Notes to the Financial Statements

For the Period from 1 August 2005 to 31 December 2006

1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability. Its shares have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 28 May 1993. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The principal place of business of the Company is Suite 2805, 28th Floor, Sino Plaza, 255 – 257 Gloucester Road, Causeway Bay, Hong Kong.

On 19 October 2006, the Board of Directors of the Company passed an ordinary resolution to change the financial year end date of the Company from 31 July to 31 December commencing for the period from 1 August 2005 to 31 December 2006. The reason for the change is to align the financial year end date of the Company with those of the Company's principal natural gas business in the People's Republic of China (the "PRC"). As a result of the change, the current financial period cover the seventeen months period from 1 August 2005 to 31 December 2006. The corresponding comparative amounts shown for the consolidated income statement, consolidated statement of changes in equity, consolidated cash flow statement and related notes cover a twelve month period from 1 August 2004 to 31 July 2005 and therefore may not be comparable with amounts shown for the current period.

Pursuant to a special resolution passed at the special general meeting of the Company held on 22 September 2006 and approved by the Registrar of Companies in Bermuda and Companies Registry in Hong Kong, the Company has changed its name to "China Oil And Gas Group Limited" in English and for identification purpose, adopted "中油燃氣集團有限公司" as its Chinese name.

During the period, the Group was involved in the following principal activities:

Continuing Operations:

- Natural gas business

Discontinued Operations:

- Manufacture and trading of silicone rubber products; and
- Investment in internet and information technology activities.

Details of the discontinued operations are disclosed in note 12 to the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), which also include Hong Kong Accounting Standards ("HKAS") and Interpretations ("Int") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The consolidated financial statements have been prepared under the historical cost convention, as modified by revaluation of available-for-sale financial assets and financial assets at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

The adoption of new/revised HKFRS

Other than early adoption of HKAS 31 "Investments in Joint Ventures" and HKAS-Int 13 "Jointly Controlled Entities – Non Monetary Contributions by Venturers" in the last annual financial statements for the year ended 31 July 2005, the Group adopted the new/revised standards, amendments and interpretations of HKFRS below, which are relevant to its operations, for the first time for the current period from 1 August 2005 to 31 December 2006. The 2005 comparatives have been amended as required, in accordance with the relevant requirements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of preparation *(continued)*

The adoption of new/revised HKFRS *(continued)*

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchanges Rates
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 27 (Amendment)	Consolidated and Separate Financial Statements Amendment as a consequence of the Companies (Amendment) Ordinance 2005
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings Per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 & HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HK(SIC)-Int 15	Operating Leases-Incentives
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of preparation *(continued)*

The adoption of new/revised HKFRS *(continued)*

The impact of adopting the HKFRS is summarised as follows:

(a) HKAS 1 "Presentation of Financial Statements"

HKAS 1 affects certain presentation in these financial statements, including the following:

- minority interests are now presented in the consolidated income statement and within the equity in the consolidated balance sheet separately from results/equity attributable to equity holders of the Company; and

- taxes of associates attributable to the Group, which were previously included in tax charge in the consolidated income statement, are now included in the Group's share of profits and losses of associates.

(b) HKAS 17 "Leases"

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to operating leases. In accordance with the provisions of HKAS 17, a lease of land and building should be split into a lease of land and a lease of building in proportion to the relative fair values of the leasehold interests in the land element and the building element of the lease at the inception of the lease. The up-front prepayments made for the leasehold land and land use rights are expensed in the income statement on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the income statement. In case, the two elements cannot be allocated reliably, the entire lease is classified as a finance lease and carried at cost less accumulated depreciation and any accumulated impairment losses. In prior years, the leasehold land and land use rights were accounted for at cost less accumulated depreciation and any accumulated impairment. The new accounting policy has been applied retrospectively to the extent that results in the reclassification of certain leasehold interest in land and land use rights previously included in "Property, plant and equipment" as "Leasehold land and land use rights" with comparatives restated to conform to the current year's presentation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of preparation *(continued)*

The adoption of new/revised HKFRS *(continued)*

(c) HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement"

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy for recognition, measurement, derecognition and disclosure of financial instruments.

Until 31 July 2005 investments of the Group were classified into investment securities and short term investments, which were stated in the balance sheet at cost less any accumulated impairment losses and at fair value respectively, and any impairment losses on investment securities and changes in fair value of the short term investments were recognised in the income statement in the period in which they arise.

In accordance with the provisions of HKAS 39, the investments have been classified into available-for-sale financial assets and financial assets at fair value through profit or loss. The classification depends on the purpose for which the investments were held. As a result of the adoption of HKAS 39, all the investments are now stated at fair value in the balance sheet, except for certain available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, when they are measured at cost less any accumulated impairment losses. In addition, all the investments as at 31 July 2005 that should be measured at fair value on adoption of HKAS 39 should be remeasured at 1 August 2005 and any adjustment of the previous carrying amount should be recognised as an adjustment of the balance of accumulated losses at 1 August 2005. However, the adoption of HKAS 39 has had no material effect on the Group's results and equity.

The effect of the changes in accounting policies on these financial statements as a result of the adoption of HKAS 32 and HKAS 39 is summarised as follows:

– all investment securities of the Group and the Company as at 31 July 2005 were redesignated into available-for-sale financial assets on 1 August 2005. The aggregate differences between the respective carrying value of each investment as at 31 July 2005 and the respective fair value at 1 August 2005 is insignificant and hence, no adjustment has been made against the accumulated losses at 1 August 2005;

– all short term investments of the Group and the Company as at 31 July 2005 were redesignated into financial assets at fair value through profit or loss on 1 August 2005. There is no effect on remeasurement as the accounting policy on measurement of the Group's short term investments as at 31 July 2005 is the same as that for the financial assets at fair value through profit or loss; and

In prior periods, convertible notes were stated at amortised cost. Upon adoption of HKAS 32, the component of the convertible notes that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. On the issue of the convertible notes, the fair value of the liability component is determined using a market rate for an equivalent nonconvertible notes and the amount is carried as liability on the amortised cost basis until extinguished on conversion and redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in the shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in the subsequent periods.

Transaction costs are apportioned between the liability and equity components of the convertible notes based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

This change in accounting policies is applied retrospectively by way of adjustments to the opening balance of accumulated losses and comparative figures have been restated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of preparation *(continued)*

The adoption of new/revised HKFRS *(continued)*

(d) HKFRS 2 "Share-based Payments"

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. In prior years, no amounts were recognised when employees (which term includes directors) were granted share options over shares in the Company. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

With effect from 1 August 2005, in order to comply with HKFRS 2, the Group recognises the fair value of such share options as an expense in the income statement, or as an asset, if the cost qualifies for recognition as an asset under the Group's accounting policies. A corresponding increase is recognised in a capital reserve within equity.

Where the employees are required to meet vesting conditions before they become entitled to the options, the Group recognises the fair value of the options granted over the vesting period. Otherwise, the Group recognises the fair value in the period in which the options are granted.

If an employee chooses to exercise options, the related capital reserve is transferred to share capital and share premium, together with the exercise price. If the options lapse unexercised the related capital reserve is transferred directly to accumulated losses.

The Group has taken advantage of the transitional provisions set out in paragraph 53 of HKFRS 2. In relation to share options granted on or before 7 November 2002 and share options granted after 7 November 2002 but which had vested before 1 August 2005, the Group does not recognise and expense those share options.

No adjustments to the opening balances as at 1 August 2004 and 1 August 2005 are required as all the share options granted were vested before 1 August 2005. Therefore, the adoption of HKFRS 2 has no impact on the accumulated losses as at 31 July 2004 and 31 July 2005.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of preparation *(continued)*

The adoption of new/revised HKFRS *(continued)*

(e) HKFRS 3 "Business Combinations", HKAS 36 "Impairment of Assets" and HKAS 38 "Intangible Assets"

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for goodwill. Until 31 July 2005, goodwill was:

– Amortised on a straight line basis over a period ranging from 5 to 20 years; and

– Assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3:

– The Group ceased amortisation of goodwill from 1 August 2005;

– Accumulated amortisation as at 31 July 2005 has been eliminated with a corresponding decrease in the cost of goodwill;

– From the period ended 31 December 2006 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment;

– Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired as at the date of acquisition over the cost of business combination is recognised immediately in the consolidation income statement. In addition, following the transitional provisions of HKFRS 3, the carrying amounts of the negative goodwill recognised on the consolidated balance sheet or remained credited to the consolidated capital reserve as at 1 August 2005 were derecognised by way a corresponding adjustment to the opening accumulated losses as at 1 August 2005; and

– On disposal of subsidiaries, jointly controlled entities, or associates, any attributable goodwill previously eliminated against the consolidated capital reserve at the time of acquisition is transferred to the consolidated accumulated losses as a movement in reserves and is not included in the calculation of the gain or loss on disposal.

The adoption of HKFRS 3, HKAS 36 and HKAS 38 did not have any material impact on the financial statements of the Group for the period ended 31 December 2006 and for the year ended 31 July 2005.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of preparation *(continued)*

The adoption of new/revised HKFRS *(continued)*

(f) HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations"

HKFRS 5 requires a component of the Group to be classified as discontinued when the criteria to be classified as held for sale have been met or when that component of the Group has been disposed of. Such a component represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

The adoption of HKFRS 5 affects certain presentation in these financial statements.

(g) HKAS 39 & HKFRS 4 (Amendment) "Financial Guarantee Contracts"

In prior years, financial guarantees issued by the Group were only disclosed as contingent liabilities and no provisions were made in respect of these guarantees unless it was more likely than not that the guarantee would be called upon. Upon the adoption of the Amendments to HKAS 39 and HKFRS 4, financial guarantees are accounted for as financial liabilities under HKAS 39 and measured initially at fair value and subsequently stated at the higher of (i) the amount initially recognised less accumulated amortisation; and (ii) the amount of provision, if any, that should be recognised in accordance with HKAS 37. The adoption of the Amendment did not have any material impact on the financial statements of the Group for the period ended 31 December 2006 and for the year ended 31 July 2005.

(h) Other standards

– HKAS 2, 7, 8, 10, 12, 16, 18, 19, 23, 27, 27 (Amendment), 28, 33, 37, HK(SIC) – Ints 15 and HK(IFRIC) – Int 4 had no material effect on the Group's policies.

– HKAS 21 and 21 (Amendment) had no material effect on the Group's policies. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard.

