day-to-day management of the group business. Their responsibilities are clearly segregated. Mr. Tan was also responsible to oversee the coalbed methane pipeline project under the sale and purchase agreement dated 22 November 2007, of which the Company will acquire 56% interest in Shanxi Tongyu Coalbed Methane Transportation Limited (the "Acquisition").

Following the termination of the Acquisition on 26 February 2008, the Company's main focus might not be on the transfer of coalbed methane via pipelines, accordingly, Mr. Tan's primary expertise in the transfer of coalbed methane via pipelines is not as appropriate for the discharge of his duties as CEO. Mr. Tan resigned as CEO with effect from 27 February 2008 and Mr. Tong Nai Kai, the Chairman, was appointed as CEO in his place. The Company has deviated from the code provision A.2.1. by having the chairman and CEO to be the same person.

During the Year under review, the chairman ensured that all Directors were properly briefed on issues arising at Board meetings and received adequate, complete and reliable information.

BOARD COMMITTEE

The Board has established three committees, namely, the Remuneration Committee, the Nomination Committee and the Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference which describes the authority and duties of the respective Board committees. The terms of reference are available to shareholders for inspection at the registered office of the Company.

The member of each Board committee is set out below:

Remuneration Committee
Mr. Lam Yat Fai *(Chairman)*
Mr. Liu Ngai Wing
Dr. Tang Tin Sek

Nomination Committee
Mr. Liu Ngai Wing *(Chairman)*
Mr. Lam Yat Fai
Dr. Tang Tin Sek

Audit Committee
Dr. Tang Tin Sek *(Chairman)*
Mr. Chan Kin Sang
Mr. Lam Yat Fai
Mr. Liu Ngai Wing

Remuneration Committee

The Remuneration Committee was established for the purposes of determining specific remuneration packages of all executive Directors and senior management; and reviewing and approving their performance-based remuneration and their compensation on termination.

The Remuneration Committee consults the chairman/CEO about their proposal relating to the remuneration of executive Directors. No Directors and executives can determine his/her own remuneration.

The Remuneration Committee held a total of two meetings during the Year under review. The attendance record is set out below:

Name of Directors	**Attendance/Number of Remuneration Committee Meetings**
Mr. Lam Yat Fai	2/2
Mr. Liu Ngai Wing	2/2
Dr. Tang Tin Sek	2/2

The minutes of Remuneration Committee meeting were kept and available for inspection by the committee members. Also, the minutes were recorded in sufficient detail the decisions reached and draft and final versions of the minutes were sent to all committee members for their comments and execution respectively within a reasonable time before/after the Remuneration Committee meeting.

Nomination Committee

The Nomination Committee was established for the purposes of reviewing the composition of the Board, identifying suitable Board members, assessing independence of the INEDs and making recommendation on appointments and re-appointments.

The Nomination Committee is responsible for selection and approval of candidates for recommendation to the Board for appointment as Directors. In considering the nomination of Mr. Tan Chuanrong and Mr. Chen Jiqing as executive Directors during the Year, the Nomination Committee would take into account their qualification, in particular any qualification as required in the Listing Rules, ability, working experience, leadership and professional ethics. Nomination Committee would subsequently recommend such nomination of Mr. Tan and Mr. Chen as executive Directors to the Board for approval for appointment.

The Nomination Committee held a total of two meetings during the Year under review. The attendance record is set out below:

Name of Directors	Attendance/Number of Nomination Committee Meetings
Mr. Liu Ngai Wing	2/2
Mr. Lam Yat Fai	2/2
Dr. Tang Tin Sek	2/2

The minutes of Nomination Committee meeting were kept and available for inspection by the committee members. Also, the minutes were recorded in sufficient detail the decisions reached and draft and final versions of the minutes were sent to all committee members for their comments and execution respectively within a reasonable time before/after the Nomination Committee meeting.

Audit Committee

The Audit Committee provides an important link between the Board and the Company's auditor in matters coming within the scope of the audit of the Group.

The Audit Committee is responsible for reviewing the appointment of auditor on an annual basis including a review of the audit scope and approval of the audit fees; ensuring continuing auditor objectivity and to safeguard independence of the Company's auditor; meeting with the auditor to discuss issues arising from the interim review and final audit and any matters the auditors suggest to discuss; reviewing the effectiveness of the external audit and of internal controls and risk evaluation; reviewing the annual and interim report prior approval by the Board in accordance with the accounting polices and practices and relevant accounting standards, the Listing Rules and the legal requirements; serving as a focal point for communication between other Directors and the auditors in respect of the duties relating to financial and other reporting.

During the Year under review, the Audit Committee held two meetings for reviewing annual and interim reports respectively before submission to the Board; discussing all significant accounting issues as stated in the annual and interim reports, any changes in accounting policies and practices, major judgmental areas, significant adjustments, the going concern assumption, compliance with accounting standards, the stock exchange and legal requirements. The attendance record is set out below:

Name of Directors	Attendance/Number of Audit Committee Meetings
Dr. Tang Tin Sek	2/2
Mr. Chan Kin Sang	2/2
Mr. Lam Yat Fai	2/2
Mr. Liu Ngai Win	2/2

The minutes of Audit Committee meetings were kept and available for inspection by the committee members. Also, the minutes were recorded in sufficient detail the decisions reached and draft and final versions of the minutes were sent to all committee members for their comments and execution respectively within a reasonable time before/after the Audit Committee meetings.

The annual results of the Group for the year ended 31 December 2007 have been reviewed by the Audit Committee.

AUDITOR'S REMUNERATION

During the Year, the fees paid to the auditor of the Company, Messrs. PricewaterhouseCoopers was HK$1,560,000 for the audit service and HK$420,000 for the non-audit services including interim review.

INTERNAL CONTROL

The Board has overall responsibility for maintaining sound and effective internal control systems to safeguard the Company's assets and shareholders' interests, as well as for reviewing the effectiveness of these systems.

The Board has conducted a review of the Company's core business internal control systems for the year ended 31 December 2007, including financial, operational and compliance control and risk management functions and assessed the effectiveness of internal control by considering reviews performed by the audit committee, executive management and external advisor.

COMMUNICATION WITH SHAREHOLDERS

The Board will endeavour to maintain an on-going dialogue with shareholders and, in particular, use annual general meetings or other general meetings to communicate with shareholders and encourage their participation.

Separate resolutions are proposed at general meetings on each substantially separate issue, including the election of individual Directors.

Details of poll voting procedures and the rights of shareholders to demand a poll are included in all circulars to shareholders and will be explained during the proceedings of meetings.

Poll results will be posted on the websites of the Stock Exchange and the Company following the general meeting.

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. The chairman of the Board as well as the chairman of the audit committee or in the absence of the chairman of such committee, another member of the committee or failing this his duly appointed delegate, are available to answer questions at the general meetings.

To promote effective communication, the Company maintains websites at www.newsmartgroup.com, where extensive information and updates on the Company's business developments and operations, financial information and other information are posted.

On behalf of the Board

Tong Nai Kan
Chairman

Hong Kong, 23 April 2008

The Directors submit their report together with the audited financial statements for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiary companies are set out in note 18 to the financial statements.

An analysis of the performance of the Group for the year by business and geographical segments is set out in note 7 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out on page 31.

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2007.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and of the Company are set out in note 15 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out on note 27 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company are set out on note 25 to the financial statements.

DIRECTORS

The Directors of the Company during the year and up to the date of this report are:

Tong Nai Kan	
Chow Sim Chu, Shirley	
Tan Chuanrong	(appointed on 22 January 2007)
Ko Ming Tung, Edward #	(appointed on 5 March 2008)
Chan Kin Sang *	
Lam Yat Fai *	
Liu Ngai Wing *	
Tang Tin Sek *	
Bai Yang	(resigned on 10 December 2007)
Chen Jiqing	(appointed on 20 November 2007 and resigned on 26 March 2008)

Non–executive Director

* *Independent Non–executive Directors*

In accordance with Articles 104 and 105 of the Articles of Association of the Company, Mr. Lam Yat Fai and Mr. Liu Ngai Wing will retire by rotation at the forthcoming Annual General Meeting and, being eligible, will offer themselves for re–election.

In accordance with Article 110 of the Articles of Association of the Company, Mr. Ko Ming Tung, Edward will retire at the forthcoming Annual General Meeting and, being eligible, will offer himself for re–election.

The term of office for each Non–executive Director is the period up to his retirement by rotation in accordance with the Articles of Association of the Company.

