Annual Report 2007

Stock Code : 8212




APTUS

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APTUS HOLDINGS LIMITED

(INCORPORATED IN THE CAYMAN ISLANDS WITH LIMITED LIABILITY)

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

This report, for which the board of directors of Aptus Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Madam CHEUNG Kwai Lan *(Chairman)*
Mr. CHAN Ting
Mr. FUNG King Him, Daniel

Independent Non-executive Directors

Mr. TIAN He Nian
Mr. ZHAO Zhi Ming
Mr. TO Yan Ming, Edmond

AUDIT COMMITTEE

Mr. TO Yan Ming, Edmond *(Chairman)*
Mr. TIAN He Nian
Mr. ZHAO Zhi Ming

REMUNERATION COMMITTEE

Mr. CHAN Ting *(Chairman)*
Mr. ZHAO Zhi Ming
Mr. TO Yan Ming, Edmond

AUTHORISED REPRESENTATIVES

Mr. CHAN Ting
Mr. FUNG King Him, Daniel

COMPLIANCE OFFICER

Mr. FUNG King Him, Daniel

COMPANY SECRETARY

Mr. CHAN Ka Yin *CPA FCCA*

QUALIFIED ACCOUNTANT

Mr. CHAN Ka Yin *CPA FCCA*

COMPANY WEBSITE

www.aptus.com.hk

STOCK CODE

8212

PRINCIPAL BANKER

Nanyang Commercial Bank, Limited

151 Des Voeux Road Central, Hong Kong

AUDITORS

W.H. Tang & Partners CPA Limited

Level 7, Parkview Centre
7 Lau Li Street, Causeway Bay, Hong Kong

SOLICITORS

Michael Li & Co.

14th Floor, Printing House
6 Duddell Street, Central, Hong Kong

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1 – 1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

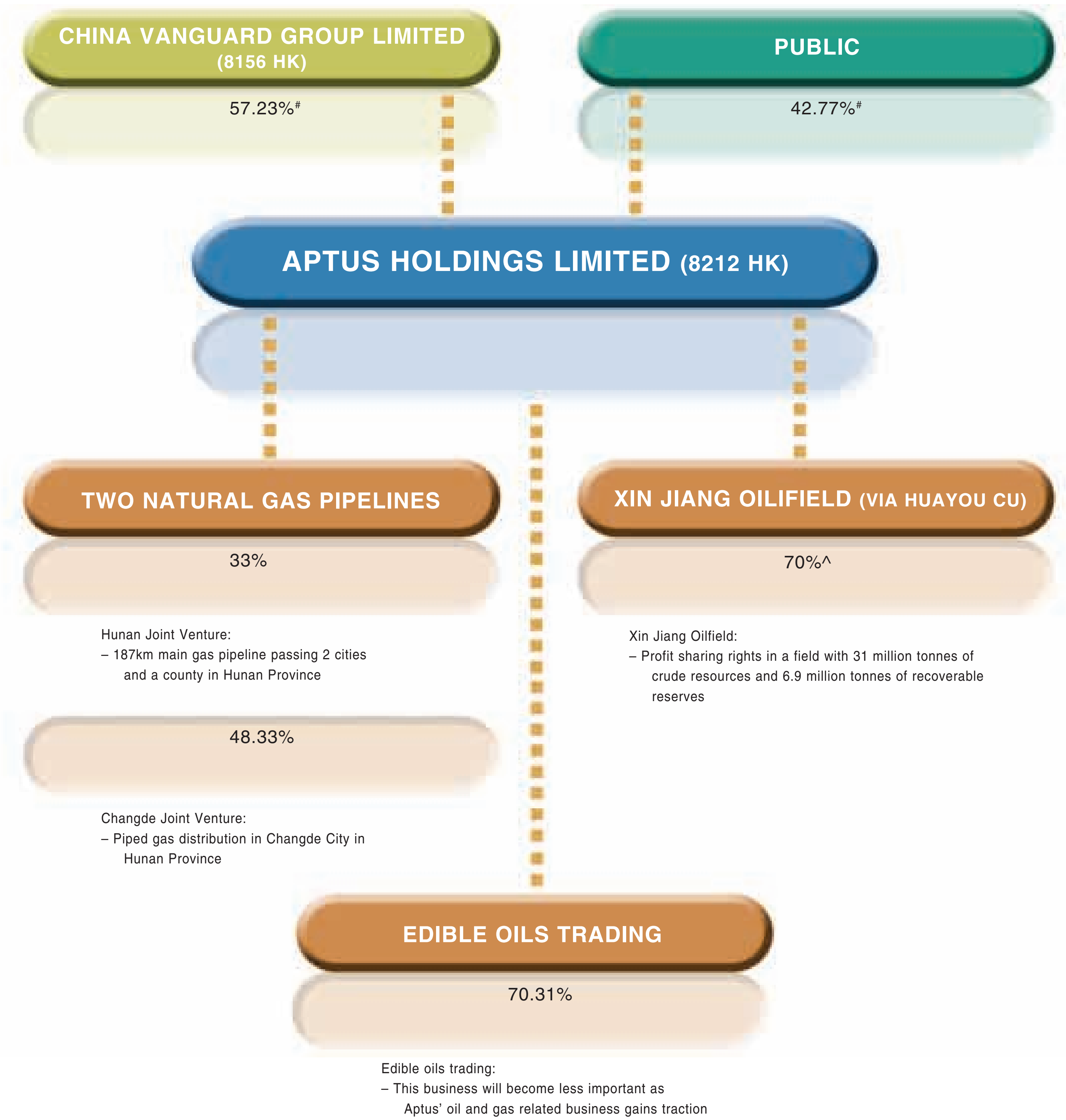
Room 2201, 22nd Floor
Hopewell Centre, 183 Queen's Road East
Wanchai, Hong Kong

SHARE REGISTRAR AND TRANSFER

Tricor Tengis Limited

26/F Tesbury Centre
28 Queen's Road East, Hong Kong

Corporate Structure



Shareholding as at 27 September 2007

^ 70% equity interest in CNPC Huayou Cu Energy Investment Co. Ltd. ("Huayou Cu"); 56% effective profit sharing interest

Chairman's Statement

Dear Shareholders,

On behalf of the board of directors of Aptus Holdings Limited (the "Company"), I herein present the results of the Company and its subsidiaries (the "Group") for the year ended 30 June 2007.

DEVELOPMENTS

In the past financial year, the management team of Aptus Holdings Limited have continued to focus on developing and expanding Aptus Holdings Limited's oil and gas related business. During the period under review, we completed investment in two natural gas related projects in Hunan Province and issued a US$30 million convertible bonds in November 2006 to fund the investment in these two projects.

In July 2006, the Company entered into two agreements to make capital contributions to the Changde Huayou Gas Co. Ltd. ("Changde Joint Venture") (a city level natural gas pipeline) and the Hunan

We are committed to transforming

Aptus Holdings Limited

into a major oil and gas company

Chairman's Statement

Huayou Natural Gas Transportation & Distribution Co. Ltd. ("Hunan Joint Venture") (a provincial level natural gas pipeline project). In February 2007, the Group obtained certificates of approval for the change in shareholding structure of these two ventures as well as the subsequent updated business licenses. The capital contributions to these two deals were completed in this month. Both businesses are operational with the Hunan Joint Venture commencing business in the later part of 2006 whilst the Changde Joint Venture has been in operation for years.

These two investments have helped us further strengthen our relationship with China Huayou Group Corporation ("Huayou"), a wholly-owned subsidiary of China National Petroleum Corporation ("CNPC"). CNPC is one of the two largest state-owned petroleum corporations in the PRC. Not only does Huayou manage and operate the Xin Jiang Oilfield on our behalf but it is also the largest shareholder in both the Changde and Hunan joint ventures.

With the completion of the capital contributions to the two joint ventures and the commencement of operation of the Xin Jiang Oilfield, we believe that a firm base is being built for Aptus Holdings Limited to become a major diversified oil and gas company. The Group is continuing to seek opportunities to further expand in these areas in the PRC.

Chairman's Statement

THE HUNAN JOINT VENTURE

In February 2007 the Company completed the capital contribution to the Hunan Joint Venture giving Aptus Holdings Limited a 33.0% stake in the joint venture with the balance being held by Huayou 43.55% and Beijing Xin Hua Lian Gas Investment Co. Ltd. 23.45%. Commercial operation only began in the later part of 2006 hence the operations are still fledgling. Thus, revenue contribution to the Group for this fiscal year was small at approximately HK$1.5 million especially since they have only been included since the closing of the deal in February 2007.

The Hunan Joint Venture has constructed and owns a 187km natural gas pipeline which extends from Changsha City to Changde City. The pipeline is a provincial level main gas pipeline and is connected with Zhongxian-Wuhan pipeline which is a branch of the West-East Gas pipeline. The Hunan Joint Venture will source gas via the pipeline network from natural gas fields operated by the CNPC group. It will then transport this gas along its own 187km pipeline for distribution to city level gas distribution companies. The pipeline passes through three areas in Hunan Province, namely Wangcheng County, Yiyang City and Changde City. Revenue is generated by charging the city level gas distributors such as Changde Joint Venture a transportation fee on each cubic metre of natural gas delivered to them by the pipeline. The Changsha City to Changde City pipeline is complete and went into commercial operation in the later part of 2006.

THE CHANGDE JOINT VENTURE

In February 2007, the Company completed the capital contribution to the Changde Joint Venture. The Company holds 48.33% in the joint venture with the balance being held by Huayou 51% and the Changde State-owned Asset Operation Management Company 0.67%. The Changde Joint Venture contributed approximately HK$13.2 million in turnover for the period from the capital contribution completion in February 2007 to 30 June 2007.

The Changde Joint Venture is principally engaged in the business of gas pipeline design, the supply, development and management of natural gas pipelines and distribution facilities in the PRC. It constructs and operates the last mile pipeline distribution network to residential, commercial and industrial customers in Changde City and earns its revenue via collection of connection fees and sale of gas. Since commencement of its operation in October 1999, it had been supplying end users in Changde City with reconstituted liquid natural gas which is currently supplied by gas refueling station trailer. The Changsha City to Changde City main gas pipeline came on-stream by late 2006. This was a milestone for the Company as this helped in improving the efficiency and logistics of transporting natural gas to the consumers. Approximately 11km of pipelines was completed during the period from one of the gas stations in Changde City to an industrial customer. Residential pipeline construction is ahead of planned schedule as the market development in the area is much faster than anticipated. Contracts with industrial users are being negotiated at the time of the writing of this report; upon signing of these contracts the sales for natural gas will increase significantly. We are confident with these developments that the joint ventures will be able to bring to the Group a notable profit in the future.

Maintaining a safe working environment for our staff is a high priority for us at Aptus, thus, the management team in both the Hunan and Changde Joint Ventures has been working diligently in providing health and safety trainings to all the staff. Both Hunan and Changde Joint Ventures have recorded zero damages, zero accidents and zero hazards for the past year; as well, both joint ventures are in the process of getting the HSE certification from the Health and Safety Executive Association.

Chairman's Statement

XIN JIANG OILFIELD

Since the last time we spoke, we keep on working hard with Huayou to develop the Xin Jiang Oilfield, an oilfield development project in Feng Cheng. Although commercial production and sales has not yet commenced, in tests that have been performed, crude has flowed successfully from the wells. We are anticipating bringing on the production in the coming financial year.

FUTURE OUTLOOK AND PROSPECTS

Aptus Holdings Limited has made significant progress in this past financial year in terms of drilling of wells in the Xin Jiang Oilfield and investment into the two natural gas joint ventures.

Production at the Xin Jiang Oilfield is planned to commence in the coming fiscal year, enabling the Group to capitalize on the current strong demand and pricing environment for crude thereby enhancing its profitability and operational cashflow. Meanwhile on the natural gas division, our target is to expand the operating scale of the two joint ventures to take advantage of the fast growing commercial, industrial and residential usage demand in Hunan Province of the PRC.