– HKAS 24 has affected the identification of related parties and some other related party disclosures.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of preparation *(continued)*

The adoption of new/revised HKFRS *(continued)*

The effects of the changes in the accounting policies described above on the results for the respective periods are as follows:

	Effect of adopting	**1.8.2005 To 31.12.2006 HK$'000**	1.8.2004 To 31.7.2005 HK$'000
Increase in other income	HKAS 32	**–**	511
Increase in administrative and other expenses	HKAS 17	**24**	26
Increase in finance costs	HKAS 32	**40**	522
		64	548
Decrease/increase in profit (loss) for the period/year		**64**	37
Decrease/increase in basic earnings (loss) per share	HKAS 17 & 32	**0.003 cents**	0.002 cents

The cumulative effects of the application of the HKFRS at the respective period/year ends are summarised below:

	Effect of adopting	**At 31.12.2006 HK$'000**	At 31.7.2005 HK$'000
Property, plant and equipment	HKAS 17	**–**	(5,129)
Leasehold land and land use rights	HKAS17	**–**	5,153
Increase in assets		**–**	24
Convertible notes	HKAS 32	**–**	(40)
Decrease in liabilities		**–**	(40)
Share premium	HKAS 32	**–**	117
Convertible notes reserve	HKAS 32	**–**	177
Accumulated losses	HKAS 17 & 32	**–**	(230)
Increase in equity		**–**	64

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of preparation *(continued)*

Standards, interpretation and amendments to existing standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published which are relevant to the Group's operations and financial statements and are mandatory for the Group's accounting periods beginning on or after 1 January 2007 or later periods as follows:

Effective from 1 January 2007

HKAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006)
HK(IFRIC)-Int 8	Scope of HKFRS 2 (effective from 1 March 2006)
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives (effective from 1 June 2006)
HK(IFRIC)-Int 10	Interim Reporting and Impairment (effective from 1 November 2006)
HK(IFRIC)-Int 11	HKFRS 2-Group and Treasury Share Transactions
HKFRS 7	Financial Instruments: Disclosures

Effective from 1 January 2009

HKFRS 8	Operating Segments

The Group has not early adopted the above standards, amendments and interpretations and is not yet in a position to state whether substantial changes to the Group's accounting policies and presentation of the financial statements will be resulted.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries and a jointly controlled entity made up to 31 December.

Subsidiaries

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

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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

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

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

In the Company's balance sheet the investments in subsidiaries are stated at cost less any accumulated impairment losses. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Associates

The Group's and its jointly controlled entities' investments in their associates are accounted for under the equity method of accounting. These associates are entities in which the Group or its jointly controlled entities have significant influence and which are neither subsidiaries nor jointly controlled entities of the Group or its jointly controlled entities.

The investments in associates are carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's or its jointly controlled entities' share of net assets of the associate, less any impairment in value. The consolidated income statement reflects the Group's or its jointly controlled entities' share of the results of operations of the associates. The Group's and the jointly controlled entities' investments in their associates include goodwill (net of accumulated impairment) on acquisition, which is treated in accordance with the accounting policy for goodwill stated below.

When the Group's or jointly controlled entities' share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

Jointly controlled entities

A joint controlled entity is a joint venture in respect of which a contractual arrangement is established between the participating parties and whereby the Group together with the parties undertake an economic activity which is subject to joint control and none of the parties has unilateral control over the economic activity.

The Group's interests in jointly-controlled entities are accounted for by proportionate consolidation. The Group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements. The Group recognises the portion of gains or losses on the sale of assets by the Group to the joint venture that it is attributable to the other venturers. The Group does not recognise its share of profits or losses from the joint venture that result from the Group's purchase of assets from the joint venture until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiaries/associates/jointly controlled entities at the date of acquisition. Goodwill on acquisitions of associates and jointly controlled entities is included in interests in associates and jointly controlled entities respectively. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses and is not amortised. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

In prior years, goodwill is amortised on a straight line basis over its estimated useful economic life of 20 years. The change in accounting policy has no significant impact on the financial statements, details of which are set out in note 19 to the financial statements.

Property, plant and equipment

All property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Property, plant and equipment, other than construction in progress, are depreciated at the following annual rates sufficient to write off their costs less any accumulated impairment losses and residual values over their estimated useful lives. The principal annual rates and methods used for this purpose are as follows:

Buildings	4% – 8% on the straight-line basis
Leasehold improvements	Over the lease terms
Plant and machinery	15% on the reducing balance basis
	5% – 33.3% on the straight line basis
Pipelines	5% on the straight line basis
Motor vehicles	25% on the reducing balance basis
	10% – 20% on the straight line basis
Furniture, fixtures and	15% – 20% on the reducing balance basis
equipment	5% – 20% on the straight line basis
Moulds	33.3% on the straight-line basis
Tools	33.3% on the straight-line basis

The assets' residual values (if any) and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An item of fixed asset is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss on derecognition of the asset, calculated as the difference between the net disposal proceeds and the carrying amount of the item, is included in the income statement in the period the item is derecognised.

Construction in progress represents pipelines under construction and is stated at cost less any accumulated impairment losses, and is not depreciated. Costs comprise direct and indirect incremental costs of acquisition or construction. Completed items are transferred from construction in progress to proper categories of property, plant and equipment when they are ready for their intended use.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leasehold land and land use rights

Leasehold land and land use rights are lump sum upfront payments to acquire long-term interest in lessee-occupied properties.

Leasehold land and land use rights relating to buildings of the Group are stated at cost and are amortised over the period of the lease on the straight-line basis to the income statement.

Investments

From 1 August 2004 to 31 July 2005:

The Group classified its investment in securities, other than subsidiaries, associates and jointly controlled entities, as investment securities and short term investments.

(a) Investment securities

Investments which were held for non-trading purpose were stated at fair value at the balance sheet date. Changes in the fair value of individual securities were credited or debited to the investment revaluation reserve until the security was sold, or was determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security, together with any surplus/deficit transferred from the investment revaluation reserve, was dealt with in the income statement.

Where there was objective evidence that individual investments were impaired the cumulative loss recorded in the revaluation reserve was taken to the income statement.

(b) Short term investments

Short term investments were carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of short term investments were recognised in the income statement. Profits or losses on disposal of short term investments, representing the difference between the net sales proceeds and the carrying amounts, were recognised in the income statement as they arose.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments *(continued)*

From 1 August 2005 onwards:

The Group classified its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date-the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of raw material is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less all costs to completion and all direct costs to be incurred in selling and distribution. Costs of inventories include the transfer from equity of any gains/losses on qualifying cash flow hedges relating to purchases of raw materials.

Trade and other receivables

Trade and other receivables are initially at fair value, and after initial recognition, at amortised cost less any impairment losses for bad and doubtful debts, except for the following receivables:

– Interest-free loans made to related parties without any fixed repayment terms or the effect of discounting being immaterial, that are measured at cost less any impairment losses for bad and doubtful debts, and

– Short-term receivables with no stated interest rate and the effect of discounting being immaterial, that are measured at their original invoiced amount less any impairment losses for bad and doubtful debts.

Impairment of assets

(a) Impairment of investments in debt and equity securities and other receivables

Investment in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

– For available-for-sale financial assets, the cumulative loss that has been recognised directly in equity is removed from equity and is recognised in profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale financial assets are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of assets *(continued)*

(b) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment (other than properties carried at revalued amounts);

– leasehold land and land use rights classified as being held under an operating leases;

– intangible assets;

– investments in subsidiaries, associates and joint ventures (except for those classified as held for sale or included in a disposal group that is classified as held for sale); and

– goodwill

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash flows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating units (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash and cash equivalents

Cash comprises cash on hand and at bank and demand deposits with bank. Cash equivalents are short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purpose of cash flow statement, bank overdrafts which are repayable on demand form an integral part of the Company's cash management are included as a component of cash and cash equivalents.

Foreign current translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in HK dollars, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign current translation *(continued)*

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

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

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

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

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

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Trade and other payables

Trade and other payables are initially measured at fair value and, after initial recognition, at amortised cost, except for the following payables:

– Short-term payables with no stated interest rate and the effect of discounting being immaterial, that are measured at their original invoiced amount.

– Interest-free loans made to related parties without any fixed repayment terms or the effect of discounting being immaterial, that are measured at cost.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Bank and other borrowings

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

Bank and other borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Convertible notes

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

At initial recognition the liability component of the convertible notes is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the note is converted or redeemed.

If the note is converted, the capital reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, the capital reserve is released directly to accumulated losses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

Revenue comprises the fair value for the sale of goods and services, and after eliminating sales within the Group. Revenue is recognised as follows:

(a) Sales of goods

Sales of goods are recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

(b) Sales of natural gas

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

(c) Gas connection fee income

Gas connection fee income is recognised when the relevant connection works are completed and connection services are rendered.

(d) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised either as cash is collected or on a cost-recovery basis as conditions warrant.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits

(a) Retirement benefit costs

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme in Hong Kong (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 Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employee of the Company's subsidiaries and jointly controlled entities in Mainland China are members of the Central Pension Scheme operated by the Chinese government. The subsidiaries and jointly controlled entities are required to contribute a certain percentage of their covered payroll to the Central Pension Scheme to fund the benefits. The only obligation for the Group with respect to the Central Pension Scheme is the required contributions, which are charged to the income statement in the year to which they relate.

(b) Employee entitlements

Employee entitlements to annual leave and long service payment are recognised when they accrue to the employees. A provision is made for the estimated liability for annual leave and long service payment as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

Financial guarantees issued, provisions and contingent liabilities

(a) Financial guarantees issued

Financial guarantees are contracts that require the issuer (ie. the guarantor) to make specified payment to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note (c) below if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee, i.e. the amount initially recognised, less accumulated amortisation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial guarantees issued, provisions and contingent liabilities *(continued)*

(b) Contingent liabilities acquired in business combinations

Contingent liabilities acquired as part of a business combination are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note (c) below. Contingent liabilities acquired in a business combination that cannot be reliably fair valued are disclosed in accordance with note (c) below.

(c) Other provisions and contingent liabilities

Provision are recognised for other liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Income taxes

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates (and laws) enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

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

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets also arise from unused tax losses and unused tax credits.

Deferred tax asset is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the timing of the reversal of the temporary differences is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payment made under operating leases, net of any incentives received from the lessor, are charged to the income statement on a straight line basis over the period of the lease.

Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs when the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the income statement, which comprises:

– the post-tax profit or loss of the discontinued operation; and

– the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

A party is related to the Group if:

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

(1) controls, is controlled by, or is under common control with, the Group;

(2) has an interest in the Group that gives its significant influence over the Group; or

(3) has joint control over the Group;

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

(iii) the party is an associate;

(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 Group, or of any entity that is a related party of the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenues expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidated process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and price risk), credit risk, cash flow and interest-rate risk. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions settled in RMB and did not have significant exposure to foreign exchange risk during the period. The conversion of RMB into foreign currencies is subject to the rules and regulations of the foreign exchange control promulgated by the PRC government.

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(a) Market risk *(continued)*

(ii) Price risk

The Group is exposed to price risk of equity securities which is classified on the consolidated balance sheet as available-for-sale financial assets. The Group is not exposed to commodity price risk since the pricing strategy of natural gas business operated by the Group's jointly-controlled entity in the PRC is controlled and regulated by the relevant government authority in the PRC.

