

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2006

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the annual financial statements of the Company and its subsidiaries (the "Group") for the period from 1st July, 2004 to 31st December, 2005 except as described below.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the HKICPA, which are either effective for accounting periods beginning on or after 1st December, 2005 or 1st January, 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

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

HKAS 1 (Amendment)	Capital disclosures ¹
HKFRS 7	Financial instruments: Disclosures ¹
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 "Financial Reporting in Hyperinflationary Economies" ²
HK(IFRIC) – INT 8	Scope of HKFRS 2 ³
HK(IFRIC) – INT 9	Reassessment of embedded derivatives ⁴

¹ Effective for annual periods beginning on or after 1st January, 2007.

² Effective for annual periods beginning on or after 1st March, 2006.

³ Effective for annual periods beginning on or after 1st May, 2006.

⁴ Effective for annual periods beginning on or after 1st June, 2006.

3. REVENUE AND SEGMENT INFORMATION

For management purposes, the Group redesignated its business segments into three operating divisions – operation of gas stations, trading of gas related products and provision for technical services. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

Income statement for the six months ended 30th June, 2006

	Operation of gas stations (Unaudited) HK\$'000	Trading of gas related products (Unaudited) HK\$'000	Provision for technical services (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
REVENUE				
External	42,351	12,801	27,473	82,625
Segment result	881	2,623	25,298	28,802
Unallocated other income				1,818
Unallocated corporate expenses				(14,292)
Finance costs				(1,964)
Gain on disposal of a subsidiary				1,980
Share of results of associates				746
Share of results of jointly controlled entities				(56)
Profit before taxation				17,034
Taxation				(118)
Profit for the period				16,916

3. REVENUE AND SEGMENT INFORMATION (Continued)

Income statement for the six months ended 30th June, 2005

	Operation of gas stations (Unaudited) HK\$'000	Trading of gas related products (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
REVENUE			
External	33,358	7,819	41,177
Segment result	1,095	217	1,312
Unallocated other income			2,537
Unallocated corporate expenses			(11,024)
Finance costs			(4,467)
Impairment loss recognised in respect of available-for-sale investments			(139,027)
Impairment loss recognised in respect of interests in associates			(27,980)
Share of results of associates			1,730
Loss before taxation			(176,919)
Taxation			(27)
Loss for the period			(176,946)

4. FINANCE COSTS

	Six months ended 30th June,	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	1,401	2,932
Other borrowings wholly repayable within five years	-	57
Finance leases	17	43
Imputed interest expense on other borrowings	546	1,038
Imputed interest expense on loan from an associate	-	397
	1,964	4,467

5. TAXATION

	Six months ended 30th June,	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
The charge comprises:		
Profit for the period		
The People's Republic of China (the "PRC")	118	27

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

Taxation arising in other jurisdictions was calculated at the rates prevailing in the respective jurisdictions.

At 30th June, 2006, the Group has unutilised tax losses of approximately HK\$141 million (31.12.2005: HK\$133 million) available to offset against future profits. No deferred tax asset has been recognised in respect of the unutilised tax losses due to the unpredictability of future profit streams.

6. PROFIT (LOSS) FOR THE PERIOD

	Six months ended 30th June,	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Profit (loss) for the period has been arrived at after charging:		
Depreciation of property, plant and equipment:		
Owned assets	1,274	916
Assets held under finance leases	135	270
Amortisation of prepaid lease payments on land use rights	49	5
Share options expense	6,210	-

7. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share attributable to the ordinary equity holders of the parent is based on the following data:

	Six months ended 30th June,	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Earnings (loss) for the purposes of basic and diluted earnings (loss) per share		
– profit (loss) for the period attributable to equity holders of the parent	14,660	(175,724)
	Number of shares	
	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	1,142,714	334,952
Effect of dilutive potential ordinary shares:		
– share options	37,183	–
– warrants	37,235	–
Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share	1,217,132	334,952

The weighted average number of shares for the purpose of calculation of basic and diluted loss per share for the six months ended 30th June, 2005 has been adjusted for the consolidation of the Company's shares on 7th October, 2005.

