問博控股有限公司

APTUS HOLDINGS LIMITED

(INCORPORATED IN THE CAYMAN ISLANDS WITH LIMITED LIABILITY)

Stock Code : 8212

Annual Report 2008

Characteristics of The Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange")

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. 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 and no assurance is given that there will be a liquid market in the securities traded on GEM.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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.

Aptus Holdings Limited

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. ZHANG Xiu Fu *(appointed on 25 Jan 2008)*
Mr. ZOU Qi Jun *(appointed on 9 Sep 2008)*
Mr. TO Yan Ming, Edmond

AUDIT COMMITTEE

Mr. TO Yan Ming, Edmond *(Chairman)*
Mr. TIAN He Nian
Mr. ZHAO Zhi Ming
Mr. ZHANG Xiu Fu *(appointed on 25 Jan 2008)*
Mr. ZOU Qi Jun *(appointed on 9 Sep 2008)*

REMUNERATION COMMITTEE

Mr. CHAN Ting *(Chairman)*
Mr. ZHAO Zhi Ming
Mr. ZHANG Xiu Fu *(appointed on 25 Jan 2008)*
Mr. ZOU Qi Jun *(appointed on 9 Sep 2008)*
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

Allen and Overy
9th Floor
Three Exchange Square
Central
Hong Kong

REGISTERED OFFICE

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

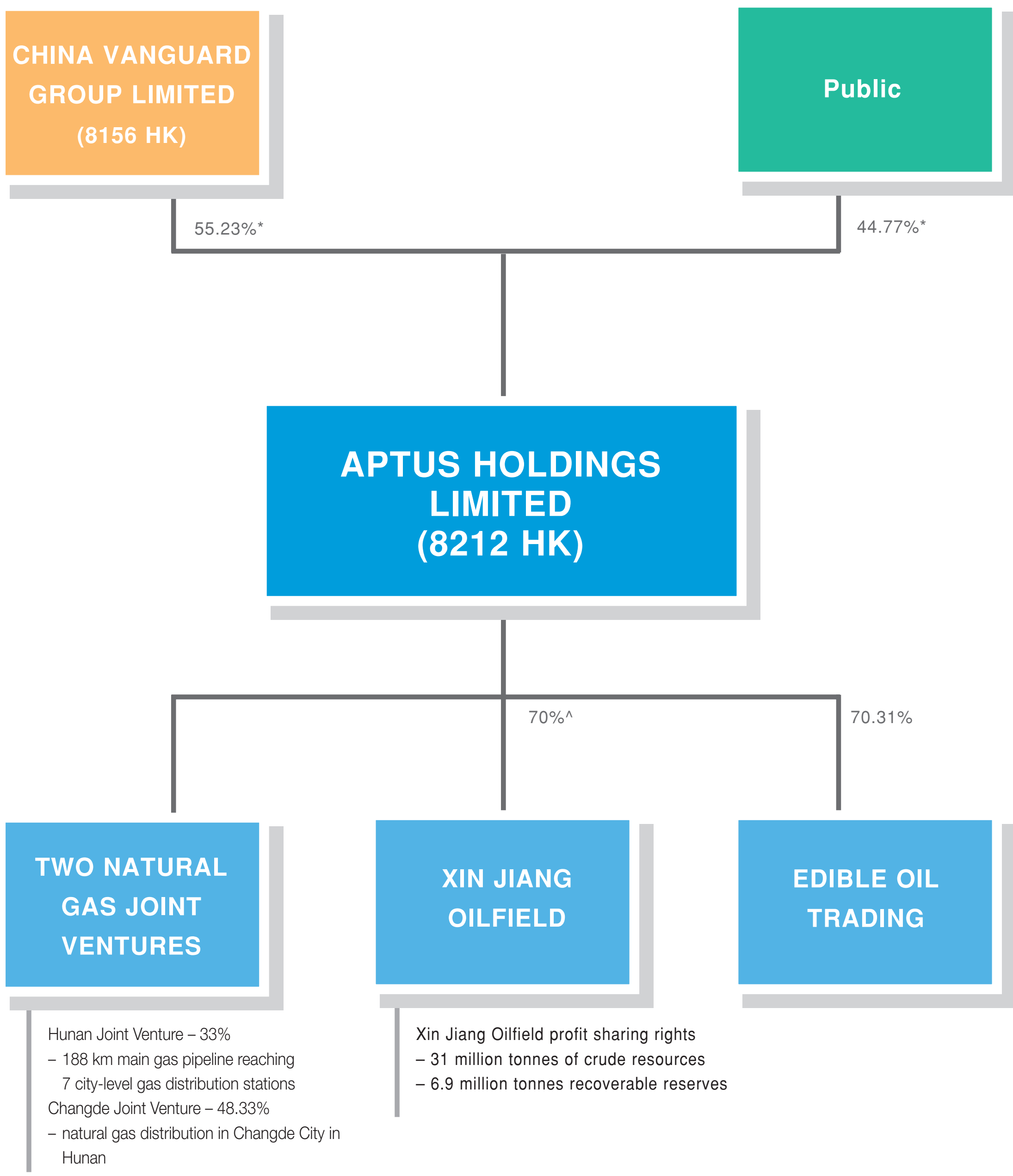
HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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 25 September 2008

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

Chairman's Statement

For the first time, natural gas related revenue has become our leading source of revenue. With PRC's residential, industrial and commercial natural gas usage on the rise, growth potential for the Group is bright.

Dear Shareholders,

On behalf of the board of directors ("Directors") of Aptus Holdings Limited (the "Company" or "Aptus"), I herein present the results of the Company and its subsidiaries (the "Group") for the year ended 30 June 2008.

Chairman's Statement

OVERVIEW

Aptus has continued to expand its operations while also putting in new management structures and procedures through the introduction of a senior level "Operating Committee" as well as effective measures to control costs. The natural gas related operations have achieved a significant year on year increase in revenue and, for the first time since their acquisition in February 2007, these operations have become our leading source of revenue.

The Group's business is divided into 3 operating segments: (1) two downstream natural gas operations in the province of Hunan, the PRC; (2) a crude oil mining operation via Xin Jiang Oilfield; and (3) an edible oil trading business via our non-listed Singapore subsidiary.

Chairman's Statement

NATURAL GAS OPERATIONS

Aptus has stakes in two natural gas related joint ventures in the province of Hunan, the PRC. Aptus has 48.33% and 33.0% shareholdings respectively in Changde Huayou Gas Co., Ltd ("Changde Joint Venture"), a city level natural gas pipeline project, and Hunan Huayou Natural Gas Transportation and Distribution Company Limited ("Hunan Joint Venture"), a provincial level natural gas pipeline project. The twelve-month revenue contribution to the Group this financial period was approximately HK$65.8 million compared to HK$14.7 million for the period from February to June 2007. These results marked the maiden full year contribution from these operations as the two joint ventures were only just acquired in February 2007.

The Hunan Joint Venture has completed the construction of its main pipeline (about 188 km in total). The pipeline now reaches 7 city-level gas distribution stations in the province of Hunan as compared to only 5 city-level gas distribution stations in the previous fiscal year. The 7 cities are Changde (常德), Yiyang (益陽), Deshan (德山), Wangcheng (望城), Hanshou (漢壽), Tongguan (銅官) and Ningxiang (寧鄉). In the last twelve months the Hunan Joint Venture transported about 47.1 million cubic meters of natural gas to the 7 city-level gas distribution stations, an increase of approximately 260% as compared to 13.1 million cubic meters in the previous twelve months[1].

The Changde Joint Venture has added 84 km to its city-level pipeline network increasing it to 678 km from 594 km previously. This pipeline network now connects to a total of circa 53,000 users (as of 30 June 2007, approximately 37,600 users were connected) this include approximately 144 commercial users, 95 public welfare establishments, 8 industrial users and over 52,000 residential users to its network with sales of about 41.5 million cubic meters of natural gas this financial year, an increase of approximately 173% as compared to 15.2 million cubic meters in the previous twelve months[1]. During the year, management implemented a sales target-linked remuneration system for its sales staff as motivation to increase overall connectivity. As can be seen from the numbers above, this remuneration reward system is giving us highly satisfactory results.

In addition to increasing sales and better cost control, staff safety is also a top priority. Both Hunan Joint Venture and Changde Joint Venture have received HSE certification from the Health and Safety Executive Association and have managed to maintain zero injuries, zero accidents and zero contaminations for the past two years. Management will continue to do all that is necessary to ensure the three zeros will be maintained.

1 For comparison purposes only, a full twelve-month figure is used. The Hunan Joint Venture and Changde Joint Venture were acquired in February 2007. Thus, only natural gas turnover for the period from February to June 2007 was recorded in last fiscal year.

XIN JIANG OILFIELD

Initial drilling at our Xin Jiang Oilfield project in Feng Cheng has continued to yield very positive results with crude flowing successfully. However, progress in its development on our behalf has been slow this financial year. Many of the delays have stemmed from business restructuring of the China National Petroleum Corporation Xin Jiang Petroleum Management Bureau (中國石油集團新疆石油管理局) and PetroChina Company Limited Xin Jiang Oilfield Branch Company (中國石油天然氣股份有限公司新疆油田分公司) who were, together with China Huayou Group Corporation, responsible for the development, management and operation of the oilfield. Their restructuring, which disrupted progress on our behalf, is now nearing completion. This year we will continue to work hard to bring commercial production of the Xin Jiang Oilfield to the shareholders of Aptus.

EDIBLE OIL TRADING BUSINESS

Business conditions continued to be tough for the edible oil trading business as cost of basic consumer goods continue to rise resulting in margin pressure throughout the supply chain. The Group recorded a slight decrease in turnover down to approximately HK$39.6 million this fiscal year as compared to approximately HK$42.9 million recorded in the previous fiscal year. Management is in the process of repositioning the edible oil trading business in the market place with goals to increasing its market share and sales.

