中油潔能
SINOGAS

Sino Gas Group Limited

(Incorporated in Hong Kong with limited liability)

Stock code : 260

ANNUAL REPORT 2009

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Non-Executive Director

Ji Guirong *(Chairman)*

Executive Directors

Ji Hui *(Chief Executive Officer)*
Sun Wenhao

Independent Non-Executive Directors

Wang Zhonghua
Zhong Qiang
Xiao Wei

COMPANY SECRETARY

Li Chi Chung

SHARE REGISTRARS

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

AUDITORS

Ernst & Young
Certified Public Accountants

SOLICITORS

Michael Li & Co

PRINCIPAL BANKERS

Chiyu Banking Corporation Limited
The Hongkong and Shanghai Banking Corporation Limited
Bank of China (Hong Kong) Limited

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

Units 608-609, Tower 1
Admiralty Centre
18 Harcourt Road
Admiralty, Hong Kong

WEBSITE

http://www.irasia.com/listco/hk/sinogas

STOCK CODE

260

CHAIRMAN'S STATEMENT

During the year, the Group was dampened by an economic situation that is yet to fully recover in the aftermath of the financial tsunami, and confronted with severe challenges and difficulties such as pressure in supply of natural gas resources, competition from other gas companies and concern of safety. With the concerted efforts of all staff, the Group managed to weather these difficult times and there was considerable improvement in revenue, gross profit and cash flow from operating activities although the Group still recorded a loss attributable to owners of approximately HK$5 million.

According to statistics, natural gas accounts only for about 3.6% of the energy consumption in China, which is remarkably lower than the world's average of about 23.8%. China's natural gas industry is entering a new stage of rapid development. In 2009, China's natural gas consumption is estimated to be 87 billion m^3, and it is expected that it will reach 100 billion m^3 by 2010 and 200 billion m^3 by 2020.

The 2009 Copenhagen Climate Change Summit which was regarded by some to "have changed the destiny of the Earth" has attracted people's concern of climate change to an unprecedented level. On 25 November 2009, the Chinese government declared that it is determined to reduce CO_2 emission per unit GDP by as much as 40%-45% by 2020 when compared with that of 2005, and make it a committed target included in the long-term planning for national economic and social development. Low-carbon development has become a real and concrete target in China, which will be of significance to China's restructuring of economy and repositioning of economic objectives.

It is not possible for China to alter the dominant role of fossil-energy in energy consumption in the short run. Therefore, for now and in the forseeable future, clean fossil energy as represented by natural gas will be the major force for low-carbon development.

Looking forward, the Group's main focus will remain on the development of natural gas for vehicle use and building more compressed natural gas ("CNG") refueling stations to enlarge its existing market share and expand into new markets in central and western China. Meanwhile, the Group will also explore business opportunities in integration of upstream and downstream operations and continue to pursue other clean energy projects with an emphasis of moving up the value chain of the clean energy sector and become a leading clean energy service provider, thereby bringing steady and fruitful return to shareholders and maximizing long-term benefits for shareholders, customers, staff and the community!

CHAIRMAN'S STATEMENT

On behalf of the Group, I hereby express my gratitude to all staff for their dedication to the delivery of professional services to the customers. I would also like to extend my thanks to the board of directors, professionals and all shareholders for their support during the year.

Ji Guirong
Chairman

Hong Kong
25 March 2010

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's consolidated revenue as at 31 December 2009 amounted to HK$614,325,000, representing a substantial increase of 85.1% as compared with the previous corresponding year. The consolidated revenue was derived from the operation of CNG and liquefied petroleum gas ("LPG") refueling stations in the People's Republic of China (the "PRC").

Gross profit from gas sales activities of HK$139,258,000 was recorded, which represented a significant improvement of 110.8% on the gross profit of HK$66,057,000 reported in the corresponding period of 2008. The overall gross profit margin improved from 19.9% in 2008 to 22.7% in 2009.

The Group has achieved overall improvement in sales and gross profit during the year, despite the increase in new business development costs and the fact that the new gas refueling stations were in early-stage of operation during the year. The Group's consolidated loss attributable to owners of the parent for the year ended 31 December 2009 was reduced to HK$5,023,000, as compared with a loss of HK$10,536,000 for the previous corresponding year.

OPERATIONAL REVIEW

(1) Gas Business

During the year, the Group's operation has extended to 11 provinces and cities of the PRC. The Group's business is divided into 6 districts: South-western China, Inland China, Central China, Southern China, Shandong, and North-eastern China.

South-western China District: One of the Group's Chengdu subsidiaries is in negotiation with an enterprise under the municipal government for establishment of a joint venture to build 14 refueling stations in Chengdu, which, with 2 mother stations and 2 daughter stations currently in place, will capitalise on the advantage of such local enterprise's access to land use and make use of the extensive natural resources locally so as to enhance its market presence.

Inland China District: In Zhengzhou, the Group has expanded its existing co-operation with a local public transportation group to build 3 new refueling stations. Approval has been obtained to provide refueling service to taxis and private cars as well. One mother station has commenced operation.

The Group's joint venture in Shanxi Taiyuan has obtained local government's approval to build 22 refueling stations.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATIONAL REVIEW (Continued)

(1) Gas Business (Continued)

Central China District: In Anhui, the Group has entered the Huainan market and 2 refueling stations have been built. There is a plan to build 4 to 5 refueling stations.

In Xuzhou, 6 refueling stations are in operation with a market share of over 50%.

Southern China District: In Jiangxi Ganzhou, the Group has acquired LPG storage and related facilities. In collaboration with the Group's Guangzhou operation of 4 LPG stations, Jiangxi has achieved satisfactory sales result.

In Jiangxi Jiujiang, government approval has been obtained to build 8 CNG refueling stations, and construction work has commenced.

Shandong District: The Group's market share has been enlarged to over 30% as a result of intensive marketing.

North-eastern China District: The Group has a total of 22 CNG and LPG refueling stations in Changchun and Jilin with a strong major market share. During the year, the Group has completed the acquisition of Jilin SK-SH Gas Co. Ltd.

The overall business has accomplished significant growth: sales of CNG and LPG reached 107,621,000 m^3 and 33,115 tones, respectively, representing an increase of 70.3% and 33.3% respectively in comparison to the previous year.

(2) Dangerous Goods Transportation Company

Zhuhai Sinogas Transportation Company Limited, an indirect non-wholly owned subsidiary of the Company, provides supporting service to the operations of CNG and LPG refueling stations. After 3 years of operation, it has become one of the leading transportation companies for dangerous goods in China with a fleet of 40 CNG trailers, 65 CNG trucks, 6 LPG trailers, and 4 LPG semi-trailers running nationwide. Its supporting function is proven essential to the Group's operation of vehicle refueling stations. It also provides competitive services to external customers with positive feedback.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATIONAL REVIEW (Continued)

(3) Vehicle Conversion Kits

Since 2005, the Group has been conducting research and development of vehicle conversion kits which enable petroleum-fueled vehicles to transform to CNG-fueled or LPG-fueled. Conversion kits developed by the Group attained leading technology level in China and the promotion of which is conducive to the business development of the Group's CNG and LPG refueling stations.

During the year, the Group's new conversion kits obtained an acceptance certificate from the Technical Supervision Bureau of Shandong Province. It functions well and is approximately 50% cheaper than that of imported ones. The Group plans to install a production line for this product in 2010. It is believed that vehicle conversion kits have the potential to become a source of growth of the Group's sales in 2010.

BUSINESS OUTLOOK

(1) The Group will continue to focus on the development of natural gas as vehicle fuel and increase its investments in building new vehicle CNG refueling stations in the PRC to expand its existing market share. Moreover, the Group will also explore business opportunities in the integration of upstream and downstream operations, on industrial natural gas pipeline, and gradually developing a business model that integrates gas wholesale and retail operations.

The Group plans to invest in the construction of an industrial natural gas pipeline in 2010, which is under discussion with an industrial park in Shandong. The annual distribution volume of the pipeline is expected to be 200 million m^3 upon completion .

(2) On the other hand, the Group is studying the business potential of other clean energy, and in negotiation with AVIC International in relation to the possibility to jointly invest in a zinc-air battery project. The project involves the design, development, and commercialization of zinc-air batteries. Zinc-air batteries have significant properties, which make them an ideal alternative fuel for vehicles. The technical partner is Beijing Changli Lianhe Energy Technology Company Limited, which is considered to be one of the leading enterprises in the field in China. If the Company's investment in the zinc-air battery project materializes, this would represent a significant strategic move for the Group. Firstly, it expands the Group's business into other sectors of clean energy in the PRC in addition to CNG and LPG. Secondly, as the initial potential customers for the project are primarily public buses, the Group is also expected to create synergy benefits with this project by leveraging on its well-established distribution channel and marketing network in the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OUTLOOK (Continued)

Over the past few years, the Group has been focusing on developing the business of clean energy for vehicle use and expanding its market share. The Group's concerted efforts over years are starting to produce encouraging results. Looking forward, the clean energy market in the PRC will have a bright prospect with the support of the government policies and increasing demand driven by social development. The Board is optimistic about the future development of the Group and will continue to seek business opportunities in the clean energy industry in order to broaden its earnings base and enhance its shareholder value.

FINANCIAL RESOURCES

At 31 December 2009, the Group's borrowings (including interest-bearing bank and other borrowings, finance lease payables and loans from a shareholder) amounted to approximately HK$198.2 million (2008: HK$92.4 million), of which HK$142.6 million (2008: HK$49.4 million) were related to bank and other borrowings at operating subsidiaries level funding the local PRC operations denominated in Renminbi, and therefore the Group's gearing ratio, representing the ratio of Group's borrowings to equity attributable to owners of the parent of HK$466.3 million (2008: HK$455.2 million) was 42.5% (2008: 20.3%). Cash and bank balances were HK$118.9 million (2008: HK$75.3 million).

During the year ended 31 December 2009, the Group was not materially exposed to foreign currency risk.

DIVIDEND

The Board does not recommend the payment of dividend for the year ended 31 December 2009 (2008: Nil).

STAFF BENEFIT

At 31 December 2009, the Group had a total of 1,171 employees (2008: 997). The staff costs for the year ended 31 December 2009 amounted to approximately HK$46.3 million (2008: HK$41.7 million). The Group continues to provide remuneration package to employees according to market practices, their experience and performance. Other benefits include contribution of statutory mandatory provident fund for the employees and medical scheme. There was no major change on staff remuneration policies during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

HUMAN RESOURCES

The Group firmly believes that talent is the most important corporate asset, therefore, it places a lot of emphasis in recruiting and cultivation of talent.

During the year, the Group signed an agreement with a vocational school in Chongqing for training of technical personnel in the natural gas sector. With this program, a continuous supply of technical professionals to join the Group is guaranteed enhancing the skill level and professionalism of the Group.

The Group treasures its existing staff. Apart from remunerating and promoting staff according to an established mechanism based on individual performance, experience, professional qualification and prevailing market practices, the Group provides internal training for existing staff and makes further study part of the welfare or incentive system for staff. This aims to encourage staff to embark on life-long study, and to formulate a feasible plan for their career development, which lays a solid foundation for sound and sustainable development of the Group.

CHARGES ON GROUP ASSETS

At 31 December 2009, the Group had pledged the office premises in Hong Kong, certain plant and machinery and motor vehicles for the loans granted from financial institutions.

BIOGRAPHICAL DETAILS OF DIRECTORS

NON-EXECUTIVE DIRECTOR

Mr. Ji Guirong, aged 48, was appointed as the Chairman and an executive director of the Company in January 2005 and re-designated as a non-executive director of the Company in April 2007. Mr. Ji holds a Master's Degree in Engineering Management and a Bachelor's Degree in Engineering and is a Senior Engineer. Mr. Ji has over 25 years of experience in engineering, corporate finance, mergers and acquisitions and project investments. Mr. Ji is an executive director, the Deputy Chairman and Chief Executive Officer of AVIC International Holding (HK) Limited, which is listed on the main board of The Stock Exchange of Hong Kong Limited and a substantial shareholder of the Company.

EXECUTIVE DIRECTORS

Mr. Ji Hui, aged 40, was appointed as an executive director of the Company in May 2005. Mr. Ji holds a Master of Science Degree in Environmental Engineering from the University of Southern California, Los Angeles. Mr. Ji has 18 years of experience in equipment, facilities and product sales in the PRC and the U.S.A. He also has research experience in environmental engineering.

Mr. Sun Wenhao, aged 47, was appointed as an executive director of the Company in January 2005. Mr Sun holds an International Economic Law Degree from Fudan University Law School, the PRC. Mr. Sun has been working in the legal field for over 15 years with extensive experience. He is currently a practicing lawyer in Shanghai Xun Ye Law Firm.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wang Zhonghua, aged 48, was appointed as an independent non-executive director of the Company in January 2005. Mr. Wang is currently a member as well as an examiner of the Royal Institution of Chartered Surveyors (MRICS). Mr. Wang holds a Bachelor's Degree in Engineering from Lanzhou Jiaotong University. Mr. Wang is a Senior Engineer, Registered Consulting (Investment) Engineer, Supervising Engineer, Pricing Engineer, Tenderer; Mr. Wang is also a senior expert in Shenzhen Construction Bureau, inspectorate expert of Shenzhen Development and Reform Bureau, member of Guangdong Province Senior Engineer (Railway Engineering Specialized) Evaluation Committee, member of Shenzhen Senior Engineer (Construction Management Specialized and Pricing Specialized) Evaluation Committee, and senior member of Shenzhen Pricing Engineers Association. Mr Wang has been working in the engineering field for over 27 years with extensive experience. He has been serving Shenzhen Province Mass Transit Railway Company Limited since 1993.