The computation of diluted loss per share for the six months ended 30th June, 2005 did not assume the exercise of the Company's outstanding warrants as their exercise would result in a decrease in net loss per share for the period.

8. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$19 million and HK\$14 million on additions to construction in progress, and other property, plant and equipment respectively.

9. GOODWILL

	1.1.2006 to 30.6.2006 (Unaudited) HK\$'000	1.7.2004 to 31.12.2005 (Audited) HK\$'000
COST		
At beginning of the period	100,158	100,990
Elimination of accumulated amortisation upon the application of HKFRS 3	-	(2,583)
Arising on acquisition of additional interests in subsidiaries	-	1,466
Arising on acquisition of subsidiaries	99,030	285
At end of the period	199,188	100,158
AMORTISATION		
At beginning of the period	-	2,583
Elimination of accumulated amortisation upon the application of HKFRS 3	-	(2,583)
At end of the period	-	-
CARRYING VALUES		
At end of the period	199,188	100,158

Addition for the six months ended 30th June, 2006 represents the goodwill arising from acquisition of a subsidiary, Jetco Innovations Limited ("Jetco"), details of the acquiree and the transaction have been disclosed in note 17.

For the six months ended 30th June, 2006, management of the Group determined that there are no impairment of all existing cash generating units containing the goodwill by reference to the estimated recoverable amounts of the units.

10. INTERESTS IN ASSOCIATES

	30.6.2006 (Unaudited) HK\$'000	31.12.2005 (Audited) HK\$'000
Cost of investment in unlisted associates	74,839	74,111
Impairment loss recognised	(27,980)	(27,980)
	46,859	46,131
Share of post-acquisition profit	1,241	728
	48,100	46,859

The impairment loss represents a write-down of the carrying amount of goodwill of an associate to its recoverable amount based on the estimated future cash flow projections.

11. AVAILABLE-FOR-SALE INVESTMENTS

	30.6.2006 (Unaudited) HK\$'000	31.12.2005 (Audited) HK\$'000
Unlisted overseas equity securities	149,746	148,208
Impairment loss recognised	(144,889)	(144,889)
	4,857	3,319

Available-for-sale investments are measured at cost less impairment at the balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of opinion that their fair values cannot be measured reliably.

The impairment loss represents write-downs of the costs of investments to their respective recoverable amounts based on the estimated future cash flow projections.

12. TRADE RECEIVABLES

The Group allowed an average credit period of 90 to 120 days to its trade customers.

The following is an aged analysis of trade receivables at the reporting date:

	30.6.2006 (Unaudited) HK\$'000	31.12.2005 (Audited) HK\$'000
0 – 90 days	40,232	14,019
91 – 120 days	–	286
Over 120 days	2,040	1,897
	42,272	16,202

13. TRADE PAYABLES

The following is an aged analysis of trade payables at the reporting date:

	30.6.2006 (Unaudited) HK\$'000	31.12.2005 (Audited) HK\$'000
0 – 90 days	7,017	3,315
91 – 120 days	124	–
Over 120 days	3,282	6,585
	10,423	9,900

14. BORROWINGS

During the period, the Group repaid bank loans of HK\$26,217,000 and obtained new bank loans amounting to HK\$29,130,000. The loans bear interest at market rates and are repayable within one year. The proceeds were used to finance the acquisition of property, plant and equipment.

15. SHARE CAPITAL

Shares

	Number of shares '000	Nominal value HK\$'000
Ordinary shares of HK\$0.20 each		
Authorised:		
At 1st January, 2006 and 30th June, 2006	10,000,000	2,000,000
Issued and fully paid:		
At 1st January, 2006	1,004,855	200,971
Issue of shares for acquisition of a subsidiary	124,500	24,900
Issue of shares by placements	100,000	20,000
Issue of shares upon exercise of options	39,000	7,800
At 30th June, 2006	1,268,355	253,671

On 22nd March, 2006, the Company allotted and issued 124,500,000 new ordinary shares of HK\$0.20 each at an issue price of HK\$0.255 each as part of consideration for acquisition of Jetco. Details of the transaction have been disclosed in note 17.