The Directors of the Company do not have any service contracts with the Company or any of its subsidiary companies which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACT

There is no contract of significance in relation to the Group's business to which the Company or any of its subsidiary companies was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 December 2007, the interests and short positions of each Director and Chief Executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

(A) Long positions in shares of the Company

Name of Director	Nature of interest	Number of shares	Percentage
Tong Nai Kan	Corporate *(Note)*	180,000,000	9.47%
Tan Chuanrong	Personal	142,500,000	7.50%
Chow Sim Chu, Shirley	Personal	1,310,000	0.07%
Tang Tin Sek	Personal	158,000	0.01%

Note: These shares are beneficially owned by and registered in the name of Gold Blue Group Limited and Time Prosper Holdings Limited, which are 100% beneficially owned by Mr. Tong Nai Kan.

(B) Long positions in underlying shares of the Company – share options:

Name of Director	Date of grant	Number of underlying shares comprised in the options	Exercise price per share *HK$*	Exercisable period
Lam Yat Fai	8 March 2006	610,000	0.2648	8 April 2006 to 7 March 2011
Liu Ngai Wing	8 March 2006	610,000	0.2648	8 April 2006 to 7 March 2011
Tang Tin Sek	8 March 2006	610,000	0.2648	8 April 2006 to 7 March 2011
Chen Jiqing	1 June 2006	7,300,000	0.2900	1 July 2006 to 31 May 2011

Save as disclosed above, as at 31 December 2007, none of the Directors and Chief Executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SEO); or (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

ARRANGEMENT FOR THE ACQUISITION OF SHARES OR DEBENTURES

Save as disclosed above, at no time during the year was the Company or any of its subsidiary companies a party to any arrangements to enable the Directors of the Company or their associates to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 31 December 2007, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors and Chief Executives.

Name	Nature of interest	Number of shares	Percentage
Tong Nai Kan *(Note)*	Corporate	180,000,000	9.47%
Time Prosper Holdings Limited ("Time Prosper")	Beneficial	120,000,000	6.31%
Gold Blue Group Limited ("Gold Blue")	Beneficial	60,000,000	3.16%
Tan Chuanrong	Beneficial	142,500,000	7.50%

Note: Mr. Tong Nai Kan is the beneficial owner of the entire issued share capital of Gold Blue and Time Prosper. In accordance with the SFO, the interests of Gold Blue and Time Prosper are deemed to be, and have therefore been included in the interests of Mr. Tong Nai Kan.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of Directors is interested in any business apart from the Group's business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES IN THE COMPANY

Neither the Company nor any of its subsidiary companies had purchased, sold or redeemed any listed securities of the Company during the year.

SHARE OPTIONS

Under the terms of the share option scheme of the Company (the "Scheme") approved by the shareholders on 29 December 2004 (the ''Adoption Date''), 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 (the "Options") subject to the terms and conditions stipulated in the Scheme. During the year, share options are granted to employees specified under the Scheme. A summary of the Scheme is set out below:

(1) Purpose

(a) To recognise and acknowledge the contributions which the eligible participants have made or may make to the Group

(b) The Scheme will provide the eligible participants an opportunity to have a personal stake in the Company with a view to achieving the following objectives:

(i) motivate the eligible participants to utilise their performance and efficiency for the benefit of the Group; and

(ii) attract and retain or otherwise maintain on–going relationship with the eligible participants whose contributions are or will be beneficial to the long term growth of the Group.

(2) Eligible participants

(a) any Director (whether executive or non–executive or independent non–executive), employee (whether full time or part time), officer, consultant, customer, supplier, agent, partner or adviser of or contractor to the Group or any Invested Entity; and

(b) any discretionary trust who discretionary objects include any director (whether executive or non–executive or independent non–executive), employee (whether full time or part time), officer, consultant, customer, supplier, agent, partner or adviser of or contractor to the Group or any Invested Entity;

and for the purpose of the Scheme, the Option may be granted to any corporation wholly–owned by any person under (a) above.

(3) Total number of shares available for issue

Subject to the paragraph below, the total number of shares which may be issued upon exercise of all the Options to be granted under the Scheme and any other share option schemes of the Company must not in aggregate exceed 10% of the shares in issue (or the shares of the Subsidiary) as at Adoption Date, being 61,058,439 shares (the "Scheme Mandate Limit").

At the annual general meeting of the Company held on 24 May 2006, an ordinary resolution was passed refreshing the Scheme Mandate Limit so that the Company would be allowed to grant options under the Share Option Scheme for subscription of up to a total of 73,058,439 Shares, representing 10% of the issued share capital of the Company as at 24 May 2006.

At the last annual general meeting of the Company held on 30 May 2007, an ordinary resolution was passed refreshing the Scheme Mandate Limit so that the Company would be allowed to grant options under the Share Option Scheme for subscription of up to a total of 127,881,439 Shares (the "Refreshed Scheme Limit"), representing 10% of the issued share capital of the Company as at 30 May 2007.

The overall limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes for the time being of the Company shall not, in aggregate, exceed such number of shares as equals 30% of the shares in issue from time to time.

As at the date of the annual report, the total number of shares available for issue under the Scheme was 221,821,439 shares, which represented approximately 11.67% of the issued share capital of the Company on that date.

(4) Maximum entitlement of each eligible participant

The total number of shares issued and to be issued upon exercise of the Options granted to an eligible participant (including exercised and outstanding options) in any twelve–month period must not exceed 1% of the shares in issue from time to time.

Subject to separate approval by the shareholders in general meeting with the relevant participant and his associates (as defined in the Listing Rules) abstaining from voting provided that the Company shall issue a circular to shareholders before such approval is sought, the Company may grant a participant options which would exceed this limit.

(5) Option period

The period within which the shares must be taken up under the Option must not exceed 10 years from the date of grant of the relevant option.

(6) Minimum period for which the Option must be held before it can vest

The minimum period, if any, for which the Option must be held before it can vest shall be determined by the Board in its absolute discretion. The Scheme itself does not specify any minimum holding period.

(7) Payment on acceptance of the Option

HK$1.00 is payable by the grantee to the Company on acceptance of the Option offer. An offer must be accepted within 30 days from the date of grant.

(8) Basis of determining the subscription price

The subscription price shall be determined by the Board in its absolute discretion at the time of the grant but shall not be less than the highest of:

(i) the closing price of the shares on the date of grant;
(ii) the average closing prices of the shares for the five business days immediately preceding the date of grant; and
(iii) the nominal value of a share.

(9) The remaining life of the Scheme

The life of the Scheme is 10 years commencing on the Adoption Date and will expire on 28 December 2014.

Details of the share options outstanding as at 31 December 2007 which have been granted under the Scheme are as follows:

				Number of share options					
Categories of participant	**Date of grant**	**Exercise price** *(HK$)*	**Exercisable period**	**As at 1 January 2007**	**Granted**	**Exercised**	**Lapsed**	**As at 31 December 2007**	**Closing price immediately before the date of grant** *(HK$)*
Employees	27-Sep-05	0.2500	27 October 2005 to 26 September 2010	20,400,000	–	(14,000,000)	(5,600,000)	800,000	0.1090
Employees	27-Sep-05	0.2500	27 March 2006 to 26 September 2010	100,000	–	–	(100,000)	–	0.1090
Directors	8-Mar-06	0.2648	8 April 2006 to 7 March 2011	1,830,000	–	–	–	1,830,000	0.2440
Employees	8-Mar-06	0.2648	8 April 2006 to 7 March 2011	5,700,000	–	(5,700,000)	–	–	0.2440
Employees	1-Jun-06	0.2900	1 July 2006 to 31 May 2011	55,120,000	–	(3,600,000)	–	51,520,000	0.2850
Employees	1-Nov-06	0.4140	1 March 2007 to 29 February 2012	10,480,000	–	–	(10,480,000)	–	0.4100
Employees	1-Mar-07	0.2620	1 April 2007 to 29 February 2012	–	10,630,000	(4,800,000)	–	5,830,000	0.2550
Employees	19-Jul-07	0.4550	19 August 2007 to 18 July 2012	–	127,230,000	–	–	127,230,000	0.4650
				93,630,000	137,860,000	(28,100,000)	(16,180,000)	187,210,000	

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate turnover during the year attributable to the Group's five largest customers was 34% of the Group's total turnover, of which 20% was made to the largest customer.

The aggregate purchase of revenue items during the year attributable to the Group's five largest suppliers was 96% of the Group's total purchases of revenue and services, of which 63% was made from the largest supplier.

None of the Directors, their associates or any shareholder who to the knowledge of the Directors owns more than 5% of the Company's share capital has an interest in the suppliers or customers disclosed above.

CONNECTED TRANSACTIONS

During the year ended 31 December 2007, the Group entered into the following connected transactions:

(a) On 7 March 2007, the Company and its wholly–owned subsidiary, Marvel Time Holdings Limited, entered into the Deed of Settlement (the "Deed of Settlement") with Mr. Tan Chuanrong whereby Mr. Tan irrevocably agreed that an Indebtedness of HK$178,356,328.12 (the "Indebtedness") be settled by the issuance of the convertible bond by the Company to Mr. Tan in the aggregate principal amount of HK$178,356,328.12 with a term of 5 years (the "Bond").