FUTURE OUTLOOK AND PROSPECTS

The Group now has three operational segments: (1) two downstream natural gas operations in the province of Hunan; (2) a crude oil mining operation via Xin Jiang Oilfield; and (3) an edible oil trading business in Singapore. As mentioned previously, for the first time, natural gas related revenue has become our leading source of revenue indicating that our oil and gas operations in the PRC are beginning to gain traction. Our objective is to build on this, bring our oilfield on stream and to eventually become a large vertically integrated player in the oil and gas industry in the PRC.

We will continue to scale up production at the two natural gas joint ventures in Hunan province. The penetration strategy for Changde Joint Venture is to sign up industrial and commercial users in the area as, by their nature, they are significantly larger users of natural gas. Some of the targets set for this year are to connect an additional (1) 5,000 residential users, (2) 2-3 large commercial/industrial users, and (3) 3-5 additional public welfare establishments. In order to support the abovementioned expansion, the pipeline network with be extended to connect to the target public welfare establishments, residential, and commercial/industrial users.

Regarding the Xin Jiang Oilfield, this year we will continue to work hard to bring commercial production to the shareholders which would enable the Group to enjoy strong cashflow and capitalise on the existing strong demand and firm pricing environment for crude oil.

Chairman's Statement

In addition to our existing oil and gas operations, the Group will continue to explore more opportunities in the natural gas business in the PRC as natural gas is a more environmental friendly energy source. Industrial users have been able to provide better quality products while reducing the impact to the environment thus creating a win-win situation.

APPRECIATION

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

Madam Cheung Kwai Lan
Chairman

Hong Kong, 25 September 2008

FINANCIAL REVIEW

Turnover

The Group recorded a turnover of approximately HK$105.4 million for the year ended 30 June 2008 ("Year 2008"), an increase of about 83% as compared to approximately HK$57.7 million for the year ended 30 June 2007 ("Year 2007"). In the year under review, turnover from our natural gas related operations improved significantly while turnover of our edible oil trading business contracted slightly.

As indicated in the Chairman's Statement, the Changde Joint Venture benefited from an increase in end users within its jurisdiction whilst the Hunan Joint Venture benefited from an increase in distribution stations. As a result, revenues from these operations increased by about 3.5 times from approximately HK$14.7 million in Year 2007 to approximately HK$65.8 million in Year 2008.

The turnover from our edible oil trading business decreased by about 8% from approximately HK$42.9 million in Year 2007 to approximately HK$39.6 million in Year 2008, which was resulted from the continuous increase in the price of consumer goods thus reducing margins and demand.

Gross Profit

The details of gross profit and gross profit ratio of the Group are as follows:

	2008		2007	
	Gross Profit HK$'000	**Gross Profit Ratio %**	Gross Profit HK$'000	Gross Profit Ratio %
Natural gas related	**18,133**	**27.6**	2,843	19.3
Trading of edible oil	**253**	**0.6**	672	1.6
Overall	**18,386**	**17.5**	3,515	6.1

The Group's overall gross profit ratio increased significantly from 6.1% in Year 2007 to 17.5% in Year 2008 due to the increasing relative contribution from the higher margin natural gas related operations acquired in February 2007. Natural Gas Joint Ventures (Hunan Joint Venture and Changde Joint Venture) accounted for 62.4% of the Group's revenue in Year 2008 against just 25.5% last year. As can be seen from the above, the major share of gross profits are now being contributed by the Natural Gas Joint Ventures.

The Group's share of turnover from the Natural Gas Joint Ventures for Year 2008 included installation income for gas connection of approximately HK$21.2 million against approximately HK$4.3 million in Year 2007. Gross profit margin of installation income is very high. As such, the significant rise in installation income has contributed to the overall widening of the gross profit margins of the Group's natural gas related operations. Further, costs of the Hunan Joint Venture are predominantly fixed in nature (mainly depreciation) and are thus inelastic in relation to the volume of gas transported along its pipeline. Thus the increase in turnover of the Hunan Joint Venture in Year 2008 did not see a corresponding increase in cost of sales thereby also contributing to the widening of overall gross profit margins.

Management Discussion and Analysis

As mentioned previously, the prices of consumer goods in general rose significantly in Year 2008. In reaction to tougher market conditions, the low-price strategy adopted by the Group's edible oil trading business resulted in lower gross margins here in Year 2008.

Operating Costs

The Group's operating costs, comprising selling and distribution costs and administrative expenses, decreased significantly by about HK$50.6 million from approximately HK$90 million in Year 2007 to approximately HK$39.4 million this year. The decrease was mainly attributable to the net effect of (i) less share option expenses charged against the Group's profit and loss account from approximately HK$54.9 million in Year 2007 to approximately HK$7.7 million in Year 2008; (ii) a decrease in legal and professional fees from approximately HK$13.7 million (mainly for issue of convertible bonds) in Year 2007 to approximately HK$0.2 million in Year 2008; and (iii) an increase in depreciation under selling and distribution costs from approximately HK$1.5 million in Year 2007 to approximately HK$6.8 million in Year 2008. The increase in depreciation was mainly attributable to city-level gas operation operated by Changde Joint Venture as additional 84km pipeline network was built in the current year.

Finance Costs

The increase in finance costs over Year 2008 of about HK$13.1 million, from HK$24.4 million in Year 2007 to HK$37.5 million in Year 2008, was mainly attributable to the increase in imputed finance costs of convertible bonds (at the Aptus level), which were issued by the Group in November 2006. The imputed finance costs of convertible bonds increased due principally to the fact that only approximately seven months interest were charged to the Group's financial statements in Year 2007 against a full year charge this year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2008, the Group had assets of approximately HK$408.6 million (2007: approximately HK$379.7 million), including cash and bank balances of approximately HK$40.6 million (2007: approximately HK$49.1 million).

As at 30 June 2008, the Group had borrowed loans (including convertible bonds) of approximately HK$399.9 million (2007: HK$351.4 million), for details please refer to notes 26 and 28 to the financial statements.

The Directors consider it is not meaningful to publish a gearing ratio for the Group until such time as the Group is in a positive shareholders' equity position.

CONTINGENT LIABILITIES

As at 30 June 2008, the Group had no contingent liabilities.

Management Discussion and Analysis

CHARGES ON GROUP ASSETS

As at 30 June 2008 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 favor 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$60 million were secured by the gas network of the Hunan Joint Venture.

CAPITAL STRUCTURE

During the year ended 30 June 2008, the Company issued 46,510,000 shares based on share options granted in 2004 under the share option scheme to eligible participants. As at 30 June 2008, the number of the Company's issued shares was enlarged to 1,744,391,428 shares.

CONVERTIBLE BONDS

On 22 November 2006, the Company issued convertible bonds due on 21 November 2011 with a principal amount of HK$234,000,000, 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 Joint Venture, 33% equity interest in the Hunan Joint Venture and general working capital purposes.

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 bondholders 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.

During the period from 1 July 2007 to the date of this annual report approved, the Company did not receive request from any bondholders to redeem the convertible bonds on the forthcoming Put Option Dates. If the Company receives notice from any bondholders to redeem the convertible bonds in future, the Company will consider the liquidity for the redemption and issue an announcement to shareholders about the redemption details as soon as practicable, if necessary.

The fair value of the liability component, as stated in the consolidated balance sheet and note 28, of the convertible bonds is estimated by computing the present value of all future cash flow 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 the Company's reserve account.

Management Discussion and Analysis

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

No significant exchange risk is expected as the Group's cash, borrowings, income and expenses are settled in Hong Kong dollars, RMB or US dollars. The Group's major investment and financing strategies are to invest in domestic projects in the PRC by Hong Kong dollars borrowings. As RMB appreciation is expected to continue in the foreseeable future and the Group's operating income is substantially denominated in RMB, the Group did not perform any foreign currency hedging activities during the year. Nevertheless, the Group will from time to time review and adjust the Group's investment and financing strategies based on the RMB, US dollars and Hong Kong dollars exchange rate movement.

EMPLOYEES, REMUNERATION POLICIES AND SHARE OPTION SCHEME

As at 30 June 2008, the Group had 17 full time staff employed by the Company and its subsidiaries and the Group's jointly controlled entities employed 258 full time staff. 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.

SIGNIFICANT INVESTMENT

For the year ended 30 June 2008, the Group did not have any significant investments.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES

For the year ended 30 June 2008, the Group did not have any material acquisition and disposal of subsidiaries.

Directors and Senior Management

DIRECTORS

Executive Directors

Madam CHEUNG Kwai Lan, aged 70, was appointed as an Executive Director on 20 December 2004. She was also appointed as director of various subsidiaries of the Group. Madam Cheung is responsible for business development, strategic planning and marketing for the Group. She is the founder and Chairman of China Vanguard Group Limited ("China Vanguard"), a company listed on the GEM of the Stock Exchange which is the ultimate holding company of Aptus, 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 Shanxi Province Tai Yuan (Atomic Energy) Research Centre (山西省太原(原子能)研究所), 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 and Ms. Chan Siu Sarah, being the General Counsel of the Group.

Mr. CHAN Ting, aged 38, was appointed as an Executive Director and the Authorised 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 has over 10 years of solid experience in establishing and managing companies in the PRC. He is an Executive Director and Chief Executive Officer of China Vanguard. He is the son of Madam Cheung Kwai Lan, being an Executive Director and the brother of Ms. Chan Siu Sarah, being the General Counsel of the Group.