With national policy of the Central Government of the PRC promoting the use of natural gas and buoyant demand for energy in China, we believe the future is very bright for the oil and natural gas sector in China. The Group will continue to seek out opportunities to further develop itself into a major diversified oil and gas company.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to thank all our valued shareholders, customers, business associates, advisors and our management and staff for their invaluable assistance and support during the year.

Madam Cheung Kwai Lan
Chairman

Hong Kong, 27 September 2007

Management Discussion and Analysis

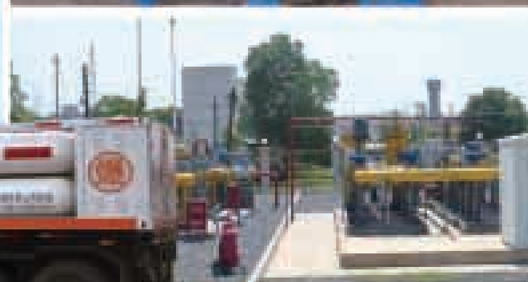
FINANCIAL REVIEW

The Group recorded a turnover of HK$57.7 million and loss attributable to the shareholders of approximately HK$110.8 million for the year ended 30 June 2007. These results for the 12 months to 30 June 2007 primarily reflects the Group's edible oil trading operations as the Group's investment in the Changde Joint Venture and the Hunan Joint Venture were only completed in February 2007 and the Xin Jiang Oilfield project is still yet to commence commercial production and sales. The Changde Joint Venture and Hunan Joint Venture are treated as jointly-controlled entities of the Group and their accounts are consolidated into the Group's financial statements on a proportional basis.

The Group's turnover of HK$57.7 million represented sales of edible oil products of HK$43.0 million and gas related revenue shared from the Changde Joint Venture and Hunan Joint Venture of HK$14.7 million. Gross profit of HK$0.7 million and HK$2.8 million were recorded in the Group's edible oil trading sector and gas sector, respectively.

Management Discussion and Analysis

We hope to enhance shareholder value through transforming Aptus Holdings Limited into a major diversified player in the **oil and gas** industry



Although the turnover of the edible oil operations increased by 39% as compared to 2006, the gross margin decreased from HK$0.9 million in 2006 to HK$0.7 million in 2007 due to the Group's adoption of a low-price strategy to facilitate sales during the periods of continuing difficult business conditions.

Since Hunan Joint Venture commenced its business in late 2006, the revenue generated by Hunan Joint Venture at the beginning stage is currently unable to cover its fixed direct operating costs, such as depreciation. Accordingly, gross loss of HK$2.6 million was generated by Hunan Joint Venture. As Changde Joint Venture has been operating for years and hence the scale of operations are larger, gross profit of HK$5.4 million was generated during the year. As a result, gross profit of HK$2.8 million was recorded in the Group's gas sector as a whole.

Management Discussion and Analysis

Despite the increase in turnover, the Group recorded a net loss attributable to shareholders of HK$110.8 million for the year ended 30 June 2007 against a loss of HK$40.8 million previously. A large proportion of this HK$110.8 million loss is non-recurring:

(i) Share option expense of HK$54.9 million (a non-cash item), is recognized in current year. Based on the existing options in issue, there is only circa HK$7.7 million in such expenses to be written off over the coming fiscal year; and

(ii) HK$13.3 million in legal and professional fees related to the investment in the two Hunan joint ventures and the subsequent issuance of Aptus Holdings Limited's convertible bond to finance these investments.

This year's loss increased by HK$70 million compared to the previous corresponding year, the increase can be explained almost entirely as follows: (i) a HK$31.7 million increase in share option expenses, HK$54.9 million this period against HK$23.2 million, previously; (ii) the HK$13.3 million charge for legal and professional fees as mentioned above; and (iii) the maiden HK$19.9 million expense for imputed finance charges associated with the convertible bonds.

For the period under review, no dividends have been declared.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2007, the Group had assets of approximately HK$379.7 million (2006: approximately HK$77.0 million), including net cash and bank balances of approximately HK$49.1 million (2006: approximately HK$3.4 million).

As at 30 June 2007, the Group had borrowed loans (including convertible bonds) of approximately HK$351.4 million, for details please refer to notes 23 and 25 to the financial statements. The gearing ratio, defined as the ratio between total borrowings and the Group's capital and reserves was approximately 45 times (2006: 70.24%). During the year ended 30 June 2007, the Group financed its operations and investing activities primarily with internally generated cash flows and borrowings.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

The business activities of the Group are not exposed to material fluctuations in exchange rate except for the Group's operations through its subsidiaries in the People's Republic of China and Singapore, which are subject to fluctuation in exchange rates between Renminbi, Singaporean dollars and Hong Kong dollars.

MATERIAL ACQUISITION

The transactions for acquisition of 48.33% equity interest in Changde Joint Venture and 33% equity interest in Hunan Joint Venture have been approved by the Company's shareholders in the extraordinary general meeting held on 7 November 2006. The Group has obtained certificates of approval for the Company's investment in Changde Joint Venture and Hunan Joint Venture and updated business licenses of these two Joint Ventures in February of 2007.

CONTINGENT LIABILITIES

As at 30 June 2007, the Group had no contingent liabilities.

CAPITAL STRUCTURE

During the year ended 30 June 2007, the Company issued 29,740,000 shares under the share option scheme to provide incentives and rewards to eligible participants. As at 30 June 2007, the number of the Company's issued shares was enlarged to 1,697,881,428 shares.

EMPLOYEES, REMUNERATION POLICIES AND SHARE OPTION SCHEME

As at 30 June 2007, the Group had 26 full time employees. Remuneration is determined by reference to market terms and the performance, qualification and experience of individual employees. In addition to salaries and provident fund contributions, the Group also offers medical benefits and training programs. Share options may be granted to employees based on performance evaluation in order to provide incentives and rewards.

CHARGES ON GROUP ASSETS

As at 30 June 2007 and up to the date of this report issued, the 100% of the issued share capital of Good United Management Limited ("GUM"), a wholly-owned subsidiary of the Company, was pledged in favour of the holder(s) of the convertible bonds issued by the Company on 22 November 2006. GUM held 70% equity interests in CNPC Huayou Cu Energy Investment Co., Limited, which owned profit sharing rights on Xin Jiang Oilfield. In addition, bank borrowings of approximately HK$54,232,000 is secured by gas network of Hunan Joint Venture.

Directors and Senior Management

DIRECTORS

Executive Directors

Madam CHEUNG Kwai Lan, aged 69, was appointed as an Executive Director on 20 December 2004. She was also appointed as director of various subsidiaries of the Group. Madam Cheung Kwai Lan is responsible for business development, strategic planning and marketing for the Group. She is a founder and Chairman of China Vanguard Group Limited ("China Vanguard") and is also the Vice President of the Zhang Xueliang Foundation（張學良基金會）. She graduated from Shanxi Tai Yuan Medical School in 1960 and was a researcher at 山西省太原（原子能）研究所 (Shanxi Province Tai Yuan (Atomic Energy) Research Centre), which was one of the institutions of the Chinese Academy of Sciences. She also participated in the research and development of the radioactive material Cobalt 60 for imaging and cancer treatment. She is the mother of Mr. Chan Ting, being an Executive Director.

Mr. CHAN Ting, aged 37, was appointed as an Executive Director and the authorized representative of the Company on 27 August 2004. He is also the Chief Executive Officer of the Company and director of various subsidiaries of the Group. He was awarded a degree in Economics from Macquarie University in Australia in 1993. Mr. Chan Ting has over ten years of solid experience in establishing and managing companies in the PRC. He is an Executive Director and Chief Executive Officer of China Vanguard which is the ultimate holding company of Aptus Holdings Limited and is a company listed on the GEM of the Stock Exchange. He is the son of Madam Cheung Kwai Lan, being an Executive Director.

Mr. FUNG King Him, Daniel, aged 37, was appointed as an Executive Director, the Compliance Officer and authorised representative of the Company on 27 August 2004. He holds a bachelor degree from the University of Wisconsin in the United States of America with double majors in Mathematics and Computer Science. He previously worked in Lehman Brothers Asia Limited, HSBC Asset Management Limited and Platinum Securities Company Limited.

Independent Non-executive Directors

Mr. TIAN He Nian, aged 67, was appointed as an Independent Non-executive Director and audit committee member of the Company on 30 September 2004. He was the Deputy Head of the Department of United Front Work of the Central Government of the PRC from 1998 to 2003. He is the Vice-Chairman of China Overseas Association. He is also an Independent Non-executive Director and audit committee member of China Vanguard.

Mr. ZHAO Zhi Ming, aged 65, was appointed as an Independent Non-executive Director and audit committee member of the Company on 20 January 2005. Mr. Zhao is the committee member of the 國家開發銀行專家委員會 (The Specialist Committee of the China Development Bank) and the Professor of the 遼寧工程技術大學 (LiaoNing Technical University). After graduation from the university in 1964, he had worked for several government authorities of the PRC, such as 天津市政府部門 (Tianjin Government) and 國家開發銀行 (China Development Bank) and 國家能源投資公司 (National Energy Investment Company of the PRC). Mr. Zhao has rich experience in managing and investing in large size infrastructure projects. He is also an Independent Non-executive Director and audit committee member of China Vanguard.

Directors and Senior Management

Mr. TO Yan Ming, Edmond, aged 35, was appointed as an Independent Non-executive Director and audit committee member of the Company on 11 January 2006. He holds a bachelor degree in Commerce in Accounting from Curtin University of Technology in Western Australia. He is a practicing accountant and presently the director of Fortitude C.P.A. Limited, Certified Public Accountants. He is a member of both the CPA Australia and Hong Kong Institute of Certified Public Accountants. He worked for one of the international accounting firms, Deloitte Touche Tohmatsu, and has over nine years of experience in auditing, accounting, flotation and taxation matters. He is also an Independent Non-executive Director and audit committee member of China Vanguard.

SENIOR MANAGEMENT

Mr. Russell YOUNG, aged 44, is a Director involved in the corporate strategy and business development of the Group. He holds a Bachelor of Commerce and Administration from Victoria University, New Zealand and a Masters in Business Studies from Massey University, New Zealand. He has over 15 years of experience in the finance industry and has held senior positions in a number of reputable investment banks. Prior to joining the Group, he was Regional Head of Mid-Cap Research for Nomura International (Hong Kong) Ltd. after having been Head of Energy and Basic Material Research and Regional Head of Utilities Research. He is also currently a Independent Non-executive Director of Asia Aluminum Holdings Ltd.

Mr. WONG Kim Ket, aged 46, is the Executive Director of a subsidiary of the Company, Hsing Long Trading Co. Pte. Ltd. in Singapore, which is mainly engaged in the edible oil business. He is one of the founders of the subsidiary and has been managing the subsidiary for more than eight years. His formal educational background is in computer engineering and he also holds a master degree in Business Administration (MBA) from University of Oregon in USA. His responsibilities include overall day-to-day management and operations, and implementation and control of new as well as existing strategies and businesses for the subsidiary. He has more than seventeen years of working experience in international trade and financial operations.

Mr. CHAN Ka Yin, aged 33, joined the Group as the Chief Financial Officer in March 2006. He was appointed as the Company Secretary and Qualified Accountant of the Company on 28 February 2007. He holds a bachelor degree in Business Administration from the University of Hong Kong. He is a member of the Hong Kong Institute of Certified Public Accountants and Association of Chartered Certified Accountants. He has over eleven years of experience in auditing, accounting and financial management.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company has committed itself to a high standard of corporate governance. The Directors strongly believe that reasonable and sound corporate governance practices are vital to the Group's rapid growth and to safeguarding and enhancing shareholders' interests.

Except for the deviation from the provision A.4.1 of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the Rules Governing the Listing of Securities (the "GEM Listing Rules") on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited, details of which are stated under the heading of "NON-EXECUTIVE DIRECTORS" below, the Company has complied all remaining provisions of the Code.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the rules set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code for dealing in securities of the Company by the Directors. Having made specific enquiry of all Directors, the Company was not aware of any non-compliance with the required standard as set out in the code of conduct regarding securities transactions by the directors throughout the year.