In consideration of Mr. Tan agreeing to settle the Indebtedness pursuant to the Deed of Settlement, the Company entered into the Subscription Agreement (the "Subscription Agreement") with Mr. Tan on 7 March 2007. Pursuant to the Subscription Agreement, the Company agreed to issue and Mr. Tan agreed to subscribe for the Bond.

As Mr. Tan is an executive Director and substantial shareholder of the Company and therefore a connected person of the Company under the Listing Rules. Accordingly, the entering into the Deed of Settlement and the Subscription Agreement and the transactions contemplated thereunder constituted connected transactions for the Company under the Listing Rules.

The said agreements and the transactions contemplated thereunder were duly approved by the shareholders of the Company in an extraordinary general meeting held on 30 April 2007.

(b) On 22 November 2007, the Company entered into the First Sale and Purchase Agreement and the Second Sale and Purchase Agreement (the "Second S&P Agreement") with Mr. Chen Keyu and Ms. Tan Yinan respectively. Pursuant to the Second S&P Agreement, the Company had agreed to acquire from Ms. Tan Yinan 26% effective interests in Shanxi Tongyu Coalbed Methane Transportation Limited at a consideration of RMB116.1 million. As Ms. Tan is the daughter of Mr. Tan Chuanrong, the executive director of the Company, Ms. Tan was a connected person of the Company under the Listing Rules. Accordingly, the entering into of the Second S&P

Agreement constituted a connected transaction for the Company under the Listing Rules. On 26 February 2008, the Company entered into the Termination Agreements (the "Termination Agreement") with Mr. Chen Keyu and Ms. Tan Yinan respectively to terminate the agreements. Further details of the said transaction were set out in the announcements of the Company dated 4 December 2007, 21 December 2007, 24 January 2008 and 26 February 2008.

No deposit was paid to the vendors pursuant to the agreements. Up to the date of the Termination Agreements, the Company had incurred approximately HK$2 million to HK$3 million on the acquisition mostly on account of professional fees.

ANNUAL CONFIRMATION OF INDEPENDENCE

The Company has received the annual confirmation of independence from each of the Independent Non–executive Directors as required under Rule 3.13 of the Listing Rules. The Company considered all Independent Non–executive Directors to be independent.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the Board, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the financial year except that the independent non–executive directors are not appointed for a specific terms as they are subject to retirement by rotation at the annual general meeting in accordance with the Articles of Association of the Company.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the Company has maintained sufficient public float as required under the Listing Rules.

AUDITOR

The financial statements have been audited by PricewaterhouseCoopers.

On behalf of the Board

Tong Nai Kan
Chairman

Hong Kong, 23 April 2008

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

TO THE SHAREHOLDERS OF
NEW SMART ENERGY GROUP LIMITED
(Incorporated in Hong Kong with limited liability)

We have audited the financial statements of New Smart Energy Group Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 31 to 93, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

RESPONSIBLY OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

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

RESPONSIBILITY OF THE AUDITOR

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

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

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

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

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 23 April 2008

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	2007 *HK$'000*	2006 *HK$'000*
Revenues	6	**135,113**	104,864
Cost of sales		**(78,213)**	(74,871)
Gross profit		**56,900**	29,993
Other income	8	**2,221**	3,429
Selling and distribution expenses		**(11,392)**	(4,615)
Administrative expenses		**(87,689)**	(50,479)
Loss on extinguishment of promissory notes	28(d)	**(172,369)**	–
Fair value change on embedded financial derivatives	28(d)	**16,971**	–
Operating loss	9	**(195,358)**	(21,672)
Finance income	12	**767**	136
Finance costs	12	**(8,303)**	(6,142)
Finance costs, net		**(7,536)**	(6,006)
Loss before taxation		**(202,894)**	(27,678)
Taxation credit/(charge)	13	**1,324**	(530)
Loss for the year		**(201,570)**	(28,208)
Attributable to:			
Equity holders of the Company		**(201,547)**	(28,208)
Minority interests		**(23)**	–
		(201,570)	(28,208)
		HK cents	*HK cents*
Loss per share	14		
Basic		**(13.31)**	(3.41)
Diluted		**(13.31)**	(3.41)

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2007

	Note	2007 HK$'000	2006 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	15	**136,283**	129,745
Leasehold land and land use rights	16	**2,572**	2,605
Intangible assets	17	**165,418**	156,494
Investment in an associate	19	**–**	–
Available-for-sale financial assets	20	**2,771**	2,791
		307,044	291,635
Current assets			
Inventories	21	**2,241**	2,883
Debtors and prepayments	22	**50,404**	53,301
Amounts due from related parties	23	**12,003**	19,449
Cash and bank balances	24	**41,511**	20,339
		106,159	95,972
Total assets		**413,203**	387,607

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2007

	Note	2007 HK$'000	2006 HK$'000
EQUITY			
Share capital	25	**475,109**	264,729
Reserves	27	**(149,989)**	(128,225)
Equity holders		**325,120**	136,504
Minority interests		**–**	23
Total equity		**325,120**	136,527
LIABILITIES			
Non-current liabilities			
Borrowings	28	**17,067**	149,884
Deferred taxation liabilities	29	**5,506**	6,946
		22,573	156,830
Current liabilities			
Borrowings	28	**20,688**	48,495
Creditors and accruals	30	**42,533**	38,910
Amounts due to related parties	31	**1,740**	6,754
Taxation payable		**549**	91
		65,510	94,250
Total liabilities		**88,083**	251,080
Total equity and liabilities		**413,203**	387,607
Net current assets		**40,649**	1,722
Total assets less current liabilities		**347,693**	293,357

Tong Nai Kan
Director

Chow Sim Chu, Shirley
Director

BALANCE SHEET AS AT 31 DECEMBER 2007

	Note	2007 HK$'000	2006 HK$'000
Assets			
Non-current assets			
Property, plant and equipment	15	**3,132**	2,443
Subsidiaries	18	**–**	–
Investment in an associate	19	**–**	–
Available-for-sale financial assets	20	**2,771**	2,771
		5,903	5,214
Current assets			
Amounts due from subsidiaries	18	**272,251**	123,085
Debtors and prepayments	22	**34,614**	2,834
Amounts due from related parties	23	**289**	–
Cash and bank balances	24	**8,762**	2,284
		315,916	128,203
Total assets		**321,819**	133,417
EQUITY			
Share capital	25	**475,109**	264,729
Reserves	27	**(195,699)**	(160,677)
Total equity		**279,410**	104,052
LIABILITIES			
Current liabilities			
Amounts due to subsidiaries	18	**39,065**	26,818
Creditors and accruals	30	**3,344**	2,079
Amounts due to related parties	31	**–**	468
Total liabilities		**42,409**	29,365
Total equity and liabilities		**321,819**	133,417
Net current assets		**273,507**	98,838
Total assets less current liabilities		**279,410**	104,052

Tong Nai Kan
Director

Chow Sim Chu, Shirley
Director

	Share capital *HK$'000*	Other reserves *HK$'000*	Accumulated losses *HK$'000*	Equity holders *HK$'000*	Minority interest *HK$'000*	Total *HK$'000*
At 31 December 2005	152,646	21,337	(185,606)	(11,623)	23	(11,600)
Changes in exchange rates	–	5,325	–	5,325	–	5,325
Issue of new shares, net of expenses	66,500	26,443	–	92,943	–	92,943
Issue of new shares for acquisition of subsidiaries	38,125	19,825	–	57,950	–	57,950
Issue of shares upon exercise of share options	7,458	99	–	7,557	–	7,557
Change in fair value of available-for-sale financial assets	–	204	–	204	–	204
Share options at fair value	–	12,356	–	12,356	–	12,356
Share options cancelled	–	(2,631)	2,631	–	–	–
Transfer to statutory reserves	–	1,473	(1,473)	–	–	–
Loss for the year	–	–	(28,208)	(28,208)	–	(28,208)
At 31 December 2006	264,729	84,431	(212,656)	136,504	23	136,527
Changes in exchange rates	–	16,223	–	16,223	–	16,223
Issue of new shares, net of expenses	50,000	8,820	–	58,820	–	58,820
Conversion of convertible bonds to shares	153,355	130,574	–	283,929	–	283,929
Issue of shares upon exercise of share options	7,025	286	–	7,311	–	7,311
Share options at fair value	–	23,880	–	23,880	–	23,880
Share options lapsed or cancelled	–	(130)	130	–	–	–
Transfer to statutory reserves	–	2,169	(2,169)	–	–	–
Loss for the year	–	–	(201,547)	(201,547)	(23)	(201,570)
At 31 December 2007	475,109	266,253	(416,242)	325,120	–	325,120