Mr. FUNG King Him, Daniel, aged 38, was appointed as an Executive Director, the Compliance Officer and Authorised Representative of the Company on 27 August 2004. Mr. Fung is mainly responsible for business development of the Group. 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. ZHANG Xiu Fu, aged 74, is an Independent Non-executive Director. He devoted himself to the Chinese Revolution in August 1948 and joined in the Communist Party in March 1950. He had served as the head of the municipal police of Hangzhou city, Zhejiang province, the Chief Officer of the provincial police of Zhejiang province, a member of the Communist Party's Provincial Standing Committee in Zhejiang province and the Secretary of the Political and Legislative Affairs Committee. He had also served as the Commissar of the Chinese People's Armed Police, the Vice Minister and the Vice Head of the party organization of the Chinese Ministry of Legislation, a representative of the Nine National People's Congress, a member of the Legislation Committee of the National People's Congress and the Vice President of China Law Science Association. He is currently serving as the President of the China Legal Aid Foundation. He is also an Independent Non-executive Director, audit committee member and remuneration committee member of China Vanguard. He joined the Group in January 2008.

Directors and Senior Management

Mr. TIAN He Nian, aged 68, 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 66, is an Independent Non-executive Director. Mr. Zhao is the committee member of The Specialist Committee of the China Development Bank (國家開發銀行專家委員會) and the Professor of the Liaoning Technical University (遼寧工程技術大學). After graduation from the university in 1964, he worked for several government authorities of the PRC, such as Tianjin Government (天津市政府部門), China Development Bank (國家開發銀行) and National Energy Investment Company of the PRC (國家能源投資公司). Mr. Zhao has rich experience in managing and investing in large size infrastructure projects. He is also an Independent Non-executive Director, a member of the audit committee and the remuneration committee of China Vanguard. He joined the Group in January 2005 and he is also a member of the audit committee and the remuneration committee of the Company.

Mr. ZOU Qi Jun, aged 72, is an Independent Non-executive Director, audit committee member and remuneration committee member of the Company. He was born in Chongqing City of the People's Republic of China. He graduated from Zhongshan Medical University in 1956. He has been the President of the Second Associated Hospital of Jinan University (Shenzhen City People's Hospital), director, medical professor and Chief Physician of the Institute of Gerontology of Shenzhen City. He was a special allowance expert of the State Council and a distinguished expert in Shenzhen City. He has also served as a guest expert reviewer of the Chinese Journal of Medicine, the executive editor of the Chinese Journal of Microcirculation, executive editor of China's Journal of Haemodynamics, director of Chinese Microcirculation Association, Vice Chairman of the Council of Chinese Medical Association in the Guangdong Province for Geriatrics, the Chairman of the Council of the Shenzhen Municipal Chinese Medical Association. Mr. Zou is currently the Vice President of the Shenzhen Institute of Health Technology, Chief Health Education Expert of Shenzhen City, health education adviser of the Health Bureau of Shenzhen City. He joined the Group in September 2008.

Mr. TO Yan Ming, Edmond, aged 36, is the Independent Non-executive Director. Mr. To 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 Edmond To CPA Limited and Fortitude C.P.A. Limited. He is a member of the CPA Australia and Hong Kong Institute of Certified Public Accountants. He worked for an international accounting firm, Deloitte Touche Tohmatsu, and has over 10 years of experience in auditing, accounting, floatation and taxation matters. Mr. To is also an Independent Non-executive Director, a member of the audit committee and the remuneration committee of China Vanguard. Mr. To joined the Group in January 2006 and he is also a member of the audit committee and the remuneration committee of the Company.

Directors and Senior Management

SENIOR MANAGEMENT

Ms. CHAN Siu Sarah, aged 43, is the General Counsel of the Group. She obtained her law degree from the London School of Economics and Political Science in 1989 and was qualified to practice law as solicitor in Hong Kong in 1992 and England and Wales in 1993. She did her solicitor's training with the international firm of Baker & McKenzie in Hong Kong and, after qualification, worked for 4 years at the international firm of Linklaters in Hong Kong specializing in projects and project finance with a particular focus on China. She then spent the next 7 years as corporate counsel with the Asia Pacific regional headquarter of Lucent Technologies in Hong Kong attending legal matters in the region. From 2004 to 2007, she was appointed the regional general counsel for the Asia Pacific region of Avon Products Inc., leading its legal, government and regulatory affair teams in the region. Ms. Chan has been an Executive Director of Avon Products Co., Ltd. which is listed on the JASDAQ Securities Exchange, Inc. for the period from March 2006 to December 2007. Ms. Chan is also the Executive Director and General Counsel of China Vanguard. Ms. Chan is the daughter of Madam Cheung Kwai Lan and the sister of Mr. Chan Ting, all being Executive Directors of the Company. She joined the Group in May 2008.

Mr. YOUNG Russell, aged 45, is a Director of Corporate Strategy of the Group. He is 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 an Independent Non-executive Director of Asia Aluminium Holdings Ltd. He joined the Group in April 2006.

Mr. WONG Kim Ket, aged 47, 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 trading business. He is one of the founders of the subsidiary and has been managing the subsidiary for more than 9 years. His formal educational background is in computer engineering while also holding a Master 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 18 years of working experience in international trade and financial operations.

Mr. CHAN Ka Yin, aged 34, joined the Group as the Chief Financial Officer in March 2006. He was appointed as the Company Secretary and Qualified Accountant of the Company in 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 12 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 eight Directors, of whom three are Executive Directors and five are Independent Non-executive Directors. To further strengthen the composition of the Board, the Board has appointed one more Independent Non-executive Director to the Board in the year under review. Subsequent to the year end date of 30 June 2008, the Board further appointed one more Independent Non-executive Director. 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, the Chairman, is the mother of Mr. Chan Ting, the Chief Executive Officer. 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 ended 30 June 2008 are as follows:

	Attendance
Executive Directors	
Madam Cheung Kwai Lan	4/5
Mr. Chan Ting	5/5
Mr. Fung King Him, Daniel	5/5
Independent Non-executive Directors	
Mr. Tian He Nian	4/5
Mr. Zhao Zhi Ming	4/5
Mr. To Yan Ming, Edmond	4/5
Mr. Zhang Xiu Fu *(appointed on 25 January 2008)*	* 2/3
Mr. Zou Qi Jun *(appointed on 9 September 2008)*	N/A

* For the period from 25 January 2008 to 30 June 2008, the Company held three board meetings and Mr. Zhang Xiu Fu attended two.

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 management. For significant matters that are specifically delegated by the Board, the management must report back to and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company.

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 limits on term of non-executive directorship 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 four Independent Non-executive Directors and one Executive Director of the Company, and is chaired by Mr. Chan Ting. The remaining four members are Mr. To Yan Ming, Edmond, Mr. Zhao Zhi Ming, Mr. Zhang Xiu Fu and Mr. Zou Qi Jun.

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 11 to the financial statements.

During the year ended 30 June 2008, one meeting for the remuneration committee was held with attendance of all committee members, except for Mr. Zou Qi Jun, who was appointed as a remuneration committee member subsequently on 9 September 2008.

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.

AUDITORS' REMUNERATION

During the year, remuneration paid/payable to auditors for audit services is approximately HK$392,000 and no non-audit service was performed.

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 five Independent Non-executive Directors of the Company, namely Mr. To Yan Ming, Edmond, Mr. Tian He Nian, Mr. Zhao Zhi Ming, Mr. Zhang Xiu Fu and Mr. Zou Qi Jun.

The audit committee met four times during the year ended 30 June 2008. 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
Mr. Zhang Xiu Fu *(appointed on 25 January 2008)*	*2/2
Mr. Zou Qi Jun *(appointed on 9 September 2008)*	N/A

* For the period from 25 January 2008 to 30 June 2008, the audit committee held two meetings and Mr. Zhang Xiu Fu attended all these two meetings.

The audit committee reviewed the Group's audit results for the year ended 30 June 2008 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.

INVESTOR RELATIONS

The Board puts great emphasis on investor relationship in particular fair disclosure and comprehensive report of the Company's performance and activities.

Shareholders are encouraged to attend the annual general meeting ("AGM") of the Company and the Directors always make efforts to fully address any questions raised by the shareholders at the AGM.

The Company provides comprehensive information about the Group in its website (www.aptus.com.hk) to investors and potential investors. Hard copies of the annual reports, half-yearly report and quarterly reports are all sent to shareholders, as well they are available at the Company's website.

Directors' Report

The Directors present their annual report and the audited consolidated financial statements for the year ended 30 June 2008.

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 31 to the consolidated financial statements.

An analysis of the Group's performance for the year by business is set out in note 7 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 29.

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 16 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 27, 28 and 29 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group during the year are set out on page 32 of the annual report.

DISTRIBUTABLE RESERVES

As at 30 June 2008, the Company had no retained profits available for cash distribution and/or distribution in specie. As at 30 June 2008, under the Companies Law (2001 Second Revision) of the Cayman Islands, the Company's share premium account and capital reserve of approximately HK$95,051,000 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 88 of the annual report.

Directors' 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. Zhang Xiu Fu *(appointed on 25 January 2008)*
Mr. Zou Qi Jun *(appointed on 9 September 2008)*
Mr. To Yan Ming, Edmond

In accordance with Article 87(1) of the Articles of Association of the Company (the "Articles"), Mr. Fung King Him, Daniel and Mr. Zhao Zhi Ming, 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 ("AGM") will hold office until the next AGM and shall then be eligible for re-election. In this regard, Mr. Zhang Xiu Fu and Mr. Zou Qi Jun shall retire and, being eligible, offer themselves for re-election at the forthcoming AGM.