BIOGRAPHICAL DETAILS OF DIRECTORS

Mr. Zhong Qiang, aged 42, was appointed as an independent non-executive director of the Company in February 2005. Mr. Zhong graduated from Changsha Railway University. Mr. Zhong is an accountant and has been working in the accounting field for over 19 years with extensive experience. He is currently a director of Shanghai Jun Zheng Ke Mao Company Limited.

Mr. Xiao Wei, aged 47, was appointed as an independent non-executive director of the Company in May 2005. Mr. Xiao graduated from the Electric Engineering Department of Shanghai Tong Ji University. Mr. Xiao has 25 years of experience in engineering and management.

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and through its subsidiaries principally engaged in the operation of CNG and LPG refueling stations in the PRC. Details of the principal activities of the principal subsidiaries are set out in note 17 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS

The Group's profit for the year ended 31 December 2009 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 32 to 135.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 136. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE BONDS

There were no movements in either the Company's authorised or issued share capital during the year. Details of movements in the Company's share options and convertible bonds during the year are set out in notes 31 and 28, respectively to the financial statements.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 32(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

REPORT OF THE DIRECTORS

DISTRIBUTABLE RESERVES

At 31 December 2009, the Company had no reserves available for distribution in accordance with the provisions of Chapter 32, Section 79B of the Hong Kong Companies Ordinance.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 27% of the total sales for the year and sales to the largest customer included therein amounted to 13%. Purchases from the Group's five largest suppliers accounted for less than 46% of the total purchases for the year and purchases from the largest supplier included therein amounted to 17%.

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

DIRECTORS

The directors of the Company during the year were:

Non-executive chairman:

Ji Guirong

Executive directors:

Lo Chi Ho, William (resigned on 22 September 2009)
Sun Wenhao
Ji Hui

Independent non-executive directors:

Wang Zhonghua
Zhong Qiang
Xiao Wei

In accordance with article 87 of the Company's articles of association (the "Articles"), Mr. Ji Hui, Mr. Zhong Qiang and Mr. Xiao Wei will retire by rotation, and being eligible, will offer themselves for re-election at the forthcoming annual general meeting. The terms of office of all directors (including non-executive director and independent non-executive directors) are subject to reappointment or retirement by rotation in accordance with Articles 86(B), 87 and 88.

REPORT OF THE DIRECTORS

DIRECTORS (Continued)

The Company has received annual confirmations of independence from Mr. Wang Zhonghua, Mr. Zhong Qiang and Mr. Xiao Wei and as at the date of this report, still considers them to be independent.

DIRECTORS' BIOGRAPHIES

Biographical details of the directors of the Company are set out on pages 10 to 11 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Mr. Ji Hui has a service contract with the Company which commenced on 17 May 2005 and is subject to termination by either party giving not less than two months' written notice. He is subject to reappointment or retirement by rotation in accordance with Articles 86(B), 87 and 88.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

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

DIRECTORS' INTERESTS IN CONTRACTS

Save for Mr. Ji Guirong (a director of the Company) who is also a director of AVIC International Holding (HK) Limited ("AVIC HK") (formerly known as CATIC International Holdings Limited) (a substantial shareholder of the Company), no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2009, the interests and short positions of the directors in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in the Rules Governing the Listing Securities on the Stock Exchange (the "Listing Rules") were as follows:

Long positions in share options of the Company:

Name of director	Number of options directly beneficially owned
Ji Guirong	14,900,000
Ji Hui	2,000,000
	16,900,000

Save as disclosed above, as at 31 December 2009, none of the directors of the Company had registered an interest or a short position in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section "Directors' interests and short positions in shares and underlying shares" above and in the section "Share option scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Further details of the Scheme are disclosed in note 31 to the financial statements.

The following table discloses movements in the Company's share options under the Scheme outstanding during the year.

	Number of share options								
Name or category of participant	At 1 January 2009	Granted during the year	Exercised during the year	Expired during the year	Forfeited during the year	At 31 December 2009	Date of grant of share options*	Exercise period of share options	Exercise price of share options per share** HK$
Directors									
Ji Guirong	4,966,667	-	-	-	-	4,966,667	23-8-07	1-10-07 to 31-1-15	0.35
	4,966,667	-	-	-	-	4,966,667	23-8-07	1-1-08 to 31-1-15	0.35
	4,966,666	-	-	-	-	4,966,666	23-8-07	1-7-08 to 31-1-15	0.35
	14,900,000	-	-	-	-	14,900,000			
Lo Chi Ho, William	10,000,000	-	-	-	(10,000,000)	-	3-1-06	1-2-06 to 31-1-15	0.20
	4,966,667	-	-	-	(4,966,667)	-	23-8-07	1-10-07 to 31-1-15	0.35
	4,966,667	-	-	-	(4,966,667)	-	23-8-07	1-1-08 to 31-1-15	0.35
	4,966,666	-	-	-	(4,966,666)	-	23-8-07	1-7-08 to 31-1-15	0.35
	24,900,000	-	-	-	(24,900,000)	-			
Ji Hui	2,000,000	-	-	-	-	2,000,000	3-1-06	1-2-06 to 31-1-15	0.20
	41,800,000	-	-	-	(24,900,000)	16,900,000			

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (Continued)

Name or category of participant	Number of share options: At 1 January 2009	Granted during the year	Exercised during the year	Expired during the year	Forfeited during the year	At 31 December 2009	Date of grant of share options*	Exercise period of share options	Exercise price of share options per share** HK$
Consultants									
In aggregate	12,000,000	-	-	(12,000,000)	-	-	3-1-06	1-2-06 to 31-1-09	0.20
	38,100,000	-	-	-	-	38,100,000	23-8-07	1-10-07 to 31-1-15	0.35
	38,100,000	-	-	-	-	38,100,000	23-8-07	1-1-08 to 31-1-15	0.35
	38,100,000	-	-	-	-	38,100,000	23-8-07	1-7-08 to 31-1-15	0.35
	126,300,000	-	-	(12,000,000)	-	114,300,000			
Other employees									
In aggregate	10,000,000	-	-	-	-	10,000,000	3-1-06	1-2-06 to 31-1-15	0.20
	1,633,333	-	-	-	(666,666)	966,667	23-8-07	1-10-07 to 31-1-15	0.35
	1,633,333	-	-	-	(666,667)	966,666	23-8-07	1-1-08 to 31-1-15	0.35
	1,633,334	-	-	-	(666,667)	966,667	23-8-07	1-7-08 to 31-1-15	0.35
	14,900,000	-	-	-	(2,000,000)	12,900,000			
	183,000,000	-	-	(12,000,000)	(26,900,000)	144,100,000			

Notes to the table of share options outstanding during the year:

* The vesting period of the share options is from the date of grant until the commencement of the exercise period.

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

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2009, the following interests and short positions of 5% or more of the issued share capital and convertible bonds of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name	*Notes*	Long/short position	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital	Number of convertible shares (issuable under the convertible bonds) held
Billirich Investment Limited	(a)	Long	Beneficial owner	444,480,000	24.59%	137,500,000
AVIC International Holding (HK) Limited	(a)	Long	Interest of a controlled corporation	444,480,000	24.59%	137,500,000
Tacko International Limited	(a)	Long	Interest of a controlled corporation	444,480,000	24.59%	137,500,000
AVIC International (HK) Group Limited	(a)	Long	Interest of a controlled corporation	444,480,000	24.59%	137,500,000
AVIC International Holding Corporation	(a)	Long	Interest of a controlled corporation	444,480,000	24.59%	137,500,000
Aviation Industry Corporation of China	(a)	Long	Interest of a controlled corporation	444,480,000	24.59%	137,500,000
Bonus World Limited		Long	Beneficial owner	120,000,000	6.64%	–
Sun Shining Investment Corp.	(b)	Long	Beneficial owner and interest of a controlled corporation	89,050,000	4.93%	156,000,000
Tai Yuen Texile Company Limited	(b)	Long	Interest of a controlled corporation	89,050,000	4.93%	156,000,000

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (Continued)

Notes:

(a) Billirich Investment Limited ("Billirich") is a wholly-owned subsidiary of AVIC HK. Tacko International Limited, together with its wholly-owned subsidiary, hold in aggregate approximately 39.87% of the issued capital of AVIC HK. Tacko International Limited is a wholly-owned subsidiary of AVIC International (HK) Group Limited (formerly known as CATIC (H.K.) Limited), which in turn is a wholly-owned subsidiary of AVIC International Holding Corporation ("AVIC International"). AVIC International is a wholly-owned subsidiary of Aviation Industry Corporation of China. Accordingly, all these corporations are deemed to be interested in the shares and convertible shares held by Billirich.

(b) The 89,050,000 shares and 156,000,000 convertible shares to be issued upon exercise of the convertible bonds are beneficially held by Sun Shining Investment Corp. ("Sun Shining") and Grand Win Overseas Ltd., a wholly-owned subsidiary of Sun Shining, respectively. Tai Yuen Textile Company Limited beneficially owns 82.85% equity interest in Sun Shining and is therefore deemed to be interested in the aforesaid shares and convertible shares.

Save as disclosed above, as at 31 December 2009, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or a short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the year, the Company and the Group had the following connected and continuing connected transactions, certain details of which had been disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

Connected transactions

On 3 March 2009, the Company entered into a convertible bond agreement, pursuant to which the Company issued convertible bonds with principal amount of HK$27,500,000 to Billirich. As at the date of the agreement, Billirich was interested in approximately 24.59% of the issued share capital of the Company. Brillirich is a substantial shareholder of the Company and a connected person of the Company. Accordingly, the entering into of the convertible bond agreement constituted a connected transaction under the Listing Rules. Assuming full conversion of the convertible bonds at the conversion price of HK$0.2 per conversion share, the convertible bonds can be converted into 137,500,000 ordinary shares of the Company.

On 10 November 2009, Winfield Innovations Limited ("Winfield"), a wholly-owned subsidiary of the Company, entered into an equity interest swap agreement with Chengdu Ya De An Environmental Science and Technology Company Limited ("Chengdu Ya De An"), pursuant to which Winfield and Chengdu Ya De An agreed to swap their respective 15% equity interest in Singogas Chengdu Company Limited and Chengdu Sinogas Company Limited, both being indirect non-wholly-owned subsidiaries of the Company. As at 31 December 2009, the swap arrangement has not been effected, pending approval of the relevant authorities in the PRC. Chengdu Ya De An is a shareholder of a subsidiary of the Company and thus a connected person of the Company. Accordingly, the entering into of the equity interest swap agreement constituted a connected transaction under the Listing Rules.

On 31 December 2009, China Full Limited ("China Full"), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Sanlin Resources Limited ("Sanlin"), pursuant to which China Full agreed to purchase and Sanlin agreed to sell its 50% equity interest in Sino Gas (Zhuhai) Limited, an indirect 50% owned subsidiary of the Company, for HK$9,000,000. On the same date, China Full entered into a share subscription agreement with Sanlin, pursuant to which China Full agreed to allot and issue and Sanlin agreed to subscribe for one new share in the share capital of China Full for HK$1. Sanlin is a substantial shareholder of a subsidiary of the Company and thus a connected person of the Company. Accordingly, the entering into of the sale and purchase agreement and the share subscription agreement constituted a connected transaction under the Listing Rules. As at the date of this report, the share transfer is still subject to the approval of the relevant government authority.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS (Continued)

Continuing connected transactions

On 14 March 2005, the Company and Beijing Sinogas Company Limited ("Beijing Sinogas"), an indirect 69.4% owned subsidiary of the Company, entered into a loan facility agreement, pursuant to which the Company agreed to provide a facility of up to HK$40,000,000 to Beijing Sinogas. As at 31 December 2009, a facility of HK$34,300,000 was utilised by Beijing Sinogas.

On 27 November 2008, Zhuhai Sinogas Transportation Company Limited ("Zhuhai Sinogas"), an indirect 45% owned subsidiary of the Company, entered into an agreement with AVIC I International Leasing Co., Ltd. ("AVIC Leasing") whereby AVIC Leasing agreed to provide to Zhuhai Sinogas a loan facility of RMB8,700,000 which has subsequently been increased to RMB20,000,000 pursuant to a memorandum of agreement between the contracting parties on 30 December 2008. The loan facility will be used to finance the Group's purchase of vehicles and gas station equipment. The facility bears interest at 7.71% per annum and is repayable in 12 quarterly payments within three years after its drawdown date. AVIC Leasing is a wholly-owned subsidiary of Aviation Industry Corporation of China, a corporation which indirectly holds approximately 38.79% equity interest in AVIC HK and AVIC HK is a substantial shareholder of the Company. Accordingly, the entering into of the agreement constitutes a connected transaction under the Listing Rules.