	Note	2007 HK$'000	2006 HK$'000
Cash flows from operating activities			
Cash used in operations	34(a)	**(22,741)**	(46,238)
Interest received		**767**	136
Interest paid		**(3,112)**	(1,894)
Interest element of finance lease rental payments		**(28)**	(28)
Hong Kong profits tax paid		**–**	(6,229)
Overseas profits tax paid		**(29)**	–
Net cash used in operating activities		**(25,143)**	(54,253)
Cash flows from investing activities			
Acquisition of subsidiaries	35	**–**	(23,687)
Purchase of property, plant and equipment		**(7,828)**	(4,625)
Purchase of leasehold land and land use rights		**–**	(62)
Disposal of property, plant and equipment		**88**	24
Sale of available-for-sale financial assets		**20**	4,854
Net cash used in investing activities		**(7,720)**	(23,496)
Cash flows from financing activities			
Issue of new shares		**67,331**	103,257
Share issue expenses		**(1,200)**	(2,757)
Repayment of bank loans		**(11,482)**	(5,490)
Capital element of finance lease rental payments		**(291)**	(291)
Net cash from financing activities	34(b)	**54,358**	94,719
Increase in cash and bank balances		**21,495**	16,970
Cash and bank balances at beginning of year		**20,339**	3,976
Changes in exchange rates		**(323)**	(607)
Cash and bank balances at end of year		**41,511**	20,339

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. The address of its registered office is 19th floor, 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 the selling and distribution of natural gas for residential, commercial and industrial consumption in Mainland China and technology related business.

These financial statements have been approved by the Board of Directors on 23 April 2008.

2 BASIS OF PREPARATION

The financial statements 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.

(a) Standard, amendment and interpretations effective in 2007

HKFRS 7, 'Financial instruments: Disclosures', and the complementary amendment to HKAS 1, 'Presentation of financial statements – Capital disclosures', introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group's financial instruments, or the disclosures relating to taxation and trade and other payables.

HK(IFRIC) – Int 8, 'Scope of HKFRS 2', requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of HKFRS 2. This standard does not have any impact on the Group's financial statements.

HK(IFRIC) – Int 10, 'Interim financial reporting and impairment', prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the Group's financial statements.

2 BASIS OF PREPARATION ***(Continued)***

(b) Standards, amendment and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standard, amendment and interpretation to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods, but the Group has not early adopted them:

HKAS 1 (Revised), "Presentation of Financial Statements" (effective from 1 January 2009). HKAS 1 (Revised) requires all owner changes in equity to be presented in a statement of changes in equity. All comprehensive income is presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). It requires presenting a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when there are retrospective adjustments or reclassification adjustments. However, it does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRSs. The Group will apply HKAS 1 (Revised) from 1 January 2009.

HK(IFRIC) – Int 11, 'HKFRS 2 – Group and treasury share transactions', provides guidance on whether share-based transactions involving treasury shares or involving Group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and Group companies. This interpretation does not have an impact on the Group's financial statements.

HKAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply HKAS 23 (Amendment) from 1 January 2009 but is currently not applicable to the Group as there are no qualifying assets.

HKFRS 8, 'Operating segments ' (effective from 1 January 2009). HKFRS 8 replaces HKAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply HKFRS 8 from 1 January 2009. The expected impact is still being assessed in detail by management, but it appears likely that the number of reportable segments, as well as the manner in which the segments are reported, will change in a manner that is consistent with the internal reporting provided to the chief operating decision-maker. As goodwill is allocated to Groups of cash-generating units based on segment level, the change will also require management to reallocate goodwill to the newly identified operating segments. Management does not anticipate that this will result in any material impairment to the goodwill balance.

2 BASIS OF PREPARATION *(Continued)*

(b) Standards, amendment and interpretations to existing standards that are not yet effective and have not been early adopted by the Group *(Continued)*

HK(IFRIC) – Int 12, 'Service concession arrangements' (effective from 1 January 2008). HK(IFRIC) – Int 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. The Group is currently assessing the impact of HK(IFRIC) – Int 12 but is not yet in a position to state whether it will have a significant impact on the Group's results and financial position.

HKAS 27 (Revised) "Consolidated and Separate Financial Statements" (effective from annual period beginning on or after 1 July 2009). The amendment requires non-controlling interests (i.e. minority interests) to be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity. When control of a subsidiary is lost, the assets and liabilities and related equity components of the former subsidiary are derecognised. Any gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost. The Group will apply HKAS 27 (Revised) from 1 January 2010.

HKFRS 3 (Revised) "Business Combination" (effective for business combinations with acquisition date on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The amendment may bring more transactions into acquisition accounting as combinations by contract alone and combinations of mutual entities are brought into the scope of the standard and the definition of a business has been amended slightly. It now states that the elements are 'capable of being conducted' rather than 'are conducted and managed'. It requires considerations (including contingent consideration), each identifiable asset and liability to be measured at its acquisition-date fair value, except leases and insurance contracts, reacquired right, indemnification assets as well as some assets and liabilities required to be measured in accordance with other HKFRSs. They are income taxes, employee benefits, share-based payment and non current assets held for sale and discontinued operations. Any non-controlling interest in an acquiree is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. The Group will apply HKFRS 3 (Revised) from 1 January 2010.

HKFRS 2 Amendment "Share-based Payment Vesting Conditions and Cancellations" (effective from 1 January 2009). The amendment clarifies the definition of "vesting conditions" and specifies the accounting treatment of "cancellations" by the counterparty to a share-based payment arrangement. Vesting conditions are service conditions (which require a counterparty to complete a specified period of service) and performance conditions (which require a specified period of service and specified performance targets to be met) only. All "non-vesting conditions" and vesting conditions that are market conditions shall be taken into account when estimating the fair value of the equity instruments granted. All cancellations are accounted for as an acceleration of vesting and the amount that would otherwise have been recognised over the remainder of the vesting period is recognised immediately. The Group will apply HKFRS 2 Amendment from 1 January 2009, but it is not expected to have any impact on the Group's accounts.

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 income statement 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Subsidiaries *(Continued)*

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 income statement.

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.

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) Associates

Associates 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 associates are accounted for by the equity method of accounting and are initially recognised at cost. The investments in associates include goodwill, net of any accumulated impairment loss, identified on acquisition.

The share of post-acquisition profits or losses of associates attributable to the Group is recognised in the income statement, 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 associate company equals or exceeds its interest in the associate, including any other unsecured receivable, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) 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 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 income statement.

(e) 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 income statement 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.

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 income statement.

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

(f) 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.

(g) 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.

(h) 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.

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 income statement. 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.

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

(h) Investments *(Continued)*

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 income statement 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 income statement 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 income statement is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on available-for-sale investments are not reversed through the income statement.

(i) 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 income statement within administrative expenses. Subsequent recoveries of amounts previously provided for are credited against administrative expenses in the income statement.

(j) 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) 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.

(l) 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 income statement 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.

(m) Convertible bond

(i) Convertible bond with equity component

Convertible bond 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.

When the bond is converted, the relevant equity component and the carrying amount of the liability 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Convertible bond *(Continued)*

(ii) Convertible bond without equity component

All other convertible bond 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 bond 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 bond 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 income statement. 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 bond 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 bond is redeemed, any difference between the redemption amount and the carrying amounts of both components is recognised in income statement.

(n) 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)***

(o) **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.

(p) **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 income statement 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)*

(p) 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 income statement within financial expenses. Amounts accumulated in equity are recycled in the income statement 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 income statement.

(q) 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 income statement 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 income statement on a straight-line basis over the period of the leases.

(r) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for sale of goods and services provided in the ordinary course of activities of the Group. Revenue is shown net of sales tax, returns, rebates and discounts and after eliminating sales with 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. The Group bases its estimates on historical results, taking into consideration the type of customer the type of transaction and the specifics of each arrangement.

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

(r) 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.

(s) 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 income statement 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 income statement, 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)*

(t) 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 is Renminbi. The financial statements are presented in Hong Kong dollar, which is the presentation currency of the Company.

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 income statement, 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 income statement 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 income statement 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.

(u) 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) 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 and fair value 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. However, the Group mainly operates in Mainland China with most of the transactions settled in RMB and did not have significant exposure to foreign exchange risks during the year.

(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 counterparties. 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.

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to retail customers, including outstanding receivables and committed transactions. If there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

4 FINANCIAL RISK MANAGEMENT *(Continued)*

(b) Credit risk *(Continued)*

The Group places its cash and bank balances with financial institutions with sound credit rating which limits the amount of credit exposure to any one financial institution.

(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 table below analyses the Group's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2007				
Borrowings	23,349	13,010	5,785	–
Creditors and accruals	42,533	–	–	–
At 31 December 2006				
Borrowings	57,536	41,187	89,416	27,278
Creditors and accruals	38,910	–	–	–

(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 majority of the Group's borrowings are floating rate instruments and the Directors consider that the Group is not exposed to significant interest rate risk.