The Company has received from each of the five 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 five 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 13 to 15 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 five Independent Non-executive Directors, Mr. Tian He Nian, Mr. Zhao Zhi Ming, Mr. Zhang Xiu Fu, Mr. Zou Qi Jun 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 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 2008, 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
	Personal interest	Corporate interest	Under share option scheme	Total interest	issued share capital
Madam Cheung Kwai Lan	–	971,746,428	–	971,746,428	55.71

Note: These shares are owned by Precise Result Profits Limited, which is an indirect wholly-owned subsidiary of China Vanguard Group Limited. 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 67.74% of the issued share capital of China Vanguard Group Limited.

(2) Share option scheme

Details of the share option scheme adopted by the Company are set out in note 29 to the consolidated financial statements. As at 30 June 2008, 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 2008, 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 2008, 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	55.71
China Success Enterprises Limited ("China Success") (Notes 1 and 2)	Beneficial owner, held by a controlled corporation	971,746,428	–	971,746,428	55.71
China Vanguard Group Limited ("China Vanguard") (Notes 1 and 3)	Beneficial owner, held by controlled corporations	971,746,428	–	971,746,428	55.71
Best Frontier Investments Limited ("Best Frontier") (Notes 1 and 4)	Beneficial owner, held by controlled corporations	971,746,428	–	971,746,428	55.71
Cheung Kwai Lan (Notes 1 and 5)	Beneficial owner, held by controlled corporations	971,746,428	–	971,746,428	55.71

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	55.71
Evolution Master Fund, Ltd. SPC, Segregated Portfolio M ("Evolution M Fund") (Notes 7 and 8)	Beneficial owner	48,750,000	161,379,310	210,129,310	12.05
Evolution Capital Management, LLC (Notes 7, 8 and 9)	Investment manager	48,750,000	161,379,310	210,129,310	12.05

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	2.79
Evolution Capital Management, LLC (Notes 8 and 9)	Investment manager	48,750,000	2.79

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 2008, were lent to Evolution M Fund.

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

3. China Success 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 2008, Best Frontier is interested in approximately 67.74% 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. Madam Cheung Kwai Lan is the spouse of Mr. Chan Tung Mei. Accordingly, Madam Cheung Kwai Lan is deemed to be 100% interested in the shares of Best Frontier 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. Mr. Chan Tung Mei is the spouse of Madam Cheung Kwai Lan. Accordingly, Mr. Chan Tung Mei is deemed to be 100% interested in the shares of Best Frontier 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 reset conversion price of HK$1.45 each, the convertible bonds will be converted into 161,379,310 shares of the Company. As at 30 June 2008, 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 2008, Evolution M Fund held 48,750,000 Borrowed 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 2008, 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.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five customers accounted for 57.4% of the total sales for the year and sales to the largest customer included therein amounted for 37.6%. Purchases from the Group's five largest suppliers accounted for 93.1% of the total purchases for the year and purchases from the largest supplier included therein amount to 42.6%.

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.

AUDITORS

Messrs. W.H. Tang & Partners CPA Limited retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming AGM.

On behalf of the Board

Madam Cheung Kwai Lan
Chairman

Hong Kong, 25 September 2008

Independent Auditor's Report

鄧偉雄會計師事務所有限公司

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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 29 to 87, which comprise the consolidated balance sheet as at 30 June 2008, 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 2008 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.

EMPHASIS OF MATTERS

Without qualifying in our opinion, we would like to draw your attention to note 4 in the financial statements which indicates that the possible early redemption request from the convertible bonds holder to exercise their right on 21 November 2008. These conditions, along with other matters as set forth in note 4 regarding the convertible bonds, indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern.

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

Tang Wai Hung
Practising Certificate Number P03525
Hong Kong, 25 September 2008

Consolidated Income Statement

For the year ended 30 June 2008

	Notes	**2008** **HK$'000**	2007 HK$'000
Revenue	8	**105,355**	57,655
Cost of sales		**(86,969)**	(54,140)
Gross profit		**18,386**	3,515
Other revenue	8	**1,009**	310
Selling and distribution costs		**(13,598)**	(3,254)
Administrative expenses		**(25,764)**	(86,810)
Finance costs	9	**(37,485)**	(24,396)
Share of result of an associate		**(40)**	–
Loss on deemed disposal of a subsidiary		**(7)**	–
Loss before taxation	10	**(57,499)**	(110,635)
Income tax	13	**412**	(464)
Loss for the year		**(57,087)**	(111,099)
Attributable to:			
Equity holders of the Company		**(56,843)**	(110,764)
Minority interests		**(244)**	(335)
		(57,087)	(111,099)
Loss per share			
Basic	14	**(HK3.33 cents)**	(HK6.61 cents)

Consolidated Balance Sheet

At 30 June 2008

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**218,006**	183,140
Interest in an associate	17	**1,889**	–
Goodwill	18	**81,215**	81,215
Construction in progress	19	**6,912**	14,004
Prepaid lease payments	20	**15,502**	12,496
		323,524	290,855
CURRENT ASSETS			
Inventories	21	**4,306**	2,133
Accounts receivables	22	**610**	1,509
Prepaid lease payments	20	**452**	380
Prepayments, deposits and other receivables	23	**38,385**	35,671
Tax recoverable		**680**	–
Bank balances and cash	24	**40,629**	49,110
		85,062	88,803
CURRENT LIABILITIES			
Accounts payables	25	**6,823**	10,305
Accrued liabilities and other payables		**19,555**	9,487
Tax payable		**–**	688
Bank and other borrowings	26	**11,344**	2,125
		37,722	22,605
NET CURRENT ASSETS		**47,340**	66,198
TOTAL ASSETS LESS CURRENT LIABILITIES		**370,864**	357,053

Consolidated Balance Sheet

At 30 June 2008

	Notes	**2008 HK$'000**	2007 HK$'000
CAPITAL AND RESERVES			
Share capital	27	**17,444**	16,979
Reserves		**(50,433)**	(24,487)
Equity attributable to equity holders of the Company		**(32,989)**	(7,508)
Minority interests		**15,278**	15,312
		(17,711)	7,804
NON-CURRENT LIABILITIES			
Bank and other borrowings	26	**114,251**	106,105
Convertible bonds	28	**274,324**	243,144
		388,575	349,249
		370,864	357,053

The consolidated financial statements on pages 29 to 87 were approved and authorized for issue by the Board of Directors on 25 September 2008 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 2008

	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$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1 July 2006	16,681	23,207	–	339	88,096	15,826	(114,725)	29,424	14,073	43,497
Shares issued on exercise of options	298	–	–	–	2,864	–	–	3,162	–	3,162
Recognition of equity-settled share based payments	–	54,913	–	–	–	–	–	54,913	–	54,913
Recognition of equity component of convertible bonds	–	–	10,712	–	–	–	–	10,712	–	10,712
Acquisition of jointly controlled entities	–	–	–	–	–	–	–	–	737	737
Exchange differences arising from translation of financial statements of overseas operations	–	–	–	5,045	–	–	–	5,045	837	5,882
Net loss for the year	–	–	–	–	–	–	(110,764)	(110,764)	(335)	(111,099)
At 30 June 2007 and at 1 July 2007	16,979	78,120	10,712	5,384	90,960	15,826	(225,489)	(7,508)	15,312	7,804
Shares issued on exercise of options	465	–	–	–	4,091	–	–	4,556	–	4,556
Recognition of equity-settled share based payments	–	7,674	–	–	–	–	–	7,674	–	7,674
Transfer to accumulated losses due to lapse of share options	–	(85,794)	–	–	–	–	85,794	–	–	–
Released on deemed disposal of a subsidiary	–	–	–	(12)	–	–	–	(12)	(737)	(749)
Exchange differences arising from translation of financial statements of overseas operations	–	–	–	19,144	–	–	–	19,144	947	20,091
Net loss for the year	–	–	–	–	–	–	(56,843)	(56,843)	(244)	(57,087)
At 30 June 2008	**17,444**	**–**	**10,712**	**24,516**	**95,051**	**15,826**	**(196,538)**	**(32,989)**	**15,278**	**(17,711)**

Consolidated Cash Flow Statement

For the year ended 30 June 2008

	2008 HK$'000	2007 HK$'000
OPERATING ACTIVITIES		
Loss before taxation	**(57,499)**	(110,635)
Adjustments for:		
Interest income	**(707)**	(598)
Finance costs	**37,485**	24,396
Amortization of prepaid lease payments	**461**	152
Depreciation of property, plant and equipment	**17,719**	4,211
Share option expenses	**7,674**	54,913
Loss on deemed disposal of a subsidiary	**7**	–
Loss on disposal of property, plant and equipment	**–**	65
Allowance for doubtful receivable	**856**	–
Share of result of an associate	**40**	–
Operating cash flows before movements in working capital	**6,036**	(27,496)
(Increase) decrease in inventories	**(2,318)**	1,798
Increase in accounts receivables	**(28)**	(1,071)
(Increase) decrease in prepayments, deposits and other receivables	**(2,718)**	10,225
Decrease in accounts payables	**(3,446)**	(8,621)
Increase in accrued liabilities and other payables	**9,172**	243
Net cash from (used in) operations	**6,698**	(24,922)
Tax paid	**(1,071)**	(1,364)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	**5,627**	(26,286)
INVESTING ACTIVITIES		
Interest received	**707**	598
Purchases of property, plant and equipment	**(10,666)**	(1,650)
Purchases of construction in progress	**(17,249)**	(5,871)
Additions of prepaid lease payments	**(2,191)**	(99)
Deemed disposal of a subsidiary	**(208)**	–
Acquisition of jointly controlled entities	**–**	(120,902)
NET CASH USED IN INVESTING ACTIVITIES	**(29,607)**	(127,924)
FINANCING ACTIVITIES		
Interest paid	**(5,223)**	(2,908)
Issue of shares	**4,556**	3,162
Proceeds from issue of convertible bonds	**–**	234,000
Net raising (repayments) of borrowings	**7,879**	(38,532)
NET CASH FROM FINANCING ACTIVITIES	**7,212**	195,722
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(16,768)**	41,512
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**49,110**	3,360
Effect of foreign exchange rate changes	**8,287**	4,238
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		
Represented by,		
Bank balances and cash	**40,629**	49,110

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 and the functional currency of the Company's subsidiaries and jointly controlled entities is Renminbi ("RMB"). As the Company is listed on Hong Kong, the directors considered that it is appropriate to present the consolidated financial statements in Hong Kong dollars.