On 8 January 2009, Beijing Sinogas entered into an agreement with Guangdong Zi Yu Tai Finance Leasing Company Limited ("ZYT") to obtain from ZYT a loan facility of up to RMB150,000,000 to finance the Group's purchases of gas station equipment. ZYT is owned as to 10.42% by the Company through its wholly-owned subsidiary, 47.91% by AVIC HK through its wholly-owned subsidiary and 41.67% by independent third parties. AVIC HK is a substantial shareholder of the Company. Accordingly, the entering into of the agreement constitutes a connected transaction under the Listing Rules.

The independent non-executive directors of the Company have reviewed the continuing connected transactions set out above and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

REPORT OF THE DIRECTORS

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events after the reporting period of the Group are set out in note 41 to the financial statements.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Ji Hui
Chief Executive Officer

Hong Kong
25 March 2010

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company is committed to pursuing strict and high standards of corporate governance since the Board believes that good corporate governance practices are essential to achieve the Group's objectives of enhancing corporate value as well as safeguarding the interests of shareholders.

The Company has complied with the relevant provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Listing Rules throughout the year ended 31 December 2009, save and except that the independent non-executive directors of the Company have not been appointed for a specific term, deviating from the code provision A.4.1 of the CG Code. However, the independent non-executive directors of the Company are still subject to retirement and re-election at least once every three years in accordance with the Articles.

A. DIRECTORS

The Board

The Board has the responsibility to lead and control the Company and is collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs.

During the year ended 31 December 2009, the Board held four regular meetings which were participated by the directors either in person or through other electronic means of communication. The attendance record of each director is set out below:

Directors	**Attendance**
Non-Executive Director	
Ji Guirong *(Chairman)*	4/4
Executive Directors	
Lo Chi Ho, William*	4/4
Sun Wenhao	4/4
Ji Hui *(Chief Executive Officer)*	4/4
Independent Non-executive Directors	
Wang Zhonghua	4/4
Zhong Qiang	4/4
Xiao Wei	4/4

* *resigned with effect from 22 September 2009*

CORPORATE GOVERNANCE REPORT

A. DIRECTORS (Continued)

Chairman and Chief Executive Officer

The Company segregates the role of chairman and chief executive officer. Mr. Ji Guirong is the Chairman of the Board (the "Chairman") and Mr. Ji Hui is the chief executive officer of the Company (the "Chief Executive Officer").

The roles of the Chairman and the Chief Executive Officer are clearly defined to ensure their independence, accountability and responsibilities. The Chairman provides leadership for the Board and oversees the overall strategic planning and corporate development of the Group, whilst the Chief Executive Officer is responsible for day-to-day management of the Group's business.

Board Composition

Mr. Lo Chi Ho William has resigned as an executive director and the chief executive officer with effect from 22 September 2009 for pursuing other business engagement. As at 31 December 2009, the Board consisted of six directors including one non-executive director; two executive directors and three independent non-executive directors. The biographical details of the directors are set out on pages 10 to 11 of this annual report.

The Board has met the recommended best practice under the CG Code that independent non-executive directors represents at least one-third of the Board.

Appointments, re-election and removal

The Board is empowered under the Articles to appoint any person to be a director either to fill a casual vacancy or as an additional director. The selection criteria is based on the professional expertise and qualification; business and management experience; operation knowledge; integrity and commitment of a particular candidate.

Any director so appointed shall hold office only until the next following general meeting of the Company (in the case of filling a casual vacancy) or until the next following annual general meeting of the Company (in the case of an addition to their number) and shall be eligible for re-election at that meeting. At every annual general meeting, one-third of the directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third) shall retire from office by rotation provided that every director including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years. A retiring director shall be eligible for election. As such no director has a term of appointment longer than three years.

CORPORATE GOVERNANCE REPORT

A. DIRECTORS (Continued)

Appointments, re-election and removal (Continued)

The Board from time to time reviews the size, structure and composition of the Board on a regular basis and assess the independence of its independent non-executive directors in accordance with the criteria prescribed under the Listing Rules and the CG Code. The Company has received annual confirmation from each of the independent non-executive director acknowledging full compliance with relevant requirements in respect of their independence pursuant to Rule 3.13 of the Listing Rules. The Board considers all independent non-executive directors are independent within the definition of the Listing Rules. All directors of the Company (including non-executive directors) are subject to retirement by rotation at least once every three years and are subject to re-election in accordance with the Articles.

Responsibilities of Directors

The management of the Company always keep members of the Board appraised of the latest development of the Group's business and operation activities as well as change of regulatory requirements so that the Board members are able to discharge their responsibilities properly.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Code of Conduct"). All directors of the Company have confirmed their compliance with the required standards set out in the Code of Conduct during the year under review. The Code of Conduct also applies to the directors of the Company, employees of the Company and managers or directors of subsidiaries of the Company.

Supply of and access to information

The management of the Company regularly provides the Board and its committees with relevant and adequate information in a timely manner to assist them to make informed decisions.

Each director has separate and independent access to the company secretary and other senior management and, upon reasonable request, is given access to independent professional advice in circumstances he may deem appropriate and necessary for the discharge of his duties to the Company, at the expense of the Company.

CORPORATE GOVERNANCE REPORT

B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Board has established the remuneration committee of the Company (the "Remuneration Committee") with specific written terms of reference defining its duties and authorities. As at 31 December 2009, the Remuneration Committee comprised three members which included one non-executive director namely Mr. Ji Guirong and two independent non-executive directors namely Mr. Zhong Qiang and Mr. Xiao Wei.

The primary duties of the Remuneration Committee are to make recommendations to the Board on the Company's policy and structure for remuneration of directors and senior management, review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board.

The Company's emolument policy is to maintain fair and competitive remuneration packages for its employees with reference to individual performance, profitability of the Group as well as prevailing market conditions. The Company has adopted a share option scheme in order to give incentive to reward eligible participants who has contributed or may contribute to future development and expansion of the Group.

During the year ended 31 December 2009, the Remuneration Committee held one meeting to discuss remuneration related matters. The attendance record of each committee member is set out below:

Directors	**Attendance**
Non-executive Director	
Ji Guirong	1/1
Independent Non-executive Directors	
Zhong Qiang	1/1
Xiao Wei *(committee chairman)*	1/1

CORPORATE GOVERNANCE REPORT

C. ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board takes responsibility for the preparation of financial statements which gives a true and fair view of the state of affairs of the Group in accordance with applicable accounting standards and relevant statutory requirements. The financial statements are prepared on a going concern basis and the Board are not aware of any material uncertainties or events which may have a significant impact on the Company's ability to operate as a going concern.

The responsibility of the auditors with respect to the financial statements are set out in the Independent Auditors' Report annexing in this annual report.

The Company has published its annual and interim results, in accordance with the requirements of the Listing Rules and other relevant regulations, in a timely manner within four months and three months respectively after the end of the relevant periods.

Internal Controls

The Board has established an internal control system over accounting and finance; operational; regulation and compliance; information technology; human resources and administration for safeguarding the Company's assets against unauthorised use or misappropriation, maintaining proper accounting records, and ensuring the reliability of financial information.

The Board reviews and evaluates the effectiveness of the internal control system periodically to meet with the changing business operation environment and will continue to improve such systems to comply with regulatory requirements and to enhance corporate governance.

Audit Committee

The audit committee of the Company (the "Audit Committee") comprised the three independent non-executive directors. Under its terms of reference, the Audit Committee assists the Board to fulfill its responsibilities in overseeing the financial reporting system, internal control and risk management of the Company.

CORPORATE GOVERNANCE REPORT

C. ACCOUNTABILITY AND AUDIT (Continued)

Audit Committee (Continued)

The Audit Committee reviewed the interim and full year consolidated financial statements, including the Group's adopted accounting principles and practices, internal controls, and financial reporting matters in conjunction with the external auditors. The Audit Committee held two meetings during the year ended 31 December 2009. The attendance record of each committee member is set out below:

Independent Non-executive Directors	Attendance
Wang Zhonghua	2/2
Zhong Qiang	2/2
Xiao Wei *(committee chairman)*	2/2

Auditors' Remuneration

For the year ended 31 December 2009, the fee paid/payable to Ernst & Young, auditors of the Group, for audit and non-audit services are set out below:

	Amount (HK$'000)
Audit services	1,800
Non-audit services	403

CORPORATE GOVERNANCE REPORT

D. DELEGATION BY THE BOARD

Management Functions

The Board is primarily responsible for determining overall strategic planning and policy formulation of the Group. Matters that needed to be determined or considered by the Board included substantial investments, acquisitions and disposals; business and investment plans; financial and project budgeting; dividend policy; annual and interim results and reports; recommendations on appointments or re-election of directors and other substantial operating and financial matters.

Implementation of the decisions and plans of the Board and direction of the day-to-day operation are delegated to the management.

Board Committees

Throughout the year under review, the Board has maintained the Audit Committee and Remuneration Committee each with its own specific written terms of reference which deal clearly with the committees' authorities and duties.

E. COMMUNICATION WITH SHAREHOLDERS

The Board recognises the importance of good and effective communication with all shareholders, including institutional investors for ensuring good corporate governance.

To ensure high level of accountability and to stay informed of the Group's strategy and goals, shareholders are encouraged to attend annual general meeting of the Company to exchange views with the Board at which the Chairman and the chairman or member(s) of the Board Committees are available to answer questions raised by shareholders.

The Company holds regular briefings with institutional investors, fund mangers and financial analysts as part of its investor relations program to maintain a constant dialogue on the Group's performance and objective. The Company is proactive in dealing with general enquiries raised by individuals, institutional investors and investment analysts.

As a channel of further promoting effective communication as well as fulfilling the requirements of the Listing Rules, the Company maintains a website, www.irasia.com/listco/hk/sinogas, where relevant financial and non-financial information is posted on in a timely basis. The published information will be maintained at the above website for at least five years.

The Company keeps shareholders informed of the right to demand a poll and the procedure for voting by poll in all circulars which are from time to time despatched to shareholders together with notices of general meetings of the Company.

INDEPENDENT AUDITORS' REPORT

Ernst & Young
18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong
Tel: +852 2846 9888
Fax: +852 2868 4432
www.ey.com

安永會計師事務所
香港中環金融街8號
國際金融中心2期18樓
電話: +852 2846 9888
傳真: +852 2868 4432

To the shareholders of Sino Gas Group Limited
(Incorporated in Hong Kong with limited liability)

We have audited the financial statements of Sino Gas Group Limited set out on pages 32 to 135, which comprise the consolidated and company statements of financial position as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

INDEPENDENT AUDITORS' REPORT

ERNST & YOUNG
安 永

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

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

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
25 March 2010

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000 (Restated)
REVENUE	6	**614,325**	331,856
Cost of sales		**(475,067)**	(265,799)
Gross profit		**139,258**	66,057
Other income and gains	6	**18,874**	43,097
Selling and distribution costs		**(40,686)**	(35,713)
Administrative expenses		**(76,944)**	(73,155)
Other operating income/(expenses), net		**(1,599)**	1,932
Finance costs	8	**(11,562)**	(11,183)
Impairment of items of property, plant and equipment	7, 14	**(1,058)**	(1,126)
Impairment of trade receivables	7, 22	**(196)**	(406)
Write-back of impairment/(impairment) of deposits and other receivables	7, 23	**3,168**	(9,125)
Share of profits and losses of jointly-controlled entities		**1,779**	338
PROFIT/(LOSS) BEFORE TAX	7	**31,034**	(19,284)
Income tax expense	11	**(13,945)**	(3,344)
PROFIT/(LOSS) FOR THE YEAR		**17,089**	(22,628)
Attributable to:			
Owners of the parent	12	**(5,023)**	(10,536)
Minority interests		**22,112**	(12,092)
		17,089	(22,628)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic and diluted		**(HK 0.28 cents)**	(HK 0.59 cents)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
PROFIT/(LOSS) FOR THE YEAR		**17,089**	(22,628)
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		**3,592**	21,676
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**20,681**	(952)
Attributable to:			
Owners of the parent	12	**(1,763)**	9,687
Minority interests		**22,444**	(10,639)
		20,681	(952)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2009

	Notes	**2009** **HK$'000**	2008 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**426,842**	368,982
Prepaid land lease payments	15	**39,760**	18,100
Goodwill	16	**128,462**	128,269
Interests in jointly-controlled entities	18	**14,176**	12,286
Interests in associates	19	**1,140**	–
Available-for-sale investments	20	**3,326**	1,356
Prepayments and deposits	23	**31,135**	54,744
Loan to a minority shareholder	38(b)(i)	**–**	9,500
Due from a minority shareholder	38(b)(ii)	**17,100**	–
Total non-current assets		**661,941**	593,237
CURRENT ASSETS			
Inventories	21	**8,767**	11,624
Trade receivables	22	**11,751**	20,644
Prepayments, deposits and other receivables	23	**31,003**	26,159
Loan to a minority shareholder	38(b)(i)	**9,500**	–
Due from minority shareholders	38(b)(ii)	**16,660**	7,295
Cash and bank balances	24	**118,944**	75,349
Total current assets		**196,625**	141,071
CURRENT LIABILITIES			
Trade payables	25	**11,814**	13,686
Other payables and accruals	26	**41,550**	34,598
Due to an associate	38(b)(iii)	**109**	537
Due to a jointly-controlled entity	38(b)(iii)	**503**	1,042
Due to minority shareholders	38(b)(ii)	**1,060**	1,096
Loans from a shareholder	38(b)(iv)	**30,974**	8,974
Tax payable		**16,823**	13,136
Interest-bearing bank and other borrowings	27	**129,841**	54,100
Convertible bonds	28	**–**	85,767
Finance lease payables	29	**–**	88