4 FINANCIAL RISK MANAGEMENT ***(Continued)***

(d) Cash flow and fair value interest rate risk ***(Continued)***

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions.

(e) Capital risk management

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

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including borrowings and trade and other payables, as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated balance sheet, plus net debt.

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

	2007	2006
	HK$'000	*HK$'000*
Total borrowings *(Note 28)*	**37,755**	198,379
Less: Cash and cash equivalents *(Note 24)*	**(41,511)**	(20,339)
Net (surplus)/debt	**(3,756)**	178,040
Total equity	**325,120**	136,527
Total capital	**321,364**	314,567
Gearing ratio	**N/A**	56.6%

4 FINANCIAL RISK MANAGEMENT *(Continued)*

(f) 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.

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

(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 judgement 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.

(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.

6 REVENUES

	2007	2006
	HK$'000	*HK$'000*
Turnover		
Sales of electronic components	**59,458**	77,261
Gas connection fee	**41,409**	15,969
Sales of natural gas	**34,175**	11,411
Sales of gas appliances	**71**	36
Property rental	**–**	187
	135,113	104,864

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.

7 SEGMENT INFORMATION *(Continued)*

(a) Business segments

	Natural gas *HK$'000*	Technology *HK$'000*	Corporate and others *HK$'000*	Total *HK$'000*
Year ended 31 December 2007				
Revenue	**75,655**	**59,458**	**–**	**135,113**
Segment results	**26,055**	**(1,679)**	**(219,734)**	**(195,358)**
Finance income				**767**
Finance costs				**(8,303)**
Loss before taxation				**(202,894)**
Taxation credit				**1,324**
Loss for the year				**(201,570)**
Capital expenditure	**5,941**	**–**	**1,887**	**7,828**
Depreciation	**7,116**	**89**	**1,315**	**8,520**
Amortisation	**696**	**–**	**–**	**696**
Bad and doubtful debts	**5,378**	**49**	**193**	**5,620**
Impairment of inventories	**–**	**702**	**–**	**702**
At 31 December 2007				
Segment assets	**321,241**	**10,890**	**39,561**	**371,692**
Unallocated assets				**41,511**
Total assets				**413,203**
Segment liabilities	**17,675**	**19,513**	**7,085**	**44,273**
Unallocated liabilities				**43,810**
Total liabilities				**88,083**

7 SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

	Natural gas	Technology	Corporate and others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2006				
Revenue	27,416	77,261	187	104,864
Segment results	13,674	520	(35,866)	(21,672)
Finance income				136
Finance costs				(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)*

(b) Geographical segments

	Revenue *HK$'000*	Total assets *HK$'000*	Capital expenditure *HK$'000*
Year ended 31 December 2007			
Hong Kong	**59,458**	**60,146**	**1,024**
Mainland China	**75,655**	**353,057**	**6,804**
	135,113	**413,203**	**7,828**
Year ended 31 December 2006			
Hong Kong	77,448	38,812	1,793
Mainland China	27,416	348,795	2,832
	104,864	387,607	4,625

8 OTHER INCOME

	2007 *HK$'000*	2006 *HK$'000*
Compensation	**1,620**	2,824
Exchange gain	**11**	92
Sundries	**590**	513
	2,221	3,429

9 OPERATING LOSS

	2007	2006
	HK$'000	*HK$'000*
Operating loss is stated after charging:		
Cost of inventories sold	**52,449**	66,345
Cost of natural gas sold	**21,594**	7,334
Depreciation		
Owned assets	**8,236**	4,045
Leased assets	**284**	286
Amortisation	**696**	271
Staff costs (including Directors' remuneration) *(note 10)*	**50,410**	32,018
Operating lease rental expense for land and buildings	**5,340**	1,372
Loss on disposal of property, plant and equipment	**60**	29
Bad and doubtful debts	**5,620**	137
Impairment loss on inventories	**702**	31
Loss on disposal of available-for-sale financial assets	**–**	1,135
Auditor's remuneration		
Audit services	**1,560**	1,965
Non-audit services	**420**	583
Legal and professional fees	**7,984**	1,855

Operating lease rental expense of HK$5,247,000 (2006: HK$1,354,000) is included in administrative expenses.

10 STAFF COSTS (INCLUDING DIRECTORS' REMUNERATION)

	2007	2006
	HK$'000	*HK$'000*
Salaries and other emoluments	**25,660**	19,205
Share options *(note 27)*	**23,880**	12,357
Defined contribution schemes	**870**	456
	50,410	32,018

Staff costs of HK$48,566,000 (2006: HK$31,570,000) and HK$1,844,000 (2006: HK$448,000) are included in administrative expenses and selling and distribution expenses, respectively.

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

The Group operates a defined contribution mandatory provident fund scheme for all eligible employees in Hong Kong. The assets of the scheme 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.

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*
2007					
Tong Nai Kan	**150**	**3,978**	**12**	**–**	**4,140**
Chow Sim Chu, Shirley	**150**	**580**	**12**	**–**	**742**
Tan Chuanrong	**137**	**963**	**–**	**–**	**1,100**
Chen Jiqing	**17**	**–**	**–**	**–**	**17**
Bai Yang	**141**	**226**	**11**	**–**	**378**
Tang Tin Sek	**150**	**–**	**–**	**–**	**150**
Liu Ngai Wing	**150**	**–**	**–**	**–**	**150**
Lam Yat Fai	**150**	**–**	**–**	**–**	**150**
Chan Kin Sang	**150**	**–**	**–**	**–**	**150**
	1,195	**5,747**	**35**	**–**	**6,977**
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

None of the Directors has waived the right to receive their emoluments.

11 DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS ***(Continued)***

(b) Five highest paid individuals

The five individuals, whose emoluments were the highest in the Group for the year include two (2006: two) Directors. The emoluments for the five individuals are as follows:

	2007	2006
	HK$'000	*HK$'000*
Salaries and other emoluments	**8,888**	7,862
Share options	**–**	749
Defined contribution schemes	**36**	40
	8,924	8,651

The emoluments of these individuals fell within the following bands:

	Number of individuals	
	2007	2006
Emoluments bands		
Nil to HK$1,000,000	**1**	1
HK$1,000,001 to HK$1,500,000	**3**	3
HK$4,000,001 to HK$4,500,000	**1**	1
	5	5

12 FINANCE INCOME AND COSTS

	2007	2006
	HK$'000	*HK$'000*
Finance income		
Interest from banks and other financial institution	**767**	136
Interest expense		
Promissory notes not wholly payable within five years	**(4,839)**	(4,220)
Bank loans and overdrafts wholly repayable within five years	**(3,033)**	(1,740)
Short-term loans wholly repayable within five years	**(79)**	(154)
Finance lease obligations wholly payable within five years	**(28)**	(28)
Interest on convertible bonds	**(324)**	–
Finance costs	**(8,303)**	(6,142)
Finance costs, net	**(7,536)**	(6,006)

13 TAXATION CREDIT/(CHARGE)

	2007	2006
	HK$'000	*HK$'000*
Current taxation		
Hong Kong profits tax	**–**	64
Deferred taxation		
Mainland China	**1,324**	(594)
	1,324	(530)

Hong Kong profits tax has not been provided as the Group does not have any assessable profit for the year (2006: nil). Taxation on overseas profits had 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 enterprise 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 2007 and thereafter, entitled to a 50% relief from enterprise income tax for the following three years.

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

Pursuant to the Corporate Income Tax Law of the People's Republic of China approved by the National People's Congress approved the on 16 March 2007, the corporate income tax rate for foreign invested enterprises will be increased from 15% to 25% with effect from 1 January 2008.

The reversal of temporary difference during the period represents the approval of extending tax benefits to prior year income by the Chongqing Municipal Tax Bureau.

The taxation charge on the loss before taxation differs from the theoretical amount that would arise using the prevailing taxation rate of the Mainland China in which the Group operates as follows:

	2007	2006
	HK$'000	*HK$'000*
Loss before taxation	**(202,894)**	(27,678)
Tax asset at the rate of 15% (2006: 15%)	**30,434**	4,152
Tax relief	**4,884**	1,030
Income not subject to taxation	**30**	71
Expenses not deductible for taxation purposes	**(35,382)**	(6,383)
Utilisation of previous unrecognised tax losses	**–**	371
Over provision in prior years	**1,324**	–
Recognition of previously unrecognised temporary difference	**34**	229
Taxation credit/(charge)	**1,324**	(530)

Deferred taxation assets of the Group and the Company amounting to HK$8,566,000 (2006: HK$14,683,000) and HK$3,490,000 (2006: 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.

	2007	2006
Loss attributable to equity holders *(HK$'000)*	**(201,547)**	(28,208)
Weighted average number of shares in issue	**1,514,674,391**	826,879,432
Basic earnings per share *(HK cents)*	**(13.31)**	(3.41)

(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 price of the shares of the Company) based on the monetary value of the subscription rights attached to the 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. The exercise of share options would not have a dilutive effect on the earnings per share.