The principal activities of the Company is investment holding. The activities of its principal subsidiaries and jointly controlled entities are set out in notes 31 and 32 respectively.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, a number of new standard, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1 July 2007.

HKAS 1 (Amendment)	Capital disclosures
HKFRS 7	Financial instruments: Disclosures
HK(IFRIC)-INT 8	Scope of HKFRS 2
HK(IFRIC)-INT 9	Reassessment of embedded derivatives
HK(IFRIC)-INT 10	Interim financial reporting and impairment
HK(IFRIC)-INT 11	HKFRS 2 – Group and treasury share transactions

The application of the new and amended HKFRSs had no material effect on how the Group's results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior years under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – continued

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of financial statements[1]
HKAS 23 (Revised)	Borrowing costs[1]
HKAS 27 (Revised)	Consolidated and separate financial statements[2]
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation[1]
HKFRS 2 (Amendments)	Vesting conditions and cancellations[1]
HKFRS 3 (Revised)	Business combinations[2]
HKFRS 8	Operating segments[1]
HK(IFRIC)-INT 12	Service concession arrangements[3]
HK(IFRIC)-INT 13	Customer loyalty programmes[4]
HK(IFRIC)-INT 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction[3]
HK(IFRIC)-INT 15	Agreements for the construction of real estate[1]
HK(IFRIC)-INT 16	Hedges of a net investment in a foreign operation[5]

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 July 2009
3 Effective for annual periods beginning on or after 1 January 2008
4 Effective for annual periods beginning on or after 1 July 2008
5 Effective for annual periods beginning on or after 1 October 2008

The adoption of HKFRS 3 (revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

The directors of the Company anticipate that the application of the other new or revised standards and interpretations will have no material impact on the results and the financial position of the Group.

Notes to the Consolidated Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES

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.

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.

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 meet the conditions for recognition under Hong Kong Financial Reporting Standard ("HKFRS") 3 "Business Combinations" are recognized at their fair values at the acquisition date.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Business combinations – continued

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.

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.

Notes to the Consolidated Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Interests in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

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

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

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 and loss.

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Goodwill – continued

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

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 or loss on 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.

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 equipment 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 the Group's 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 realizable 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 purpose 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 and accounted for as property, plant and equipment.

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.

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, such 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 consolidated 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 and associates, 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 entities are translated into the presentation currency of the Group (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

Cash and cash equivalents are carried in the balance sheet at cost.

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 loans and receivables. 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.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or where appropriate, a shorter period. Income is recognized on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables 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 including accounts receivables, prepayments, deposits and other receivables and bank balances and cash are carried at amortized cost using the effective interest method, less any identified impairment losses. (see accounting policy on impairment loss on financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Impairment of financial assets

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For loans and receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For accounts receivables that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include Group’s past experience of collecting payments and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, 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 asset’s carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When the trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent 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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

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.

Effective interest method

The effective interest method is a method of calculating the amortized cost of financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. Interest expense is recognized on an effective interest basis.

Financial liabilities

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

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 that 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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Convertible bonds – continued

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.

Equity instruments

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

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 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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

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 each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss over the remaining vesting period, with a corresponding adjustment to 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.

The financial impact of the share options granted and fully vested before 1 July 2005 is not recorded in the Company's or the Group's financial statements until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting share 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 the nominal value of the shares is recorded by the Company in the share premium account Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

Retirement benefit costs

Payments to Mandatory Provident Fund Scheme ("MPF Scheme") and state-managed retirement benefits scheme are charged as an expense when employees have rendered service entitling them to the contributions.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of 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. Capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

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

Notes to the Consolidated Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Related parties

A party is considered to be related to the Group if:

(i) directly, or indirectly through one or more intermediaries, the party:

- controls, is controlled by, or is under common control with, the Company or Group;
- has an interest in the Company that gives it significant influence over the Company or Group; or
- has joint control over the Company or Group;

(ii) the party is an associate;

(iii) the party is a jointly-controlled entity;

(iv) the party is a member of the key management personnel of the Company or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the Company or Group, or of any entity that is a related party of the Company or Group.

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 2008, the carrying amount of goodwill is approximately HK$81,215,000 (2007: HK$81,215,000) with no impairment loss recognized. Details of impairment test for goodwill are set out in note 18.

Income taxes

As at 30 June 2008, no deferred tax asset was recognized in the Group's consolidated balance sheet in relation to the estimated unused tax losses of approximately HK$20,632,000 (2007: HK$11,804,000) due to the unpredictability of future profit streams. The reliability 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.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY – continued

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 29 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.

Estimated allowance of accounts receivables

The Group makes allowance of accounts receivables based on an assessment of the recoverability of receivables. Allowance is applied to accounts receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of allowance requires the use of judgment and estimates. Where the expectation on the recoverability of accounts receivables is different from the original estimate, such difference will impact the carrying value of accounts receivables and doubtful debt expenses in the periods in which such estimate has been changed.

Convertible bonds

Refering to the agreement entered into between the Company and the holder(s) of convertible bonds (the "Bondholders") dated 2 November 2006, 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 Bondholder(s) on the Put Option Date together with interest accrued to the Put Option Date. Any early redemption request from the Bondholders will cause unexpected cash outflow from the Company and will have an impact on the going concern of the Company. Up to the date of the financial statements approved by the Board, the Company did not receive request from any Bondholder to redeem the convertible bonds on the forthcoming Put Option Dates. As such, in the opinion of the directors, the Company did not have going concern problem as at the balance sheet date and the liability portion of the convertible bonds is classified under non-current liabilities.

5. FINANCIAL INSTRUMENTS

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance. The capital structure of the Group consists of debt, which includes the borrowings and convertible bonds disclosed in notes 26 and 28 respectively, and equity attributable to equity holders of the Company, comprising issued share capital disclosed in note 27, reserves and accumulated losses as disclosed in consolidated statements of changes in equity. The management reviews the capital structure by considering the cost of capital and the risks associated with each class of capital. In view of this, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt. The Group's overall strategy remains unchanged throughout the year.

Categories of financial instruments

	2008 **HK$'000**	2007 HK$'000
Financial assets		
Available-for-sales investments	**–**	–
Held-for-trading investments	**–**	–
Loans and receivables (including cash and cash equivalents)	**79,624**	86,290
Derivative financial assets	**–**	–
Financial liabilities		
Amortized cost	**426,297**	371,166
Derivative financial liabilities	**–**	–

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include accounts receivables, prepayments, deposit and other receivables, bank balances and cash, accounts payables, accrued liabilities and other payables, 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 credit risk is primarily attributable to its accounts receivables, other receivables and bank balances. At the balance sheet date, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties arising from the carrying amount of the respective recognized financial assets stated in the consolidated balance sheet.

Notes to the Consolidated Financial Statements

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

Credit risk – continued

In order to minimize the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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

The credit risk on liquid funds is limited because the counterparties are authorized banks in the Hong Kong and the PRC.

Foreign currency risk

The Group collects most of its revenue in RMB and incurs most of its expenditure including capital expenditure in RMB. Future exchange rates of RMB could vary significantly from the current or historical exchange rates as a result of controls that could be imposed by the PRC government. The exchange rates may also be affected by economic developments and political changes domestically and internationally, and supply and demand of RMB. The appreciation or devaluation of RMB against foreign currencies may have positive or negative impact on the results of operations of the Group.

As at balance sheet date, the Group has convertible bonds, certain bank balances and borrowings denominated in Singaporean dollars ("SGD"), Hong Kong dollars and United States dollars ("USD"), which are the currencies other than the functional currency of respective group entities. The carrying amounts of the Group's foreign currency denominates monetary assets and liabilities are as follows:

	Assets		Liabilities	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
SGD	**180**	262	**17**	243
Hong Kong Dollars	**82,977**	82,648	**307,058**	265,911
USD	**1,575**	1,180	**441**	10

The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises. The directors considered that the Group's exposure to foreign currency exchange risk is insignificant as the majority of the Group's transactions are denominated in the functional currency of the respective group entities.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

Foreign currency risk – continued

The Company uses a 5% sensitivity rate to report foreign currency risk internally to key management personnel and represents management's assessment of the reasonable possible change in foreign exchange rates. If RMB had strengthened/weakened by 5%, loss for the year ended 30 June 2008 would have been increased/decreased by approximately HK$166,000 as a result of foreign exchange losses/gains on translation of transactions denominated in Hong Kong dollars (2007: HK$236,000).

Interest rate risk

The Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates. Management does not anticipate significant impact on interest-bearing assets resulted from the changes in interest rates because the interest rates of bank deposits are not expected to change significantly.

The Group's interest rate risk arises from bank and other borrowings and convertible bonds. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk. Borrowings at fixed rates expose the Group to fair value interest rate risk. Details of the Group's bank and other borrowings are set out in note 26.

The Group is also exposed to fair value interest rate risk in relation to convertible bonds. It is the Group's policy to keep its borrowings at fixed rate so as to minimize the cash flow interest rate risk.