(b) Credit risk

The Group has no significant concentrations of credit risk. The carrying amount of the trade and other receivables included in the balance sheet represents the Group's maximum exposure to credit risk in relation to its financial assets. The Group has policy in place to ensure that sales of products and services are made to customers with an appropriate credit history and the Group performs periodic credit evaluations of its customers. The Group's historical experience in collection of trade and other receivables falls within the recorded allowances and the directors are of the opinion that adequate provision for uncollectible trade and other receivables has been made in the income statement.

(c) Cash flow and interest rate risk

As 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.

The Group's interest rate risk arises from bank and other borrowings. At the balance sheet date, the bank and other borrowings issued at fixed rates expose the Group to fair value interest rate risk.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2. The recoverable amounts of cash-generating units have been determined based on value-in use calculations. These calculations require the use of estimates (note 19).

(ii) Fair value estimation

The carrying value less impairment provision, if any, for financial assets and liabilities with a maturity of less than one year, is a reasonably approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(b) Critical judgements in applying the entity's accounting policies

Impairment of available-for-sale financial assets

The Group follows the guidance of HKAS 39 on determining when an investment is other-than-temporarily impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

5. TURNOVER

Turnover represents the net amounts received and receivable for pipe connection services and sales of goods and natural gas. Analysis of the Group's turnover for the period/year is as follows:

	Group	
	01.08.2005 To 31.12.2006 HK$'000	01.08.2004 To 31.07.2005 HK$'000
Continuing operations:		
Turnover from pipe connection services, sales of goods and natural gas	**369,914**	200,928

6. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment, and (ii) on a secondary segment reporting basis, by geographical segment.

Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

Continuing Operations:

- Natural gas business

Discontinued Operations:

- Manufacture and trading of silicone rubber products; and
- Investment in internet and information technology activities.

Details of the discontinued operations are disclosed in note 12 to the financial statements.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. The principal activities of the Group are mainly managed in Hong Kong and the People's Republic of China ("PRC").

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

6. SEGMENT INFORMATION *(continued)*

(a) Business segments

The following information present revenue, profit (loss) and certain assets, liabilities and expenditure information for the Group's business segments.

Segment revenues and results

For the period from 1 August 2005 to 31 December 2006

	Continuing operations	Discontinued operations		
	Natural gas business HK$'000	Manufacturing and trading of silicone rubber products HK$'000	Investment in internet and information technology HK$'000	Sub-total HK$'000
Turnover	369,914	–	–	–
Results	68,853	26	(1,400)	(1,374)
Unallocated income	28,163	–	–	–
Unallocated expenses	(25,351)	–	–	–
Share of profits of associates	1,981	–	–	–
Gain on disposal of discontinued operations	–	3,090	–	3,090
Profit before taxation	73,646	3,116	(1,400)	1,716
Taxation	(7,319)	108	–	108
Profit for the period	66,327	3,224	(1,400)	1,824
Consolidated turnover				
– Continuing operations				369,914
– Discontinued operations				–
				369,914
Profit for the period				
– Continuing operations				66,327
– Discontinued operations				1,824
				68,151

6. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

Segment revenues and results *(continued)*

For the period from 1 August 2004 to 31 July 2005 (As restated)

	Continuing operations	Discontinued operations		
	Natural gas business HK$'000	Manufacturing and trading of silicone rubber products HK$'000	Investment in internet and information technology HK$'000	Sub-total HK$'000
Turnover	200,928	4,090	–	4,090
Results	34,172	(18,845)	(106,961)	(125,806)
Unallocated income	1,076	–	–	–
Unallocated expenses	(36,481)	–	–	–
Share of losses of associates	(2,321)	–	–	–
Loss before taxation	(3,554)	(18,845)	(106,961)	(125,806)
Taxation	(3,374)	365	(113)	252
Loss for the year	(6,928)	(18,480)	(107,074)	(125,554)
Consolidated turnover				
– Continuing operations				200,928
– Discontinued operations				4,090
				205,018
Loss for the year				
– Continuing operations				(6,928)
– Discontinued operations				(125,554)
				(132,482)

6. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

Other segment information included in the income statement are as follows:

For the period from 1 August 2005 to 31 December 2006

	Continuing operations	Discontinued operations		
	Natural gas business HK$'000	Manufacturing and trading of silicone rubber products HK$'000	Investment in internet and information technology HK$'000	Group HK$'000
Depreciation of property, plant and equipment	**10,104**	**211**	**–**	**10,315**
Amortisation of leasehold land and land use rights	**137**	**–**	**3**	**140**

For the period from 1 August 2004 to 31 July 2005 (As restated)

	Continuing operations	Discontinued operations		
	Natural gas business HK$'000	Manufacturing and trading of silicone rubber products HK$'000	Investment in internet and information technology HK$'000	Group HK$'000
Depreciation of property, plant and equipment	6,306	1,127	439	7,872
Amortisation of leasehold land and land use rights	205	–	5	210
Impairment loss of goodwill	694	–	1,000	1,694
Impairment loss of interest in an associate	442	–	–	442
Impairment of property, plant and equipment	–	4,145	–	4,145
Impairment losses of investment securities	17,983	–	100,240	118,223
Impairment of other intangible assets	–	–	5,000	5,000

6. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

Segment assets and liabilities

	Assets		Liabilities	
	31.12.2006	31.07.2005 (As restated)	**31.12.2006**	31.07.2005 (As restated)
	HK$'000	HK$'000	**HK$'000**	HK$'000
Natural gas business	**369,653**	203,100	**154,917**	107,880
Investment in internet and information technology activities	**–**	2,711	**–**	517
Manufacture and trading of silicone rubber products	**–**	374	**–**	3,663
Unallocated	**122,867**	106,230	**5,036**	16,620
Consolidated	**492,520**	312,415	**159,953**	128,680

Capital expenditure

	01.08.2005 To 31.12.2006	01.08.2004 To 31.07.2005
	HK$'000	HK$'000
Natural gas business (including goodwill arising from acquisition of natural gas business)	**83,098**	8,471
Investment in internet and information technology activities	**–**	3,415
Manufacture and trading of silicone rubber products	**–**	498
Unallocated	**496**	4,087
	83,594	16,471

6. SEGMENT INFORMATION *(continued)*

(b) Geographical segments

The following tables provide an analysis of the Group's turnover by geographical market, irrespective of the goods/ services:

	Turnover by geographical market		**Carrying amount of segment assets**		**Acquisition of segment assets**	
	01.08.2005 To 31.12.2006	01.08.2004 To 31.07.2005	**31.12.2006**	31.12.2005 (As restated)	**01.08. 2005 To 31.12.2006**	01.08. 2004 To 31.07.2005 (As restated)
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Continuing operations						
The PRC	**369,914**	200,928	**369,653**	203,100	**83,098**	8,471
Discontinued operations						
The PRC	**–**	–	**–**	–	**–**	498
Hong Kong	**–**	4,090	**–**	3,085	**–**	3,415
	–	4,090	**–**	3,085	**–**	3,913
	369,914	205,018	**369,653**	206,185	**83,098**	12,384

7. OTHER INCOME AND GAINS, NET

	01.08.2005 To 31.12.2006	01.08.2004 To 31.07.2005 (As restated)
	HK$'000	HK$'000
Other income and gains, net		
Interest income	**1,360**	565
Dividend income from available-for-sale financial assets		
– listed shares outside Hong Kong	**100**	–
Gain on disposal of an associate of a jointly controlled entity	**7,240**	–
Gain on disposal of available-for-sale financial assets	**251**	–
Gain on disposal of financial assets at fair value through profit or loss	**2,558**	–
Fair value changes of financial assets at fair value through profit or loss	**23,404**	–
Gain on disposal of short term listed investments	**–**	23,742
Gain on partial disposal of a subsidiary	**–**	5,000
Gain on disposal of investment securities (2005: after a transfer from the investment revaluation reserve of a deficit of HK$677,000)	**–**	575
Reversal of impairment loss of investment securities	**–**	2,369
Net gains on waiver of other loans	**7,749**	–
Reversal of impairment of property, plant and equipment	**–**	287
Reversal of impairment of bad and doubtful debts	**2,304**	–
Gain on exchange	**669**	294
Others	**1,766**	1,059
	47,401	33,891

8. FINANCE COSTS

	Group	
	01.08.2005 To 31.12.2006	01.08.2004 To 31.07.2005 (As restated)
	HK$'000	HK$'000
Interest on:		
Bank loans	**1,595**	1,797
Other loans		
– not wholly repayable within five years	**73**	236
– wholly repayable within five years	**6,828**	35
Securities trading account	**526**	422
Convertible notes	**99**	882
	9,121	3,372
Less: capitalised in property, plant and equipment	**–**	236
	9,121	3,136

9. DIRECTORS' REMUNERATION

Details of the directors' remuneration were as follows:

	Group	
	01.08.2005 To 31.12.2006	01.08.2004 To 31.07.2005
	HK$'000	HK$'000
Fees	**–**	1,292
Salaries, allowances and benefits in kind	**3,278**	1,661
Retirement benefits scheme contributions	**18**	15
	3,296	2,968

9. DIRECTORS' REMUNERATION *(continued)*

Details of remuneration of directors for the period from 1 August 2005 to 31 December 2006 were as follows:

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Executive directors:				
Xu Tie-liang	–	800	4	804
Qu Guo-hua	–	120	–	120
Zeng Xiao	–	110	–	110
Cheung Shing	–	110	–	110
Wong Kui Shing, Danny	–	1,616	–	1,616
Masanori Suzuki	–	–	–	–
Eiji Sato	–	–	–	–
Wong King Shiu, Daniel	–	317	14	331
Zhou Weirong	–	–	–	–
Kan Kwok Shu	–	–	–	–
Lin Che Chu, George	–	–	–	–
Independent non-executive directors:				
Cheung Man Yan, Timothy	–	85	–	85
Shi Xun-zhi	–	10	–	10
Peng Long	–	110	–	110
Chuk Che Shing	–	–	–	–
Kim Kwi Nam, Takao	–	–	–	–
Total	–	3,278	18	3,296

For the period ended 31 December 2006, two executive directors had agreed to waive their remuneration of HK$2,123,200. There was no other arrangement which a director waived or agreed to waive any remuneration during the current period.