BOARD OF DIRECTORS

The Board of Directors (the "Board") comprises six Directors, of whom three are Executive Directors and three are Independent Non-executive Directors. The participation of Independent Non-executive Directors in the Board brings independent judgment on issues relating to the Group's strategies, performance, conflicts of interests and management process to ensure that the interests of all shareholders of the Company have been duly considered.

The Board considers that all the Independent Non-executive Directors are independent and has received from each of them the annual confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules.

Madam Cheung Kwai Lan is the mother of Mr. Chan Ting. Both of Madam Cheung Kwai Lan and Mr. Chan Ting are executive directors of the Company.

The Board held at least a board meeting for each quarter. Details of the attendance of the Directors during the year are as follows:

	Attendance
Executive Directors	
Madam Cheung Kwai Lan	26/27
Mr. Chan Ting	27/27
Mr. Fung King Him, Daniel	24/27
Independent Non-executive Directors	
Mr. Tian He Nian	14/15
Mr. Zhao Zhi Ming	14/15
Mr. To Yan Ming, Edmond	15/15

The Board is entrusted with the overall responsibility for promoting the success of the Company by the direction and supervision of the Company's business and affairs and the ultimate responsibility for the day to day management of the Company which is delegated to the Executive Directors and the management.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Chairman of the Board is Madam Cheung Kwai Lan. The Chief Executive Officer of the Company is Mr. Chan Ting.

The posts of Chairman and Chief Executive Officer are separated to ensure a clear division between the Chairman's responsibility to manage the Board and the Chief Executive Officer's responsibility to manage the Company's business. The separation ensures a balance of power and authority so that power is not concentrated in any individual.

NON-EXECUTIVE DIRECTORS

The Code provision A.4.1 provides that Non-executive Directors should be appointed for specific terms, subject to re-election. The Company has deviated from this provision in that all Independent Non-executive Directors are not appointed for specific terms. They are, however, subject to retirement and re-election every three years. The reason for the deviation is that the Company does not believe that arbitrary term limits on Directors' service are appropriate given that Directors ought to be committed to representing the long term interests of the Company's shareholders and the retirement and re-election requirements of Independent Non-executive Directors have given the Company's shareholders the right to approve continuation of Independent Non-executive Directors' offices.

Corporate Governance Report

REMUNERATION COMMITTEE

The remuneration committee is tasked with the responsibility of overseeing Board remuneration matters.

The remuneration committee is made up of two Independent Non-executive Directors and one Executive Director of the Company, and is chaired by Mr. Chan Ting. The remaining two members are Mr. To Yan Ming, Edmond and Mr. Zhao Zhi Ming.

The role of the remuneration committee is to recommend to the Board a framework for remunerating the Board and key executives and to determine specific remuneration packages for each Executive Director of the Company. In carrying out of the above, the remuneration committee may obtain independent external legal and other professional advice as deemed necessary. The expenses of such advice shall be borne by the Company.

The remuneration package for the Executive Directors of the Company comprises a basic salary and a performance-related bonus for their contributions. The Independent Non-executive Directors receive a basic fee for their services. All revisions to the remuneration packages of the Directors are subject to the review and approval of the Board. The directors' fees are subject to shareholders' approval at the annual general meeting. Details of directors' remuneration for each Director are set out in note 10 to the financial statements.

During the year, one meeting for the remuneration committee was held with attendance of all committee members.

NOMINATION OF DIRECTORS

The Board does not establish the nomination committee at present to make recommendations to the Board on appointment of Directors. The Company understands the needs to maintain its cost competitiveness and will review the need for a nomination committee at an appropriate time.

Candidates are appointed to the Board on the basis of the competencies and experience that they would be bringing to the Company. The Company believes that members of the Board, individually and collectively, have satisfactorily discharged their duties to the Company.

No director was nominated during the year.

AUDITORS' REMUNERATION

During the year, remuneration paid/payable to auditors for audit services and non-audit services are approximately HK$350,000 and HK$270,000 respectively.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference based on the guidelines recommended by the Hong Kong Institute of Certified Public Accountants and the mandatory provisions set out in the Code. The primary duties of the audit committee are to review the Company's annual report and accounts, semi-annual report and quarterly reports and to provide advices and comments thereon to the Board.

The audit committee meets at least four times each year with management to review the accounting principles and practices adopted by the Group and to discuss auditing, internal control and financial reporting matters.

The audit committee currently comprises three Independent Non-executive Directors of the Company, namely Mr. To Yan Ming, Edmond, Mr. Tian He Nian and Mr. Zhao Zhi Ming.

The audit committee met four times during the year. Individual attendance of each committee member at these meetings is as follows:

	Attendance
Mr. To Yan Ming, Edmond	4/4
Mr. Tian He Nian	4/4
Mr. Zhao Zhi Ming	4/4

The audit committee reviewed the Group's audit results for the year ended 30 June 2007 with management and the Company's external auditors and recommended its adoption by the Board.

INTERNAL CONTROL

The Company has conducted a review of its system of internal control policy periodically to ensure the effective and adequate internal control system. The Company convened meeting periodically to discuss financial, operational and risk management control.

Directors' Report

The Directors present their annual report and the audited consolidated financial statements for the year ended 30 June 2007.

PRINCIPAL ACTIVITIES AND ANALYSIS OF OPERATIONS

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are set out in note 27 to the consolidated financial statements.

An analysis of the Group's performance for the year by business is set out in note 6 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 27.

The Directors do not recommend the payment of any dividend for the year.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL, CONVERTIBLE BONDS AND SHARE OPTIONS

Details of movements in the share capital, convertible bonds and share options of the Company during the year are set out in notes 24, 25 and 26 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group during the year are set out on page 30 of the annual report.

DISTRIBUTABLE RESERVES

As at 30 June 2007, the Company had no retained profits available for cash distribution and/or distribution in specie. As at 30 June 2007, under the Companies Law (2001 Second Revision) of the Cayman Islands, the Company's share premium account and capital reserve of approximately HK$90,960,000 and HK$15,826,000, respectively, may be distributed to the shareholders, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the five financial years is set out on page 74 of the annual report.

DIRECTORS

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

Executive Directors

Madam Cheung Kwai Lan
Mr. Chan Ting
Mr. Fung King Him, Daniel

Independent Non-executive Directors

Mr. Tian He Nian
Mr. Zhao Zhi Ming
Mr. To Yan Ming, Edmond

In accordance with Article 87(1) of the Articles of Association of the Company (the "Articles"), Madam Cheung Kwai Lan and Mr. Chan Ting, being the directors to retire by rotation, shall retire from office and, being eligible, offers themselves for re-election at the forthcoming annual general meeting.

In accordance with Article 86(3) of the Articles, all directors appointed after the Company's last annual general meeting will hold office until the next annual general meeting and shall then be eligible for re-election.

The Company has received from each of the three Independent Non-executive Directors, an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers all of the three Independent Non-executive Directors are independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 12 to 13 of the annual report.

DIRECTORS' SERVICE CONTRACTS

The three Executive Directors, Madam Cheung Kwai Lan, Mr. Chan Ting and Mr. Fung King Him, Daniel, have not entered into service contracts with the Company. They are not appointed for a specific term and are subject to retirement by rotation and re-election pursuant to the Articles. They are also entitled to terminate their appointment at any time by giving the Company at least three months' notice in writing. The three Independent Non-executive Directors, Mr. Tian He Nian, Mr. Zhao Zhi Ming and Mr. To Yan Ming, Edmond, have not entered into service contracts with the Company. They are not appointed for a specific term and are subject to retirement by rotation and re-election pursuant to the Articles.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No other contracts of significance to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' Report

DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are recommended by the remuneration committee and determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

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

As at 30 June 2007, the interests of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they have taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(1) Long positions in the ordinary shares of the Company

	Number of ordinary shares held				Percentage of the Company's issued share capital
	Personal interest	Corporate interest	Under share option scheme	Total interest	
Madam Cheung Kwai Lan	–	971,746,428	–	971,746,428	57.23

Note: These shares are owned by Precise Result Profits Limited, which is an indirect wholly-owned subsidiary of China Vanguard Group Limited ("China Vanguard"). Accordingly, Madam Cheung Kwai Lan is deemed to be interested in the shares of the Company under SFO for her controlling interests in Best Frontier Investments Limited, which owns approximately 38.64% of the issued share capital of China Vanguard.

(2) Share option scheme

Details of the share option scheme adopted by the Company are set out in note 26 to the consolidated financial statements. As at 30 June 2007, no share option had been granted or agreed to be granted to the Directors and chief executives under the share option scheme.

Save as disclosed above, as at 30 June 2007, none of the Directors or chief executives of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in the section headed "Directors' and chief executives' interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation" above, at no time during the year was the Company or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors and chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any body corporate, and none of the directors and chief executives or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

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

As at 30 June 2007, so far as is known to the Directors and the chief executives of the Company, the interests and short positions of the persons or corporations in the shares or underlying shares of the Company which have been disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Long Positions in Shares of the Company

Name of Shareholders	Capacity	Number of ordinary shares held	Number of share options and underlying shares held	Aggregate long position	Percentage of shareholding
Precise Result Profits Limited ("Precise") (Note 1)	Beneficial owner, directly held	971,746,428	–	971,746,428	57.23
China Success Enterprises Limited (Notes 1 and 2)	Beneficial owner, held by controlled corporations	971,746,428	–	971,746,428	57.23
China Vanguard (Notes 1 and 3)	Beneficial owner, held by controlled corporations	971,746,428	–	971,746,428	57.23
Best Frontier Investments Limited (Notes 1 and 4)	Beneficial owner, held by controlled corporations	971,746,428	–	971,746,428	57.23
Cheung Kwai Lan (Notes 1 and 5)	Beneficial owner, held by controlled corporations	971,746,428	–	971,746,428	57.23

Directors' Report

Name of Shareholders	Capacity	Number of ordinary shares held	Number of share options and underlying shares held	Aggregate long position	Percentage of shareholding
Chan Tung Mei (Notes 1 and 6)	Beneficial owner, held by controlled corporations	971,746,428	–	971,746,428	57.23
Evolution Master Fund, Ltd. SPC, Segregated Portfolio M ("Evolution M Fund") (Notes 7 and 8)	Beneficial owner	57,730,000	97,500,000	155,230,000	9.14
Evolution Capital Management, LLC (Notes 7, 8 and 9)	Investment manager	57,730,000	97,500,000	155,230,000	9.14

Short Positions in Underlying Share of the Company

Name of shareholders	Capacity	Number of underlying shares	Percentage of shareholding
Evolution M Fund (Note 8)	Beneficial owner	48,750,000	2.87
Evolution Capital Management, LLC (Notes 8 and 9)	Investment manager	48,750,000	2.87

Notes:

1. As further detailed in note 8 below, 48,750,000 shares of the Company, which were included in 971,746,428 shares as at 30 June 2007, were lent to Evolution M Fund.

2. Precise is a wholly owned subsidiary of China Success Enterprises Limited. The shares referred to herein related to the same parcel of shares held by Precise.

3. China Success Enterprises Limited is a wholly owned subsidiary of China Vanguard. The shares referred to herein related to the same parcel of shares held by Precise.

4. As at 30 June 2007, Best Frontier Investments Limited is interested in approximately 38.64% of the issued share capital of China Vanguard. The shares referred to herein related to the same parcel of shares held by Precise.

5. Madam Cheung Kwai Lan and Mr. Chan Tung Mei have equity interests of 99.89% and 0.11%, respectively of the issued share capital of Best Frontier Investments Limited. Madam Cheung Kwai Lan is the spouse of Mr. Chan Tung Mei. Accordingly, Madam Cheung Kwai Lan is deemed to be interested in the shares under SFO. The shares referred to herein relate to the same parcel of shares held by Precise.

6. Madam Cheung Kwai Lan and Mr. Chan Tung Mei have equity interests of 99.89% and 0.11%, respectively of the issued share capital of Best Frontier Investments Limited. Mr. Chan Tung Mei is the spouse of Madam Cheung Kwai Lan. Accordingly, Mr. Chan Tung Mei is deemed to be interested in the shares under SFO. The shares referred to herein relate to the same parcel of shares held by Precise.