	2007	2006
Loss attributable to equity holders *(HK$'000)*	**(201,547)**	(28,208)
Weighted average number of shares in issue	**1,514,674,391**	826,879,432
Diluted earnings per share *(HK cents)*	**(13.31)**	(3.41)

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 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
Additions	27	–	5,053	86	712	1,562	388	7,828
Reclassification	21	4,199	(4,220)	–	–	–	–	–
Disposals	(75)	–	–	–	(25)	(50)	–	(150)
Changes in exchange rates	538	6,548	7	240	19	7	21	7,380
Charge for the year	(298)	(5,888)	–	(529)	(1,004)	(615)	(186)	(8,520)
At 31 December 2007								
Cost	**10,030**	**125,688**	**952**	**5,202**	**5,444**	**4,188**	**1,186**	**152,690**
Accumulated depreciation	**(721)**	**(8,760)**	**–**	**(1,098)**	**(3,718)**	**(1,768)**	**(342)**	**(16,407)**
Net book amount	**9,309**	**116,928**	**952**	**4,104**	**1,726**	**2,420**	**844**	**136,283**

No property, plant and equipment is pledged as security for bank loans of the Group (2006: net book amount of HK$15,836,000).

The net book value of plant and equipment held under finance leases amounts to HK$213,000 (2006: HK$497,000).

Depreciation of HK$1,819,000 (2006: HK$868,000) and HK$6,702,000 (2006: HK$3,463,000) have been included in administrative expenses and selling and distribution expenses, respectively.

15 PROPERTY, PLANT AND EQUIPMENT ***(Continued)***

Company

	Furniture and fixtures *HK$'000*	**Motor vehicles** *HK$'000*	**Total** *HK$'000*
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
Additions	896	903	1,799
Disposals	(14)	–	(14)
Charge for the year	(946)	(183)	(1,129)
Changes in exchange rate	20	13	33
At 31 December 2007			
Cost	**4,202**	**1,604**	**5,806**
Accumulated depreciation	**(2,267)**	**(407)**	**(2,674)**
Net book amount	**1,935**	**1,197**	**3,132**

16 LEASEHOLD LAND AND LAND USE RIGHTS

	HK$'000
Group	
At 31 December 2005	–
Acquisition of subsidiaries	2,561
Additions	62
Charge for the year	(74)
Changes in exchange rates	56
At 31 December 2006	2,605
Charge for the year	(183)
Changes in exchange rates	150
At 31 December 2007	**2,572**
Mainland China	
Over 50 years	**418**
10 to 50 years	**1,244**
No expiry date	**910**
	2,572

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

Amortisation of HK$183,000 (2006: HK$74,000) is included in administrative expenses in the income statement.

No leasehold land and land use rights (2006: HK$947,000) is pledged as securities for bank loans of the Group.

17 INTANGIBLE ASSETS

Group

	Goodwill	**Right to use gas pipeline**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 31st December 2006			
Cost	149,994	6,699	156,693
Accumulated amortisation	–	(199)	(199)
Net book amount	149,994	6,500	156,494
Charge for the year	–	(513)	(513)
Changes in exchange rate	9,064	373	9,437
At 31st December 2007			
Cost	**159,058**	**7,104**	**166,162**
Accumulated amortisation	**–**	**(744)**	**(744)**
Net book amount	**159,058**	**6,360**	**165,418**

Amortisation of HK$513,000 (2006: HK$199,000) is included in selling and distribution expenses in the income statement.

The recoverable amount of goodwill is determined based on value-in-use calculations. These calculations use pre-tax 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 of 75%, growth rate of 16%, 13% and 9% in 2008, 2009 and 2010, respectively; and discount rate of 14%.

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. The Directors consider there is no indication of impairment at 31 December 2007.

18 SUBSIDIARIES

	Company 2007 HK$'000	Company 2006 HK$'000
Unlisted shares, at cost	**–**	–
Amounts receivable, less provision	**272,251**	123,085
Amounts payable	**(39,065)**	(26,818)

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 2007	Percentage of attributable equity interest 2006	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**	100	RMB5,000,000	Distribution of natural gas
Echo Peak Investment Limited	Hong Kong	**100**	100	HK$10,000	Property investment
[1]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**	100	RMB6,000,000	Distribution of natural gas
Hong Kong Sanxia Gas Investment Limited	Hong Kong	**100**	100	HK$1	Investment holding
Keenland Company Limited	Hong Kong	**100**	100	HK$100,100	Property investment

18 SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ operation	Percentage of attributable equity interest 2007	2006	Issued and paid up capital	Principal activities
[1]Marvel Time Holdings Limited	British Virgin Islands	**100**	100	US$1	Investment holding
Sanxia Gas (BVI) Investment Limited	British Virgin Islands	**100**	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
[1]Universal Cyber Technology Holdings Limited	Hong Kong	**100**	100	HK$2	Property investment
[1]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**	100	RMB10,000,000	Distribution of natural gas
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**	100	RMB2,900,000	Distribution of compressed natural gas

[1] Subsidiaries directly held by the Company

19 INVESTMENT IN AN ASSOCIATE

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Unlisted shares, at cost less provision	**–**	–	**–**	–

The associate does not have any profit or loss for the year or reserve as at 31 December 2007.

Particulars of the associate are as follows:

Name	Place of incorporation/ operation	Percentage of attributable equity interest		Principal activities
		2007	2006	
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 2005	12,424	2,687
Acquisition of subsidiaries	20	–
Disposal	(9,737)	(120)
Impairment loss	84	204
At 31 December 2006	2,791	2,771
Disposal	(20)	–
At 31 December 2007	**2,771**	**2,771**

20 AVAILABLE-FOR-SALE FINANCIAL ASSETS *(Continued)*

Available-for-sale financial assets include the following:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Unlisted shares	**–**	20	**–**	–
Club debentures	**2,771**	2,771	**2,771**	2,771
	2,771	2,791	**2,771**	2,771

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

21 INVENTORIES

Group

	2007	2006
	HK$'000	*HK$'000*
Finished goods	**134**	832
Spare parts	**788**	1,109
Construction materials	**1,319**	942
	2,241	2,883

22 DEBTORS AND PREPAYMENTS

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade debtors *(note a)*	**12,462**	16,508	**–**	–
Provision for impairment	**(133)**	(137)	**–**	–
Trade debtors, net	**12,329**	16,371	**–**	–
Other debtors	**1,017**	32,485	**1,281**	33
Due from a third party financial consultant *(note b)*				
- Deposit	**30,000**	–	**30,000**	–
- Interest on deposit	**321**	–	**321**	–
Deposits and prepayments	**6,737**	4,445	**3,012**	2,801
	50,404	53,301	**34,614**	2,834

As of 31 December 2007, trade debtors of HK$133,000 (2006: HK$137,000) and other debtors of HK$4,774,000 (2006: nil) were impaired and fully provided for. The individually impaired receivables mainly relate to three independent parties, which are in unexpected difficult economic situations. The other classes within debtors and prepayments do not contain impaired assets.

(a) 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.

(b) On 13 April 2007, the Company entered into an agreement with a third party consultant for the provision of certain investment services. Pursuant to the agreement, HK$30 million is placed as a deposit. The deposit is unsecured, interest bearing at rate equivalent to savings rate at a designated bank account and is repayable within six months from date of agreement. On 13 October 2007, the agreement was renewed for another six months until 12 April 2008. On 28 February 2008, the Company revised certain terms and entered into another agreement with the third party consultant.

22 DEBTORS AND PREPAYMENTS *(Continued)*

(c) 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:

	2007	2006
	HK$'000	*HK$'000*
Below 30 days	**6,109**	5,331
30 to 90 days	**6,003**	6,202
91 to 180 days	**213**	4,309
Over 180 days	**4**	529
	12,329	16,371

Trade debtors amounting HK$217,000 (2006: HK$4,838,000) are past due but not impaired.

(d) The carrying amounts of the debtors and prepayments of the Group are mainly denominated in the following currencies:

	2007	2006
	HK$'000	*HK$'000*
Hong Kong dollar	**43,024**	43,055
Renminbi	**5,702**	9,079
United States dollar	**–**	1,167
	48,726	53,301

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Group does not hold any collateral as security.

23 AMOUNTS DUE FROM RELATED PARTIES

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Chongqing Three Gorges Gas (Group) Limited	**10,877**	14,947	**–**	–
Ms. Tan Yinan	**651**	–	**289**	–
Ms. Tan Yao	**475**	–	**–**	–
Chongqing Wanzhou Julong Property Development Company Limited	**–**	4,502	**–**	–
	12,003	19,449	**289**	–

The above entity is beneficially owned by Mr. Tan Chuanrong, a director of the gas operating subsidiaries in Mainland China, and appointed as Director of the Company on 22 January 2007. Ms. Tan Yinan and Ms. Tan Yao are affiliates of Mr. Tan Chuanrong. The amounts receivable are unsecured, interest free and repayable on demand.