9. DIRECTORS' REMUNERATION *(continued)*

Details of remuneration of directors for the financial year from 1 August 2004 to 31 July 2005 were as follows:

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Executive directors:				
Wong Kui Shing, Danny	–	–	–	–
Masanori Suzuki	735	–	–	735
Eiji Sato	71	–	–	71
Wong King Shiu, Daniel	–	450	9	459
Zhou Weirong	–	–	–	–
Kan Kwok Shu	–	984	6	990
Lin Che Chu, George	–	227	–	227
Independent non-executive directors:				
Cheung Man Yan, Timothy	240	–	–	240
Chuk Che Shing	210	–	–	210
Kim Kwi Nam, Takao	36	–	–	36
Total	1,292	1,661	15	2,968

For the year ended 31 July 2005, three executive directors had agreed to waive their remuneration of HK$690,600 and two independent non-executive directors had agreed to waive their remuneration of HK$120,000.

For the period/year ended 31 December 2006 and 31 July 2005, no remuneration was paid by the Group to any of the directors as an inducement to join, or upon joining the Group or as compensation for loss of office.

10. FIVE HIGHEST PAID INDIVIDUALS

Of the five individuals with the highest remunerations in the Group, three (2005: three) were directors of the Company whose emoluments are included in the disclosures in note 9 above. The emoluments of the remaining two (2005: two) individuals were as follows:

	Group	
	01.08.2005 To 31.12.2006 HK$'000	01.08 2004 To 31.07.2005 HK$'000
Salaries, allowances and benefits in kind	**1,516**	886
Retirement benefits scheme contributions	**34**	22
	1,550	908

The number of employee whose remuneration fell within the following band were as follows:

	Number of employees	
	01.08.2005 To 31.12.2006	01.08.2004 To 31.07.2005
HK$Nil to HK$1,000,000	**2**	2

In addition to the above, there were no share options granted to employees under the Company's share option scheme during the period/year (2005: Nil).

No emoluments were paid or payable to the above highest paid individuals as an inducement to join the Group or as compensation for loss of office during the financial period/year ended 31 December 2006 and 31 July 2005.

11. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2005:17.5%) on the estimated assessable profits for the period/year. Taxation on overseas profits has been calculated on the estimated assessable profits for the period/year at the rate of taxation prevailing in the countries in which the Group operates.

	Group	
	01.08.2005 To 31.12.2006	01.08.2004 To 31.07.2005 (As restated)
	HK$'000	HK$'000
Current tax:		
Hong Kong Profits Tax	**307**	1,983
Taxation outside Hong Kong	**4,258**	1,504
Deferred tax:		
Deferred taxation relating to the origination and reversal of temporary differences (note 37)	**2,646**	(365)
Taxation charge	**7,211**	3,122
Attributable to:		
Continuing operations	**7,319**	3,374
Discontinued operations	**(108)**	(252)
	7,211	3,122

11. TAXATION *(continued)*

A reconciliation of the tax expense applicable to profit (loss) before taxation using the statutory rates for the countries in which the Company, its subsidiaries and a jointly controlled entity are domiciled to the tax expense using the domestic taxation rates applicable to the profit (loss) of the consolidated companies is as follows:

	Group	
	01.08.2005 To 31.12.2006	01.08.2004 To 31.07.2005 (As restated)
	HK$'000	HK$'000
Profit (loss) before taxation		
– Continuing operations	**73,646**	(3,554)
– Discontinued operations	**(1,374)**	(125,806)
	72,272	(129,360)
Tax calculated at the domestic tax rate of 17.5% (2005: 17.5%)	**12,648**	(22,638)
Tax effect of income not subject to taxation	**(13,752)**	(13,579)
Tax effect of expenses not deductible for tax purpose	**6,008**	37,604
Tax effect of tax losses not recognised	**2,064**	1,964
Tax effect of utilisation of previously unrecognised tax losses	**(6)**	–
Tax effect of unrecognised temporary differences for the period/year	**–**	(271)
Effect of different tax rates of a jointly controlled entity and its subsidiaries	**689**	42
Underprovision of taxation	**(440)**	–
Taxation charge	**7,211**	3,122

12. DISCONTINUED OPERATIONS

(a) Disposal of silicone rubber business

As detailed in the Company's interim report for the period ended 31 January 2005, due to prolonged disputes and litigation in connection with the silicone rubber business of a subsidiary, Golite International Limited, the Company announced the Board's decision to discontinue the Group's silicone rubber business so as to preserve resources for the Group's other suitable business or investments. The Company decided to dispose of its interest in Golite International Limited and its subsidiary (collectively referred to the "Golite group"), which are mainly engaged in the business of manufacturing and trading of silicone rubber products. On 14 February 2006, the Group entered into a sale and purchase agreement with an independent third party for disposal of its entire interest in the Golite group. On the same date, the disposal was completed.

Disposal of investment in internet, information technology activities

On 28 December 2006, the Company entered into a sale and purchase agreement with an independent third party to dispose of its interest in Hikari Tsushin Investments Holdings (BVI) Limited and its subsidiaries, which are principally engaged in the business of investment in internet, information technology activities. The disposal is consistent with the Group's long-term policy to focus its principal activities in natural gas business. The disposal was completed on 30 December 2006.

(b) The combined results arising from discontinued operations (ie. silicone rubber business and investment in internet, information technology activities) are set out below. The comparative profit or loss and cash flows from discontinued operations have been re-presented to include those operations classified as discontinued in the current financial period.

	Group	
	01.08.2005 To 31.12.2006 HK$'000	01.08.2004 To 31.07.2005 HK$'000
Turnover	**–**	4,090
Other gains	**48**	5,296
	48	9,386
Expenses	**(1,422)**	(135,192)
Loss before taxation	**(1,374)**	(125,806)
Taxation	**108**	252
	(1,266)	(125,554)
Gain on disposal of discontinued operations	**3,090**	–
Profit (loss) for the period/year from discontinued operations	**1,824**	(125,554)

12. DISCONTINUED OPERATIONS *(continued)*

(c) Cash flows from discontinued operations

	Group	
	01.08.2005 To 31.12.2006	01.08.2004 To 31.07.2005 (As restated)
	HK$'000	HK$'000
Net cash outflows from operating activities	**(265)**	(6,623)
Net cash inflows from investing activities	**1,296**	4,100
Net cash flows from financing activities	**–**	–
	1,031	(2,523)

13. PROFIT (LOSS) FOR THE PERIOD/YEAR

This has been arrived at after charging and (crediting):

	01.08.2005 to 31.12.2006		01.08.2004 to 31.07.2005 (As restated)	
	Continuing operations HK$'000	**Discontinued operations HK$'000**	Continuing operations HK$'000	Discontinued operations HK$'000
Staff costs (excluding directors' remuneration (note 9)):				
Salaries and wages	**8,968**	**–**	7,863	3,075
Retirement benefits scheme contributions	**503**	**(50)**	407	96
	9,471	**(50)**	8,270	3,171
Minimum lease payments under operating leases for leasehold land and buildings	**3,301**	**–**	5,376	1,734
Auditor's remuneration	**1,005**	**–**	1,332	86
Depreciation of property, plant and equipment	**10,104**	**211**	6,306	1,566
Impairment of bad and doubtful debts	**–**	**–**	15,645	2,276
Amortisation of leasehold land and land use rights	**137**	**3**	205	5
Impairment loss of goodwill	**–**	**–**	694	1,000
Loss (gain) on disposal of property, plant and equipment and leasehold land and land use rights	**(350)**	**1,236**	4,008	1,954
Loss on disposal of a subsidiary	**1,270**	**–**	–	–
Changes in fair values of short term listed investments	**–**	**–**	9,297	–
Impairment loss of interest in an associate	**–**	**–**	442	–
Impairment losses of available-for-sale financial assets	**4,758**	**–**	–	–
Provision for obsolete and slow moving inventories	**–**	**–**	–	1,000
Impairment losses of investment securities	**–**	**–**	17,983	100,240
Impairment of property, plant and equipment	**–**	**–**	–	4,145
Impairment of other intangible assets	**–**	**–**	–	5,000

14. DIVIDEND

No dividend was paid or proposed during the current financial period, nor has any dividend been proposed since the balance sheet date (2005: Nil).

15. PROFIT FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit for the period attributable to equity holders of the Company dealt with in the financial statements of the Company amounted to HK$35,409,000 (For the year ended 31 July 2005, as restated: loss of HK$148,541,000).

16. EARNINGS (LOSS) PER SHARE

	01.08.2005 To 31.12.2006	01.08.2004 To 31.07.2005 (As restated)
	Cents per share	Cents per share
Basic earnings (loss) per share		
From continuing operations	**2.95**	(0.94)
From discontinued operations	**0.10**	(8.36)
Total basic earnings (loss) per share	**3.05**	(9.30)

Basic earnings (loss) per share

The earnings (loss) and weighted average number of ordinary shares used in the calculation of basic earnings (loss) per share are as follows:

	01.08.2005 To 31.12.2006	01.08.2004 To 31.07.2005 (As restated)
	HK$'000	HK$'000
Profit (loss) for the period/year attributable to equity holders of the Company	**57,342**	(139,797)
(Profit) loss for the period/year from discontinued operations used in the calculation of basic earnings (loss) per share from discontinued operations	**(1,824)**	125,554
Earnings (loss) used in the calculation of basic earnings (loss) per share from continuing operations	**55,518**	(14,243)

	01.08.2005 To 31.12.2006	01.08.2004 To 31.07.2005
Weighted average number of ordinary shares for the purposes of basic earnings per share	**1,881,535,286**	1,502,285,871

No diluted earnings per share has been presented for the current financial period ended 31 December 2006 as there are no outstanding potential ordinary shares. For the year ended 31 July 2005, no diluted loss per share has been presented as the convertible notes and options outstanding had anti-dilutive effect on the basic loss per share.

17. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold buildings HK$'000	Leasehold improvement HK$'000	Plant and machinery HK$'000	Pipelines HK$'000	Construction in progress HK$'000	Motor vehicle HK$'000	Furniture, fixtures and equipment HK$'000	Tools and moulds HK$'000	Total HK$'000
Cost									
At 1 August 2004, as previously reported	2,019	1,475	12,231	95,209	2,913	7,074	14,796	2,726	138,443
Effect of adopting HKAS 17	(311)	–	–	–	–	–	–	–	(311)
At 1 August 2004, as restated	1,708	1,475	12,231	95,209	2,913	7,074	14,796	2,726	138,132
Currency realignment	2	–	7	1,425	52	44	22	2	1,554
Additions, as restated	5,479	–	108	3,280	3,146	1,288	1,317	33	14,651
Reclassification (note c)	11,208	–	–	(14,708)	–	–	–	–	(3,500)
Transfers	–	–	–	3,198	(3,480)	–	232	–	(50)
Disposals	(3,416)	(348)	(1,805)	–	(76)	(3,238)	(10,157)	–	(19,040)
At 1 August 2005, as restated	14,981	1,127	10,541	88,404	2,555	5,168	6,210	2,761	131,747
Currency realignment	703	–	23	817	125	165	93	7	1,933
Additions	5,146	379	181	14,184	2,452	1,073	840	492	24,747
Transfers	–	–	–	2,978	(4,368)	–	1,378	12	–
Disposals	(3,522)	(1,127)	(10,082)	–	(373)	(1,440)	(3,603)	(2,624)	(22,771)
At 31 December 2006	17,308	379	663	106,383	391	4,966	4,918	648	135,656
Accumulated depreciation and impairment									
At 1 August 2004, as previously reported	742	–	7,317	8,972	–	2,422	7,723	1,818	28,994
Effect of adopting HKAS 17	(62)	–	–	–	–	–	–	–	(62)
At 1 August 2004, as restated	680	–	7,317	8,972	–	2,422	7,723	1,818	28,932
Currency realignment	1	–	3	161	–	103	6	–	274
Depreciation, as restated	563	1,127	75	4,249	–	809	1,039	10	7,872
Impairment/(reversal of impairment)	(287)	–	2,895	–	–	–	433	817	3,858
Reclassification (note c)	304	–	–	(560)	–	–	1	(1)	(256)
Eliminated on disposals	(11)	–	–	–	–	(1,683)	(6,275)	–	(7,969)
At 1 August 2005, as restated	1,250	1,127	10,290	12,822	–	1,651	2,927	2,644	32,711
Currency realignment	40	–	10	668	–	41	–	1	760
Depreciation	938	17	103	7,502	–	706	1,024	25	10,315
Eliminated on disposals	(431)	(1,127)	(10,082)	–	–	(641)	(2,367)	(2,624)	(17,272)
At 31 December 2006	1,797	17	321	20,992	–	1,757	1,584	46	26,514
Net book value									
At 31 December 2006	15,511	362	342	85,391	391	3,209	3,334	602	109,142
At 31 July 2005, as restated	13,731	–	251	75,582	2,555	3,517	3,283	117	99,036

17. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The analysis of the net book value of buildings under long leases is as follows:

	Group	
	31.12.2006	31.7.2005
		(As restated)
	HK$'000	HK$'000
Leasehold buildings outside Hong Kong	**15,511**	11,845
Leasehold buildings in Hong Kong	**–**	1,886
	15,511	13,731

Notes:

As at 31 December 2006,

(a) Certain gas pipelines at a cost of RMB35,347,000 (31 July 2005: RMB66,315,000) together with the natural gas operation right have been pledged to secure bank loan (note 35).

(b) All leasehold buildings in Hong Kong had been disposed of during the period. As at 31 July 2005, the carrying value of leasehold buildings in Hong Kong of HK$1,886,000 had been pledged to a bank to secure the bank loan (note 35).

(c) Properties used for operations and maintenance of pipelines and natural gas business were reclassified and shown under separate headings of leasehold buildings, and leasehold land and land use rights respectively. The reclassifications were made at their carrying amounts, with no financial impact on net assets and profit (loss) of the Group for the current period and prior year. As at 31 July 2005, the carrying amounts of leasehold buildings and leasehold land and land use rights of approximately HK$10,904,000 and HK$3,244,000 respectively had been reclassified from pipelines.

18. LEASEHOLD LAND AND LAND USE RIGHTS

	Group	
	31.12.2006	31.7.2005
	HK$'000	HK$'000
Cost		
At beginning of the period/year		
As previously reported	**–**	–
Reclassification	**3,500**	3,500
Effect of adopting HKAS 17	**2,131**	311
As restated	**5,631**	3,811
Currency realignment	**172**	–
Addition	**–**	1,820
Acquisition of a subsidiary	**659**	–
Disposal	**(2,131)**	–
At end of the period/year	**4,331**	5,631
Accumulated amortisation		
At beginning of the period/year		
As previously reported	**–**	–
Reclassification	**328**	256
Effect of adopting HKAS 17	**150**	12
As restated	**478**	268
Currency realignment	**2**	–
Amortisation for the period/year	**140**	210
Disposal	**(155)**	–
At end of the period/year	**465**	478
Net book value		
At end of the period/year	**3,866**	5,153
Portion classified as current assets	**88**	239
Long term portion	**3,778**	4,914

18. LEASEHOLD LAND AND LAND USE RIGHTS *(continued)*

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

	Group	
	31.12.2006	31.7.2005 (As restated)
	HK$'000	HK$'000
In Hong Kong held on:		
Leases of over 50 years	**–**	1,687
Outside Hong Kong on:		
Leases of over 50 years	**3,866**	3,466
	3,866	5,153

Note: As at 31 July 2005, the carrying value of leasehold land and land use rights in Hong Kong of HK$1,687,000 had been pledged to a bank to secure the bank loan (note 35).

19. GOODWILL

	Group	
	31.12.2006	31.07.2005
	HK$'000	HK$'000
Cost		
At beginning of the period/year	**1,000**	–
Addition upon acquisition of a subsidiary (note 38(a))	**58,188**	1,000
Derecognised upon disposal of a subsidiary	**(1,000)**	–
At end of the period/year	**58,188**	1,000
Accumulated impairment losses		
At beginning of the period/year	**1,000**	–
Impairment losses recognised during the period/year	**–**	1,000
Derecognised upon disposal of a subsidiary	**(1,000)**	–
At end of the period/year	**–**	1,000
Carrying amount		
At beginning of the period/year	**–**	–
At end of the period/year	**58,188**	–

As at 31 December 2006, the carrying amount represents the goodwill arising from acquisition of a subsidiary, Accelstar Pacific Limited ("Accelstar") in November 2006. Accelstar together with its subsidiaries are engaged in the business of investment and construction of natural gas station and supply of natural gas in the PRC. Up to the date of the report, Accelstar and its subsidiaries are still in the process of investment and construction of natural gas station in the PRC.

In accordance with the Group's accounting policies, the Group has assessed the recoverable amount of goodwill arising from acquisition of Accelstar by reference to the cash-generating unit's value in use and determined that such goodwill has not been impaired. The recoverable amount for the cash-generating units in relation to the natural gas business of Accelstar was determined based on value-in-use calculations, which use cash flow projections based on financial budgets approved by management covering the operation period of the business with a discount and growth rate of 12% and 5.6% respectively. The discount rate used reflects specific risks relating to the business and the growth rate is in line with the forecasts adopted by the industry.

The goodwill is included in the natural gas business segment disclosed in note 6 to the financial statements.

20. OTHER INTANGIBLE ASSET

	Group	
	31.12.2006	31.07.2005
	HK$'000	HK$'000
Cost		
At beginning of the period/year	**5,000**	–
Addition upon acquisition of a subsidiary (note 38 (a))	**–**	5,000
Derecognised upon disposal of a subsidiary	**(5,000)**	–
At end of the period/year	**–**	5,000
Accumulated impairment losses		
At beginning of the period/year	**5,000**	–
Impairment losses recognised during the period/year	**–**	5,000
Derecognised upon disposal of a subsidiary	**(5,000)**	–
At end of the period/year	**–**	5,000
Carrying amount		
At beginning of the period/year	**–**	–
At end of the period/year	**–**	–

21. INTERESTS IN SUBSIDIARIES

	Company	
	31.12.2006	31.07.2005
	HK$'000	HK$'000
Unlisted share, at cost	**1**	1
Amounts due from subsidiaries	**586,791**	466,338
Amounts due to subsidiaries	**(5,787)**	(9,494)
	581,005	456,845
Impairment losses	**(386,000)**	(336,000)
	195,005	120,845

The amounts due from (to) subsidiaries are unsecured, interest-free and have no fixed terms of repayments.

21. INTERESTS IN SUBSIDIARIES *(continued)*

Details of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued share capital/ registered capital	Percentage of equity attributable to the Company Directly	Percentage of equity attributable to the Company Indirectly	Principal activities
Goodtime Enterprise Limited	British Virgin Islands/Hong Kong	US$1	100	–	Investment holding
Hikari Tsushin Investments Management (Hong Kong) Limited	Hong Kong	HK$1,000,000	–	100	Provision of financial and administrative service to group companies
Alta Financial Holdings Limited	British Virgin Islands/Hong Kong	US$1,000	–	100	Investment holding
Best On Development Ltd	British Virgin Islands/Hong Kong	US$1	–	100	Investment holding
China City Natural Gas Holdings Limited	Hong Kong	HK$1	–	100	Property holding
Real Million Investments Limited	British Virgin Islands/Hong Kong	US$1	–	100	Investment holding
Winner Sheen Limited	British Virgin Islands/Hong Kong	US$1	–	100	Investment holding
Zhongda Industrial Group Inc.	British Virgin Islands/Hong Kong	US$10,000	–	100	Investment holding

21. INTERESTS IN SUBSIDIARIES *(continued)*

Details of the principal subsidiaries are as follows*: (continued)*

Name	Form of business structure	Place of incorporation/ registration and operations	Nominal value of issued share capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
				Directly	Indirectly	
Accelstar Pacific Limited		British Virgin Islands/ Hong Kong	US$50,000	–	80	Investment holding
Sino Petroleum International Limited		Hong Kong	HK$10,000	–	100	Investment holding
Qingyun Petro-Tech Co. Ltd.		PRC	HK$4,000,000	–	100	Investment and construction of natural gas station

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the period/year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

22. INTERESTS IN A JOINTLY CONTROLLED ENTITY

(a) The following amounts represent the Group's proportionate share of the assets, liabilities, revenues and expenses of the jointly controlled entity and are included in the consolidated balance sheet and income statement as a result of proportionate consolidation:

	31.12.2006	31.07.2005
	HK$'000	HK$'000
Non-current assets	**125,496**	117,748
Current assets	**183,005**	85,352
Current liabilities	**(106,461)**	(36,324)
Non-current liabilities	**(41,389)**	(71,556)
Minority interests	**(21,150)**	(12,960)

	01.08.2005 To	01.08.2004 To
	31.12.2006	31.7.2005
	HK$'000	HK$'000
Income	**389,276**	201,672
Expenses	**(327,228)**	(170,817)
Share of profits (losses) of associates	**1,981**	(2,321)
Minority interests	**(10,825)**	(7,315)
Profit for the period/year	**53,204**	21,219

As at 31 December 2006, the Group's share of its jointly controlled entity's own capital commitments amounted to approximately HK$4,692,000 (31 July 2005: HK$707,000).

Details of the guarantee given by a jointly controlled entity are shown in note 41 to the financial statements.