Sensitive analysis

At 30 June 2008, it is estimated that a general increase or decrease of 100 basis points in interest rates on HK$ denominated borrowings, with all other variable held constant, would increase/decrease the Group's loss by approximately HK$278,000 (2007: HK$194,000). The above sensitivity analysis has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instrument in existence at that date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis was performed on the same basis for 2007.

Notes to the Consolidated Financial Statements

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The following tables detail the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay:

2008

	Carrying amounts HK$'000	Total contractual undiscounted cash flows HK$'000	Within 1 year or on demands HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	Over 5 years HK$'000
Accounts payables	6,823	6,823	6,823	–	–	–
Accrued liabilities and other payables	19,555	19,555	19,555	–	–	–
Bank and other borrowings	125,595	125,595	11,344	63,704	40,054	10,493
Convertible bonds	274,324	274,324	–	–	274,324	–
	426,297	426,297	37,722	63,704	314,378	10,493

2007

	Carrying amounts HK$'000	Total contractual undiscounted cash flows HK$'000	Within 1 year or on demands HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	Over 5 years HK$'000
Accounts payables	10,305	10,305	10,305	–	–	–
Accrued liabilities and other payables	9,487	9,487	9,487	–	–	–
Bank and other borrowings	108,230	108,230	2,125	28,031	63,307	14,767
Convertible bonds	243,144	243,144	–	–	243,144	–
	371,166	371,166	21,917	28,031	306,451	14,767

Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 30 June 2008 and 2007.

Notes to the Consolidated Financial Statements

7. SEGMENT INFORMATION

Business segments

The Group is engaged in the businesses of holding profit sharing right of oil field, 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		Profit sharing on oil field		Distribution of edible oil		Total	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:								
Sales to external customers	**65,793**	14,743	**–**	–	**39,562**	42,912	**105,355**	57,655
Segment results	**836**	(1,922)	**(840)**	(1,187)	**(28)**	123	**(32)**	(2,986)
Unallocated income							**10**	390
Unallocated expenses							**(19,945)**	(83,643)
Finance costs							**(37,485)**	(24,396)
Share of result of an associate							**(40)**	–
Loss on deemed disposal of a subsidiary							**(7)**	–
Loss before taxation							**(57,499)**	(110,635)
Income tax							**412**	(464)
Loss for the year							**(57,087)**	(111,099)

Notes to the Consolidated Financial Statements

7. SEGMENT INFORMATION – continued

Business segments – continued

	Gas related		Profit sharing on oil field		Distribution of edible oil		Total	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets	**290,486**	265,122	**33,126**	30,419	**1,754**	1,442	**325,366**	296,983
Unallocated assets							**83,220**	82,675
Total assets							**408,586**	379,658
Segment liabilities	**117,157**	104,709	**1,672**	1,233	**457**	531	**119,286**	106,473
Unallocated liabilities							**32,687**	22,237
Convertible bonds							**274,324**	243,144
Total liabilities							**426,297**	371,854
Other segment information:								
Depreciation of property, plant and equipment	**17,673**	4,194	**33**	–	**–**	–	**17,706**	4,194
Unallocated							**13**	17
							17,719	4,211
Amortization of prepaid lease payments	**461**	152	**–**	–	**–**	–	**461**	152
Capital expenditure	**12,837**	1,650	**2**	–	**–**	–	**12,839**	1,650
Allowance for doubtful receivable	**856**	–	**–**	–	**–**	–	**856**	–
Other non-cash expenses							**38,854**	74,769

7. SEGMENT INFORMATION – continued

Geographical segments

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

	Revenue		Segment results		Segment assets		Capital expenditure	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
PRC	**65,793**	14,743	**(4)**	(3,109)	**323,612**	295,541	**12,839**	1,650
Hong Kong	**–**	–	**–**	–	**83,220**	82,675	**–**	–
South East Asia	**39,562**	42,232	**(28)**	121	**1,754**	1,442	**–**	–
Europe	**–**	680	**–**	2	**–**	–	**–**	–
	105,355	57,655	**(32)**	(2,986)	**408,586**	379,658	**12,839**	1,650
Unallocated income			**10**	390				
Unallocated expenses			**(19,945)**	(83,643)				
Finance costs			**(37,485)**	(24,396)				
Share of result of an associate			**(40)**	–				
Loss on deemed disposal of a subsidiary			**(7)**	–				
Loss before taxation			**(57,499)**	(110,635)				
Income tax			**412**	(464)				
Loss for the year			**(57,087)**	(111,099)				

Notes to the Consolidated Financial Statements

8. REVENUE AND OTHER REVENUE

The Group is principally engaged in the businesses of distribution of edible oil, holding profit sharing right of oil field, 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:

	2008 **HK$'000**	2007 HK$'000
Revenue		
Sales of goods	**81,407**	52,728
Gas transportation	**2,787**	644
Installation income for gas connection	**21,161**	4,283
	105,355	57,655

	2008 **HK$'000**	2007 HK$'000
Other revenue		
Interest income	**707**	598
Rental income	**290**	–
Sundry income	**132**	165
Exchange losses, net	**(120)**	(453)
	1,009	310

9. FINANCE COSTS

	2008 **HK$'000**	2007 HK$'000
Interest on:		
– borrowings wholly repayable within five years	**1,957**	2,606
– borrowings wholly repayable after five years	**4,348**	1,934
– convertible bonds	**31,180**	19,856
	37,485	24,396

10. LOSS BEFORE TAXATION

	2008 HK$'000	2007 HK$'000
Loss before taxation has been arrived at after charging:		
Staff costs (excluding directors' emoluments – note 11):		
– Wages and salaries	**9,839**	8,902
– Retirement benefits scheme contributions	**111**	162
Total staff costs	**9,950**	9,064
Cost of inventories sold (Note)	**86,968**	54,140
Auditors' remuneration	**392**	350
Depreciation of property, plant and equipment (Note)	**17,719**	4,211
Share option expenses	**7,674**	54,913
Minimum lease payments under operating leases:		
– Land and buildings	**1,064**	1,248
Loss on disposal of property, plant and equipment	**–**	65
Allowance for doubtful receivable	**856**	–
Amortization of prepaid lease payments	**461**	152
Loss on deemed disposal of a subsidiary	**7**	–

Note: Included in the depreciation of approximately HK$17,719,000 (2007: HK$4,211,000) was an amount of approximately HK$10,533,000 (2007: HK$2,380,000) capitalized in cost of inventories sold during the year. The amount of approximately HK$10,533,000 (2007: HK$2,380,000) was included in cost of inventories sold of approximately HK$86,968,000 (2007: HK$54,140,000).

Notes to the Consolidated Financial Statements

11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

Emoluments paid or payable to each of the 7 (2007: 6) directors of the Company during the year were as follows:

For the year ended 30 June 2008

	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**	**2,400**	**–**	**2,424**
Chan Ting	**24**	**1,600**	**9**	**1,633**
Fung King Him, Daniel	**24**	**626**	**12**	**662**
Independent Non-executive Directors:				
Tian He Nian	**39**	**–**	**–**	**39**
Zhao Zhi Ming	**39**	**–**	**–**	**39**
Zhang Xiu Fu (Note 1)	**90**	**–**	**–**	**90**
To Yan Ming, Edmond	**47**	**–**	**–**	**47**
	287	**4,626**	**21**	**4,934**

Note 1: appointed on 25 January 2008

Note 2: Mr. Zou Qi Jun was subsequently appointed as an Independent Non-executive Director on 9 September 2008.

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

11. 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 3 (2007: 3) directors whose emoluments are set out in the above. The emoluments payable to the remaining 2 (2007: 2) individuals during the year as follows:

	2008	2007
	HK$'000	HK$'000
Salaries, allowances and other benefits	**2,146**	4,069
Contributions to retirement benefits scheme	**19**	24
	2,165	4,093

The emoluments fell with the following bands:

	No. of individuals	
	2008	2007
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 2008, 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 (2007: Nil).

12. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2008	2007
	HK$'000	HK$'000
Wages and salaries	**14,752**	12,911
Pension cost – defined contribution plans	**132**	186
	14,884	13,097

Notes to the Consolidated Financial Statements

13. INCOME TAX

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

	2008 **HK$'000**	2007 HK$'000
Overseas income tax:		
– Charged for the year	**1,956**	464
– Overprovision in prior years	**(2,368)**	–
Total tax (credited) charged for the year	**(412)**	464

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

Taxation arising in other jurisdictions in the PRC is calculated at the rates prevailing in the relevant jurisdictions.

Pursuant to the relevant laws and regulations in the PRC, certain PRC subsidiaries of the Company are exempted from PRC Enterprise Income Tax for the first two years commencing from their first profit making year of operation and thereafter, these PRC entities will be entitled to a 50% relief from PRC for the following three years ("Tax Preference").

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations changes the PRC Enterprise Income Tax rate to 25% and will affect the PRC group entitles of the Company from 1 January 2008.

On 26 December 2007, the State Council of the PRC issued a circular on the implementation of transitional preferential policies for PRC Enterprise Income Tax. Entities that are currently entitled to preferential tax rates under the old PRC Enterprise Income Tax Law can gradually transit to the new tax rate of 25% within 5 years after the enforcement of the New Law at a tax rate of 18%, 20%, 22%, 24% and 25% in year 2008, 2009, 2010, 2011 and 2012 respectively.

Entities that originally enjoy the Tax Preference can continue enjoying the Tax Preference based on the original tax rate until after the expiration of the tax preference. Entities that did not start Tax Preference before 2008 because they were still in loss position shall start the Tax Preference from 2008.