7. On 7 November 2006, Evolution M Fund entered into an agreement with the Company to subscribe convertible bonds in the aggregate principal amount of HK$234,000,000 of the Company, which were then issued to Evolution M Fund on 22 November 2006. Assuming the convertible bonds are fully converted into the Company's shares at the initial conversion price of HK$2.40 each, the convertible bonds will be converted into 97,500,000 shares of the Company. As at 30 June 2007, the outstanding principal amount of the convertible bonds were HK$234,000,000.

8. As a condition precedent to the issue of the convertible bonds, China Vanguard entered into a stock lending agreement with Evolution M Fund, pursuant to which China Vanguard agrees to lend to Evolution M Fund up to 48,750,000 shares of the Company (the "Borrowed Shares"). Evolution M Fund exercised its right under the stock lending agreement and China Vanguard lent 48,750,000 shares of the Company to Evolution M Fund on 7 March 2007. As at 30 June 2007, Evolution M Fund held 8,980,000 ordinary shares of the Company and 48,750,000 Borrowed Shares of the Company, totaling 57,730,000 shares of the Company.

9. As the investment manager of Evolution M Fund, Evolution Capital Management, LLC is deemed to be interested in the aggregated long and short positions in the shares and underlying shares of the Company held by Evolution M Fund.

Save as disclosed above, as at 30 June 2007, so far as is known to the Directors and the chief executives of the Company, no other person has interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept by the Company under section 336 of the SFO, or, were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

CONNECTED TRANSACTIONS

During the year, there were no significant transactions which require to be disclosed as connected transactions accordance with the requirements of the GEM Listing Rules and accounting principles generally accepted in Hong Kong.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five customers accounted for 88% of the total sales for the year and sales to the largest customer included therein amounted for 65%. Purchases from the Group's five largest suppliers accounted for 98% of the total purchases for the year and purchases from the largest supplier included therein amount to 64%.

None of the directors of the Company, or any of their associates or any other shareholders, which, to the best knowledge of the directors, owns more than 5% of the Company's issued share capital, had any beneficial interest in the Group's five largest customers and suppliers during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Directors' Report

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

COMPETING INTERESTS

None of the Directors or the management shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules) had any business that competed or might compete with the business of the Group.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference based upon the guidelines published by the Hong Kong Institute of Certified Public Accountants. The primary duties of the audit committee are to review the Company's annual report and accounts, half-year reports and quarterly reports and to provide advice and comments thereon to the Board. The audit committee is also responsible for reviewing and supervising the Company's financial reporting and internal control procedures. The audit committee consisted of three Independent Non-executive Directors, namely Mr. Tian He Nian, Mr. Zhao Zhi Ming and Mr. To Yan Ming, Edmond. Mr. To Yan Ming, Edmond is the Chairman of the audit committee. The Group's audited results for the year ended 30 June 2007 have been reviewed by the audit committee which was of the opinion that the preparation of such results complied with applicable accounting standards and requirements and that adequate disclosures had been made. Four meetings were held during the current financial year.

AUDITORS

Messrs. W.H. Tang & Partners CPA Limited has been appointed as the auditors of the Company in the extraordinary general meeting held on 1 November 2004. A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Messrs. W.H. Tang & Partners CPA Limited.

On behalf of the Board

Madam Cheung Kwai Lan
Chairman

Hong Kong, 27 September 2007

Independent Auditor's Report

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W.H. TANG
& PARTNERS
CPA LIMITED

TO THE SHAREHOLDERS OF APTUS HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Aptus Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 27 to 73, which comprise the consolidated balance sheet as at 30 June 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.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, 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 consolidated financial statements are free from material misstatement.

Independent Auditor's Report

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated 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 consolidated financial statements give a true and fair view of the state of affairs of the Group as at 30 June 2007 and of the loss and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

W.H. Tang & Partners CPA Limited
Certified Public Accountants

Tang Wai Hung
Practising Certificate Number P03525
Hong Kong, 27 September 2007

Consolidated Income Statement

For the year ended 30 June 2007

	Notes	**2007 HK$'000**	2006 HK$'000
Revenue	7	**57,655**	30,820
Cost of sales		**(54,140)**	(29,963)
Gross profit		**3,515**	857
Other revenue	7	**310**	64
Selling and distribution costs		**(3,254)**	(420)
Administrative expenses		**(86,810)**	(40,085)
Finance costs	8	**(24,396)**	(1,438)
Loss before taxation	9	**(110,635)**	(41,022)
Income tax expenses	12	**(464)**	(14)
Loss for the year		**(111,099)**	(41,036)
Attributable to:			
Equity holders of the Company		**(110,764)**	(40,837)
Minority interests		**(335)**	(199)
		(111,099)	(41,036)
Loss per share			
Basic	13	**(HK6.61 cents)**	(HK2.53 cents)

Consolidated Balance Sheet

At 30 June 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**183,140**	173
Goodwill	16	**81,215**	31,761
Construction in progress	17	**14,004**	–
Prepaid lease payments	18	**12,496**	–
		290,855	31,934
CURRENT ASSETS			
Inventories	19	**2,133**	–
Accounts receivables	20	**1,509**	–
Prepaid lease payments	18	**380**	–
Prepayments, deposits and other receivables	21	**35,671**	41,691
Bank balances and cash		**49,110**	3,360
		88,803	45,051
CURRENT LIABILITIES			
Accounts payables	22	**10,305**	266
Accrued liabilities and other payables		**9,487**	2,655
Taxation		**688**	14
Bank and other borrowings	23	**2,125**	8,053
		22,605	10,988
NET CURRENT ASSETS		**66,198**	34,063
TOTAL ASSETS LESS CURRENT LIABILITIES		**357,053**	65,997

Consolidated Balance Sheet

At 30 June 2007

	Notes	2007 HK$'000	2006 HK$'000
CAPITAL AND RESERVES			
Share capital	24	**16,979**	16,681
Reserves		**(24,487)**	12,743
Equity attributable to equity holders of the Company		**(7,508)**	29,424
Minority interests		**15,312**	14,073
		7,804	43,497
NON-CURRENT LIABILITIES			
Bank and other borrowings	23	**106,105**	22,500
Convertible bonds	25	**243,144**	–
		349,249	22,500
		357,053	65,997

The consolidated financial statements on pages 27 to 73 were approved and authorized for issue by the Board of Directors on 27 September 2007 and are signed on its behalf by:

CHAN TING
Director

FUNG KING HIM, DANIEL
Director

Consolidated Statement of Changes in Equity

For the year ended 30 June 2007

	Attributable to equity holders of the Company								
	Share capital HK$'000	Share option reserve HK$'000	Convertible bonds reserve HK$'000	Translation reserve HK$'000	Share premium account HK$'000	Capital reserve HK$'000	Accumulated losses HK$'000	Minority interests HK$'000	Total HK$'000
At 1 July 2005	15,501	–	–	7	55,408	15,826	(73,888)	108	12,962
Shares issued on exercise of options	980	–	–	–	8,888	–	–	–	9,868
Shares issued pursuant to sale and purchase agreement	200	–	–	–	23,800	–	–	–	24,000
Acquisition of subsidiary	–	–	–	–	–	–	–	14,152	14,152
Recognition of equity-settled share based payments	–	23,207	–	–	–	–	–	–	23,207
Exchange differences arising from translation of financial statements of overseas operations	–	–	–	332	–	–	–	12	344
Net loss for the year	–	–	–	–	–	–	(40,837)	(199)	(41,036)
At 30 June 2006 and at 1 July 2006	16,681	23,207	–	339	88,096	15,826	(114,725)	14,073	43,497
Shares issued on exercise of options	298	–	–	–	2,864	–	–	–	3,162
Recognition of equity-settled share based payments	–	54,913	–	–	–	–	–	–	54,913
Recognition of equity component of convertible bonds	–	–	10,712	–	–	–	–	–	10,712
Acquisition of jointly controlled entities	–	–	–	–	–	–	–	737	737
Exchange differences arising from translation of financial statements of overseas operations	–	–	–	5,045	–	–	–	837	5,882
Net loss for the year	–	–	–	–	–	–	(110,764)	(335)	(111,099)
At 30 June 2007	**16,979**	**78,120**	**10,712**	**5,384**	**90,960**	**15,826**	**(225,489)**	**15,312**	**7,804**

Consolidated Cash Flow Statement

For the year ended 30 June 2007

	Note	2007 HK$'000	2006 HK$'000
OPERATING ACTIVITIES			
Loss before taxation		**(110,635)**	(41,022)
Adjustments for:			
Interest income		**(598)**	(109)
Finance costs		**24,396**	1,438
Amortisation of prepaid lease payments		**152**	–
Depreciation of property, plant and equipment		**4,211**	31
Share option expenses		**54,913**	23,207
Impairment loss on goodwill		**–**	3,361
Loss on disposal of property, plant and equipment		**65**	–
Operating cash flows before movements in working capital		**(27,496)**	(13,094)
Decrease in inventories		**1,798**	–
(Increase) decrease in accounts receivables		**(1,071)**	9,605
Decrease (increase) in prepayments, deposits and other receivables		**10,225**	(29,718)
Decrease in accounts payables		**(8,621)**	(9,283)
Increase (decrease) in accrued liabilities and other payables		**243**	(947)
Net cash used in operations		**(24,922)**	(43,437)
Tax paid		**(1,364)**	(5)
NET CASH USED IN OPERATING ACTIVITIES		**(26,286)**	(43,442)
INVESTING ACTIVITIES			
Interest received		**598**	109
Purchases of property, plant and equipment		**(1,650)**	(24)
Purchases of construction in progress		**(5,871)**	–
Additions of prepaid lease payments		**(99)**	–
Acquisition of a subsidiary	29	**–**	(4,981)
Acquisition of jointly controlled entities	29	**(120,902)**	–
NET CASH USED IN INVESTING ACTIVITIES		**(127,924)**	(4,896)
FINANCING ACTIVITIES			
Interest paid		**(2,908)**	(22)
Issue of shares		**3,162**	9,868
Proceeds from issue of convertible bonds		**234,000**	–
Net (repayments) raising of borrowings		**(38,532)**	30,553
NET CASH FROM FINANCING ACTIVITIES		**195,722**	40,399
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**41,512**	(7,939)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**3,360**	10,955
Effect of foreign exchange rate changes		**4,238**	344
CASH AND CASH EQUIVALENTS AT END OF THE YEAR			
Represented by,			
Bank balances and cash		**49,110**	3,360

Notes to the Consolidated Financial Statements

1. GENERAL

The Company was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is China Vanguard Group Limited, which is incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on the GEM of the Stock Exchange. The Company's registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business is located at Room 2201, 22/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

The consolidated financial statements are presented in Hong Kong dollars, being the measurement currency of the Company and its subsidiaries (the "Group").

The principal activities of the Company is investment holding. The activities of its principal subsidiaries and jointly controlled entities are set out in notes 27 and 28 respectively.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS AND CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new and amended Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations ("INTs") (hereinafter collectively referred to as "new HKFRS") issued by the Hong Kong Institutes of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1 July 2006. The application of the new and amended HKFRSs has no material affect on how the results for the current or prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.

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

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 23 (Revised)	Borrowing costs[2]
HKFRS 7	Financial instruments: Disclosures[1]
HKFRS 8	Operating segments[2]
HKI(IFRIC)-INT 10	Interim financial reporting and impairment[3]
HKI(IFRIC)-INT 11	HKFRS 2 – Group and treasury share transactions[4]
HKI(IFRIC)-INT 12	Service concession arrangements[5]

[1] Effective for annual periods beginning on or after 1 January 2007
[2] Effective for annual periods beginning on or after 1 January 2009
[3] Effective for annual periods beginning on or after 1 November 2006
[4] Effective for annual periods beginning on or after 1 March 2007
[5] Effective for annual periods beginning on or after 1 January 2008

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards issued by the HKICPA as well as the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

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

All inter-group transactions, balances, income and expenses are eliminated on consolidation.

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

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meeting the conditions for recognition under Hong Kong Financial Reporting Standard ("HKFRS") 3 "Business Combinations" are recognized at their fair values at the acquisition date.