22. INTERESTS IN A JOINTLY CONTROLLED ENTITY *(continued)*

(b) Movements in goodwill arising from the acquisition of the jointly controlled entity are as follows:

	Group	
	31.12.2006	31.7.2005 (restated)
	HK$'000	HK$'000
Cost		
At beginning of the period/year		
– As previously reported	**38,944**	38,944
Effect of adopting HKFRS 3		
– Accumulated amortisation	**(3,956)**	–
– As restated and at end of the period/year	**34,988**	38,944
Accumulated impairment/and amortisation		
At beginning of the period/year		
– As previously reported	**38,944**	38,944
Effect of adopting HKFRS 3		
– Accumulated amortisation	**(3,956)**	–
– As restated and at end of the period/year	**34,988**	38,944
Carrying amount		
At beginning of the period/year	**–**	–
At end of the period/year	**–**	–

22. INTERESTS IN A JOINTLY CONTROLLED ENTITY *(continued)*

(c) Details of the jointly controlled entity and its principal subsidiaries are as follows:

Name	Place of incorporation and operations	Principal activities	Percentage of ownership interests indirectly held by the Company
(a) Jointly controlled entity			
China City Natural Gas, Company Limited	PRC	Investment holdings	50
(b) Principal subsidiaries of jointly controlled entity			
西寧中油燃氣有限責任公司	PRC	Trading of natural gas and gas pipeline construction	40
慶雲中油燃氣有限責任公司	PRC	Trading of natural gas and gas pipeline construction	49
濱州中油燃氣有限責任公司	PRC	Trading of natural gas and gas pipeline construction	49
山東惠民中油燃氣有限責任公司	PRC	Trading of natural gas and gas pipeline construction	49.5
西寧中油城市燃氣工程設計諮詢有限公司	PRC	Gas pipeline design	46.25
西寧中油久安燃氣設備有限責任公司	PRC	Trading of gas pipeline materials	32
青海宏利燃氣管道安裝工程有限責任公司	PRC	Gas pipeline construction	39.8
青海中油中泰燃氣技術開發有限公司	PRC	Production and trading of liquefied natural gas	45

23. INTERESTS IN ASSOCIATES

	Group	
	31.12.2006	31.07.2005
	HK$'000	HK$'000
Share of net assets	**14,292**	21,473
Amount due from an associate	**226**	216
Goodwill	**–**	–
	14,518	21,689
Impairment losses	**(442)**	(442)
	14,076	21,247

The amount due is unsecured, interest free and has no fixed terms of repayments.

(a) Movements in goodwill arising from the acquisition of associates are as follows:

	Group	
	31.12.2006	31.07.2005
	HK$'000	HK$'000
Cost		
At beginning of the period/year		
– As previously reported	**730**	730
Effect of adopting HKFRS 3	**(36)**	–
– As restated and at end of the period/year	**694**	730
Accumulated impairment and amortisation		
At beginning of the period/year		
– As previously reported	**730**	36
Effect of adopting HKFRS 3		
– Accumulated amortisation	**(36)**	–
Impairment during the period/year	**–**	694
– As restated and at end of the period/year	**694**	730
Carrying amount		
At beginning of the period/year	**–**	–
At end of the period/year	**–**	–

23. INTERESTS IN ASSOCIATES *(continued)*

(b) Details of the principal associates are as follows:

Name	Place of incorporation/ registration and operations	Principal activities	Percentage of ownership interests/voting rights/profit share
濱州中興燃氣有限責任公司	PRC	Trading of natural gas and gas pipeline construction	20
湖南中油燃氣有限責任公司	PRC	Trading of natural gas and gas pipeline construction	20
醴陵中油燃氣有限責任公司	PRC	Trading of natural gas and gas pipeline construction	20

24. INVESTMENT SECURITIES

	Group 31.07.2005 HK$'000	Company 31.07.2005 HK$'000
Equity investments listed outside Hong Kong, at market value	6,269	419

The investment securities had been redesignated as available-for-sale financial assets as at 1 August 2005 upon adoption of HKAS 39.

25. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group 31.12.2006 HK$'000
Equity investments listed outside Hong Kong, at market value	**1,092**

As at 31 December 2006, the fair value of available-for-sales financial assets amounted to HK$1,092,000, for which impairment loss of HK$4,758,000 has been made in current financial period.

26. INVENTORIES

The following is an analysis of inventories at the balance sheet date

	Group	
	31.12.2006	31.07.2005
	HK$'000	HK$'000
Raw materials	**3,766**	4,799
Work-in-progress	**4,271**	5,560
Finished goods and natural gas	**117**	1,538
	8,154	11,897

27. SHORT TERM INVESTMENTS

	Group
	31.07.2005
	HK$'000
Listed equity investments, at market value:	
Hong Kong	16,610

As at 31 July 2005, HK$13,403,000 of the above short term investments were pledged to financial creditors to secure general facilities granted to the Group.

The short term investments had been redesignated as financial assets at fair value through profit or loss as at 1 August 2005 upon adoption of HKAS 39.

28. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group
	31.12.2006
	HK$'000
Listed equity investments, at market value:	
Hong Kong	**36,026**

As at 31 December 2006, approximately HK$10,360,000 of the above financial assets at fair value through profit or loss were pledged to financial creditors to secure general facilities granted to the Group.

29. DEPOSITS, TRADE AND OTHER RECEIVABLES

	Group	
	31.12.2006	31.07.2005
	HK$'000	HK$'000
Trade receivables	**41,940**	15,992
Other receivables, deposits and prepayments	**54,619**	100,263
Bills receivable	**–**	24
	96,559	116,279

The directors consider that the carrying amounts of deposit, trade and other receivables approximate to their fair values.

Included in trade receivables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	Group	
	31.12.2006	31.07.2005
Renminbi	**41,677,000**	16,432,500

The aging analysis of trade receivables is as follows:

	Group	
	31.12.2006	31.7.2005
	HK$'000	HK$'000
Current to 90 days	**15,927**	31
91 to 180 days	**213**	8
Over 180 days	**25,800**	15,953
Total	**41,940**	15,992

The Group allows an average credit period ranging from 60 to 180 days to its trade customers and keeps monitoring its outstanding trade receivables. Overdue balances are regularly reviewed by senior management of the Group.

There is no concentration of credit risk with respect of trade receivables, as the Group has a large number of customers.

30. CASH AND CASH EQUIVALENTS

	Group		Company	
	31.12.2006	31.07.2005	**31.12.2006**	31.07.2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at banks and in hand	**120,240**	35,819	**2,243**	197
Short term bank deposit	**45,177**	–	**45,177**	–
	165,417	35,819	**47,420**	197

The effective interest rate for short term bank deposit was 2.5% per annum. The deposit has a maturity of 7 days.

Included in cash and cash equivalents in the balance sheet are the following amounts denominated in Renminbi:

	Group		Company	
	31.12.2006	31.07.2005	**31.12.2006**	31.07.2005
Renminbi	**117,202,000**	36,847,260	**–**	–

Cash and bank overdraft include the following for the purposes of the cash flow statement.

	Group		Company	
	31.12.2006	31.07.2005	**31.12.2006**	31.07.2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and cash equivalents	**165,417**	35,819	**47,420**	197
Bank overdraft (note 35)	**–**	(98)	**–**	–
	165,417	35,721	**47,420**	197

31. SHARE CAPITAL

	Number of shares	Amount HK$'000
Authorised:		
Ordinary shares of HK$0.025 each at 1 August 2004	20,000,000,000	500,000
Increase of authorised share capital	30,000,000,000	750,000
Share subdivision	1,200,000,000,000	–
Share consolidation	(1,125,000,000,000)	–
Ordinary shares of HK$0.01 each at 31 July 2005 and 31 December 2006	125,000,000,000	1,250,000
Issued and fully paid:		
Ordinary shares of HK$0.025 each at 1 August 2004	9,521,841,423	238,046
Share options exercised	720,000,000	18,000
Shares issued upon conversion of convertible notes	984,000,000	24,600
Shares issued upon rights issue	2,048,368,284	51,209
Bonus shares issued pursuant to rights issue	3,072,552,426	76,814
Placing of shares	1,000,000,000	25,000
Capital reduction	–	(416,322)
Share consolidation	(15,612,085,920)	–
Ordinary shares of HK$0.01 each at 31 July 2005	1,734,676,213	17,347
Share options exercised (note a)	70,000,000	700
Placing of shares (note b)	540,000,000	5,400
Issue of shares in consideration for acquisition of an interest in a subsidiary (note c)	175,000,000	1,750
Ordinary shares of HK$0.01 each at 31 December 2006	2,519,676,213	25,197

31. SHARE CAPITAL *(continued)*

The movements in share capital were as follows:

(a) During the period ended 31 December 2006, subscription rights attaching to 70,000,000 option shares were exercised at the subscription price of HK$0.058 per share resulting in an issue of 70,000,000 shares of HK$0.01 each for a total cash consideration before expenses, of approximately HK$4,060,000;

(b) Pursuant to the placing agreement dated 11 September 2006 entered into between the Company and the placing agent, the Company agreed conditionally to issue and the placing agent conditionally agreed to place 540,000,000 new ordinary shares to at least seven independent investors. On 24 October 2006, the Company allotted and issued 540,000,000 new ordinary shares at a placing price of HK$0.12 per share in accordance with the terms of the agreement. A total consideration before expenses arising from the placing amounted to HK$64,800,000.

(c) On 18 July 2006, All Praise Investments Limited, a wholly owned subsidiary of the Company, entered into a sale and purchase agreement with the vendor to acquire 80% of the issued share capital of Accelstar Pacific Limited for a total consideration of HK$58.5 million, which was to be satisfied as to HK$10.5 million by the issue of 175,000,000 shares ("consideration shares") at an issue price of HK$0.06 per consideration share and as to the remaining of HK$48 million in cash. The consideration shares were issued on 14 November 2006 upon completion of the acquisition.

32. SHARE OPTION SCHEMES

Pursuant to a resolution passed by the shareholders on 31 January 2002, the Company adopted a new share option scheme (the "Scheme').

Under the Scheme, the board may at its discretion offer options to any eligible participant who is an employee, executive or officer of the Company or its subsidiaries (including executive and non-executive directors of the Company or its subsidiaries) and any suppliers, consultants or advisers who will provide or have provided services to the Company or its subsidiaries.

The maximum number of shares in respect of which options may be granted under the Scheme, subject to further refreshment of the limit on the grant of options by shareholders, is 10% of the issued shares as at 31 January 2002, being the date of shareholders' approval of the Scheme. On 14 August 2002, 9 June 2004 and 22 September 2006, the shareholders of the Company passed an ordinary resolution respectively approving the refreshment of the 10% limit on the grant of options under the Scheme.

The maximum entitlement of each eligible participant in any 12 month-period shall not exceed 1% of the number of shares in issue on the date of offer of an option.

The offer of a grant of options may be accepted within 28 days after the date of the offer, with a consideration of HK$1 for the grant thereof. Exercise period in respect of the options granted shall be determined by the board and in any event such period of time shall not exceed a period of 10 years commencing on the date upon which such option is deemed to be granted and accepted.

32. SHARE OPTION SCHEMES *(continued)*

The exercise price in relation to each option offered to an eligible participant under the Scheme shall be determined by the Board at its absolute discretion but in any event shall not be less than the highest of: (a) the official closing price of the shares as stated in the daily quotation sheet of the Stock Exchange on the date of offer of an option; (b) the average of the official closing price of the shares as stated in the daily quotation sheet of the Stock Exchange for the five business days immediately preceding the date of offer of an option; and (c) the nominal value of a share.