13. INCOME TAX – continued

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

	2008 HK$'000	2007 HK$'000
Loss before taxation	**(57,499)**	(110,635)
Tax at the Hong Kong Profits Tax rate	**(10,062)**	(19,361)
Tax effect of expenses that are not deductible for tax purposes	**6,812**	18,559
Tax effect of income that is not taxable for tax purposes	**(1,659)**	(68)
Tax effect of tax losses not recognized	**7,356**	2,112
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(491)**	(778)
Tax effect of overprovision in prior years	**(2,368)**	–
Income tax (credit) expenses	**(412)**	464

Note: The applicable tax rate for Hong Kong is 17.5% (2007: 17.5%) and applicable tax rate in the PRC is 33% from 1 July 2007 to 31 December 2007 and tax rate of 25% from 1 January 2008 to 30 June 2008 (2007: 33%).

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

	2008 HK$'000	2007 HK$'000
Deductible temporary differences:		
Unutilized tax losses	**20,632**	11,804
Taxable temporary differences:		
Accelerated tax allowances	**(2)**	(4)
	20,630	11,800

At the balance sheet date, the Group have unused tax losses of approximately HK$20,632,000 (2007: HK$11,804,000) 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 unrecognized estimated tax losses are losses of approximately HK$15,229,000 (2007: HK$6,401,000) that will expire in 5 years from the year of origination. Other losses may be carried forward indefinitely.

Notes to the Consolidated Financial Statements

14. 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:

	2008 **HK$'000**	2007 HK$'000
Loss for the purposes of basic loss per share	**56,843**	110,764

Number of shares

	'000	'000
Weighted average number of ordinary shares for the purpose of basic loss per share	**1,706,834**	1,676,490

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.

15. DIVIDENDS

No dividend was paid or proposed during the year ended 30 June 2008, nor has any dividend been proposed since the balance sheet date (2007: Nil).

16. 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 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 and at 1 July 2007	39	154	6	157,374	2,785	10,041	5,619	11,347	187,365
Transferred from construction in progress	–	–	–	15,022	–	–	9,089	1,520	25,631
Additions	–	–	2	9,637	302	–	471	254	10,666
Deemed disposal of a subsidiary	–	–	–	(1,818)	(54)	(160)	(17)	(50)	(2,099)
Exchange realignment	5	49	2	16,602	291	1,055	601	1,206	19,811
At 30 June 2008	**44**	**203**	**10**	**196,817**	**3,324**	**10,936**	**15,763**	**14,277**	**241,374**
DEPRECIATION									
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 and at 1 July 2007	18	59	2	3,332	135	280	226	173	4,225
Charged for the year	8	36	2	14,640	485	1,122	1,035	391	17,719
Deemed disposal of a subsidiary	–	–	–	(43)	(3)	(8)	(2)	(1)	(57)
Exchange realignment	5	42	1	1,175	41	92	85	40	1,481
At 30 June 2008	**31**	**137**	**5**	**19,104**	**658**	**1,486**	**1,344**	**603**	**23,368**
NET BOOK VALUES									
At 30 June 2008	**13**	**66**	**5**	**177,713**	**2,666**	**9,450**	**14,419**	**13,674**	**218,006**
At 30 June 2007	21	95	4	154,042	2,650	9,761	5,393	11,174	183,140

At 30 June 2008, none of the Group's property, plant and equipment was held under finance lease (2007: 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$122,336,000 (2007: HK$113,432,000) to secure bank borrowings granted to the Group.

17. INTEREST IN AN ASSOCIATE

	2008 HK$'000	2007 HK$'000
Cost of investment in an associate	1,744	–
Share of result of an associate	(40)	–
Exchange realignment	185	–
At 30 June	1,889	–

The Group has interest in the following associate:

Name of entity	Form of business structure	Place of registration/ incorporation	Principal place of operation	Class of capital	Proportion of nominal value of registered/ Issued capital held by the Group 2008 %	2007 %	Principal activities
Linli Huayou Gas Co., Limited 臨澧華油燃氣有限公司	Limited liability company	PRC	PRC	Registered	23.49%	–	Distribution of natural gas

Note: In year 2008, Linli Huayou Gas Co., Limited ("Linli") is a subsidiary of a jointly controlled entity, Changde Huayou Gas Co., Limited ("Changde Huayou") of Aptus Holdings Limited, which holds 70% registered capital of Linli. Due to the change in share structure of Linli, shareholding held by Changde Huayou was decreased to 48.61% and Linli became an associate of the Group. Loss arisen on deemed disposal of equity interest in Linli was approximately of HK$7,000.

17. INTEREST IN AN ASSOCIATE – continued

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

	2008	2007
	HK$'000	HK$'000
Total assets	**9,003**	–
Total liabilities	**(961)**	–
Net assets	**8,042**	–
The Group's share of an associate's net assets	**1,889**	–
Revenue	**2,838**	–
Loss for the year	**(170)**	–
The Group's share of result of an associate	**(40)**	–

18. GOODWILL

	HK$'000
COST	
At 1 July 2006	35,122
Arising on acquisition of jointly controlled entities	49,454
At 30 June 2007, 1 July 2007 and 30 June 2008	84,576
IMPAIRMENT	
At 1 July 2006, 30 June 2007 and 30 June 2008	3,361
CARRYING VALUES	
At 30 June 2008	**81,215**
At 30 June 2007	81,215

Notes to the Consolidated Financial Statements

18. GOODWILL – continued

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 2008, 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 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 years 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 2008.

19. CONSTRUCTION IN PROGRESS

	2008	2007
	HK$'000	HK$'000
At 1 July	**14,004**	–
Acquisition of jointly controlled entities	**–**	7,956
Additions	**17,249**	5,871
Deemed disposal of a subsidiary	**(184)**	–
Transferred to property, plant and equipment	**(25,631)**	–
Exchange realignment	**1,474**	177
At 30 June	**6,912**	14,004

Notes to the Consolidated Financial Statements

20. PREPAID LEASE PAYMENTS

	2008	2007
	HK$'000	HK$'000
At 1 July	**12,876**	–
Acquisition of jointly controlled entities	**–**	12,645
Additions	**2,191**	99
Exchange realignment	**1,348**	284
	16,415	13,028
Less: Charged to consolidated income statement for the year	**(461)**	(152)
At 30 June	**15,954**	12,876
Analysis for reporting purposes:		
Non-current portion	**15,502**	12,496
Current portion	**452**	380
At 30 June	**15,954**	12,876

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

21. INVENTORIES

	2008	2007
	HK$'000	HK$'000
Construction materials	**2,197**	1,075
Finished goods and natural gas	**2,109**	1,058
	4,306	2,133

Notes to the Consolidated Financial Statements

22. 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.

	2008	2007
	HK$'000	HK$'000
Trade receivables	**1,466**	1,509
Less: Allowance for doubtful receivable	**(856)**	–
	610	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:

	2008	2007
	HK$'000	HK$'000
Current to 90 days	**489**	226
91-180 days	**–**	1,045
Over 180 days	**977**	238
	1,466	1,509

The accounts receivables with carrying amount of HK$489,000 (2007: HK$1,159,000) are neither past due nor impaired at the reporting date.

The Group has policies for allowances of bad and doubtful receivable which are based on the evaluation of collectibility and age analysis of accounts and on the management's judgement including the credit creditworthlness, collaterals and the past collection history of each customer.

During the year ended 30 June 2008, the Group made an allowance of HK$856,000 (2007: Nil) in respect of trade receivables, which was past due at the reporting date with long age and slow repayments were received from respective customers since the due date. The directors considered the related receivables may be impaired and specified allowance is made.

22. ACCOUNTS RECEIVABLES – continued

Movement in the allowance for bad and doubtful debts:

	2008 HK$'000	2007 HK$'000
Balance at the beginning of the year	–	–
Charge for the year	856	–
Balance at the end of the year	856	–

In determining the recoverability of the trade receivables, the Group considers any change in the credit quality of the trade receivables from the date credit was initially granted up to the reporting date. The trade receivables past due but not provided for were either subsequently settled as at the date of this report or no historical default of payments by the respective customers. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for bad and doubtful debts.

Included in the Group's accounts receivables with a carrying amount of HK$121,000 (2007: HK$350,000) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amount are still considered recoverable. The Group does not hold any collateral over these balances.

The fair value of the Group's accounts receivables as at 30 June 2008 approximates to the corresponding carrying amount.

23. 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$34 million (2007: HK$30 million).

Notes to the Consolidated Financial Statements

24. BANK BALANCES AND CASH

	2008 HK$'000	2007 HK$'000
Cash and bank deposits denominated in:		
Hong Kong dollar	**1,504**	1,293
Renminbi	**37,370**	46,375
United States dollar	**1,575**	1,180
Singaporean dollar	**180**	262
	40,629	49,110

Included in the balance was approximately HK$37,370,000 (2007: HK$46,375,000), representing bank deposits denominated in Renminbi placed with banks in the PRC by the Group. The remittance of these funds out of the PRC is subject to the exchange control restrictions imposed by the PRC government.

25. ACCOUNTS PAYABLES

	2008 HK$'000	2007 HK$'000
Trade payables	**6,823**	10,305

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:

	2008 HK$'000	2007 HK$'000
Within 90 days	**219**	1,662
Over 90 days	**6,604**	8,643
	6,823	10,305

The fair value of the Group's accounts payables as at 30 June 2008 approximates to the corresponding carrying amount.