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Total current liabilities		**232,674**	213,024
NET CURRENT LIABILITIES		**(36,049)**	(71,953)
TOTAL ASSETS LESS CURRENT LIABILITIES		**625,892**	521,284
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	27	**37,388**	29,284
Convertible bonds	28	**50,570**	–
Total non-current liabilities		**87,958**	29,284
Net assets		**537,934**	492,000
EQUITY			
Equity attributable to owners of the parent			
Issued capital	30	**361,471**	361,471
Equity component of convertible bonds	28	**12,872**	10,164
Reserves	32(a)	**91,964**	83,563
		466,307	455,198
Minority interests		**71,627**	36,802
Total equity		**537,934**	492,000

Ji Hui
Director

Sun Wenhao
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2009

		Attributable to owners of the parent											
	Notes	Issued capital HK$'000 *(note 30)*	Share premium account HK$'000 *(note 30)*	Share option reserve HK$'000 *(note 30)*	Equity component of convertible bonds HK$'000 *(note 28)*	Special capital reserve HK$'000 *(note 32(a))*	Exchange fluctuation reserve HK$'000	Reserve fund HK$'000 *(note 32(a))*	Capital redemption reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2008		350,371	766,939	15,501	10,164	828,646	26,254	1,865	3,865	(1,573,132)	430,473	40,390	470,863
Total comprehensive income for the year		-	-	-	-	-	20,223	-	-	(10,536)	9,687	(10,639)	(952)
Issue of shares upon exercise of warrants	30	11,100	-	-	-	-	-	-	-	-	11,100	-	11,100
Transfer to reserve upon forfeiture of share options	30	-	294	(294)	-	-	-	-	-	-	-	-	-
Equity-settled share option arrangements	30	-	-	3,938	-	-	-	-	-	-	3,938	-	3,938
Dividends paid to minority shareholders		-	-	-	-	-	-	-	-	-	-	(372)	(372)
Acquisition of additional interests in subsidiaries		-	-	-	-	-	-	-	-	-	-	(430)	(430)
Disposal of a subsidiary	34(a)	-	-	-	-	-	-	-	-	-	-	7,808	7,808
Capital contribution from minority shareholders		-	-	-	-	-	-	-	-	-	-	45	45
At 31 December 2008		361,471	767,233*	19,145*	10,164	828,646*	46,477*	1,865*	3,865*	(1,583,668)*	455,198	36,802	492,000

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2009

		Attributable to owners of the parent											
	Notes	Issued capital HK$'000 *(note 30)*	Share premium account HK$'000 *(note 30)*	Share option reserve HK$'000 *(note 30)*	Equity component of convertible bonds HK$'000 *(note 28)*	Special capital reserve HK$'000 *(note 32(a))*	Exchange fluctuation reserve HK$'000	Reserve fund HK$'000 *(note 32(a))*	Capital redemption reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2009		361,471	767,233	19,145	10,164	828,646	46,477	1,865	3,865	(1,583,668)	455,198	36,802	492,000
Total comprehensive income for the year		–	–	–	–	–	3,260	–	–	(5,023)	(1,763)	22,444	20,681
Issue of convertible bonds	28	–	–	–	12,872	–	–	–	–	–	12,872	–	12,872
Transfer of reserve upon maturity of convertible bonds	28	–	–	–	(10,164)	–	–	–	–	10,164	–	–	–
Transfer to reserve upon forfeiture of share options	30	–	3,503	(3,503)	–	–	–	–	–	–	–	–	–
Dividends paid to minority shareholders		–	–	–	–	–	–	–	–	–	–	(2,104)	(2,104)
Acquisition of additional interests in subsidiaries		–	–	–	–	–	–	–	–	–	–	(4,318)	(4,318)
Disposal of a subsidiary	34(a)	–	–	–	–	–	–	–	–	–	–	278	278
Capital contribution from minority shareholders		–	–	–	–	–	–	–	–	–	–	18,525	18,525
At 31 December 2009		361,471	770,736*	15,642*	12,872	828,646*	49,737*	1,865*	3,865*	(1,578,527)*	466,307	71,627	537,934

* These reserve accounts comprise the consolidated reserves of HK$91,964,000 (2008: HK$83,563,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**31,034**	(19,284)
Adjustments for:			
Finance costs	8	**11,562**	11,183
Depreciation	7	**29,474**	19,359
Recognition of prepaid land lease payments	7	**2,421**	2,588
Impairment of items of property, plant and equipment	7	**1,058**	1,126
Loss on disposal of items of property, plant and equipment	7	**14**	328
Interest income	6	**(409)**	(1,116)
Impairment of trade receivables	7	**196**	406
Impairment/(write-back of impairment) of deposits and other receivables	7	**(3,168)**	9,125
Impairment/(write-back of impairment) of inventories	7	**1,585**	(2,260)
Equity-settled share option expense		**–**	3,938
Gain on disposal of a subsidiary	6	**(2,248)**	(18,593)
Gain on disposal of an available-for-sale investment	6	**–**	(5,232)
Excess over the cost of business combination	6	**(137)**	–
Share of profits and losses of jointly-controlled entities		**(1,779)**	(338)
		69,603	1,230
Decrease/(increase) in inventories		**1,652**	(2,674)
Decrease/(increase) in trade receivables		**9,458**	(5,710)
Decrease in prepayments, deposits and other receivables		**725**	21,329
Decrease in an amount due from an associate		**–**	7,861
Decrease in trade payables		**(2,317)**	(829)
Increase in other payables and accruals		**8,144**	27,620
Increase/(decrease) in an amount due to an associate		**(433)**	537
Decrease in an amount due to a jointly-controlled entity		**(549)**	(1,907)
Cash generated from operations		**86,283**	47,457
Overseas taxes paid		**(10,389)**	(1,565)
Net cash flows from operating activities		**75,894**	45,892

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	6	**409**	1,116
Purchases of items of property, plant and equipment	34(b)(i), (ii)	**(57,924)**	(115,120)
Increase in prepaid land lease payments	15	**(15,129)**	(5,545)
Acquisition of a subsidiary	33	**(12,875)**	–
Acquisition of additional interests in subsidiaries		**(4,390)**	(430)
Shareholder loan to an available-for-sale investment		**(1,958)**	–
Proceeds from disposal of items of property, plant and equipment		**1,241**	217
Proceeds from disposal of an available-for-sale investment		**–**	5,232
Disposal of subsidiaries	34(a)	**1,008**	(455)
Loan to a minority shareholder		**–**	(500)
Contribution to a jointly-controlled entity		**–**	(1,141)
Contribution to an associate		**(1,140)**	–
Net cash flows used in investing activities		**(90,758)**	(116,626)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid	8	**(8,187)**	(4,196)
Interest paid on convertible bonds	28	**(1,445)**	(1,716)
Interest element of finance lease rental payments	8	**(1)**	(10)
Proceeds from issue of shares upon exercise of warrants		**–**	11,100
Capital element of finance lease rental payments		**(88)**	(257)
Proceeds from issue of convertible bonds	34(b)(iii)	**11,900**	–
Repayment of convertible bonds		**(39,000)**	–
Repayment of bank loans		**(66,363)**	(74,179)
Repayment of other loans		**(21,669)**	–
New bank loans		**124,260**	49,550
New other loans		**47,181**	9,831
Loan from a shareholder		**22,000**	8,974
Capital contribution from minority shareholders		**18,525**	45
Advance from/(to) minority shareholders, net		**(26,439)**	9,150
Dividends paid to minority shareholders		**(2,104)**	(372)
Net cash flows from financing activities		**58,570**	7,920
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**43,706**	(62,814)
Cash and cash equivalents at beginning of year		**75,349**	135,232
Effect of foreign exchange rate changes, net		**(111)**	2,931
CASH AND CASH EQUIVALENTS AT END OF YEAR		**118,944**	75,349
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**118,944**	75,349

STATEMENT OF FINANCIAL POSITION

31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**586**	918
Interests in subsidiaries	17	**485,357**	502,981
Available-for-sale investments	20	**–**	–
Total non-current assets		**485,943**	503,899
CURRENT ASSETS			
Prepayments, deposits and other receivables	23	**326**	581
Due from a subsidiary	38(b)(v)	**267**	–
Cash and bank balances	24	**2,607**	21,521
Total current assets		**3,200**	22,102
CURRENT LIABILITIES			
Other payables and accruals	26	**7,271**	1,942
Loans from a shareholder	38(b)(iv)	**30,974**	8,974
Interest-bearing bank and other borrowings	27	**2,150**	9,650
Convertible bonds	28	**–**	85,767
Finance lease payables	29	**–**	88
Total current liabilities		**40,395**	106,421
NET CURRENT LIABILITIES		**(37,195)**	(84,319)
TOTAL ASSETS LESS CURRENT LIABILITIES		**448,748**	419,580
NON-CURRENT LIABILITIES			
Convertible bonds	28	**50,570**	–
Net assets		**398,178**	419,580
EQUITY			
Issued capital	30	**361,471**	361,471
Equity component of convertible bonds	28	**12,872**	10,164
Reserves	32(b)	**23,835**	47,945
Total equity		**398,178**	419,580

Ji Hui
Director

Sun Wenhao
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2009

1. CORPORATE INFORMATION

Sino Gas Group Limited is a limited liability company incorporated in Hong Kong. The registered office of the Company is located at Units 608-609, 6/F, Tower 1, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong.

During the year, the Group was principally involved in the operation of CNG and LPG refueling stations.

2.1 BASIS OF PRESENTATION

Despite the Group incurred a consolidated loss attributable to owners of the parent for the year ended 31 December 2009 of HK$5,023,000 and had net current liabilities of HK$36,049,000 as at 31 December 2009, the financial statements had been prepared on a going concern basis on the basis that the directors are of the view that the Group will be able to generate sufficient net cash inflows and obtain new funding in the future to meet financial obligations as and when they fall due and that the Group will be able to secure the financial support of its bankers, including the continued renewal, upon the due dates, of the Group's short term bank loans from its bankers.

Subsequent to the year end and in January and February 2010, the Group entered into agreements with independent third parties to dispose of certain property, plant and equipment, and an available-for-sale investment with aggregate net sales proceeds of approximately HK$26,245,000. Besides, in March 2010, a shareholder of the Company agreed to extend the maturity date of its loans of HK$30,974,000 to the Group to January 2012. Further details of these transactions are given in note 41 to the financial statements.

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these adjustments have not been reflected in these consolidated financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

2.2 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2009. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of 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.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. An acquisition of minority interests is accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

NOTES TO FINANCIAL STATEMENTS
31 December 2009

2.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*
HKFRS 8	*Operating Segments*
HKAS 1 (Revised)	*Presentation of Financial Statements*
HKAS 18 Amendment*	Amendment to Appendix to HKAS 18 *Revenue – Determining whether an entity is acting as a principal or as an agent*
HKAS 23 (Revised)	*Borrowing Costs*
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives* and HKAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives*
HK(IFRIC)-Int 13	*Customer Loyalty Programmes*
HK(IFRIC)-Int 15	*Agreements for the Construction of Real Estate*
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation*
HK(IFRIC)-Int 18	*Transfers of Assets from Customers* (adopted from 1 July 2009)
Improvements to HKFRSs (October 2008)**	Amendments to a number of HKFRSs

* Included in *Improvements to HKFRSs 2009* (as issued in May 2009)

** The Group adopted all the improvements to HKFRSs issued in October 2008 except for the amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*, which is effective for annual periods beginning on or after 1 July 2009.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

2.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (Continued)

Other than as further explained below regarding the impact of HKAS 1 (Revised), HKFRS 8 and HKAS 23 (Revised), the adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements.

(a) HKAS 1 (Revised) *Presentation of Financial Statements*

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present two statements.

(b) HKFRS 8 *Operating Segments*

HKFRS 8, which replaces HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group concluded that the operating segments determined in accordance with HKFRS 8 are the same as the business segments previously identified under HKAS 14. These revised disclosures are shown in note 5 to the financial statements.