On 15th March, 2006, the Company had entered into the placing arrangement (the "Placing") with ABN AMRO Bank N.V. and Sun Shining Investment Corp. ("the "Placees"). As a result, an aggregate of 100,000,000 shares at a price of HK\$0.52 per share were placed to the Placees. The Placing were completed on 24th March, 2006.

During the period, 39,000,000 shares of HK\$0.20 each in the Company were issued upon the exercise of share options at an exercise price of HK\$0.20.

All the shares issued during the period rank pari passu in all respects with the existing shares.

Unlisted warrants

In connection with the acquisition of a subsidiary as disclosed in note 17, the Company also placed 55,500,000 2008-warrants, with an issue price of HK\$0.002 per unit, at an initial subscription price of HK\$0.20 (subject to adjustment) for a period of twenty four months commencing from the date of allotment and issue of 2008-warrants.

In connection with the placements of shares completed on 20th September, 2004, the Company also placed (a) HK\$19,200,000 2005-warrants, with an issue price of HK\$0.003 per unit, at an initial subscription price of HK\$0.096 (subject to adjustment) for a period of twelve months commencing from the date of allotment and issue of 2005-warrants; and (b) HK\$19,600,000 2006-warrants, with an issue price of HK\$0.005 per unit, at an initial subscription price of HK\$0.098 (subject to adjustment) for a period of twenty four months commencing from the date of allotment and issue of 2006-warrants, to the placees. On 17th August, 2005, the subscription price of the 2005-warrants and 2006-warrants were adjusted to HK\$0.056 per share and HK\$0.057 per share respectively as a result of the issuance of new shares under the open offer. The 2005-warrants then lapsed on 20th September, 2005. On 7th October, 2005, the subscription price of the 2006-warrants was further adjusted to HK\$0.57 per share as a result of the share consolidation.

Neither 2008-warrants nor 2006-warrants were exercised during the six months ended 30th June, 2006.

The 2006-warrants lapsed on 20th September, 2006.

16. SHARE OPTIONS

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 15th April, 2005 for the purpose of providing incentives to directors, employees and any other persons. Under the Scheme, the Board of Directors (the "Board") of the Company may grant options to eligible employees, including directors of the Group or any person who in the sole discretion of the Board has contributed or may contribute to the Group (the "Eligible Participants"), to subscribe for shares in the Company.

At 30th June, 2006, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 61,000,000 (31.12.2005: nil), representing 4.8% (31.12.2005: nil) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up within 28 days of the date of grant, upon payment of HK\$1 per grant. The period during which an option may be exercised will be determined by the Board at its absolute discretion, save that no option may be exercised more than 10 years after it has been granted. No option may be granted more than 10 years after the date of approval of the Scheme. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

Details of specific categories of options are as follows:

Option type	Date of grant	Vesting period	Exercise period	Exercise Price
2006	3/1/2006	Nil – 12 months from grant date	1/2/2006 – 31/1/2015	HK\$0.20

16. SHARE OPTIONS (Continued)

The following table discloses movements of the Company's share options held by the Eligible Participants during the six months ended 30th June, 2006.

Option type	Outstanding at 1/1/2006	Granted during the six months ended 30/6/2006	Exercised during the six months ended 30/6/2006	Outstanding at 30/6/2006
2006	–	100,000,000	39,000,000	61,000,000

In the current period, share options were granted on 3rd January, 2006, and the closing price of the Company's shares on the date of grant of the options was HK\$0.20. The fair value of the options determined at the date of grant using the Black-Scholes option pricing model was HK\$7,471,000.

The following assumptions were used to calculate the fair values of share options:

Share price	HK\$0.20
Exercise price	HK\$0.20
Expected life of options	0.74 – 2.08 years
Expected volatility	88.3%
Expected dividend yield	0%
Risk free rate	3.87 – 4.02%

The variables and assumptions used in computing the fair value of the share options in the Black-Scholes option pricing model are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

The Group recognised total expense of HK\$6,210,000 for the six months ended 30th June, 2006 (six months ended 30th June, 2005: nil) in relation to share options granted by the Company.