Notes to the Consolidated Financial Statements

26. BANK AND OTHER BORROWINGS

	2008 HK$'000	2007 HK$'000
Bank loans	**80,276**	71,179
Other borrowings	**45,319**	37,051
	125,595	108,230

	2008 HK$'000	2007 HK$'000
Secured loans (note a)	**93,994**	88,426
Unsecured loans (note b)	**31,601**	19,804
	125,595	108,230

(a) Borrowings of approximately HK$16,500,000 (2007: 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$17,474,000 (2007: HK$17,694,000) is secured by corporate guarantee from a shareholder of a jointly controlled entity, interest charged at 2.55% per annum and has fixed repayment term.

Borrowings of approximately HK$60,020,000 (2007: 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$11,345,000 (2007: HK$2,857,000) is unsecured, bears interest at prime rate and not repayable in next twelve months.

Borrowings of approximately HK$20,256,000 (2007: HK$16,947,000) is unsecured, interest charged at 4.8% per annum and has fixed repayment term.

Notes to the Consolidated Financial Statements

26. BANK AND OTHER BORROWINGS – continued

Borrowings are repayable as follows:

	2008 HK$'000	2007 HK$'000
On demand or within one year	**11,344**	2,125
In more than one year but not more than two years	**63,704**	28,031
In more than two years but not more than five years	**40,054**	63,307
Over five years	**10,493**	14,767
	125,595	108,230
Less: Amount shown under non-current liabilities	**(114,251)**	(106,105)
Amount shown under current liabilities	**11,344**	2,125

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

	RMB HK$'000 equivalent
At 30 June 2008	**97,750**
At 30 June 2007	88,873

27. SHARE CAPITAL

	Note	**Number of shares**	HK$'000
Authorized:			
At 1 July 2006, 30 June 2007 and 30 June 2008 shares of HK$0.01 each		20,000,000,000	200,000
Issued and fully paid:			
At 1 July 2006		1,668,141,428	16,681
Shares issued on exercise of options		29,740,000	298
At 30 June 2007		1,697,881,428	16,979
Shares issued on exercise of options	(i)	46,510,000	465
At 30 June 2008		**1,744,391,428**	**17,444**

Changes in the share capital of the Company during the year ended 30 June 2008 were as follows:

(i) The Company allotted and issued 6,660,000, 39,550,000 and 300,000 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.

28. 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.

Notes to the Consolidated Financial Statements

28. CONVERTIBLE BONDS – continued

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

	2008	2007
	HK$'000	HK$'000
Nominal value of convertible bonds issued	**234,000**	234,000
Equity component	**(10,712)**	(10,712)
Liability component at the issuance date	**223,288**	223,288
Imputed finance cost	**51,036**	19,856
Non-current liability component as at the balance sheet date	**274,324**	243,144

29. 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.

29. 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 46,510,000 (2007: 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:

2008 Eligible participants	Date of grant	Exercise price* HK$	Outstanding at 1/7/2007	Granted during the year	Lapsed/ cancelled during the year	Exercised during the year	Outstanding at 30/6/2008	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	60,075,000	–	–	(39,550,000)	20,525,000	1/11/2004 to 30/10/2009
	30/9/2004	0.147	6,370,000	–	–	(300,000)	6,070,000	30/9/2004 to 29/9/2009
	10/9/2004	0.08	17,185,000	–	–	(6,660,000)	10,525,000	10/9/2004 to 9/9/2009
			208,660,000	–	(125,030,000)	(46,510,000)	37,120,000	

2007 Eligible participants	Date of grant	Exercise price* HK$	Outstanding at 1/7/2006	Granted during the year	Lapsed/ cancelled 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	

* 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.

29. 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 37,120,000 additional ordinary shares of the Company at additional share capital of HK$371,200 and share premium of HK$3,427,905 (before issue expenses).

At 30 June 2008, the number of shares in respect of which Options had been granted and remained outstanding under the scheme was 2.13% (2007: 12.29%) 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$7,674,000 for the year ended 30 June 2008 (2007: HK$54,913,000) in relation to Options granted by the Company.

At the date of approval of these financial statements, the Company has 22,120,000 Options outstanding under the Scheme, which represented approximately 1.26% of the Company's shares in issue at that date.

30. NOTES TO CASH FLOW STATEMENT

Deemed disposal of a subsidiary

In year ended 30 June 2008, Linli Huayou Gas Co., Limited ("Linli") is a subsidiary of a jointly controlled entity, Changde Huayou Gas Co., Limited ("Changde Huayou") of Aptus Holdings Limited, which holds 70% registered capital of Linli. Due to the change in share structure of Linli, shareholding held by Changde Huayou decreased to 48.61% and Linli became an associate of the Group. Loss arisen on deemed disposal of equity interest in Linli was approximately of HK$7,000.

	Linli
	HK$'000
Property, plant and equipment	2,042
Accounts receivables	23
Prepayments, deposits and other receivables	4
Inventories	146
Construction in progress	184
Bank balances and cash	208
Accounts payables	(36)
Accrued liabilities and other payables	(71)
Net assets	2,500
Less: Minority interests	(737)
Less: Released of translation reserve	(12)
Net amount of assets disposed of	1,751
Loss on disposal	(7)
Represented by investment in an associate at the date of deemed disposal	1,744
Net cash outflow arising on deemed disposal:	
Bank balances and cash disposed of	208

Notes to the Consolidated Financial Statements

31. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 30 June 2008 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%	Holding of profit sharing right of Xin Jiang Oilfield

32. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

At 30 June 2008, the Group had interests in the following significant jointly controlled entities:

Name	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
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

Note:

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

32. 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:

	2008 **HK$'000**	2007 HK$'000
Current assets	**48,263**	55,654
Non-current assets	**242,223**	209,468
Current liabilities	**30,750**	17,961
Non-current liabilities	**86,407**	86,748
Minority interests	**–**	750

	2008 **HK$'000**	Date of acquisition* to 30 June 2007 HK$'000
Revenue	**70,165**	14,743
Expenses	**(73,362)**	(19,057)
Minority interests	**–**	(3)
Loss for the year/period	**(3,197)**	(4,317)

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

33. BANKING FACILITIES

As at 30 June 2008, the Group's banking facilities which consisted mainly of secured bank loans of approximately HK$60,020,000 (2007: HK$54,232,000) and unsecured bank loan of approximately HK$20,256,000 (2007: 16,947,000). Banking facilities was secured by certain gas network of a jointly controlled entity and unconditional irrecoverable corporate guarantees.

34. OPERATING LEASE ARRANGEMENTS

The Group as lessee

As at 30 June 2008, the Group had commitments for future minimum lease payments in respect of rented premises under non-cancellable operating leases which fall due as follows:

	2008 **HK$'000**	2007 HK$'000
Within one year	**45**	59
Two to five years	**7**	–
	52	59

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

The Group as lessor

As at 30 June 2008, 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:

	2008 **HK$'000**	2007 HK$'000
Within one year	**314**	129
In the second to fifth years inclusive	**263**	246
	577	375

Leases are negotiated for an average term of 2 years.

Notes to the Consolidated Financial Statements

35. CAPITAL COMMITMENTS

	2008	2007
	HK$'000	HK$'000
Capital expenditure in respect of the investment in a subsidiary authorized but not contracted for	**44,220**	39,956

36. MAJOR NON-CASH TRANSACTIONS

(a) During the year, the Group incurred share option expenses of approximately HK$7,674,000 (2007: HK$54,913,000).

(b) During the year, the Group incurred imputed interest on convertible bonds of approximately HK$31,180,000 (2007: HK$19,856,000).

37. CONTINGENT LIABILITIES

At 30 June 2008, the Group did not have any significant contingent liabilities (2007: Nil).

38. 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$132,000 (2007: HK$186,000) 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.

39. 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 2008 (2007: Nil).

Notes to the Consolidated Financial Statements

40. 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.

41. RELATED PARTY TRANSACTIONS

Compensation of directors and key management personnel

	2008	2007
	HK$'000	HK$'000
Short-term benefits	**8,344**	9,369
Post-employment benefits	**76**	84
	8,420	9,453

42. PLEDGED ASSETS

As at 30 June 2008, 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$60,020,000 has been secured by gas network of a jointly controlled entity, Hunan Joint Venture.

43. 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
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**105,355**	57,655	30,820	67,190	34,392
Cost of sales	**(86,969)**	(54,140)	(29,963)	(64,992)	(32,143)
Gross profit	**18,386**	3,515	857	2,198	2,249
Other revenue	**1,009**	310	64	271	4,345
Selling and distribution costs	**(13,598)**	(3,254)	(420)	(1,689)	–
Administrative expenses	**(25,764)**	(86,810)	(40,085)	(7,337)	(13,299)
Other operating expenses	**–**	–	–	–	(2,703)
Finance costs	**(37,485)**	(24,396)	(1,438)	(30)	(291)
Loss on disposal of a jointly controlled entity	**–**	–	–	–	(2,789)
Gain on disposal of subsidiaries	**–**	–	–	2,842	60
Loss on deemed disposal of a subsidiary	**(7)**	–	–	–	–
Share of loss of a jointly controlled entity	**–**	–	–	–	(53)
Share of result of an associate	**(40)**	–	–	–	–
Loss before taxation	**(57,499)**	(110,635)	(41,022)	(3,745)	(12,481)
Income tax	**412**	(464)	(14)	–	–
Loss for the year/period	**(57,087)**	(111,099)	(41,036)	(3,745)	(12,481)

ASSETS AND LIABILITIES

	At 30 June				At 30 September
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**408,586**	379,658	76,985	24,091	50,100
Total liabilities	**(426,297)**	(371,854)	(33,488)	(11,129)	(32,245)
	(17,711)	7,804	43,497	12,962	17,855
Equity attributable to equity holders of the Company	**(32,989)**	(7,508)	29,424	12,854	17,742
Minority interests	**15,278**	15,312	14,073	108	113
	(17,711)	7,804	43,497	12,962	17,855