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognized immediately in profit or loss.

Notes to the Consolidated Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Business combinations – continued

The interest of minority shareholders in the acquiree initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognized.

Interest in jointly controlled entities

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

The Group recognizes its interests in jointly controlled entities using proportionate consolidation. The Group's share of each of the assets, liabilities, income and expenses of the jointly controlled entities are combined with the Group's similar line items, line by line, in the consolidated financial statements.

Any goodwill arising on the acquisition of the Group's interest in a jointly controlled entity is accounted for in accordance with the Group's accounting policy for goodwill arising on the acquisition of a subsidiary.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment is recognized immediately in profit or loss.

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

Goodwill

Goodwill arising on an acquisition of a subsidiary for which the agreement date is before 1 July 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary at the date of acquisition.

For previously capitalized goodwill, the Group has discontinued amortization from 1 July 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired (see the accounting policy below).

Goodwill arising on an acquisition of a subsidiary or a jointly controlled entity for which the agreement date is on or after 1 July 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalized goodwill arising on an acquisition of a subsidiary or a jointly controlled entity is presented separately in the balance sheet.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Goodwill – continued

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

On subsequent disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill capitalized is included in the determination of the amount of profit and loss disposal.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from sales of gas and gas appliances are recognized when goods are delivered and title has passed.

Gas transportation revenue and gas connection fee income are recognized when the corresponding services are performed.

Sales of edible oil products are recognized when goods are delivered and title has been passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Notes to the Consolidated Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Property, plant and equipment

Property, plant and equipment, comprising leasehold buildings, gas distribution network, gas storage equipment, other equipment, office equipment, furniture and fixtures, motor vehicles and computers equipment, are stated at cost less accumulated depreciation and any identified impairment losses. The cost of an item of property, plant and equipments comprises its purchase price and any directly attributable costs of bringing the property, plant and equipment to its working condition and location for its intended use. Expenditure incurred after property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, the expenditure is capitalized as an additional cost of that property, plant and equipment.

Property, plant and equipment are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold buildings	3%-5%
Furniture and fixtures	20%
Office equipment	7%-25%
Computer equipment	20%-25%
Motor vehicles	6%-14%
Gas distribution network	5%-10%
Gas storage equipment	5%-31%
Other equipment	8%-19%

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

Construction in progress

Construction in progress in represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognized impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Inventories

Inventories, including construction materials, gas and gas appliances for sales, are stated at the lower of cost and net realizable value. Cost is calculated using the weighted-average method. Net realisable value represents the estimated selling price in the ordinary course of business less estimated costs to completion and the estimated costs necessary to make the sales.

Leasing

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

The Group as lessor

Rental income from operating lease is recognized in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expenses on a straight-line basis over the lease term.

The Group as lessee

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

Leasehold land and building

Land and building elements of a lease of land and building are considered separately for the purposes of lease classification, leasehold land which title is not expected to pass to the lessee by the end of the lease term is classified as an operating lease unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is classified as a finance lease.

Impairment losses on assets other than goodwill

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognized as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

Notes to the Consolidated Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Impairment losses on assets other than goodwill – continued

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that other standard.

Taxation

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

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

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

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognized in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognized in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in equity, in which cases, the exchange differences are also recognized directly in equity.

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

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 July 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognized in the translation reserve.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Provisions

A provision is recognized when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Employee benefits

(a) *Retirement benefits schemes*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiary that operated in the People's Republic of China and Singapore are required to participate in a central pension scheme operated by the local municipal government and Central Provident Fund Scheme, respectively. These subsidiaries are required to contributed pension, based on a certain percentage of their payroll costs, to the pension schemes. The contributions are charged to income statement as they become payable in accordance with the rules of the pension schemes.

(b) *Share option schemes*

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who, in the sole discretion of the Board, have contributed or may contribute to the Group. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments

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

Financial assets

The Group's financial assets are classified into one of the two categories, including loans and receivables, and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Loans and receivables

Loans and receivables (including accounts receivables, deposits, prepayments and bank balances and cash) are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables are carried at amortized cost using the effective interest method, less any identified impairment losses. An impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognized, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Notes to the Consolidated Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Available-for-sale financial assets

Available-for-sale financial assets are investments in unlisted equity securities which are intended to be held for a continuing strategic or long term purpose and are stated at fair value, except for those equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any accumulated identified losses.

In respect of available-for-sale financial assets carried at fair value, the gains or losses arising from changes in the fair value of an investment are dealt with as movements in the investment revaluation reserve, until the investment is sold, collected, or otherwise disposed of, or until the investment is determined to be impaired, the cumulative gain or loss derived from the investment recognized in the investment revaluation reserve, together with the amount of any further impairment, is charged to the income statement in the year in which the impairment arises.

In respect of available-for-sale financial assets carried at cost less any accumulated impairment losses, when there is objective evidence that an impairment loss has been incurred on an investment, the carrying amount of the investment should be reduced to the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset and the amount of the impairment is charged to the income statement in the year in which it arises. Impairment losses recognized shall not be reversed in subsequent periods.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Borrowings

Interest-bearing bank loans and other loans are initially measured at fair value, and are subsequently measured at amortized cost, using the effective interest method. Any difference between the proceeds (net of transaction cost and the settlement or redemption of borrowings is recognized over the terms of the borrowings in accordance with the Group's accounting policy for borrowing costs.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Convertible bonds

Convertible bonds issued by the Company that contain both the liability and conversion option components are classified separately into respective items on initial recognition. Conversion option will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest rate of similar non-convertible debts. The difference between the proceeds of the issue of the convertible bonds and the fair value assigned to the liability component, representing the conversion option for the holder to convert the bonds into equity, is included in equity (equity component of convertible bonds).

In subsequent periods, the liability component of the convertible bonds is carried at amortized cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in convertible bonds reserve until the conversion option is exercised (in which case the balance stated in convertible bonds reserve will be transferred to premium). Where the option remains unexercised at the expiry date, the balance stated in convertible bonds reserve will be released to the retained earnings. No gain or loss is recognized in profit or loss upon conversion or expiration of the option.

Transaction costs that related to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortized over that the period of the convertible bonds using the effective interest method.

Other financial liabilities

Other financial liabilities including accounts payables, accrued liabilities and other payables are subsequently measured at amortized cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Notes to the Consolidated Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Derecognition

Financial assets are derecognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards or ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss.

Financial liabilities, are derecognized from the Group's consolidated balance sheet when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

Equity-settled share-based payment transactions

Share options granted to directors, employees or other eligible participants of the Company

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the time when the share options are exercised, the amount previously recognized in share option reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognized in share option reserve will be transferred to retained earnings.

Retirement benefit costs

Payments to state-managed retirement benefits scheme and the defined contribution schemes are charged as expense as they fall due.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an qualifying asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the costs of that asset.

All other borrowing costs are charged to the consolidated income statement in the year in which they are incurred.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 3, management has made the following judgments that have significant effect on the amounts recognized in the financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below:

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account of their estimated residual value. The determination of the useful lives and residual values involve management's estimation. The Group assesses annually the residual value and the useful life of the property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation in the year and the estimate will be changed in the future period.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual cash flows are less than expected, a material impairment loss may arise. As at 30 June 2007, the carrying amount of goodwill is approximately HK$81,215,000. Details of impairment test for goodwill are set out in note 16.

Income taxes

As at 30 June 2007, no deferred tax asset was recognized in the Group's consolidated balance sheet in relation to the estimated unused tax losses of approximately HK$11,804,000 due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are more than expected, a material recognition of deferred tax asset may arise, which would be recognized in the income statement for the period in which such recognition takes place.

Share option expenses

The share option expenses are subject to the limitations of the Black-Scholes option pricing model and the uncertainty in estimates used by management in the assumptions. The estimates include limited early exercise behavior, expected interval and frequency of open exercise periods in the share option life, and other relevant parameters of the share option model (see note 26 for the estimates).

The number of options to be vested at the end of vesting period involves management estimation. Should the number of options being vested at the end of vesting period be changed, there would be material changes in the amount of share option benefits recognized in the consolidated income statement and share option reserve.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include accounts receivable, prepayments, deposit and other receivables, bank balances and cash, trade payable, accrued liabilities and other payable, amount due to affiliated company, borrowings and convertible bonds. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 30 June 2007 in relation to each class of recognized financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimize the credit risk, the management of the Group has closely monitoring the recoverability of the financial assets. In addition, the Group reviews the recoverable amount of each individual financial assets at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Foreign currency risk

For the year ended 30 June 2007, the Group's trade transactions are denominated in foreign currency. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's interest-bearing borrowings.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of borrowings. The Group's exposure to liquidity risk is minimal.

6. SEGMENT INFORMATION

Business segments

The Group is engaged in the businesses of oil mining, distribution of edible oil, sales of gas and gas appliances, provision of gas transportation services and installation services.

Summary details of the business segments are as follows:

	Gas related		Oil mining		Distribution of edible oil		Total	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Segment revenue:								
Sales to external customers	**14,743**	–	**–**	–	**42,912**	30,820	**57,655**	30,820
Segment results	**(1,922)**	–	**(1,187)**	(470)	**123**	(90)	**(2,986)**	(560)
Unallocated income							**390**	81
Unallocated expenses							**(83,643)**	(39,105)
Finance costs							**(24,396)**	(1,438)
Loss before taxation							**(110,635)**	(41,022)
Income tax expenses							**(464)**	(14)
Loss for the year							**(111,099)**	(41,036)

Notes to the Consolidated Financial Statements

6. SEGMENT INFORMATION – continued

Business segments – continued

	Gas related		Oil mining		Distribution of edible oil		Total	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Segment assets	**265,122**	–	**30,419**	41,913	**1,442**	1,298	**296,983**	43,211
Unallocated assets							**82,675**	33,774
Total assets							**379,658**	76,985
Segment liabilities	**104,709**	–	**1,233**	661	**531**	519	**106,473**	1,180
Unallocated liabilities							**265,381**	32,308
Total liabilities							**371,854**	33,488
Other segment information:								
Depreciation of property, plant and equipment	**4,194**	–	**–**	–	**–**	–	**4,194**	–
Unallocated							**17**	31
							4,211	31
Amortisation of prepaid lease payments	**152**	–	**–**	–	**–**	–	**152**	–
Capital expenditure	**1,650**	–	**–**	–	**–**	–	**1,650**	–
Unallocated							**–**	24
							1,650	24
Impairment loss on goodwill recognized in the income statement	**–**	–	**–**	–	**–**	3,361	**–**	3,361
Other non-cash expenses							**74,769**	23,207

6. SEGMENT INFORMATION – continued

Geographical segments

A summary of the geographical segments is set out as follows:

	Revenue		Segment results		Segment assets		Capital expenditure	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
PRC	**14,743**	–	**(3,109)**	(470)	**295,541**	41,913	**1,650**	–
Hong Kong	**–**	–	**–**	–	**82,675**	33,774	**–**	24
South East Asia	**42,232**	30,204	**121**	(88)	**1,442**	1,298	**–**	–
Europe	**680**	616	**2**	(2)	**–**	–	**–**	–
	57,655	30,820	**(2,986)**	(560)	**379,658**	76,985	**1,650**	24
Unallocated income			**390**	81				
Unallocated expenses			**(83,643)**	(39,105)				
Finance costs			**(24,396)**	(1,438)				
Loss before taxation			**(110,635)**	(41,022)				
Income tax expenses			**(464)**	(14)				
Loss for the year			**(111,099)**	(41,036)				

Notes to the Consolidated Financial Statements

7. REVENUE AND OTHER REVENUE

The Group is principally engaged in the businesses of distribution of edible oil, oil mining, sales of gas and gas appliances, provision of gas transportation services and installation services for gas connected.