24 CASH AND BANK BALANCES

Cash and bank balances include short-term deposits amounting to HK$2,200,000 (2006: HK$2,126,000), with effective interest of 3.6% (2006: 3.7%) per annum and average maturity of about 17 days (2006: 17 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:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Renminbi	**30,237**	13,516	**854**	148
Hong Kong dollar	**11,108**	5,891	**7,908**	2,136
Other currencies	**166**	932	**–**	–
Maximum amount of credit exposure	**41,511**	20,339	**8,762**	2,284

25 SHARE CAPITAL

	Number of shares	HK$'000
Authorised:		
At 31 December 2006	4,000,000,000	1,000,000
Increase during the year	6,000,000,000	1,500,000
At 31 December 2007	10,000,000,000	2,500,000
Issued and fully paid:		
At 31 December 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
Issue of new shares for cash	200,000,000	50,000
Issue of new shares upon conversion of convertible bonds *(note 28(d))*	613,420,000	153,355
Share options exercised	28,100,000	7,025
At 31 December 2007	**1,900,434,391**	**475,109**

By an ordinary resolution passed by the shareholders on 12 September 2007, the authorised share capital of the Company was increased from HK$1,000,000,000 to HK$2,500,000,000 by creation of 6,000,000,000 new shares of HK$0.25 each.

On 11 April 2007, the Company allotted and issued 200,000,000 new shares of HK$0.25 each at the issue price of HK$0.3001 per share for cash.

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

26 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	
	2007	2006
At beginning of the year	**93,630,000**	43,620,000
Granted *(note a)*	**137,860,000**	97,620,000
Cancelled *(note b)*	**(16,180,000)**	(17,780,000)
Exercised *(note c)*	**(28,100,000)**	(29,830,000)
At end of the year *(note d)*	**187,210,000**	93,630,000

(a) Options granted

Date of grant	Exercisable period	Exercise price *HK$*	Number of share options
1 March 2007	1 April 2007 to 29 February 2012	0.2620	10,630,000
19 July 2007	19 August 2007 to 18 July 2012	0.4550	127,230,000
			137,860,000

(b) Options cancelled

Exercisable period	Exercise price *HK$*	Number of share options
1 March 2007 to 29 February 2012	0.4140	10,480,000
27 October 2005 to 26 September 2010	0.2500	5,600,000
27 March 2006 to 26 September 2010	0.2500	100,000
		16,180,000

26 SHARE OPTION SCHEME *(Continued)*

(c) Options exercised

Exercise date	Share price at exercise date	Exercise price	Number of share options
	HK$	*HK$*	
9 March 2007	0.3400	0.2500	2,400,000
28 March 2007	0.3800	0.2500	1,900,000
2 April 2007	0.5200	0.2500	3,300,000
2 April 2007	0.5200	0.2648	5,700,000
2 April 2007	0.5200	0.2900	600,000
2 May 2007	0.6200	0.2500	4,200,000
2 May 2007	0.6200	0.2900	1,200,000
2 May 2007	0.6200	0.2620	600,000
8 June 2007	0.5500	0.2500	1,200,000
17 July 2007	0.4600	0.2900	1,200,000
17 July 2007	0.4600	0.2620	1,000,000
31 July 2007	0.5000	0.2500	1,000,000
31 July 2007	0.5000	0.2900	600,000
31 July 2007	0.5000	0.2620	3,200,000
			28,100,000

(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	800,000
1 July 2006 to 31 May 2011	0.2900	51,520,000
1 April 2007 to 29 February 2012	0.2620	5,830,000
19 August 2007 to 18 July 2012	0.4550	127,230,000
		187,210,000

26 SHARE OPTION SCHEME *(Continued)*

(e) Fair value of options and assumptions

The fair value of the options granted and vested during the year is HK$23,879,000, 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$0.255 and HK$0.445 at the respective date of granting the options, respective exercise price of HK$0.262 and HK$0.455 per share, expected life of the options of 2 to 3 years, expected dividend paid out rate of zero and annual risk-free interest rate of 3.93% to 4.27%. 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.

27 RESERVES

Group

	Share premium HK$'000	Capital redemption reserve HK$'000	Capital reserve HK$'000	Share option reserve HK$'000	Investment reserve HK$'000	Exchange reserve HK$'000	Statutory reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
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	–
Loss for the year	–	–	–	–	–	–	–	(28,208)	(28,208)
Transfer to statutory reserve	–	–	–	–	–	–	1,473	(1,473)	–
At 31 December 2006	59,738	5,318	1,805	9,382	949	5,766	1,473	(212,656)	(128,225)
Changes in exchange rates	–	–	–	–	–	16,133	90	–	16,223
Issue of new shares for cash, net of expenses	8,820	–	–	–	–	–	–	–	8,820
Conversion of convertible bonds to shares	130,574	–	–	–	–	–	–	–	130,574
Issue of shares upon exercise of share options	2,170	–	–	(1,884)	–	–	–	–	286
Share options at fair value	–	–	–	23,880	–	–	–	–	23,880
Share options cancelled	–	–	–	(130)	–	–	–	130	–
Loss for the year	–	–	–	–	–	–	–	(201,547)	(201,547)
Transfer to statutory reserve	–	–	–	–	–	–	2,169	(2,169)	–
At 31 December 2007	**201,302**	**5,318**	**1,805**	**31,248**	**949**	**21,899**	**3,732**	**(416,242)**	**(149,989)**

27 RESERVES *(Continued)*

Company

	Share premium	Capital redemption	Share option reserve	Investment reserve	Exchange reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
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)
Changes in exchange rates	–	–	–	–	(218)	–	(218)
Issue of new shares for cash, net of expenses	8,820	–	–	–	–	–	8,820
Conversion of convertible bonds for shares	130,574	–	–	–	–	–	130,574
Issue of shares upon exercise of share options	2,170	–	(1,884)	–	–	–	286
Share options at fair value	–	–	23,880	–	–	–	23,880
Share options cancelled	–	–	(130)	–	–	130	–
Loss for the year	–	–	–	–	–	(198,364)	(198,364)
At 31 December 2007	**201,302**	**5,318**	**31,248**	**949**	**(241)**	**(434,275)**	**(195,699)**

The loss attributable to shareholders for the year is dealt with in the financial statements of the Company to the extent of HK$198,364,000 (2006: HK$45,014,000).

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

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 31st 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.

27 RESERVES *(Continued)*

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.

28 BORROWINGS

Group

	2007	2006
	HK$'000	HK$'000
Secured bank loans wholly repayable within five years	**36,801**	48,283
Short term loans, unsecured	**857**	808
Promissory notes	**–**	148,900
Finance lease obligations wholly repayable within five years	**97**	388
	37,755	198,379
Current portion included in current liabilities		
Bank loans	**19,734**	25,650
Short term loans	**857**	808
Promissory notes	**–**	21,746
Finance lease obligations	**97**	291
	20,688	48,495
	17,067	149,884

28 BORROWINGS ***(Continued)***

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

	Bank loans	Other loans	Promissory notes	Finance lease Present value	Finance lease Minimum lease payment
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2007					
2008	**19,734**	**857**	**–**	**97**	**106**
2009	**11,734**	**–**	**–**	**–**	**–**
2010	**5,333**	**–**	**–**	**–**	**–**
	36,801	**857**	**–**	**97**	**106**
	HK$'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

(b) Bank loans amounting to HK$33,067,000 (2006: HK$39,231,000) 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 a nominal amount of HK$176,875,000 as part of the consideration for the acquisition of the entire equity interest in Sanxia Gas (BVI) Limited ("Sanxia Gas"). The promissory notes carried interest at 1.5% per annum and were secured by the share of Sanxia Gas. The carrying value of the promissory notes at 31 December 2006 was calculated at a discount rate of 7%. The promissory notes were fully settled on 22 June 2007 with the issuance of convertible bonds (note d).

28 BORROWINGS *(Continued)*

(d) On 22 June 2007, the Group issued convertible bonds with an aggregate principal amount of HK$178,356,000 with a term of five years. The convertible bonds do not carry interest and are secured by the share of Sanxia Gas. Holders of the convertible bonds have the option to convert the convertible bonds into shares of the Company of HK$0.25 each at a conversion price of HK$0.25 per share.

As the functional currency of the Group is Renminbi, the conversion option of the convertible bonds denominated in Hong Kong dollar will not result in settlement by the exchange of a fixed amount of cash for a fixed number of equity instrument. The embedded conversion option is therefore separated from the host contract and accounted for as an embedded derivative carried at fair value through profit or loss.