(c) HKAS 23 (Revised) *Borrowing Costs*

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. During the year, borrowing costs of HK$2,846,000 have been capitalised on qualifying assets included in construction in progress as shown in note 8 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards* [1]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters* [2]
HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters* [4]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions* [2]
HKFRS 3 (Revised)	*Business Combinations* [1]
HKFRS 9	*Financial Instruments* [6]
HKAS 24 (Revised)	*Related Party Disclosures* [5]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements* [1]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* [3]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* [1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement* [5]
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners* [1]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments* [4]
Amendments to HKFRS 5 included in *Improvements to HKFRSs* issued in October 2008	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary* [1]
HK Interpretation 4 (Revised in December 2009)	*Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases* [2]

NOTES TO FINANCIAL STATEMENTS

31 December 2009

2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2009* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 36 and HKAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

[1] Effective for annual periods beginning on or after 1 July 2009
[2] Effective for annual periods beginning on or after 1 January 2010
[3] Effective for annual periods beginning on or after 1 February 2010
[4] Effective for annual periods beginning on or after 1 July 2010
[5] Effective for annual periods beginning on or after 1 January 2011
[6] Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to that entity's financial and operating policies.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

NOTES TO FINANCIAL STATEMENTS
31 December 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Group has a contractual right to exercise a dominant influence with respect to the joint venture's financial and operating policies;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's interests in jointly-controlled entities are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's interests in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's interests in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates, which was not previously eliminated or recognised in the consolidated reserves, is included as part of the Group's interests in associates and is not individually tested for impairment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated statement of financial position as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In case of associates, goodwill is included in the carrying amount thereof, rather than as a separately identified asset in the consolidated statement of financial position.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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 the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill and certain financial assets is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

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

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

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

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) 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 (d) or (e); or

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset or as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	2% or over the lease terms, whichever is shorter
Leasehold improvements	4% to 20% or over the lease terms, whichever is shorter
Plant and machinery	10% to 20%
Furniture and fixtures	15% to 25%
Motor vehicles	10% to 25%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents gas stations under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Initial recognition and measurement (Continued)

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and bank balances, trade and other receivables, deposits, amounts due from minority shareholders and unquoted financial instruments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in the income statement. The loss arising from impairment is recognised in the income statement.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in unlisted equity securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment valuation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income, or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in the income statement and removed from the available-for-sale investment valuation reserve. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as "Other income".

NOTES TO FINANCIAL STATEMENTS

31 December 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Available-for-sale financial investments (Continued)

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

The Group evaluates its available-for-sale financial investments whether the ability and intention to sell them in the near term are still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. The reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Financial assets carried at amortised cost (Continued)

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statement.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Available-for-sale financial investments (Continued)

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, amounts due to an associate, jointly-controlled entities, minority shareholders and a shareholder, and interest-bearing loans and borrowings.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (Continued)

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

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

For the purpose of the statement of financial position, cash and bank balances comprise cash on hand and at banks which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

NOTES TO FINANCIAL STATEMENTS

31 December 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of petroleum, CNG, LPG and gas-related products, 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) from the rendering of services, when the services have been rendered;

(c) rental income, on a time proportion basis over the lease terms; and

(d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payment transactions (Continued)

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The cost of cash-settled transactions is measured initially at fair value at the grant date taking into account the terms and conditions upon which the instruments were granted. The fair value is expensed over the period until vesting with recognition of a corresponding liability. The liability is measured at the end of each reporting period up to and including the settlement date, with changes in fair value recognised in the income statement.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other employee benefits

Pension schemes and other retirement benefits

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

The Group also operates a defined contribution occupational retirement benefit scheme (the "ORSO Scheme") which is exempted under the Mandatory Provident Fund Schemes Ordinance for certain employees who are eligible to participate in the ORSO Scheme. The ORSO Scheme operates in a similar way to the MPF Scheme, except that when an employee leaves the ORSO Scheme before his/her interest in the Company's employer contributions vest fully, the balance is retained by the ORSO Scheme to be credited to the remaining members' employer's contribution account as income pro rata to their respective balances of employer's contribution accounts. The ORSO Scheme was terminated with effect from 1 November 2007.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

3. 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. The 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. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries, jointly-controlled entities and associates are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Impairment of assets

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, 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.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill on the acquisition of subsidiaries at 31 December 2009 was HK$128,462,000 (2008: HK$128,269,000). More details are given in note 16 to the financial statements on the impairment testing of goodwill on acquisition of subsidiaries.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of the Group's and the Company's property, plant and equipment at 31 December 2009 were HK$426,842,000 (2008: HK$368,982,000) and HK$586,000 (2008: HK$918,000), respectively. More details are given in note 14 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The amounts of unrecognised tax losses arising in Hong Kong and in Mainland China were HK$190,622,000 (2008: HK$172,936,000) and HK$41,971,000 (2008: HK$30,453,000) as at 31 December 2009. Further details are given in note 11 to the financial statements.

Impairment of available-for-sale financial assets

The Group classifies certain assets as available-for-sale and recognises movements of their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the income statement. At 31 December 2009, the carrying amount of available-for-sale assets was HK$3,326,000 (2008: HK$1,356,000). Further details are given in note 20 to the financial statements.

Impairment of trade receivables and prepayments, deposits and other receivables

The Group maintains an allowance for estimated losses arising from the inability of its customers to make the required payments. The Group makes its estimates based on the ageing of its trade receivable balances, customers' creditworthiness, and historical write-off experience. If the financial condition of its customers was to deteriorate so that the actual impairment loss might be higher than expected, the Group would be required to revise the basis of making the allowance, and its future results would be affected. The carrying amounts of the Group's trade receivables and prepayments, deposits and other receivables and the Company's prepayments, deposits and other receivables at 31 December 2009 were HK$11,751,000 (2008: HK$20,644,000), HK$62,138,000 (2008: HK$80,903,000) and HK$326,000 (2008: HK$581,000), respectively. Further details are given in notes 22 and 23 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Useful lives and residual values of items of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from previous estimates. Useful lives and residual values are reviewed at each financial year end date based on changes in circumstances.

5. OPERATING SEGMENT INFORMATION

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. As the Group's major operations and markets are located in Mainland China, no further geographical segment information is provided.

For management purpose, the Group has only one reportable operating segment, which is the operation of gas stations and engaging in the operation of CNG and LPG refueling stations.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

6. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents gas-related sales during the year.

An analysis of the Group's revenue, other income and gains is as follows:

	Note	2009 HK$'000	2008 HK$'000 (Restated)
Revenue			
Operation of gas stations		**614,325**	331,856
Other income			
Interest income		**409**	1,116
Installation service income		**10,260**	4,669
Government grants received*		**3,092**	8,246
Rental income		**922**	2,084
Trading of gas-related products		**982**	1,427
Others		**824**	1,730
		16,489	19,272
Gains			
Gain on disposal of subsidiaries	34(a)	**2,248**	18,593
Gain on disposal of an available-for-sale investment		**–**	5,232
Excess over the cost of business combination		**137**	–
		2,385	23,825
		18,874	43,097

* Various government grants have been received to subsidise the operation of gas stations in various provinces in Mainland China. There are no unfulfilled conditions or contingencies relating to these grants.

NOTES TO FINANCIAL STATEMENTS
31 December 2009

7. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived after charging/(crediting):

	Notes	**2009** HK$'000	2008 HK$'000 (Restated)
Cost of inventories sold*		**460,845**	257,138
Auditors' remuneration		**1,800**	1,800
Depreciation	14	**29,474**	19,359
Recognition of prepaid land lease payments	15	**2,421**	2,588
Minimum lease payments under operating leases in respect of land and buildings		**7,735**	7,181
Less: Minimum lease payments capitalised		**(672)**	(718)
Net minimum lease payments under operating leases in respect of land and buildings		**7,063**	6,463
Loss on disposal of items of property, plant and equipment**		**14**	328
Employee benefit expense (excluding directors' remuneration *(note 9)*):			
Wages and salaries and allowances		**41,272**	31,361
Equity-settled share option expense		**–**	3,150
Pension scheme contributions		**167**	154
Less: Forfeited contributions		**–**	–
Net pension scheme contributions***		**167**	154
		41,439	34,665
Impairment of items of property, plant and equipment	14	**1,058**	1,126
Impairment of trade receivables#	22	**196**	406
Impairment/(write-back of impairment) of deposits and other receivables#	23	**(3,168)**	9,125
Impairment/(write-back of impairment) of inventories**		**1,585**	(2,260)
Foreign exchange differences, net		**3**	114

NOTES TO FINANCIAL STATEMENTS

31 December 2009

7. PROFIT/(LOSS) BEFORE TAX (Continued)

* Cost of sales disclosed on the face of the consolidated income statement comprises cost of inventories sold, wages and salaries of HK$3,824,000 (2008: HK$2,684,000) disclosed under employee benefit expense and depreciation charges of HK$10,398,000 (2008: HK$5,977,000) above.

** Included in "Other operating income/(expenses), net" on the face of the consolidated income statement.

*** At 31 December 2009, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2008: Nil).

As at 31 December 2009, the directors had conducted impairment testing on the Group's trade receivables, and deposits and other receivables, and considered the status of recoverability of certain of these balances as a result of the deterioration of the financial position of the respective counterparties or the collection of some of the receivables which were provided in prior years. Accordingly, provision for impairment of trade receivables of HK$196,000 (2008: HK$406,000) and write-back of provision for impairment of deposits and other receivables of HK$3,168,000 (2008: provision for impairment of deposits and other receivables of HK$9,125,000) were charged/credited to the consolidated income statement during the year.

8. FINANCE COSTS

An analysis of finance costs is as follows:

	2009	2008
	HK$'000	HK$'000
Interest on loans/bonds wholly repayable within five years:		
Bank loans	**3,613**	3,656
Other loans	**3,984**	63
Convertible bonds	**6,220**	6,977
Interest on bank loans wholly repayable after five years	**590**	477
Interest on a finance lease	**1**	10
Total interest expense on financial liabilities	**14,408**	11,183
Less: interest capitalised	**(2,846)**	–
	11,562	11,183

NOTES TO FINANCIAL STATEMENTS

31 December 2009

9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2009	2008
	HK$'000	HK$'000
Fees:		
Executive directors	**36**	39
Non-executive director	**1,656**	1,521
Independent non-executive directors	**240**	180
	1,932	1,740
Other emoluments (executive and non-executive directors):		
Salaries, allowances and benefits in kind	**2,759**	2,338
Performance-related bonuses	**143**	2,120
Equity-settled share option expense	**–**	788
Pension scheme contributions	**21**	24
	2,923	5,270
	4,855	7,010

NOTES TO FINANCIAL STATEMENTS

31 December 2009

9. DIRECTORS' REMUNERATION (Continued)

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2009	2008
	HK$'000	HK$'000
Wang Zhonghua	**80**	60
Zhong Qiang	**80**	60
Xiao Wei	**80**	60
	240	180

There were no other emoluments payable to the independent non-executive directors during the year (2008: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2009

9. DIRECTORS' REMUNERATION (Continued)

(b) Executive directors and a non-executive director

	Fees	Salaries, allowances and benefits in kind	Performance-related bonuses	Equity-settled share option benefits	Pension scheme contributions	Total remuneration
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2009						
Non-executive director:						
Ji Guirong	1,656	–	–	–	–	1,656
Executive directors:						
Lo Chi Ho, William	–	2,039	103	–	9	2,151
Sun Wenhao	36	–	20	–	–	56
Ji Hui	–	720	20	–	12	752
	36	2,759	143	–	21	2,959
	1,692	2,759	143	–	21	4,615
2008						
Non-executive director:						
Ji Guirong	1,521	–	1,000	394	–	2,915
Executive directors:						
Lo Chi Ho, William	–	1,618	1,000	394	12	3,024
Sun Wenhao	36	–	–	–	–	36
Ji Hui	–	720	120	–	12	852
Wu Ding	3	–	–	–	–	3
	39	2,338	1,120	394	24	3,915
	1,560	2,338	2,120	788	24	6,830

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2008: three) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining two (2008: two) non-director, highest paid employees for the year are as follows:

	2009	2008
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**1,860**	1,620
Equity-settled share option expense	**–**	317
Pension scheme contributions	**12**	60
	1,872	1,997

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2009	2008
Nil to HK$1,000,000	**2**	1
HK$1,000,001 to HK$1,500,000	**–**	1
	2	2

NOTES TO FINANCIAL STATEMENTS
31 December 2009

11. INCOME TAX

No Hong Kong profits tax has been provided as the Group did not generate any assessable profits arising in Hong Kong during the year (2008: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdiction in which the Group operates.

	2009	2008
	HK$'000	HK$'000
Group:		
Current – Mainland China	**13,945**	3,344

A reconciliation of the tax expense applicable to profit/(loss) before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense for the year is as follows:

	2009	2008
	HK$'000	HK$'000
Profit/(loss) before tax	**31,034**	(19,284)
Tax at the statutory tax rate	**9,827**	(2,276)
Lower tax rates for tax holiday	**(3,644)**	(1,581)
Profits and losses attributable to jointly-controlled entities	**(445)**	(85)
Income not subject to tax	**(3,386)**	(15,958)
Expenses not deductible for tax	**1,493**	11,372
Tax losses not recognised	**10,519**	11,838
Others	**(419)**	34
Tax charge at the Group's effective rate	**13,945**	3,344

Certain subsidiaries of the Group in Mainland China were eligible for exemption from corporate income tax ("CIT") for two years starting from the first year in which assessable profits were generated, and a 50% exemption from CIT for the following three years.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

11. INCOME TAX (Continued)

The share of tax attributable to jointly-controlled entities amounting to HK$701,000 (2008: HK$239,000) is included in "Share of profits and losses of jointly-controlled entities" in the consolidated income statement.