Revenue represents invoiced value of sales, net of returns, discounts allowed or sales taxes where applicable. Revenue recognized during the year is as follows:

	2007 HK$'000	2006 HK$'000
Revenue		
Sales of goods	**52,728**	30,820
Gas transportation	**644**	–
Installation income for gas connection	**4,283**	–
	57,655	30,820

	2007 HK$'000	2006 HK$'000
Other revenue		
Interest income	**598**	109
Sundry income	**165**	–
Exchange losses, net	**(453)**	(45)
	310	64

8. FINANCE COSTS

	2007 HK$'000	2006 HK$'000
Interest on:		
– borrowings wholly repayable within five years	**2,606**	1,438
– borrowings wholly repayable after five years	**1,934**	–
– convertible bonds	**19,856**	–
	24,396	1,438

Notes to the Consolidated Financial Statements

9. LOSS BEFORE TAXATION

	2007 HK$'000	2006 HK$'000
Loss before taxation has been arrived at after charging:		
Staff costs (excluding directors' emoluments – note 10):		
– Wages and salaries	**8,902**	4,272
– Retirement benefits scheme contributions	**162**	134
Total staff costs	**9,064**	4,406
Cost of inventories sold (Note)	**54,140**	29,963
Auditors' remuneration	**350**	200
Depreciation of property, plant and equipment (Note)	**4,211**	31
Impairment loss on goodwill	**–**	3,361
Share option expenses	**54,913**	23,207
Minimum lease payments under operating leases:		
– Land and buildings	**1,248**	795
Loss on disposal of property, plant and equipment	**65**	–
Amortization of prepaid lease payments	**152**	–

Note: Included in the depreciation of approximately HK$4,211,000 (2006: nil) was an amount of approximately HK$2,380,000 capitalized in inventories and transferred to cost of inventories sold during the year. The amount of approximately HK$2,380,000 was included in cost of inventories sold of approximately HK$54,140,000.

Notes to the Consolidated Financial Statements

10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

Emoluments paid or payable to each of the 6 (2006: 7) directors of the Company during the year were as follows:

For the year ended 30 June 2007

	Fees HK$'000	Salaries and other emoluments HK$'000	Contribution to retirement benefits scheme HK$'000	Total HK$'000
Executive Directors:				
Cheung Kwai Lan	24	1,950	–	1,974
Chan Ting	24	1,300	12	1,336
Fung King Him, Daniel	24	562	12	598
Independent Non-executive Directors:				
Tian He Nian	39	–	–	39
Zhao Zhi Ming	39	–	–	39
To Yan Ming, Edmond	47	–	–	47
	197	3,812	24	4,033

For the year ended 30 June 2006

	Fees HK$'000	Salaries and other emoluments HK$'000	Contribution to retirement benefits scheme HK$'000	Total HK$'000
Executive Directors:				
Cheung Kwai Lan	24	1,950	–	1,974
Chan Ting	24	1,300	12	1,336
Fung King Him, Daniel	24	405	12	441
Independent Non-executive Directors:				
Tsui Wing Tak (Note 1)	13	–	–	13
Tian He Nian	39	–	–	39
Zhao Zhi Ming	39	–	–	39
To Yan Ming, Edmond (Note 2)	22	–	–	22
	185	3,655	24	3,864

Note 1: resigned on 11 January 2006
Note 2: appointed on 11 January 2006

10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS – continued

(b) Senior management emoluments

Of the five individuals whose emoluments were the highest in the Group for the year include three (2006: three) directors whose emoluments are set out in the above. The emoluments payable to the remaining two (2006: two) individuals during the year as follows:

	2007 **HK$'000**	2006 HK$'000
Salaries, allowances and other benefits	**4,069**	1,905
Contributions to retirement benefits scheme	**24**	23
	4,093	1,928

The emoluments fell with the following bands:

	No. of individuals	
	2007	2006
Emoluments bands		
Nil – HK$1,000,000	**–**	1
HK$1,000,001 – HK$2,000,000	**1**	1
HK$2,000,001 – HK$3,000,000	**1**	–

During the year ended 30 June 2007, no emoluments have been paid by the Group to the non-Directors and the highest paid individuals as an inducement to join the Group, or as compensation for loss of office (2006: Nil).

11. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2007 **HK$'000**	2006 HK$'000
Wages and salaries	**12,911**	8,112
Pension cost – defined contribution plans	**186**	158
	13,097	8,270

Notes to the Consolidated Financial Statements

12. INCOME TAX EXPENSES

The amount of tax charged to the consolidated income statement represents:

	2007 **HK$'000**	2006 HK$'000
Overseas income tax:		
– Charged for the year	**464**	–
– Underprovision in prior years	**–**	14
Total tax charge for the year	**464**	14

No provision for Hong Kong Profits Tax has been made as the Group has no assessable profits in Hong Kong for the year (2006: Nil).

The amount of income tax expenses charged to the consolidated income statement reconciled to the loss per consolidated income statement is as follows:

	2007 **HK$'000**	2006 HK$'000
Loss before taxation	**(110,635)**	(41,022)
Tax at the Hong Kong Profits Tax rate of 17.5% (2006: 17.5%)	**(19,361)**	(7,179)
Tax effect of expenses that are not deductible for tax purposes	**18,559**	7,200
Tax effect of income that is not taxable for tax purposes	**(68)**	(14)
Tax effect of unrecognized accelerated tax allowances	**–**	(4)
Tax effect of tax losses not recognized	**2,112**	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(778)**	(3)
Tax effect of underprovision in prior years	**–**	14
Income tax expenses	**464**	14

12. INCOME TAX EXPENSES – continued

The components of unrecognized deductible (taxable) temporary differences at the balance sheet date are as follows:

	2007 **HK$'000**	2006 HK$'000
Deductible temporary differences:		
Unutilized tax losses	**11,804**	5,403
Taxable temporary differences:		
Accelerated tax allowances	**(4)**	(55)
	11,800	5,348

At the balance sheet date, the Group have unused tax losses of approximately HK$11,804,000 (2006: HK$5,403,000) available for offset against future profits. No deferred tax asset has been recognized in respect of the unused tax losses due to the uncertainty of future profits streams. Deductible temporary differences have not been recognized in these financial statements owing to the absence of objective evidence in respect of the availability of sufficient taxable profits that are expected to arise to offset against the deductible temporary differences. Included in unrecognised estimated tax losses are losses of approximately HK$6,401,000 (2006: Nil) that will expire in 5 years from the year of origination. Other losses may be carried forward indefinitely.

13. LOSS PER SHARE

The calculation of the basic and diluted loss per share is based on the Group's loss attributable to the equity holders of the Company:

	2007 **HK$'000**	2006 HK$'000
Loss for the purposes of basic loss per share	**110,764**	40,837

Number of shares

	'000	'000
Weighted average number of ordinary shares for the purpose of basic loss per share	**1,676,490**	1,615,396

No diluted loss per share has been presented in both years, as outstanding share options and convertible bonds of the Company are anti-dilutive since their exercise or concession would result in a decrease in loss per share.

Notes to the Consolidated Financial Statements

14. DIVIDENDS

No dividend was paid or proposed during the year ended 30 June 2007, nor has any dividend been proposed since the balance sheet date (2006: Nil).

15. PROPERTY, PLANT AND EQUIPMENT

	Furniture and fixtures HK$'000	Computer equipment HK$'000	Office equipment HK$'000	Gas distribution network HK$'000	Motor vehicles HK$'000	Gas storage equipment HK$'000	Other equipment HK$'000	Leasehold buildings HK$'000	Total HK$'000
COST									
At 1 July 2005	42	18	–	–	–	–	–	–	60
Additions	2	20	2	–	–	–	–	–	24
Acquisition of a subsidiary	13	110	4	–	–	–	–	–	127
At 30 June 2006 and at 1 July 2006	57	148	6	–	–	–	–	–	211
Additions	–	–	–	–	1,334	–	316	–	1,650
Disposals	(19)	–	–	–	(70)	–	(3)	–	(92)
Acquisition of jointly controlled entities	–	–	–	153,943	1,488	9,822	5,190	11,100	181,543
Exchange realignment	1	6	–	3,431	33	219	116	247	4,053
At 30 June 2007	39	154	6	157,374	2,785	10,041	5,619	11,347	187,365
DEPRECIATION									
At 1 July 2005	5	2	–	–	–	–	–	–	7
Charged for the year	10	20	1	–	–	–	–	–	31
At 30 June 2006 and at 1 July 2006	15	22	1	–	–	–	–	–	38
Charged for the year	12	34	1	3,332	150	280	229	173	4,211
Eliminated on disposal	(9)	–	–	–	(15)	–	(3)	–	(27)
Exchange realignment	–	3	–	–	–	–	–	–	3
At 30 June 2007	**18**	**59**	**2**	**3,332**	**135**	**280**	**226**	**173**	**4,225**
NET BOOK VALUES									
At 30 June 2007	**21**	**95**	**4**	**154,042**	**2,650**	**9,761**	**5,393**	**11,174**	**183,140**
At 30 June 2006	42	126	5	–	–	–	–	–	173

At 30 June 2007, none of the Group's property, plant and equipment was held under finance lease (2006: Nil).

Leasehold buildings of the Group are located in the People's Republic of China and held under medium term leases.

The Group has pledged gas distribution network having a carrying amount of approximately HK$113,432,000 to secure bank borrowings granted to the Group.

Notes to the Consolidated Financial Statements

16. GOODWILL

	HK$'000
COST	
At 1 July 2005	4,051
Arising on acquisition of subsidiaries	31,761
Elimination on amortization accumulated prior to adoption of HKFRS 3	(690)
At 30 June 2006	35,122
Arising on acquisition of jointly controlled entities (Note 29)	49,454
At 30 June 2007	**84,576**
IMPAIRMENT	
At 1 July 2005	–
Impairment loss recognized for the year	3,361
At 30 June 2006, 1 July 2006 and 30 June 2007	3,361
CARRYING VALUES	
At 30 June 2007	**81,215**
At 30 June 2006	31,761

The Group tests goodwill annually for impairment in the financial year in which the acquisition takes place, or more frequently if there is indications that goodwill might be impaired.

As at 30 June 2007, the carrying amount represents the goodwill arising from acquisition of subsidiary, CNPC Huayou Cu Energy Investment Co., Limited and jointly-controlled entities, Changde Huayou Gas Co., Limited and Hunan Huayou Natural Gas Transportation and Distribution Company Limited of approximately HK$31,761,000, HK$26,227,000 and HK$23,227,000 respectively.

The recoverable amounts of cash generating units ("CGUs") are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the year. Management estimates discount rates of 5% using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The value in use calculations is derived from cash flow projections based on the most recent financial budgets approved by management for the next 5 years. Cash flows beyond that 5 year period have been extrapolated using a steady growth rate of 7% per annum, which is based on industry growth forecasts. The directors of the Company considered no impairment loss is necessary at 30 June 2007.

Notes to the Consolidated Financial Statements

17. CONSTRUCTION IN PROGRESS

	2007 HK$'000	2006 HK$'000
Acquisition of jointly controlled entities	7,956	–
Exchange realignment	177	–
Additions	5,871	–
At 30 June 2007	14,004	–

18. PREPAID LEASE PAYMENTS

	2007 HK$'000	2006 HK$'000
Acquisition of jointly controlled entities	12,645	–
Exchange realignment	284	–
Additions	99	–
	13,028	
Less: Charged to consolidated income statement for the year	(152)	–
At 30 June 2007	12,876	–
Analysis for reporting purposes:		
Non-current portion	12,496	–
Current portion	380	–
At 30 June 2007	12,876	–

The amount represented medium-term land use rights situated in the PRC and premises under operating leases in the PRC.

19. INVENTORIES

	2007 HK$'000	2006 HK$'000
Construction materials	1,075	–
Finished goods	1,058	–
	2,133	–

20. ACCOUNTS RECEIVABLES

Accounts receivables, which generally have credit terms of not more than 180 days, are recognized and carried at original invoiced amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

	2007 **HK$'000**	2006 HK$'000
Trade receivables	**1,509**	–

An aged analysis of the Group's accounts receivables at the balance sheet dates, based on the date of goods delivered is as follows:

	2007 **HK$'000**	2006 HK$'000
Current to 90 days	**226**	–
90-180 days	**1,045**	–
Over 180 days	**238**	–
	1,509	–

The fair value of the Group's accounts receivables as at 30 June 2007 approximates to the corresponding carrying amount.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Included in prepayments, deposits and other receivables are prepayments for the drilling operation of Xin Jiang Oilfield in the PRC of approximately HK$30 million (2006: HK$29 million).