The Scheme shall be valid for 10 years from 31 January 2002 to 31 January 2012 (both dates inclusive).

For the year ended 31 July 2005, options to subscribe for 720,000,000 shares at an exercise price of HK$0.025 per share were granted to the Group's consultants under the Scheme and all of these option shares were exercised thereafter. In addition, 406,000,000 option shares lapsed upon expiry of the exercise period. As at 31 July 2005, the Company had outstanding options to subscribe for 70,000,000 shares under the Scheme.

During the period ended 31 December 2006, 70,000,000 shares were allotted and issued upon the exercise of the subscription rights by the option holders (see below). As at 31 December 2006, the Company had no outstanding share options.

Movements in the Company's share option during the current financial period ended 31 December 2006 are as follows:

					Movements of option shares during the period		
Category of Participant	Date of grant	Exercise price per share HK$	Exercise period	Closing price before date of grant HK$ (Note 1)	As at 1.8.2005	Exercised	As at 31.12.2006
Consultants	21.07.2005	0.0580	21.07.2005 – 20.07.2006	0.058	70,000,000	70,000,000	–

Notes:

(1) The closing price was recorded immediately before the date of grant.

(2) No share options were granted during the period ended 31 December 2006.

No theoretical value of share option is disclosed as no share options were granted during the current financial period.

33. RESERVES

Company

	Share premium account HK$'000	Capital redemption reserve HK$'000	Convertible notes reserves HK$'000	Other capital reserve HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 31 July 2004, as previously reported	993,975	675	–	25,341	49,753	(1,116,902)	(47,158)
Effect on adopting HKAS 32	–	–	282	–	–	(243)	39
At 1 August 2004, as restated	993,975	675	282	25,341	49,753	(1,117,145)	(47,119)
Bonus shares pursuant to rights issue	(76,814)	–	–	–	–	–	(76,814)
Issue of convertible notes	–	–	1,590	–	–	–	1,590
Redemption of convertible notes	–	–	(753)	–	–	–	(753)
Conversion of convertible notes	117	–	(942)	–	–	–	(825)
Capital reduction	–	–	–	–	–	416,322	416,322
Other capital reserve was transferred to accumulated losses after expiry of warrants in 2003 (note b)	–	–	–	(25,341)	–	25,341	–
Loss for the year, as restated	–	–	–	–	–	(148,541)	(148,541)
At 31 July 2005, as restated and at beginning of the period	917,278	675	177	–	49,753	(824,023)	143,860
Exercise of share options	3,360	–	–	–	–	–	3,360
Placing of shares	59,400	–	–	–	–	–	59,400
Issue of shares in consideration for acquisition of a subsidiary	8,750	–	–	–	–	–	8,750
Release of convertible notes reserve upon redemption of convertible notes	–	–	(177)	–	–	–	(177)
Profit for the period	–	–	–	–	–	35,409	35,409
At 31 December 2006	988,788	675	–	–	49,753	(788,614)	250,602

33. RESERVES *(continued)*

Company *(continued)*

Notes:

(a) The contributed surplus of the Company represents the excess of the net assets value of the subsidiaries acquired pursuant to the Group's reorganisation in 1993 over the nominal value of the Company's shares issued in exchange therefore. Under the Companies Act of Bermuda 1981 (as amended), the contributed surplus of the Company is distributable to the shareholders in certain circumstances which the Company is currently unable to satisfy. The share premium account of the Company is distributable in the form of fully paid bonus shares.

(b) On 19 December 2003, the outstanding 800,000,000 warrants lapsed upon expiry of warrants and the warrant reserve of HK$25,341,000 was redesignated as other capital reserve as at the date of expiry and 31 July 2004. Should this capital reserve be transferred to the accumulated losses upon expiry of the outstanding warrants, the balances of other capital reserve and accumulated losses as at 31 July 2004 would have been reduced by the same amount of HK$25,341,000; and such transfer has no effect on the total equity and reserves of the Group and Company as at 31 July 2004 and 2005. In the opinion of the directors, other capital reserve of HK$25,341,000 arising from expiry of the outstanding warrants in 2003 was transferred to the accumulated losses in 2005.

34. TRADE AND OTHER PAYABLES

	Group	
	31.12.2006	31.07.2005
	HK$'000	HK$'000
Trade payables	**21,609**	6,307
Other payables and accruals	**74,310**	36,233
	95,919	42,540

The directors consider that the carrying amount of trade and other payables approximate to their fair value.

Included in trade payables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	Group	
	31.12.2006	31.07.2005
Renminbi	**21,473,000**	3,619,000

The aging analysis of trade payables is as follows:

	Group	
	31.12.2006	31.07.2005
	HK$'000	HK$'000
Current to 90 days	**7,736**	700
91 to 180 days	**371**	2,141
Over 180 days	**13,502**	3,466
Total	**21,609**	6,307

35. BANK AND OTHER BORROWINGS

	Group	
	31.12.2006	31.07.2005
	HK$'000	HK$'000
Non-current		
Bank borrowings – secured	**7,548**	23,740
Other loans – unsecured	**31,195**	49,974
	38,743	73,714
Current		
Bank overdraft	**–**	98
Bank borrowings – secured	**2,515**	4,999
Other loans – unsecured	**11,573**	–
	14,088	5,097
Total bank and other borrowings	**52,831**	78,811

The maturity of bank and other borrowings is as follows:

	Bank borrowings		Other loans	
	31.12.2006	31.07.2005	**31.12.2006**	31.07.2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within 1 year	**2,515**	5,097	**11,573**	–
Between 1 and 2 years	**7,548**	7,397	**11,069**	–
Between 2 and 5 years	**–**	14,995	**12,448**	–
Wholly repayable within 5 years	**10,063**	27,489	**35,090**	–
Over 5 years	**–**	1,348	**7,678**	49,974
	10,063	28,837	**42,768**	49,974

35. BANK AND OTHER BORROWINGS *(continued)*

Notes:

(i) The bank borrowings of HK$10,063,000 (31 July 2005: HK$26,378,000) are secured by natural gas operation right and gas pipelines for a cost of RMB35,347,000 (31 July 2005: RMB66,315,000) as set out in note 17 to the financial statements. As at 31 July 2005, another bank loan of HK$2,361,000 is secured on the Group's leasehold buildings and leasehold land and land use rights in Hong Kong for the carrying value of HK$1,886,000 and HK$1,687,000 respectively (notes 17 & 18).

(ii) As at 31 December 2006, the effective interest rate for bank borrowings is 5.58% (31 July 2005: the effective interest rates were in the range of 5.58% to 6.03% per annum).

(iii) The unsecured other loans of HK$14,722,000 (31 July 2005: HK$6,714,000) are interest bearing at the rate in the range of 2.28% to 2.55% per annum for the current financial period and repayable on the eighth anniversary date from the date of borrowings. The remaining unsecured other loans of HK$28,046,000 (31 July 2005: HK$43,260,000) are interest bearing at the effective interest rate of 4.78% and repayable within 5 years.

The carrying amounts and fair value of non-current borrowings are as follows:

	Carrying amounts		Fair values	
	31.12.2006	31.07.2005	**31.12.2006**	31.07.2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank borrowings	**7,548**	23,740	**7,502**	23,623
Other loans	**31,195**	49,974	**27,734**	47,593
	38,743	73,714	**35,236**	71,216

The fair values are based on cash flows discounted using a rate based on the borrowing rate ranging from 6.3% to 6.84% (31 July 2005: ranging from 3.7% to 6.3%).

The carrying amounts of short-term borrowings approximate to their fair value.

Included in borrowings are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	31.12.2006	31.07.2005
Renminbi	**52,500,000**	79,600,000

36. CONVERTIBLE NOTES

In January 2004, the Company issued a 3% convertible note due on 14 July 2005 in the principal amount of HK$20 million to an independent third party and the note was wholly redeemed in December 2004 with interest accrued.

In October and November 2004, the Company issued 1-year 1% convertible notes in the aggregate principal amount of US$2 million and HK$25 million respectively to independent third parties, entitling the holders to convert up to an aggregate of 1,624,000,000 ordinary shares of the Company at an initial conversion price of HK$0.025 per share. During the year ended 31 July 2005, the convertible notes in the principal amount of US$2 million was fully converted into 624,000,000 ordinary shares of the Company. In respect of the convertible notes in the aggregate principal amount of HK$25 million, HK$9 million of which was converted into 360,000,000 ordinary shares of the Company in December 2004 and HK$12 million of which was redeemed in July 2005.

The remaining convertible notes with the aggregate amount of HK$4 million were due on 3 November 2005. After the maturity date of the convertible notes, the notes were wholly redeemed and repaid with interest accrued on 15 August 2006.

The fair value of the liability component and equity component of the convertible notes was determined at the issuance date. The fair value of the liability component was calculated using a market interest rate for an equivalent non-convertible note. Interest expenses on the convertible notes are calculated using the effective interest method by applying the effective interest rates in the region of 5% to 5.125% to the liability component. The residue amount, representing the value of the equity component, is included in reserves.

The net proceeds received from the issue of the convertible notes have been split between the liability and equity components as follows:

	Group and Company	
	31.12.2006	31.07.2005 (As restated)
	HK$'000	HK$'000
Liabilities component at the beginning of the period/year	**3,960**	19,960
Nominal value of convertible notes issued during the period/year	**–**	40,516
Equity component	**–**	(1,590)
	3,960	58,886
Interest expenses	**40**	882
Interest paid	**–**	(360)
Conversion of convertible notes	**–**	(23,690)
Redemption of convertible notes	**(4,000)**	(31,758)
Liability component at the end of the period/year	**–**	3,960

37. DEFERRED TAX LIABILITIES

Details of deferred tax liabilities and amount charged to the consolidated income statement is as follows:

	Accelerated depreciation allowances	
	31.12.2006	31.07.2005
	HK$'000	HK$'000
At beginning of the period/year	**–**	365
Charged (credited) to income statement during the period/year (note 11)	**2,646**	(365)
At end of period/year	**2,646**	–

The Group has tax losses arising in Hong Kong of HK$6,467,000 (31 July 2005: HK$6,469,000) that are agreed by the Inland Revenue Department and available indefinitely for offsetting against future taxable profits of the Group. Deferred tax assets have not been recognised in respect of these losses as the Group has been making loss for some time.

38. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of a Subsidiary

On 18 July 2006, a wholly owned subsidiary of the Company entered into a sale and purchase agreement for acquisition of 80% of the total issued share capital of a company, Accelstar Pacific Limited (Accelstar group), at a consideration of HK$58.5 million. Accelstar group is engaged in the business of investment and construction of natural gas stations and supply of natural gas in Qingyun City and Binzhou City of the PRC through its two subsidiaries in China.