The Group has tax losses arising in Hong Kong of HK$190,622,000 (2008: HK$172,936,000) and in Mainland China of HK$41,971,000 (2008: HK$30,453,000) that are available indefinitely and for five years, respectively, for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries and jointly-controlled entities established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2009, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries and jointly-controlled entities established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries and jointly-controlled entities will distribute such earnings in the foreseeable future.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

12. LOSS ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated loss attributable to owners of the parent for the year ended 31 December 2009 includes a loss of HK$34,274,000 (2008: HK$208,000) which has been dealt with in the financial statements of the Company (note 32(b)).

13. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic loss per share amount is based on the loss for the year attributable to ordinary equity holders of the parent of HK$5,023,000 (2008: HK$10,536,000), and the weighted average number of ordinary shares of 1,807,355,026 (2008: 1,795,375,518) in issue during the year.

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2009 and 2008 in respect of a dilution as the impact of the share options and convertible bonds outstanding had an anti-dilutive effect on the basic loss per share amounts presented.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2009							
At 31 December 2008 and 1 January 2009:							
Cost	67,664	884	104,788	31,109	90,845	109,486	404,776
Accumulated depreciation and impairment	(5,993)	(445)	(10,617)	(4,570)	(14,169)	–	(35,794)
Net carrying amount	61,671	439	94,171	26,539	76,676	109,486	368,982
At 1 January 2009, net of accumulated depreciation and impairment	61,671	439	94,171	26,539	76,676	109,486	368,982
Additions	13,366	–	9,914	1,699	10,637	49,310	84,926
Disposals	(483)	–	–	(28)	(743)	–	(1,254)
Transfers	35,391	–	28,361	3,681	–	(67,433)	–
Acquisition of a subsidiary *(note 33)*	589	–	517	26	437	–	1,569
Impairment	–	–	(1,058)	–	–	–	(1,058)
Depreciation provided during the year	(7,771)	(142)	(9,190)	(937)	(11,434)	–	(29,474)
Exchange realignment	348	–	834	234	676	1,059	3,151
At 31 December 2009, net of accumulated depreciation and impairment	103,111	297	123,549	31,214	76,249	92,422	426,842
At 31 December 2009:							
Cost	116,633	886	141,074	36,588	99,883	92,422	487,486
Accumulated depreciation and impairment	(13,522)	(589)	(17,525)	(5,374)	(23,634)	–	(60,644)
Net carrying amount	103,111	297	123,549	31,214	76,249	92,422	426,842

NOTES TO FINANCIAL STATEMENTS
31 December 2009

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group

	Buildings	Leasehold improvements	Plant and machinery	Furniture and fixtures	Motor vehicles	Construction in progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
31 December 2008							
At 1 January 2008:							
Cost	58,346	875	49,039	20,348	49,818	125,300	303,726
Accumulated depreciation and impairment	(3,288)	(150)	(5,199)	(2,364)	(5,799)	(40,303)	(57,103)
Net carrying amount	55,058	725	43,840	17,984	44,019	84,997	246,623
At 1 January 2008, net of accumulated depreciation and impairment	55,058	725	43,840	17,984	44,019	84,997	246,623
Additions	2,434	–	9,602	2,209	39,577	84,280	138,102
Disposals	–	–	–	(13)	(532)	–	(545)
Transfers	7,576	–	44,432	7,726	–	(59,734)	–
Disposal of a subsidiary *(note 34(a))*	(1,954)	–	(910)	(127)	(297)	(4,207)	(7,495)
Impairment	–	–	–	–	–	(1,126)	(1,126)
Depreciation provided during the year	(3,214)	(294)	(5,198)	(2,222)	(8,431)	–	(19,359)
Exchange realignment	1,771	8	2,405	982	2,340	5,276	12,782
At 31 December 2008, net of accumulated depreciation and impairment	61,671	439	94,171	26,539	76,676	109,486	368,982
At 31 December 2008:							
Cost	67,664	884	104,788	31,109	90,845	109,486	404,776
Accumulated depreciation and impairment	(5,993)	(445)	(10,617)	(4,570)	(14,169)	–	(35,794)
Net carrying amount	61,671	439	94,171	26,539	76,676	109,486	368,982

NOTES TO FINANCIAL STATEMENTS
31 December 2009

14. PROPERTY, PLANT AND EQUIPMENT (Continued)
Company

	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2009				
At 31 December 2008 and 1 January 2009:				
Cost	710	840	1,850	3,400
Accumulated depreciation	(293)	(757)	(1,432)	(2,482)
Net carrying amount	417	83	418	918
At 1 January 2009, net of accumulated depreciation	417	83	418	918
Additions	–	29	–	29
Disposals	–	(4)	–	(4)
Depreciation provided during the year	(142)	(47)	(168)	(357)
At 31 December 2009, net of accumulated depreciation	275	61	250	586
At 31 December 2009:				
Cost	710	737	500	1,947
Accumulated depreciation	(435)	(676)	(250)	(1,361)
Net carrying amount	275	61	250	586

NOTES TO FINANCIAL STATEMENTS
31 December 2009

14. PROPERTY, PLANT AND EQUIPMENT (Continued)
Company

	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2008				
At 1 January 2008:				
Cost	710	816	1,850	3,376
Accumulated depreciation	(151)	(712)	(1,062)	(1,925)
Net carrying amount	559	104	788	1,451
At 1 January 2008, net of accumulated depreciation	559	104	788	1,451
Additions	–	24	–	24
Depreciation provided during the year	(142)	(45)	(370)	(557)
At 31 December 2008, net of accumulated depreciation	417	83	418	918
At 31 December 2008:				
Cost	710	840	1,850	3,400
Accumulated depreciation	(293)	(757)	(1,432)	(2,482)
Net carrying amount	417	83	418	918

NOTES TO FINANCIAL STATEMENTS

31 December 2009

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

An analysis of the Group's buildings held under medium term leases is as follows:

	2009 HK$'000	2008 HK$'000
At cost, located in:		
Hong Kong	**23,300**	23,300
Mainland China	**93,333**	44,364
	116,633	67,664

As at 31 December 2009, certain of the Group's buildings, plant and machinery and motor vehicles with net book values of approximately HK$21,725,000 (2008: HK$22,222,000), HK$11,000,000 (2008: Nil) and HK$12,657,000 (2008: Nil), respectively, were pledged to secure certain bank loans granted to the Group (note 27(a)(ii)).

As at 31 December 2009, the directors had conducted impairment testing on the Group's property, plant and equipment, and they considered that the carrying amounts of certain property, plant and equipment are in excess of their recoverable amounts as a result of the continuing operating losses of certain subsidiaries and the economic downturn. Accordingly, a provision for impairment of HK$1,058,000 (2008: HK$1,126,000) was charged to the consolidated income statement during the year.

15. PREPAID LAND LEASE PAYMENTS

	Notes	Group 2009 HK$'000	2008 HK$'000
Carrying amount at 1 January		**20,739**	16,860
Recognised during the year	7	**(2,421)**	(2,588)
Additions for the year		**15,129**	5,545
Acquisition of a subsidiary	33	**9,571**	–
Exchange realignment		**183**	922
Carrying amount at 31 December		**43,201**	20,739
Current portion included in prepayments, deposits and other receivables		**(3,441)**	(2,639)
Non-current portion		**39,760**	18,100

The leasehold lands are held under long term leases and situated in Mainland China.

16. GOODWILL

Group

	HK$'000
At 1 January 2008:	
Cost	200,165
Accumulated impairment	(71,740)
Net carrying amount	128,425
Cost at 1 January 2008, net of accumulated impairment	128,425
Disposal of a subsidiary *(note 34(a))*	(186)
Exchange realignment	30
At 31 December 2008	128,269
At 31 December 2008:	
Cost	200,009
Accumulated impairment	(71,740)
Net carrying amount	128,269
Cost at 1 January 2009, net of accumulated impairment	128,269
Acquisition of an additional interest in a subsidiary	209
Disposal of a subsidiary *(note 34(a))*	(19)
Exchange realignment	3
At 31 December 2009	128,462
At 31 December 2009:	
Cost	200,202
Accumulated impairment	(71,740)
Net carrying amount	128,462

NOTES TO FINANCIAL STATEMENTS

31 December 2009

16. GOODWILL (Continued)

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the gas station operation cash-generating unit for impairment testing.

The recoverable amount of the gas station operation cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a 20-year period. The discount rate applied to cash flow projections is 12.2% (2008: 13.8%).

The key assumptions on which management has based its cash flow projections to undertake impairment testing of goodwill are as follows:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the past performance of the unit and management's expectations of market development.

Discount rate – The discount rate used is before tax and reflect specific risks relating to the relevant unit.

The values assigned to key assumptions are consistent with external information sources.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

17. INTERESTS IN SUBSIDIARIES

	Company	
	2009	2008
	HK$'000	HK$'000
Unlisted shares, at cost	**99,022**	99,022
Due from subsidiaries	**565,355**	533,274
Loans to a subsidiary	**61,885**	97,368
	726,262	729,664
Impairment on unlisted shares#	**(71,740)**	(71,740)
Impairment on amounts due from subsidiaries#	**(169,165)**	(154,943)
	485,357	502,981

\# Impairment amounts of HK$71,740,000 (2008: HK$71,740,000) and HK$169,165,000 (2008: HK$154,943,000) were recognised for certain unlisted investments in subsidiaries with carrying amount of HK$99,022,000 (2008: HK$99,022,000) (before deducting impairment loss) and amounts due from subsidiaries of HK$520,895,000 (2008: HK$488,824,000), respectively, as a result of the continuing non-performance of the businesses of those subsidiaries.

The amounts due from subsidiaries of HK$565,355,000 (2008: HK$533,274,000) are unsecured and interest-free and have no fixed terms of repayment. In the opinion of the directors, these balances are considered as quasi-equity loans to the subsidiaries.

As at 31 December 2008, the loans advanced to a subsidiary were unsecured, bore interest at 3-month Hong Kong Interbank Offered Rate ("HIBOR") plus 2.5% per annum and were repayable in 2009. During the year, the repayment date of the said loans, together with the unpaid interest payable to the Company, were extended to 2010. In the opinion of the directors, the loans are not expected to be repaid within the next 12 months and therefore the loans were classified as non-current assets and were included in interests in subsidiaries.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

17. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
Sino Gas Group Holdings Limited	British Virgin Islands/Hong Kong	US$1	100	–	Property holding
Jetco Innovations Limited	British Virgin Islands/Hong Kong	US$1	100	–	Investment holding
Global King Investments Limited	British Virgin Islands/Hong Kong	US$32,000	–	69.4	Investment holding
Sino Gas (Zhuhai) Limited *# (note)	PRC/ Mainland China	HK$38,000,000	–	50	Investment holding
Zhengzhou Sinogas Company Limited*^	PRC/ Mainland China	RMB29,400,000	–	41.64	Operation of gas stations
Anhui Sinogas Company Limited#	PRC/ Mainland China	HK$30,000,000	–	100	Operation of gas stations
Changchun Sinogas Company Limited^	PRC/ Mainland China	RMB20,000,000	–	97.9	Operation of gas stations
Maanshan Sinogas Company Limited#	PRC/ Mainland China	HK$20,000,000	–	100	Operation of gas stations
Shandong Sinogas Company Limited^	PRC/ Mainland China	RMB24,000,000	–	84.7	Operation of gas stations
Sinogas (Xuzhou) Cleanly Fuel Co., Limited#	PRC/ Mainland China	HK$10,000,000	–	100	Operation of gas stations

NOTES TO FINANCIAL STATEMENTS
31 December 2009

17. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
Sino Cleanly (Pizhou) Environment Protect Energy Sources Co., Limited#	PRC/ Mainland China	HK$10,000,000	–	100	Operation of gas stations
Xuzhou Sinogas Bus Fuel Company Limited^	PRC/ Mainland China	US$1,975,000	–	70	Operation of gas stations
Henan Sinogas Nanhai Energy Sources Company Limited^	PRC/ Mainland China	RMB10,000,000	–	80	Operation of gas stations
Ningxia Jianrong New Energy Limited^	PRC/ Mainland China	RMB11,557,000	–	85	Operation of gas stations
Sinogas Chengdu Company Limited^	PRC/ Mainland China	RMB20,000,000	–	85	Operation of gas stations
Chengdu Sinogas Company Limited #	PRC/ Mainland China	HK$20,000,000	–	85	Operation of gas stations
Chuang Jie Ran Qi (Chengdu) Company Limited ^	PRC/ Mainland China	HK$30,000,000	–	95.5	Operation of gas stations
Xinzheng Sinogas Company Limited ^	PRC/ Mainland China	HK$11,203,864	–	96.9	Operation of gas stations
Sino Gas (Jiangxi) Limited #	PRC/ Mainland China	HK$20,400,000	–	100	Operation of gas stations
Sino Gas (Jiujiang) Limited#	PRC/ Mainland China	US$2,020,155	–	100	Operation of gas stations
Sino Gas (Ganzhou) Limited#	PRC/ Mainland China	US$2,770,466	–	100	Operation of gas stations

NOTES TO FINANCIAL STATEMENTS

31 December 2009

17. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct %	Percentage of equity attributable to the Company Indirect %	Principal activities
Sino Gas (Zhengzhou) Company Limited #	PRC/ Mainland China	HK$10,000,000	–	100	Operation of gas stations
Sino Gas (Shanxi) Limited #	PRC/ Mainland China	RMB12,000,000	–	100	Operation of gas stations
Anyang Sinogas Company Limited #	PRC/ Mainland China	HK$10,000,000	–	100	Operation of gas stations
Guangzhou Sinogas Company Limited*	PRC/ Mainland China	RMB20,000,000	–	50	Operation of gas stations
Jilin Dongkun Gas Company Limited @	PRC/ Mainland China	RMB18,727,995	–	96.5	Operation of gas stations
Zhuhai Sinogas Transportation Company Limited *^	PRC/ Mainland China	RMB10,000,0000	–	45	Transportation of natural gas
Beijing Sinogas Company Limited#	PRC/ Mainland China	RMB100,000,000	–	69.4	Trading of conversion parts and gas station equipment
Jilin Sinogas Company Limited*^	PRC/ Mainland China	RMB8,000,000	–	35.39	Operation of gas stations
Qingdao Sinogas Company Limited^	PRC/ Mainland China	RMB10,000,000	–	68.91	Trading of conversion parts and gas station equipment and operation of gas stations

NOTES TO FINANCIAL STATEMENTS

31 December 2009

17. INTERESTS IN SUBSIDIARIES (Continued)

* These companies are subsidiaries of a non-wholly-owned subsidiary of the Company and are accordingly accounted for as subsidiaries by virtue of the Company's control in the board of directors of these companies.