Notes to the Consolidated Financial Statements

22. ACCOUNTS PAYABLES

	2007 HK$'000	2006 HK$'000
Trade payables	**10,305**	266

An aged analysis of the Group's accounts payables at the balance sheet dates, based on the date of goods and services received, is as follows:

	2007 HK$'000	2006 HK$'000
Within 90 days	**1,662**	139
Over 90 days	**8,643**	127
	10,305	266

The fair value of the Group's accounts payables as at 30 June 2007 approximates to the corresponding carrying amount.

23. BANK AND OTHER BORROWINGS

	2007 HK$'000	2006 HK$'000
Bank loans	**71,179**	–
Other borrowings	**37,051**	30,553
	108,230	30,553

	2007 HK$'000	2006 HK$'000
Secured loans (note a)	**88,426**	22,500
Unsecured loans (note b)	**19,804**	8,053
	108,230	30,553

(a) Borrowings of approximately HK$16,500,000 is interest bearing at 2% over prime rate, secured by corporate guarantee from China Vanguard, the ultimate holding company of the Company, and not repayable in next twelve months.

Borrowings of approximately HK$17,694,000 is unsecured, interest charged at 2.55% per annum and has fixed repayment term.

Borrowings of approximately HK$54,232,000 is secured by gas network of a jointly controlled entity, interest charged at 5.5-5.7% per annum and have fixed repayment term.

(b) Borrowings of approximately HK$2,857,000 is unsecured, bears interest at prime rate and not repayable in next twelve months.

Borrowings of approximately HK$16,947,000 is unsecured, interest charged at 4.8% per annum and has fixed repayment term.

23. BANK AND OTHER BORROWINGS – continued

Borrowings are repayable as follows:

	2007 HK$'000	2006 HK$'000
On demand or within one year	**2,125**	8,053
In more than one year but not more than two years	**28,031**	22,500
In more than two years but not more than five years	**63,307**	–
Over five years	**14,767**	–
	108,230	30,553
Less: Amount shown under non-current liabilities	**(106,105)**	(22,500)
Amount shown under current liabilities	**2,125**	8,053

The details of the Group's borrowings which are denominated in foreign currencies are set out below:

	RMB HK$'000 equivalent
At 30 June 2007	**88,873**
At 30 June 2006	–

24. SHARE CAPITAL

	Note	Number of shares	HK$'000
Authorized:			
At 1 July 2005, 30 June 2006 and, 30 June 2007 shares of HK$0.01 each		20,000,000,000	200,000
Issued and fully paid:			
At 1 July 2005		1,550,156,428	15,501
Issue of shares pursuant to sale and purchase agreement		20,000,000	200
Shares issued on exercise of options		97,985,000	980
At 30 June 2006		1,668,141,428	16,681
Shares issued on exercise of options	(i)	29,740,000	298
At 30 June 2007		**1,697,881,428**	**16,979**

Changes in the share capital of the Company during the year ended 30 June 2007 were as follows:

(i) The Company allotted and issued 4,970,000, 18,905,000 and 5,865,000 shares of HK$0.01 each for cash at the exercise prices of HK$0.08, HK$0.1006 and HK$0.147 per share respectively, as a result of the exercise of share options.

25. CONVERTIBLE BONDS

On 22 November 2006, the Company issued convertible bonds due on 21 November 2011 with a principal amount of HK$234 million, which is interest-bearing at 5% per annum from and including 21 May 2008. The convertible bonds were issued for the purpose of the acquisition of a 48.33% equity interest in Changde Huayou Gas Co., Limited ("Changde Joint Venture"), 33% equity interest in the Hunan Huayou Natural Gas Transportation & Distribution Company Limited ("Hunan Joint Venture") and general working purposes.

On or at any time after 21 November 2008 and prior to 11 November 2011, the Company may redeem the convertible bonds in whole but not in part, together with the interest accrued to the redemption date.

The holder(s) of the convertible bonds may exercise the right at any time from 1 January 2007 up to close of business on 11 November 2011 or, if the convertible bonds shall have been called for redemption before 21 November 2011, up to the close of business on a date no later than 7 business days prior to the date fixed for redemption thereof. The initial conversion price will be HK$2.4 per share, subject to adjustment upon occurrence of certain prescribed dilution events.

On each of 21 November 2008, 21 November 2009 and 21 November 2010 (each a "Put Option Date"), each bondholder will have the right to require the Company to redeem in whole or in part of the convertible bonds of such bond holders on the Put Option Date together with interest accrued to the Put Option Date.

Unless previously redeemed converted or purchased and cancelled, the convertible bonds will be redeemed at 150.15% of their principal amount on 21 November 2011.

Further details of the convertible bonds can also be found in the joint announcement made by the Company and China Vanguard Group Limited dated 9 November 2006.

The fair value of the liability component of the convertible bonds is estimated by computing the present value of all future cash flows discounted using prevailing market rate of interest for similar instrument with a similar credit rating and with consideration of the convertible bonds. The residual amount, representing the value of the equity component is credited to a Company's reserve account.

The Directors had assessed the fair values of the early redemption rights and considered the fair value is insignificant.

25. CONVERTIBLE BONDS – continued

The convertible bonds have been spilt between the liability and equity components as follows :

	2007 HK$'000	2006 HK$'000
Nominal value of convertible bonds issued	**234,000**	–
Equity component	**(10,712)**	–
Liability component at the issuance date	**223,288**	–
Imputed finance cost	**19,856**	–
Non-current liability component as at the balance sheet date	**243,144**	–

26. SHARE OPTION SCHEME

The Company currently operates a share option scheme (the "Scheme"), which is adopted on 13 May 2002, for the purpose of providing incentives and rewards to the eligible participants who, in the sole discretion of the Board, have contributed or may contribute to the Group.

Pursuant to the Scheme, the board of directors may, at their discretion, grant share options (the "Options") to eligible participants who, in the sole discretion of the Board, have contributed or may contribute to the Group. The Scheme became effective on 14 May 2002 and will remain in force for ten years from that date.

The maximum number of unexercised Options currently permitted to be granted under the Scheme is an amount equivalent to, upon their exercise, 10% of the shares of the Company in issue as at the date of the approval of the Scheme or the date of the general meeting for refreshing the 10% limit under the scheme. The limit on the number of shares which may be issued upon exercise of all outstanding options granted under the Scheme must not exceed 30% of the shares of the Company in issue from time to time. The maximum number of shares issuable under the Scheme to each eligible participant in the Scheme within any 12-month period is limited to 1% of the number of shares of the Company in issue at any time.

The offer of a grant of the Options may be accepted in writing within 21 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the Options granted is determined by the board of directors, and shall not be more than ten years from the date of the grant of the Options. The Scheme does not require a minimum period for which the Options must be held nor a performance target which must be achieved before the Options can be exercised.

Notes to the Consolidated Financial Statements

26. SHARE OPTION SCHEME – continued

The subscription price will be determined by the board of directors, but may not be less than the highest of (i) the closing price of shares on the Stock Exchange on the date of grant of the Options; (ii) the average of the closing prices of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of grant of the Options; and (iii) the nominal value of the Company's shares on the date of offer.

During the year, no Options were granted to certain eligible participants and 29,740,000 Options, which were granted in previous years have been exercised.

Details of movements in the Options of Scheme held by eligible participants are as follows:

2007 Eligible participants	Date of grant	Exercise price* HK$	Outstanding at 1/7/2006	Granted during the year	Exercised during the year	Outstanding at 30/6/2007	Exercise period of Options
	20/3/2006	2.54	125,030,000	–	–	125,030,000	20/3/2006 to 19/3/2008
	1/11/2004	0.1006	78,980,000	–	(18,905,000)	60,075,000	1/11/2004 to 30/10/2009
	30/9/2004	0.147	12,235,000	–	(5,865,000)	6,370,000	30/9/2004 to 29/9/2009
	10/9/2004	0.08	22,155,000	–	(4,970,000)	17,185,000	10/9/2004 to 9/9/2009
			238,400,000	–	(29,740,000)	208,660,000	

2006 Eligible participants	Date of grant	Exercise price* HK$	Outstanding at 1/7/2005	Granted during the year	Exercised during the year	Outstanding at 30/6/2006	Exercise period of Options
	20/3/2006	2.54	–	125,030,000	–	125,030,000	20/3/2006 to 19/3/2008
	1/11/2004	0.1006	154,680,000	–	(75,700,000)	78,980,000	1/11/2004 to 30/10/2009
	30/9/2004	0.147	19,250,000	–	(7,015,000)	12,235,000	30/9/2004 to 29/9/2009
	10/9/2004	0.08	37,425,000	–	(15,270,000)	22,155,000	10/9/2004 to 9/9/2009
			211,355,000	125,030,000	(97,985,000)	238,400,000	

* The exercise price of the Options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

26. SHARE OPTION SCHEME – continued

The exercise in full of the Options would, under the present capital structure of the Company, result in the issue of 208,660,000 additional ordinary shares of the Company at additional share capital of HK$2,086,600 and share premium of HK$323,844,335 (before issue expenses).

At 30 June 2007, the number of shares in respect of which Options had been granted and remained outstanding under the scheme was 12.29% (2006: 14.29%) of the shares of the Company in issue at that date.

During the year ended 30 June 2006, options were granted on 20 March 2006. The closing price of the Company's shares on 20 March 2006 was HK$2.60. The estimated fair value of the options granted on is approximately HK$85,800,000.

These fair values were calculated by using the Black-Scholes pricing model. The inputs into the model were as follows:

Share price on grant date	HK$2.60
Exercise price	HK$2.54
Expected volatility	57.63%
Expected life	2 years
Risk-free rate	4%
Expected dividend yield	0%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 1 year. The expected life used in the model has been adjusted, based on the management's best estimate, for the effects on non transferability, exercise restrictions and behavioral considerations.

The risk-free interest rate represents the yields to maturity of respective Hong Kong Exchange Fund Note as at 20 March 2006.

The Group recognized the total expenses of approximately HK$54,913,000 for the year ended 30 June 2007 (2006: HK$23,207,000) in relation to Options granted by the Company.

At the date of approval of these financial statements, the Company has 208,660,000 Options outstanding under the Scheme, which represented approximately 12.29% of the Company's shares in issue at that date.

Notes to the Consolidated Financial Statements

27. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 30 June 2007 are as follows:

Name	Place of incorporation and operations	Nominal value of issued and paid-up share	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Good United Management Limited	British Virgin Islands	Ordinary US$1	100%	–	Investment holding
Top Entrepreneur Profits Limited	British Virgin Islands	Ordinary US$200	75%	–	Investment holding
B & B Natural Products (BVI) Limited	British Virgin Islands	Ordinary US$1	–	75%	Investment holding
Rapid Progress Profits Limited	British Virgin Islands	Ordinary US$8	–	56.25%	Investment holding
Hsing Long Trading Co. Pte. Ltd.	Singapore	Ordinary SGD100,000	–	70.31%	Distribution of natural supplementary foods
CNPC Huayou Cu Energy Investment Co., Limited	People's Republic of China ("PRC")	Registered capital of RMB100,000,000	–	70%	Oil mining

28. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

At 30 June 2007, the Group had interests in the following significant jointly controlled entities:

Name of entity	Form of business structure	Place of establishment/ and operations	Class of capital	Proportion of Nominal value of registered capital held by the Group %	Principal activities
(a) Jointly controlled entities:					
Changde Huayou Gas Co., Limited 常德華油燃氣有限公司	Sino-foreign equity joint venture	PRC	Registered	48.33%	Development and management of natural gas pipelines and distribution facilities in PRC
Hunan Huayou Natural Gas Transportation and Distribution Company Limited 湖南華油天然氣輸配有限責任公司	Sino-foreign equity joint venture	PRC	Registered	33%	Construction and development of natural gas pipeline and related consultation services
(b) Principal subsidiary of a jointly controlled entity:					
Linli Huayou Gas Co., Limited 臨澧華油燃氣有限公司	Limited liability company	PRC	Registered	33.83%	Distribution of natural gas

Note:

(a) The Group holds 48.33% of the issued capital of Changde Joint Venture and 33% of the issued capital of Hunan Joint Venture. Pursuant to the shareholder's agreement in relation to the acquisition of Changde Joint Venture and Hunan Joint Venture, each shareholder has a veto right relating to certain financial and operating decisions, and is therefore considered as having joint control over Changde Joint Venture and Hunan Joint Venture.