If the acquisition had occurred on 1 August 2005, no revenue would be generated as the natural gas stations of the Accelstar group were still under construction and the business of natural gas supply had not yet commenced as at 31 December 2006.

38. NOTES TO CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(a) Acquisition of a Subsidiary *(continued)*

Particulars of the assets and liabilities acquired are as follows:

	31.12.2006 HK$'000	31.07.2005 HK$'000
Non current assets		
Intangible assets	–	5,000
Current assets		
Leasehold land and land use rights	650	–
Current liabilities		
Other payable	(260)	–
	390	5,000
Minority interests	(78)	–
Net assets acquired	312	5,000
Goodwill on acquisition	58,188	1,000
	58,500	6,000
Purchase consideration	58,500	6,000
Less: Share consideration	(10,500)	–
Outstanding balance included in trade and other payables	(7,200)	–
Net cash outflow on acquisition	40,800	6,000

38. NOTES TO CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Disposal/Partial Disposal of a Subsidiary

During the period ended 31 December 2006, the Group disposed of one of its subsidiaries. Details of the disposal are as follows:

Book value of net assets sold:

	31.12.2006 HK$'000	31.07.2005 HK$'000
Non current assets		
Investment securities	**–**	12,500
Available-for-sale financial assets	**9,170**	–
Current assets		
Amount due from immediate holding company	**–**	1
Current liabilities		
Amount due to a fellow subsidiary	**–**	(50,013)
	9,170	(37,512)
Net assets disposed of (31 July 2005: Disposed portion: 40% interest)	**9,170**	(15,005)
Loss of minority interests taken up by the Group	**–**	10,005
Gain (loss) on disposal/partial disposal	**(1,270)**	5,000
	7,900	–
Consideration		
Cash and cash equivalents	**7,900**	5,000
Net cash inflow on disposal		
Consideration received in the form of cash and cash equivalents	**7,900**	5,000

38. NOTES TO CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(c) Disposal of Discontinued Operations

(i) The business of manufacturing and trading of silicone rubber products

During the period ended 31 December 2006, the Group disposed of its business of manufacturing and trading of silicone rubber products. Details of the disposal are as follows:

Book value of net assets sold:

	31.12.2006 HK$'000	31.07.2005 HK$'000
Current assets		
Deposits, trade and other receivables	**352**	–
Cash and cash equivalents	**31**	–
Current liabilities		
Trade and other payables	**(3,373)**	–
Net liabilities disposed of	**(2,990)**	–
Gain on disposal	**3,090**	–
	100	–
Consideration		
Cash and cash equivalents	**100**	–
Net cash inflow on disposal		
Consideration received in the form of cash and cash equivalents	**100**	–
Less: Cash and cash equivalents disposed of	**(31)**	–
	69	–

(ii) The business of investment in internet and information technology activities

On 28 December 2006, the Group disposed of its business of investment in internet and information technology activities at a consideration of HK$1. At the date of disposal, the net book value of the business was at zero balance. Accordingly, the net cash inflow from the disposal amounted to HK$1.

39. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties under operating arrangements. Leases for properties are negotiated for terms ranging from two years.

At 31 December 2006, the Group and the Company had total future minimum lease payments under non-cancelable operating leases falling due as follows:

	Group		Company	
	31.12.2006	31.07.2005	**31.12.2006**	31.07.2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Land and buildings expiring:				
Within one year	**1,353**	3,376	**–**	2,643
In the second to fifth years, inclusive	**995**	400	**–**	400
	2,348	3,776	**–**	3,043

40. CAPITAL COMMITMENTS

The Group had the following capital commitments at the balance sheet date:

	Group		Company	
	31.12.2006	31.07.2005	**31.12.2006**	31.07.2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Property, plant and equipment:				
Authorised, but not contracted for	**–**	–	**–**	–
Contracted, but not provided for	**6,058**	707	**–**	–
Establishment and acquisition of subsidiaries:				
Contracted, but not provided for (note 43)	**349,618**	–	**–**	–
Consultancy fees:				
Authorised, but not contracted for	**–**	–	**–**	–
Contracted, but not provided for	**641**	–	**641**	–
Contracted, but not provided for	**356,317**	707	**641**	–

Included in capital commitments in respect of property, plant and equipment was an amount of HK$4,692,000, which represented the Group's share of its jointly controlled entity's own capital commitments as at 31 December 2006 (31 July 2005: HK$707,000).

41. FINANCIAL GUARANTEES AND CONTINGENT LIABILITIES

As at 31 December 2006, the jointly controlled entity of the Group provided financial guarantees on loan facilities granted to its existing and disposed associates to the extent of HK$70,039,000 RMB69,600,000 (31 July 2005: HK$47,000,000 RMB50,000,000) and the Group do not have any other significant contingent liabilities.

The financial guarantee provided in favour of the disposed associate is in the process of relinquishment, and the Group and its jointly controlled entity consider that existing associate is financially resourceful in settling its obligations.

In the opinion of the directors, the fair values of the above financial guarantees are insignificant as at 31 December 2006 and 31 July 2005.

42. TRANSACTION AND BALANCES WITH RELATED PARTIES

Details of the Group's significant balances with the following related parties as at 31 December 2006, are as follows:

	31.12.2006	31.07.2005
	HK$'000	HK$'000
Company controlled by a director:		
Balance due to the Group	**5,000**	–
Minority shareholder:		
Balance due from the Group	**6,810**	–

The balances are unsecured, interest free and repayable on demand.

Details of related party transaction entered between the Group and that director are set out in note 43 (b).

Details of financial guarantees provided by the jointly controlled entity of the Group to its existing and disposed associates are set out in note 41.

43. POST BALANCE SHEET EVENTS

Acquisition of business – PRC natural gas stations

(a) Nanjing natural gas stations

On 11 December 2006, a wholly owned subsidiary of the Company entered into a sale and purchase agreement for the acquisition of 80% of the total issued share capital of a company, Plentigreat Holdings Limited ("Plentigreat", together with its subsidiaries, collectively referred as to "Plentigreat Group"), at a consideration of HK$133 million of which HK$67 million was paid in cash and a sum of HK$66 million convertible notes were issued at 1% interest per annum. Pursuant to the agreement, the wholly owned subsidiary of the Company also undertook to advance an interest-free loan of HK$12 million to Plentigreat for the purpose of construction and operation of natural gas stations in Nanjing. Plentigreat is engaged in the business of investment in construction and operation of natural gas stations and supply of natural gas in Nanjing of PRC through its two wholly owned subsidiaries in PRC.

As at 31 December 2006, a refundable interest free deposit of HK$5,000,000 has been paid by the Group to the vendor for partial settlement of the acquisition. Capital commitment in respect of the acquisition of Plentigreat is set out in note 40 to the financial statements.

On 1 February 2007, upon fulfillment of the conditions as stated in the sale and purchase agreement by both parties, the Company had completed the acquisition by the issue of HK$66 million convertible notes to the vendor and the cash consideration was fully settled on 12 February 2007.

Details of net assets acquired and goodwill based on the unaudited financial information are as follows:

	Acquiree's carrying amount
	HK$'000
Purchase consideration	
– Cash payment	67,000
– Issue of convertible note	66,000
	133,000
Assets arising from the acquisition – current assets	62
Goodwill	132,938

On the date of acquisition, Plentigreat has not yet commenced any business operations other than the investment in its wholly owned subsidiaries. The above goodwill is attributable to the Plentigreat Group's procurement of the approval from the relevant government authority in the PRC to invest in, construct and operate natural gas stations in Nanjing.

43. POST BALANCE SHEET EVENTS *(continued)*

Acquisition of business – PRC natural gas stations *(continued)*

(b) Anhui natural gas stations

On 15 December 2006, a wholly owned subsidiary of the Company entered into a sale and purchase agreement with Sino Vantage Management Limited ("Sino Vantage"), a company wholly owned by Mr. Xu Tie-liang, the Chairman and executive Director of the Company, to acquire the entire issued share capital of Vast China Group Limited ("Vast China", together with its subsidiaries, collectively referred as to the "Vast China Group"), a company wholly owned by Sino Vantage, and the shareholder's loan of HK$10,370,793 to Vast China at a consideration of HK$196,370,793. The consideration has to be satisfied by i) HK$10,370,793 in cash, ii) HK$96 million by the issue of 400 million new shares of the Company at HK$0.24 each and iii) a sum of HK$90 million convertible note issued at interest-free. Pursuant to the agreement, the wholly owned subsidiary of the Company also undertook to advance an interest-free loan of HK$12 million to Vast China for the purpose of construction and operation of natural gas stations in Anhui. Vast China is engaged in the business of investment in construction and operation of natural gas stations and supply of natural gas in Maanshan, a city of Anhui of PRC, through an indirectly wholly foreign owned subsidiary and a 60% indirectly owned sino-foreign joint venture enterprise in PRC respectively.

As at 31 December 2006, a refundable interest free deposit of HK$5,000,000 has been paid by the Group to Sino Vantage for partial settlement of the acquisition. Capital commitment in respect of the acquisition of Vast China is set out in note 40 to the financial statements.

Upon fulfillment of the conditions as stated in the sale and purchase agreement by both parties, the Company had completed the acquisition on 20 March 2007.

Details of net assets acquired and goodwill based on the unaudited financial information are as follows:

	Acquiree's carrying amount
	HK$'000
Purchase consideration	
– Cash payment	10,371
– Issue of 400 million ordinary shares at HK$0.24 each	96,000
– Issue of 90 million convertible note	90,000
	196,371
Acquisition of the shareholder's loan to Vast China	(10,371)
	186,000
Net liabilities acquired	701
Goodwill	186,701

43. POST BALANCE SHEET EVENTS *(continued)*

Acquisition of business – PRC natural gas stations *(continued)*

(b) Anhui natural gas stations *(continued)*

The above goodwill is attributable to the Vast China Group's procurement of the approval from the relevant government authority in the PRC to invest in, construct and operate main and other new natural gas stations in Maanshan and supply of natural gas in Maanshan. The acquisition will enable the Group to capture the business opportunities to become a major supplier of natural gas in Maanshan.

The assets and liabilities arising from the acquisition based on the unaudited financial information are as follows:

	HK$'000
Non-current assets	5,665
Current assets	11,166
Current liabilities	(11,086)
	5,745
Minority interests	(6,446)
Net liabilities acquired	(701)

Placement of Shares

Subsequent to the balance sheet date, the Company completed a placing and issued 360,000,000 ordinary shares at a placing price of HK$0.29 per share. The net proceeds arising from the placing amounted to approximately HK$104 million.

44. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of HKFRS during the current period, the accounting treatment and the presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been restated. In addition, certain comparative amounts have been reclassified to conform to the current period's presentation.

45. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 17 April 2007.