Embedded derivative component

The fair value of the embedded derivative component of the convertible bonds is calculated using the binomial model with the major inputs as follows:

	22 June 2007	**26 June 2007**	**30 June 2007**	**3 July 2007**	**4 July 2007**	**16 July 2007**	**14 August 2007**	**14 September 2007**
Stock price	HK$0.490	HK$0.495	HK$0.455	HK$0.45	HK$0.455	HK$0.425	HK$0.380	HK$0.330
Exercise price	HK$0.25	HK$0.25	HK$0.25	HK$0.25	HK$0.25	HK$0.25	HK$0.25	HK$0.25
Volatility	78.91%	78.91%	78.93%	78.93%	78.53%	77.99%	77.99%	79.95%
Dividend yield	0%	0%	0%	0%	0%	0%	0%	0%
Risk free rate	4.665%	4.551%	4.620%	4.550%	4.585%	4.580%	4.321%	3.966%

28 BORROWINGS *(Continued)*

(d) *(Continued)*

Liability component

The liability component is the residual amount after recognising the embedded derivative and subsequently carried at amortised cost. As at 31 December 2007, the convertible bonds were fully converted into 613,420,000 shares of the Company at a conversion price of HK$0.25 per share. The movement of the liability component and embedded derivatives of the convertible bonds for the year is as follows:

		Convertible bonds			
	Promissory notes	**Liability component**	**Embedded financial derivative**	**Total**	**Bondholder conversion**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2006	(148,900)	–	–	–	–
Interest accrued	(4,839)	–	–	–	–
Settlement of interest	530	–	–	–	–
Convertible bonds issued on 22 June 2007	153,209	(178,356)	–	(178,356)	–
Redemption on 22 June 2007	–	25,000	–	25,000	–
Recognition of fair value on 22 June 2007	–	62,419	(209,641)	(147,222)	–
Interest accrued	–	(324)	–	(324)	–
Changes in fair value	–	–	16,971	16,971	–
Conversion into new shares	–	91,260	192,669	283,929	(283,929)
Waiver of convertible bonds by holders	–	1	1	2	–
At 31 December 2007	**–**	**–**	**–**	**–**	

28 BORROWINGS *(Continued)*

(d) *(Continued)*

The aggregate effect of the issuance of convertible bonds to the income statement for the year is as follow:

	2007	2006
	HK$'000	*HK$'000*
Loss on extinguishment of promissory notes		
Carrying value of promissory notes	**153,209**	–
Issuance of convertible bonds	**(178,356)**	–
Fair value change on embedded derivative component of convertible bonds on grant date	**(147,222)**	–
	(172,369)	–
Fair value change on embedded financial derivatives	**16,971**	–
Waiver of convertible bonds by holders	**2**	–
	16,973	–

(e) The effective interest rates of the Group's borrowings at the balance sheet date are as follows:

	2007		2006	
	HK$	***RMB***	*HK$*	*RMB*
Bank loans	**–**	**7.23%**	–	7.27%
Promissory notes	**–**	**–**	7.00%	–
Finance lease	**3.79%**	**–**	3.79%	–

The borrowings of the Group amounting to HK$97,000 (2006: HK$149,288,000) carry fixed interest rates and borrowings of HK$36,801,000 (2006: HK$49,091,000) are subject to floating interest rates.

28 BORROWINGS *(Continued)*

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

	2007	2006
	HK$'000	*HK$'000*
Hong Kong dollar	**97**	149,288
Renminbi	**37,658**	49,091
	37,755	198,379

29 DEFERRED TAXATION

Group

	2007	2006
	HK$'000	*HK$'000*
At beginning of the year	**6,946**	–
Acquisition of subsidiaries	**–**	6,210
(Credited)/charge to income statement	**(1,791)**	594
Changes in exchange rates	**351**	142
At end of the year	**5,506**	6,946

29 DEFERRED TAXATION *(Continued)*

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

	Temporary differences	Fair value adjustment on acquisition	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2005	–	–	–
Acquisition of subsidiaries	5,571	639	6,210
Charged to income statement	693	(99)	594
Changes in exchange rates	130	12	142
At 31 December 2006	6,394	552	6,946
(Credited)/charge to income statement	(1,791)	–	(1,791)
Changes in exchange rates	318	33	351
At 31 December 2007	4,921	585	5,506

30 CREDITORS AND ACCRUALS

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade creditors	**23,206**	25,685	**–**	–
Other creditors	**15,677**	5,760	**1,186**	763
Accrued operating expenses	**3,650**	7,465	**2,158**	1,316
	42,533	38,910	**3,344**	2,079

30 CREDITORS AND ACCRUALS *(Continued)*

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

	2007	2006
	HK$'000	*HK$'000*
Below 30 days	**7,013**	4,662
30 to 90 days	**7,538**	8,901
91 to 180 days	**7,152**	9,272
Over 180 days	**1,503**	2,850
	23,206	25,685

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

	2007	2006
	HK$'000	*HK$'000*
Hong Kong dollar	**7,253**	8,070
Renminbi	**15,767**	10,185
United States dollar	**19,513**	20,655
	42,533	38,910

31 AMOUNTS DUE TO RELATED PARTIES

	Group		**Company**	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Directors				
Mr Tong Nai Kan	**–**	468	**–**	468
Mr Tan Chuanrong	**1,740**	1,744	**–**	–
A related party				
Chongqing Three Gorges Gas (Group) Limited	**–**	4,542	**–**	–
	1,740	6,754	**–**	468

31 AMOUNTS DUE TO RELATED PARTIES *(Continued)*

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

Mr. Tan Chuanrong is a Director of the Company and Chongqing Three Gorges Gas (Group) Limited is beneficially owned by Mr. Tan Chuanrong.

32 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:

	2007	2006
	HK$'000	*HK$'000*
2007	**–**	4,583
2008	**3,615**	1,986
2009	**1,627**	583
2010	**350**	629
2011	**–**	270
	5,592	8,051

33 FINANCIAL GUARANTEES AND UNDERTAKING

The Company has provided guarantees in respect of finance lease obligations granted to a subsidiary amounting to HK$97,000 (2006: HK$388,000).

34 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

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

	2007	2006
	HK$'000	*HK$'000*
Operating loss	**(195,358)**	(21,672)
Loss on extinguishment of promissory notes	**172,369**	–
Fare value change on embedded financial derivatives	**(16,971)**	–
Depreciation	**8,520**	4,331
Amortisation	**696**	271
Share options granted to employees	**23,880**	12,356
Impairment of inventories	**702**	–
Bad and doubtful debts	**5,620**	–
Loss on disposal of property, plant and equipment	**60**	29
Loss on disposal of available-for-sale financial assets	**–**	1,255
Operating loss before working capital changes	**(482)**	(3,430)
(Increase)/decrease in inventories	**(60)**	2,297
Increase in net amounts due from related parties	**(2,874)**	(9,995)
Increase in debtors and prepayments	**(22,948)**	(31,543)
Increase/(decrease) in creditors and accruals	**3,623**	(3,567)
Cash used in operations	**(22,741)**	(46,238)

34 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 2005	164,680	679	994	166,353
Issue of new shares	57,950	–	–	57,950
Interest on promissory notes	–	4,221	–	4,221
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	198,379	9,382	532,228
Issue of new shares	283,929	–	–	283,929
Settlement of promissory notes	–	(148,900)	–	(148,900)
Exchange differences	–	49	–	49
Share options granted to employees	–	–	23,880	23,880
Share options cancelled	–	–	(130)	(130)
Net cash inflow/(outflow) from financing activities	68,015	(11,773)	(1,884)	54,358
At 31 December 2007	**676,411**	**37,755**	**31,248**	**745,414**

35 BUSINESS COMBINATION

On 7 August 2006, the Group acquired the entire share capital of Sanxia Gas (BVI) Investment Limited, 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.

There was no acquisition of subsidiary for the year ended 31 December 2007.

FINANCIAL SUMMARY

	2007	2006	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Results					
Revenues	**135,113**	104,864	76,692	143,930	46,198
Loss before taxation	**(202,894)**	(27,678)	(33,990)	(37,060)	(39,122)
Taxation credit/(charge)	**1,324**	(530)	453	(2,923)	(1,731)
Loss for the year	**(201,570)**	(28,208)	(33,537)	(39,983)	(40,853)
Attributable to:					
Equity holders	**(201,547)**	(28,208)	(33,537)	(39,983)	(39,448)
Minority interests	**(23)**	–	–	–	(1,405)
	(201,570)	(28,208)	(33,537)	(39,983)	(40,853)
Assets and liabilities					
Total assets	**413,203**	387,607	31,643	79,368	223,091
Total liabilities	**(88,083)**	(251,080)	(43,243)	(48,152)	(135,101)
Total equity	**325,120**	136,527	(11,600)	31,216	87,990