17. ACQUISITION OF A SUBSIDIARY

On 1st February, 2006, the Group entered into a sale and purchase agreement with Bonus World Limited and Mr. Zhou Fang Yi to acquire the entire share capital of Jetco at an aggregate consideration of HK\$31,858,500. The consideration was satisfied by allotment and issue of 124,500,000 new ordinary shares in the Company of HK\$0.20 each at an issue price of HK\$0.255 each and 55,500,000 warrants at an issue price of HK\$0.002 per unit, at a subscription price of HK\$0.20 each. However, the cost of investment in Jetco was based on the consideration of the fair value of the new issue of shares and warrants by reference to the closing market price of the shares of the Company at the date of the allotment of HK\$0.62 per share, which was amounted to HK\$103,598,000 in aggregate.

Jetco holds 50% interest in Shandong Sinogas Company Limited ("Shandong Sinogas"), a former jointly controlled entity of the Group which is established in the PRC and engaged in provision of gas related services. After the acquisition, Shandong Sinogas became a subsidiary of the Company.

The transaction has been accounted for by the purchase method of accounting. As Shandong Sinogas is still in preliminary stage and the assets were newly acquired, the directors of the Company determined that the fair values of the assets and liabilities of Jetco approximate to their carrying amounts before combination, accordingly no fair value adjustments have been put through.

The net assets acquired in the transaction, and the goodwill arising, are as follows:

	HK\$'000
Net assets acquired:	
Property, plant and equipment	9,682
Trade and other receivables	4,851
Bank balances and cash	76
Trade and other payables	(501)
	14,108
Less: Interest acquired in previous years as interest in a jointly controlled entity, including share of post-acquisition results	(9,540)
	4,568
Goodwill arising on acquisition	99,030
	103,598
Satisfied by:	
Issue of new ordinary shares	77,190
Issue of warrants	26,408
	103,598

17. ACQUISITION OF A SUBSIDIARY (Continued)

Net cash inflow arising on acquisition represents bank balances and cash acquired.

The goodwill arising on the acquisition of Jetco is attributable to the anticipated profitability of the Group's gas related activities in regional market and the anticipated future operating synergies from the combination.

The subsidiary acquired during the period contributed HK\$13,745,000 and HK\$13,711,000 to the Group's revenue and profit before tax for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1st January, 2006, total Group's revenue and profit for the period would have been similar as current period actual amount. The pro forma information is for illustrative purposes only and is not necessarily an indicative of the revenue and results of the Group that actually would have been achieved had the acquisition been completed on 1st January, 2006, nor is it intended to be a projection of future results.

18. DISPOSAL OF A SUBSIDIARY

The net assets of a subsidiary disposed of were as follows:

	HK\$'000
Net assets disposed of	6,717
Minority interests	(2,687)
	4,030
Gain on disposal of a subsidiary	1,980
Total consideration satisfied by cash	6,010
Net cash inflow arising on disposal:	
Cash consideration	6,010
Bank balances and cash disposed of	(45)
	5,965

The subsidiary disposed of during the current period did not have significant contributions to the Group's cash flows or operating results for the period.

19. CAPITAL COMMITMENTS

At 30th June, 2006, the Group had capital commitments in respect of the acquisition of property, plant and equipment of HK\$21,886,000 (31.12.2005: HK\$22,295,000) contracted for but not provided in the financial statements.

20. RELATED PARTY TRANSACTIONS

During the period, the Group entered into a loan agreement with Sanlin Resources Limited ("Sanlin"), a shareholder of a jointly controlled entity in which the Group granted loan of HK\$6,300,000 (six months ended 30th June, 2005: nil). The loan was unsecured, interest bearing at 3% per annum and was repayable within one year.

21. POST BALANCE SHEET EVENTS

On 10th July, 2006, the Company has entered into five subscription agreements with five subscribers respectively, including Billirich Investment Limited, a wholly-owned subsidiary of CATIC International Holdings Limited, a substantial shareholder of the Company, pursuant to which the subscribers agreed to subscribe and the Company agreed to issue and allot an aggregate of 165,000,000 new shares of the Company at the subscription price of HK\$0.53 per share (the "Subscription"). The net proceeds from the Subscription are estimated to be approximately HK\$87 million. The Subscription was completed on 31st August, 2006.