@ These companies were newly acquired during the year.

^ These subsidiaries are registered as co-operative joint ventures under the PRC laws.

These subsidiaries are registered as wholly-foreign-owned enterprises under the PRC laws.

The statutory financial statements of all of the above subsidiaries were not audited by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the 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.

Note:

Sino Gas (Zhuhai) Limited ("Sino Gas (Zhuhai)") was a wholly-foreign-owned company with 50% of the total registered capital held by the Group and the remaining 50% held by Sanlin Resources Limited.

The board of directors of Sino Gas (Zhuhai) comprised five seats, of which three were assigned by the Group. Accordingly, in the opinion of the directors, the Group can exercise a majority control over the financial and operating policies of Sino Gas (Zhuhai), and accordingly, Sino Gas (Zhuhai) was accounted for as a subsidiary of the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group 2009 HK$'000	2008 HK$'000
Share of net assets	**14,176**	12,286

The balance with a jointly-controlled entity is unsecured, interest-free and has no fixed terms of repayment.

Particulars of the principal jointly-controlled entities at the end of the reporting period, which are held indirectly through wholly-owned subsidiaries of the Company, are as follows:

Name	Particulars of registered capital held	Place of registration	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Henan Blue Sky Sinopetroleum Clean Energy Science & Technology Co. Limited	RMB20,000,000	PRC	50	50	50	Operation of gas stations
Hunan Sinogas Shihua Company Limited	RMB5,000,000	PRC	50	50	50	Not yet commenced business

The statutory financial statements of all of the above jointly-controlled entities were not audited by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network.

NOTES TO FINANCIAL STATEMENTS
31 December 2009

18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

The following table illustrates the summarised financial information of the Group's jointly-controlled entities:

	2009	2008
	HK$'000	HK$'000
Share of the jointly-controlled entities' assets and liabilities:		
Current assets	**8,316**	7,553
Non-current assets	**10,128**	10,482
Current liabilities	**(4,268)**	(5,749)
Net assets	**14,176**	12,286
Share of the jointly-controlled entities' results:		
Revenue	**14,349**	6,168
Other income	**71**	336
	14,420	6,504
Total expenses	**(12,641)**	(6,166)
Profit after tax	**1,779**	338

NOTES TO FINANCIAL STATEMENTS

31 December 2009

19. INTERESTS IN ASSOCIATES

	Group	
	2009	2008
	HK$'000	HK$'000
Share of net assets	**18,291**	17,151
Provision for impairment	**(17,151)**	(17,151)
	1,140	–
Goodwill on acquisition	**58,764**	58,764
Provision for impairment	**(58,764)**	(58,764)
	–	–
	1,140	–

The balance due to an associate included in the Group's current liabilities is unsecured, interest-free and has no fixed terms of repayment.

Impairment testing of interests in associates and goodwill

For the purpose of impairment testing, the goodwill is mainly attributable to two cash-generating units related to the development and manufacture of bio-agricultural pesticide products and the operation of gas stations of the Group's associates.

Due to the continuing non-performance of certain associates, the directors considered that the carrying amounts of the interests in associates exceeded their recoverable amounts, and a provision for impairment of HK$75,915,000 (2008: HK$75,915,000) in aggregate was made by the Group against its interests in those associates, including the related goodwill on acquisition, as at 31 December 2009.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

19. INTERESTS IN ASSOCIATES (Continued)

Particulars of the principal associate, which is held indirectly through a wholly-owned subsidiary of the Company, are as follows:

Name	Particulars of issued shares/registered share capital held	Place of incorporation/ registration	Percentage of ownership interest attributable to the Group 2009	2008	Principal activities
Fuyuxian Sinogas Company Limited*	Registered capital of RMB4,000,000	PRC	**25**	–	Not yet commenced business

* This associate was newly formed during the year.

The statutory financial statements of the above associate were not audited by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network.

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

The financial statements of the associates are coterminous with those of the Group. All the associates have been accounted for using the equity method in these financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

19. INTERESTS IN ASSOCIATES (Continued)

The following table illustrates the summarised financial information of the Group's principal associate extracted from its management amounts:

	2009	2008
	HK$'000	HK$'000
Assets	**4,560**	–
Liabilities	**–**	–
Revenues	**–**	–
Profit	**–**	–

20. AVAILABLE-FOR-SALE INVESTMENTS

	Group		**Company**	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Overseas unlisted equity investments, at cost	**148,992**	147,022	**145,665**	145,665
Impairment	**(145,666)**	(145,666)	**(145,665)**	(145,665)
	3,326	1,356	**–**	–

The above investments consist of investments in equity securities which were designated as available-for-sale financial assets and have no fixed maturity date or coupon rate.

At 31 December 2009, the Group's and the Company's unlisted equity investments were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair values cannot be measured reliably. The Group does not intend to dispose of them in the near future.

Available-for-sale investments include the Company's investment in the 35% interest in the issued share capital of CMEP Limited ("CMEP") at a cost of HK$137,858,000 (2008: HK$137,858,000) acquired in 2003 which had been fully provided for in 2005. CMEP is a company incorporated in the British Virgin Islands and principally engaged in the holding of a contractual right to receive fees from the business of trading of television commercial airtime in Mainland China.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

20. AVAILABLE-FOR-SALE INVESTMENTS (Continued)

The investment was acquired at a total consideration together with the direct expenses of HK$137,858,000 pursuant to the sale and purchase agreement dated 2 January 2003 (the "Agreement") entered into between China Media International Group Limited ("CMI") and the Company. Under the Agreement, CMI had made certain undertakings in favour of the Company, including profit guarantees for CMEP.

However, such undertakings and guarantees were not fulfilled. The Company instigated legal proceedings against CMI in 2004 to claim for, among others, damages for breach of the Agreement. A judgement was granted by the court in favour of the Company but was not able to be enforced up to the date of this report.

In the opinion of the directors, the Group is unable to enforce the judgement of the court since management of CMI is no longer contactable. Accordingly, the directors considered that the investment was fully impaired as at 31 December 2005 and an impairment loss of HK$137,858,000 in respect of the investment in CMEP was charged to the income statement for the period ended 31 December 2005.

The remaining impairment losses of HK$7,808,000 (2008: HK$7,808,000) as at 31 December 2009 represent impairment losses recognised in respect of the other available-for-sale investments determined by the directors with reference to the present value of the estimated cash flows of those investments.

21. INVENTORIES

	Group	
	2009	2008
	HK$'000	HK$'000
Conversion parts and gas station equipment	**6,861**	7,538
CNG and LPG	**1,647**	3,222
Sub-materials	**259**	864
	8,767	11,624

NOTES TO FINANCIAL STATEMENTS

31 December 2009

22. TRADE RECEIVABLES

	Group	
	2009	2008
	HK$'000	HK$'000
Trade receivables	**11,947**	25,855
Impairment	**(196)**	(5,211)
	11,751	20,644

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally 90 to 120 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date is as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
0 to 90 days	**11,371**	16,660
91 to 120 days	**43**	1,494
Over 120 days	**533**	7,701
	11,947	25,855

NOTES TO FINANCIAL STATEMENTS
31 December 2009

22. TRADE RECEIVABLES (Continued)

The movements in provision for impairment of trade receivables are as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
At 1 January	**5,211**	15,430
Impairment losses recognised *(note 7)*	**196**	406
Amount written off as uncollectible	**(5,252)**	(10,700)
Exchange realignment	**41**	75
	196	5,211

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$196,000 (2008: HK$5,211,000) with carrying amounts before provision of HK$196,000 (2008: HK$5,211,000).

The aged analysis of the trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Neither past due nor impaired	**11,314**	18,154
Less than 30 days past due	**43**	186
31 to 180 days past due	**394**	2,304
	11,751	20,644

Receivables that are neither past due nor impaired relate to a large number of diversified customers for which there is no recent history of default.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

22. TRADE RECEIVABLES (Continued)

Receivables that are past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancement over these balances.

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**54,282**	74,076	**69**	284
Deposits and other receivables	**131,464**	135,944	**6,459**	6,499
Impairment	**(123,608)**	(129,117)	**(6,202)**	(6,202)
	62,138	80,903	**326**	581
Non-current portion included in prepayments deposits and other receivables	**(31,135)**	(54,744)	**–**	–
	31,003	26,159	**326**	581

The financial assets included in the above balances which are not considered to be impaired relate to receivables for which there is no recent history of default and are neither past due nor impaired.

NOTES TO FINANCIAL STATEMENTS
31 December 2009

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (Continued)

The movements in provision for impairment of deposits and other receivables are as follows:

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
At 1 January	**129,117**	148,223	**6,202**	6,202
Impairment losses recognised/ (reversed) *(note 7)*	**(3,168)**	9,125	**–**	–
Disposal of subsidiaries	**(6,699)**	(36,092)	**–**	–
Exchange realignment	**4,358**	7,861	**–**	–
	123,608	129,117	**6,202**	6,202

Included in the above provision for impairment of deposits and other receivables of the Group is a provision for individually impaired deposits and other receivables of HK$123,608,000 (2008: HK$129,117,000) with a carrying amount of HK$123,608,000 (2008: HK$129,117,000).

24. CASH AND BANK BALANCES

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$116,290,000 (2008: HK$53,768,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earn interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

25. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
0 to 90 days	**5,866**	13,199
91 to 120 days	**10**	–
Over 120 days	**5,938**	487
	11,814	13,686

The trade payables are non-interest-bearing and are normally settled on 90-day terms. The carrying amounts of the trade payables approximate to their fair values.

26. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Deferred income	**8,136**	8,443	**–**	–
Other payables	**27,723**	22,082	**3,177**	65
Accruals	**5,691**	4,073	**4,094**	1,877
	41,550	34,598	**7,271**	1,942

Except for the other payable of HK$2,000,000 (2008: Nil) due to an employee which bears interest at 2.35% per annum, all other payables are non-interest-bearing and have an average repayment terms of three months.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

27. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group	2009			2008		
	Effective interest rate (%)	Maturity	HK$'000	Effective interest rate (%)	Maturity	HK$'000
Current						
Other loans – unsecured	-	On demand	2,150	–	On demand	2,150
Current portion of other loans – unsecured	7.71	2010	18,619	7.71	2009	3,037
Bank loans – unsecured	5.3 to 8.2	2010	101,460	7.5 to 8.2	2009	39,550
Bank loans – secured	6.87	2010	5,700	–	–	–
Current portion of long term bank loans – secured	Prime-2.8	2010	1,912	Prime-2.8 to HIBOR +2.25	2009	9,363
			129,841			54,100
Non-current						
Non-current portion of other loans – unsecured	7.71	2011 - 2012	16,811	7.71	2010 – 2011	6,795
Bank loans – secured	Prime-2.8	2011 - 2021	20,577	Prime-2.8 to HIBOR+2.25	2010 – 2021	22,489
			37,388			29,284
			167,229			83,384

Company	2009			2008		
	Effective interest rate (%)	Maturity	HK$'000	Effective interest rate (%)	Maturity	HK$'000
Current						
Other loans – unsecured	-	On demand	2,150	–	On demand	2,150
Current portion of long term bank loans – secured			-	HIBOR+2.25	2009	7,500
			2,150			9,650

NOTES TO FINANCIAL STATEMENTS

31 December 2009

27. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Analysed into:				
Bank loans repayable:				
Within one year or on demand	**109,072**	48,914	**–**	7,500
In the second year	**1,962**	1,912	**–**	–
In the third to fifth years, inclusive	**6,198**	6,040	**–**	–
Over five years	**12,417**	14,537	**–**	–
	129,649	71,403	**–**	7,500
Other borrowings repayable:				
Within one year or on demand	**20,769**	5,186	**2,150**	2,150
In the second year	**16,811**	3,278	**–**	–
In the third to fifth years, inclusive	**–**	3,517	**–**	–
	37,580	11,981	**2,150**	2,150
	167,229	83,384	**2,150**	9,650

27. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

Notes:

(a) Certain of the Group's bank loans are secured by:

(i) pledges of equity interests in certain subsidiaries of the Company;

(ii) pledge of the Group's buildings, plant and machinery and motor vehicles with carrying value of HK$21,725,000 (2008: HK$22,222,000), HK$11,000,000 (2008: Nil) and HK$12,657,000 (2008: Nil), respectively (note 14); and

(iii) corporate guarantees aggregating HK$71,910,000 (2008: HK$65,860,000) executed by the Company.