Notes to the Consolidated Financial Statements

28. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES – continued

The following amounts represent the Group's proportionate share of the assets, liabilities, revenue and expenses of the jointly controlled entities and are included in the consolidated balance sheet and consolidated income statements as a result of proportionate consolidation:

	2007 **HK$'000**	2006 HK$'000
Current assets	**55,654**	–
Non-current assets	**209,468**	–
Current liabilities	**17,961**	–
Non-current liabilities	**86,748**	–
Minority interests	**750**	–

	Date of acquisition* to 30 June 2007 **HK$'000**	2006 HK$'000
Revenue	**14,743**	–
Expenses	**(19,057)**	–
Minority interests	**(3)**	–
Loss for the period	**(4,317)**	–

* The dates of acquisition of Hunan Joint Venture and Changde Joint Venture are 5 February 2007 and 6 February 2007, respectively.

29. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Acquisition of jointly controlled entities

The Group acquired a 48.33% equity interest in Changde Joint Venture and 33% equity interest in Hunan Joint Venture on 6 February 2007 and 5 February 2007, respectively. The corresponding cash consideration were approximately HK$131,066,000 and HK$79,211,000.

Set out below are the details of Changde Joint Venture and Hunan Joint Venture upon completion of the acquisition and goodwill of approximately HK$26,227,000 and HK$23,227,000 were recorded in these transactions.

	Changde Joint Venture HK$'000	**Hunan Joint Venture** HK$'000	**Total** HK$'000
NET ASSETS ACQUIRED			
Property, plant and equipment	66,857	114,686	181,543
Prepaid lease payments	12,645	–	12,645
Construction in progress	7,956	–	7,956
Inventories	1,966	1,878	3,844
Accounts receivables	429	–	429
Deposits, prepayments and other receivables	3,617	503	4,120
Bank balances and cash	63,336	26,039	89,375
Accounts payables	(6,205)	(12,048)	(18,253)
Accruals and other payables	(3,100)	(1,750)	(4,850)
Tax payable	(1,568)	(5)	(1,573)
Borrowings	(40,357)	(73,319)	(113,676)
Minority interests	(737)	–	(737)
	104,839	55,984	160,823
Goodwill on acquisition	26,227	23,227	49,454
Total consideration	131,066	79,211	210,277
SATISFIED BY			
Cash consideration	131,066	79,211	210,277
Net cash outflow arising on acquisition:			
Cash consideration	(131,066)	(79,211)	(210,277)
Bank balances and cash acquired	63,336	26,039	89,375
Net outflow of cash and cash equivalents in respect of the acquisition of jointly controlled entities	(67,730)	(53,172)	(120,902)

The acquiree's carrying amount of net assets before combination approximates to its fair values. Accordingly, no fair value adjustments are required. Changde Joint Venture contributed to the Group's profit before taxation by approximately HK$1,348,000 between the date of acquisition and the balance sheet date. Hunan Joint Venture contributed to the Group's loss before taxation of HK$5,204,000 between the date of acquisition and the balance sheet date.

Notes to the Consolidated Financial Statements

29. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT – continued

Acquisition of a subsidiary

During the year ended 30 June 2006 the Group acquired a 70% equity interest in Huayou Cu, the only equity holder of which immediately before the acquisition was 中匯（國際）投資發展有限公司 (China United (International) Investment Development Limited) ("China United"). The Group has paid cash of HK$5,000,000 and issued 20,000,000 ordinary shares of the Company of HK$0.01 per share for the acquisition. The closing price of the Company's share as at 11 January 2006, the completion date of the transaction, was HK$1.2 and non-cash consideration of HK$24,000,000 for this acquisition transaction was resulted. The registered capital of Huayou Cu is RMB100,000,000 (equivalent to approximately HK$97,087,000) and RMB15,950,000 (equivalent to approximately HK$15,485,000) has been paid up by China United and considered as the capital contributed by China United upon the completion of aforesaid acquisition. Accordingly, the Group has to further invest RMB70,000,000 (equivalent to approximately HK$67,961,000) into Huayou Cu and during the year ended 30 June 2006, the Group has invested RMB31,099,000 (equivalent to approximately HK$30,000,000). The total consideration for the acquisition transaction is HK$96,961,000, which has been partially settled by issuance of the Company's shares of HK$24,000,000 and cash of HK$35,000,000 up to 30 June 2006. The Group did not further invest in Huayou Cu during the year.

Set out below is the details of Huayou Cu upon completion of the acquisition and goodwill of approximately HK$31,761,000 was recorded in this transaction.

	2006 HK$'000
NET ASSETS ACQUIRED	
Property, plant and equipment	127
Prepayments, deposits and other receivables	11,856
Bank balances and cash	19
Accrued liabilities and other payables	(611)
Minority interests	(14,152)
	(2,761)
Goodwill on acquisition	31,761
Total consideration	29,000
SATISFIED BY	
Cash consideration	5,000
Shares allotted	24,000
Total consideration	29,000
Net cash outflow arising on acquisition:	
Cash consideration	(5,000)
Bank balances and cash acquired	19
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	(4,981)

The acquiree's carrying amount of net assets before combination approximates to its fair value. Accordingly, no fair value adjustments are required. Huayou Cu contributed to the Group's loss before taxation by approximately HK$463,000 between the date of acquisition and 30 June 2006.

Notes to the Consolidated Financial Statements

30. BANKING FACILITIES

As at 30 June 2007, the Group's banking facilities which consisted mainly of secured bank loans of approximately HK$54,232,000 and unsecured bank loan of approximately HK$16,947,000 (2006: letter of credit facilities of approximately HK$7,800,000). Banking facilities was secured by certain gas network of a jointly controlled entity and unconditional irrecoverable corporate guarantees.

31. OPERATING LEASE ARRANGEMENTS

The Group as lessee

As at 30 June 2007, the Group had commitments for future minimum lease payments in respect of rented premises under non-cancellable operating leases which fall due as follows:

	2007	2006
	HK$'000	HK$'000
Within one year	**59**	664

Operating lease payments represent rental payable by the Group for certain of its office properties.

The Group as lessor

As at 30 June 2007, the Group had contracted with tenants for the following minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2007	2006
	HK$'000	HK$'000
Within one year	**129**	–
In the second to fifth years inclusive	**246**	–
	375	–

Leases are negotiated for an average term of 3 years.

32. CAPITAL COMMITMENTS

	2007	2006
	HK$'000	HK$'000
Capital expenditure in respect of the investment in a subsidiary authorized but not contracted for	**39,956**	37,768

Notes to the Consolidated Financial Statements

33. MAJOR NON-CASH TRANSACTIONS

(a) During the year, the Group incurred share option expenses of approximately HK$54,913,000.

(b) During the year, the Group incurred imputed interest on convertible bonds of approximately HK$19,856,000.

34. CONTINGENT LIABILITIES

At 30 June 2007, the Group did not have any significant contingent liabilities (2006: Nil).

35. RETIREMENT BENEFITS SCHEME

With the introduction of Mandatory Provident Fund Scheme (the “MPF Scheme”) in December 2000 in Hong Kong, the Group has arranged its employees in Hong Kong to join the MPF Scheme. The retirement benefits scheme contributions charged to the income statements represents contributions payable to the MPF Scheme by the Group at rates specified in the rules of the MPF Scheme.

The total costs charged to the consolidated income statements of approximately HK$186,000 (2006: HK$134,000) represent contributions payable to the MPF Scheme in respect of the current accounting period.

The employees of the Group’s subsidiary that operated in the People’s Republic of China and Singapore are required to participate in a central pension scheme operated by the local municipal government and Central Provident Fund Scheme, respectively. These subsidiaries are required to contribute pension, based on a certain percentage of their payroll costs, to the pension schemes. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

36. PROVISION FOR LONG SERVICE PAYMENTS

Under the Hong Kong Employment Ordinance, the Group is obliged to make lump sum payments on cessation of employment in certain circumstances to certain employees who have completed at least five years of service with the Group. The amount payable is dependent on the employee’s final salary and years of service, and is reduced by entitlements accrued under the Group’s retirement plan that are attributable to contributions made by the Group. The Group does not set aside any assets to fund any remaining obligations.

No significant provision for long service payments was made on 30 June 2007 (2006: Nil).

37. SHARE AWARD SCHEME

On 13 October 2004, the Company adopted a share award scheme for employees and consultants, excluding Executive Directors and chief executives, of the Group for the purpose of recognizing the contributions of certain employees and consultants of the Group to the growth of the Group, by rewarding them with opportunities to obtain an ownership interest in the Company and to further motivate them and give an incentive to these persons to continue to contribute to the Group's long term success and prosperity. No shares were granted under the share award scheme since its adoption on 13 October 2004 and up to the date of this report.

38. RELATED PARTY TRANSACTIONS

Compensation of directors and key management personnel

	2007 **HK$'000**	2006 HK$'000
Short-term benefits	**9,369**	6,603
Post-employment benefits	**84**	68
	9,453	6,671

39. VERY SUBSTANTIAL ACQUISITION

The transactions for acquisition of 48.33% equity interest in Changde Joint Venture and 33% equity interest in Hunan Joint Venture have been approved by the Company's shareholders in the extraordinary general meeting held on 7 November 2006.

The Group has obtained certificates of approval from the Company's investment in Change Joint Venture and Hunan Joint Venture and updated business licenses of these two Joint Ventures.

40. PLEDGED ASSETS

As at 30 June 2007, the 100% of the issued share capital of Good United Management Limited ("GUM"), a wholly-owned subsidiary of the Company, was pledged in favors of the holder(s) of the convertible bonds issued by the Company on 22 November 2006. GUM held 70% equity interests in CNPC Huayou Cu Energy Investment Co., Limited, which owned profit sharing rights on Xin Jiang Oilfield.

In addition, borrowings of approximately HK$54,232,000 has been secured by gas network of a jointly controlled entity, Hunan Joint Venture.

41. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.

Financial Summary

RESULTS

	Year ended 30 June		Period from 1 October 2004 to 30 June	Year ended 30 September	
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**57,655**	30,820	67,190	34,392	17,154
Cost of sales	**(54,140)**	(29,963)	(64,992)	(32,143)	(36,990)
Gross profit (loss)	**3,515**	857	2,198	2,249	(19,836)
Other revenue	**310**	64	271	4,345	189
Selling and distribution costs	**(3,254)**	(420)	(1,689)	–	(2,088)
Administrative expenses	**(86,810)**	(40,085)	(7,337)	(13,299)	(12,716)
Other operating expenses	**–**	–	–	(2,703)	(19,342)
Loss on disposal of a jointly controlled entity	**–**	–	–	(2,789)	–
Gain on disposal of subsidiaries	**–**	–	2,842	60	–
Finance costs	**(24,396)**	(1,438)	(30)	(291)	(14)
Share of loss of a jointly controlled entity	**–**	–	–	(53)	(14)
Loss before taxation	**(110,635)**	(41,022)	(3,745)	(12,481)	(53,821)
Income tax expenses	**(464)**	(14)	–	–	–
Loss for the year/period	**(111,099)**	(41,036)	(3,745)	(12,481)	(53,821)

ASSETS AND LIABILITIES

	At 30 June			At 30 September	
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**379,658**	76,985	24,091	50,100	24,842
Total liabilities	**(371,854)**	(33,488)	(11,129)	(32,245)	(14,070)
	7,804	43,497	12,962	17,855	10,772
Equity attributable to equity holders of the Company	**(7,508)**	29,424	12,854	17,742	10,772
Minority interests	**15,312**	14,073	108	113	–
	7,804	43,497	12,962	17,855	10,772