(b) Except for the bank loans of HK$107,160,000 (2008: HK$39,550,000) and other loans of HK$35,430,000 (2008: HK$9,832,000) which are denominated in RMB, all other borrowings are in Hong Kong dollars.

(c) Except for the Group's other loans of HK$35,430,000 (2008: HK$9,832,000) which are interest-bearing at 7.71% per annum and repayable by 12 quarterly instalments commencing from 1 March 2009, all other loans of the Group and the Company are unsecured, interest-free and repayable on demand.

The carrying amounts of the Group's and the Company's interest-bearing bank and other borrowings approximate to their fair values.

The fair values of the interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows at the prevailing interest rates.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

28. CONVERTIBLE BONDS

On 18 March 2009 and 15 April 2009, the Company issued convertible bonds with an aggregate nominal value of HK$58,700,000. The bonds are convertible at the option of the bondholders into ordinary shares at the initial conversion price of HK$0.2 per share anytime after the issuance of the convertible bonds. Any convertible bonds not converted will be redeemed at par in two years after the date of issuance or will be further extended as agreed between the bondholders and the Company. The convertible bonds are interest-bearing at 2% per annum and payable half-yearly in arrears.

Pursuant to the convertible bond agreements, the conversion price of these convertible bonds can be adjusted from time to time when there is (i) share consolidation or share split; (ii) issue of new shares by the Company; (iii) capital distribution made by the Company; (iv) offer of new class of shares or grant of any options or warrants by the Company to the existing shareholders.

In addition, the bondholders have the right to convert the whole or part of the principal amount of the convertible bonds into shares anytime after issuance of the convertible bonds and from time to time in an amount of not less than HK$1,000,000 on each conversion, except when the principal outstanding amount of the convertible bonds is less than HK$1,000,000, the entire principal outstanding amount of the convertible bonds may be converted. Moreover, if the market price of the Company's shares met certain predetermined mandatory conversion prices, the Company shall have the right to require the conversion of certain portion of the outstanding principal amount under each convertible bond and all interest accrued thereon into the shares at the respective mandatory conversion prices.

The fair value of the liability component was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option. The residual amount is assigned as the equity component and is included in shareholders' equity.

The convertible bonds issued in 2007 with an aggregate nominal value of HK$85,800,000 were fully redeemed upon maturity in the current year.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

28. CONVERTIBLE BONDS (Continued)

The convertible bonds issued have been split as to the liability and equity components, as follows:

	Group and Company	
	2009	2008
	HK$'000	HK$'000
Nominal value		
At 1 January	**85,800**	85,800
Issuance of convertible bonds	**58,700**	–
Redemption during the year	**(85,800)**	–
At 31 December	**58,700**	85,800
Liability component		
At 1 January	**85,767**	75,636
Issuance of convertible bonds	**45,828**	–
Redemption during the year	**(85,800)**	–
Interest expense	**6,220**	12,705
Interest paid	**(1,445)**	(2,574)
At 31 December	**50,570**	85,767
Equity component		
At 1 January	**10,164**	10,164
Issuance of convertible bonds	**12,872**	–
Redemption during the year	**(10,164)**	–
At 31 December	**12,872**	10,164

NOTES TO FINANCIAL STATEMENTS

31 December 2009

29. FINANCE LEASE PAYABLES

The Group and the Company leased one of its motor vehicles under a finance lease agreement. The finance lease is repayable by instalments of 60 months and had been fully repaid as at 31 December 2009.

At 31 December 2009, the total future minimum lease payments under the finance lease and their present values were as follows:

	Minimum lease payments		**Present value of minimum lease payments**	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Group and Company				
Amounts payable within one year and total minimum finance lease payments	**–**	89	**–**	88
Future finance charges	**–**	(1)	**–**	–
Total net finance lease payables	**–**	88	**–**	88
Portion classified as current liabilities	**–**	(88)		
Non-current portion	**–**	–		

The Group's and the Company's finance lease arrangement bore interest at a fixed rate and its carrying amount approximated to its fair value.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

30. SHARE CAPITAL

Shares

	2009	2008
	HK$'000	HK$'000
Authorised:		
10,000,000,000 (2008: 10,000,000,000) ordinary shares of HK$0.2 each	**2,000,000**	2,000,000
Issued and fully paid:		
1,807,355,000 (2008: 1,807,355,000) ordinary shares of HK$0.2 each	**361,471**	361,471

A summary of the transactions during the year in the Company's issued ordinary share capital is as follows:

	Number of shares in issue	**Issued capital** HK$'000	**Share premium account** HK$'000	**Share option reserve** HK$'000	**Total** HK$'000
At 1 January 2008	1,751,855,000	350,371	766,939	15,501	1,132,811
Issue of shares upon exercise of warrants	55,500,000	11,100	–	–	11,100
Equity-settled share option arrangements	–	–	–	3,938	3,938
Transfer of reserve upon forfeiture of share options	–	–	294	(294)	–
	55,500,000	11,100	294	3,644	15,038
At 31 December 2008 and 1 January 2009	1,807,355,000	361,471	767,233	19,145	1,147,849
Transfer of reserve upon forfeiture of share options	–	–	3,503	(3,503)	–
At 31 December 2009	1,807,355,000	361,471	770,736	15,642	1,147,849

NOTES TO FINANCIAL STATEMENTS

31 December 2009

30. SHARE CAPITAL (Continued)

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 31 to the financial statements.

Warrants

The Company issued 55,500,000 warrants during the year ended 31 December 2006 as part of the purchase consideration for the acquisition of a subsidiary. Each warrant entitles to the holder thereof to subscribe for one ordinary share at a subscription price of HK$0.20 per share for a period of 24 months commencing from the date of issue of warrants. All warrants were exercised during the year ended 31 December 2008 and 55,500,000 ordinary shares of the Company were issued for aggregate proceeds of HK$11,100,000.

31. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme are the employees of the Group including directors of the Group or any person who, as determined by the directors of the Company, have contributed or may contribute to the Group. The Scheme became effective on 15 April 2005 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time, subject to refreshment with shareholders' approval. Pursuant to the shareholders' meeting on 14 March 2007, the terms of the Scheme were amended and the limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes of the Company must not exceed 30% of the shares in issue from time to time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

NOTES TO FINANCIAL STATEMENTS
31 December 2009

31. SHARE OPTION SCHEME (Continued)

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1 per grant. The exercise period of the share options granted is determinable by the directors, and commences after certain vesting periods and ends on a date which is not later than 10 years from the date of offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of offer; and (ii) the average closing price of the Company's shares for the five trading days immediately preceding the date of offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

31. SHARE OPTION SCHEME (Continued)

The movements in share options under the Scheme during the year are as follows:

	2009		2008	
	Weighted average exercise price HK$ per share	Number of options '000	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	**0.32**	**183,000**	0.32	187,000
Expired during the year	**0.20**	**(12,000)**	–	–
Forfeited during the year	**0.29**	**(26,900)**	0.20	(4,000)
At 31 December	**0.34**	**144,100**	0.32	183,000

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2009

Number of options '000	Exercise price* HK$ per share	Exercise period
12,000	0.20	1-7-06 to 31-1-15
44,034	0.35	1-10-07 to 31-1-15
44,033	0.35	1-1-08 to 31-1-15
44,033	0.35	1-7-08 to 31-1-15
144,100		

NOTES TO FINANCIAL STATEMENTS
31 December 2009

31. SHARE OPTION SCHEME (Continued)
2008

Number of options '000	**Exercise price*** HK$ per share	**Exercise period**
12,000	0.20	1-2-06 to 31-1-09
22,000	0.20	1-7-06 to 31-1-15
49,667	0.35	1-10-07 to 31-1-15
49,667	0.35	1-1-08 to 31-1-15
49,666	0.35	1-7-08 to 31-1-15
183,000		

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

At the end of the reporting period, the Company had 144,100,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 144,100,000 additional ordinary shares of the Company and additional share capital of HK$28,820,000 and share premium of HK$19,815,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 144,100,000 share options outstanding under the Scheme, which represent approximately 7.97% of the Company's shares in issue as at that date.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

32. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 36 to 37 of the financial statements.

The Group's reserve fund represents the Group's share of the statutory surplus reserve funds of certain subsidiaries operating as co-operative joint ventures/foreign investment enterprises in Mainland China. Pursuant to these subsidiaries' articles of association and the PRC Company Law, these subsidiaries shall make an allocation from its profit after tax at the rate of 10% to the statutory surplus reserve fund, until such reserve reaches 50% of the registered capital of the subsidiaries. Part of the statutory surplus reserve may be capitalised as the subsidiaries' registered capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital of the subsidiaries. The statutory reserve is non-distributable other than in the event of liquidation.

The special capital reserve represents the undertaking given by the Company (the "Undertaking") in connection with the capital reduction during the year ended 31 March 2000. The special capital reserve shall not be treated as realised profits and shall be treated as an undistributable reserve as long as there shall remain any outstanding debts or claims which were in existence on the date of the cancellation of the shares of the Company pursuant to the capital reduction, provided that the amount of the reserve may be reduced by the amount of any future increase in the share capital and the share premium account. Any part of the reserve so reduced is released from the terms of the Undertaking and the Company may apply that part so released as a distributable reserve.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

32. RESERVES (Continued)

(b) Company

	Notes	Share premium account HK$'000	Share option reserve HK$'000	Equity component of convertible bonds HK$'000	Special capital reserve HK$'000	Capital redemption reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2008		766,939	15,501	10,164	828,646	3,865	(1,570,736)	54,379
Total comprehensive income for the year		–	–	–	–	–	(208)	(208)
Equity-settled share option arrangements	30	–	3,938	–	–	–	–	3,938
Transfer of reserve upon forfeiture of share options	30	294	(294)	–	–	–	–	–
At 31 December 2008 and 1 January 2009		767,233*	19,145*	10,164	828,646*	3,865*	(1,570,944)*	58,109
Total comprehensive income for the year		–	–	–	–	–	(34,274)	(34,274)
Issue of convertible bonds	28	–	–	12,872	–	–	–	12,872
Transfer of reserve upon maturity of convertible bonds	28	–	–	(10,164)	–	–	10,164	–
Transfer of reserve upon forfeiture of share options	30	3,503	(3,503)	–	–	–	–	–
At 31 December 2009		770,736*	15,642*	12,872	828,646*	3,865*	(1,595,054)*	36,707

* These reserve accounts comprise the reserves of HK$23,835,000 (2008: HK$47,945,000) in the statement of financial position of the Company.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

33. BUSINESS COMBINATION

On 30 September 2009, the Group acquired 100% interest in Jilin Dongkun Gas Company Limited ("Jilin Dongkun") from SKGAS Co. Korea. Jilin Dongkun is engaged in the operation of gas stations. The purchase consideration for the acquisition was in the form of cash.

The fair values of the identifiable assets and liabilities of Jilin Dongkun as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Notes	**Fair value recognised on acquisition** HK$'000	**Previous carrying amount** HK$'000
Property, plant and equipment	14	1,569	6,359
Prepaid land lease payments	15	9,571	2,241
Construction in progress		–	2,229
Inventories		264	2,227
Trade receivables		555	555
Prepayments, deposits and other receivables		1,338	1,571
Cash and bank balances		718	718
Trade payables		(312)	(312)
Other payables and accruals		(110)	(110)
		13,593	15,478
Satisfied by cash		13,593	

NOTES TO FINANCIAL STATEMENTS

31 December 2009

33. BUSINESS COMBINATION (Continued)

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	HK$'000
Cash consideration	13,593
Cash and bank balances acquired	(718)
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	12,875

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Disposal of subsidiaries

	Notes	**2009 HK$'000**	2008 HK$'000
Net assets disposed of:			
Property, plant and equipment	14	**–**	7,495
Available-for-sale investments		**–**	3,920
Inventories		**–**	129
Trade receivables		**–**	1,525
Prepayments, deposits and other receivables		**–**	1,103
Cash and bank balances		**512**	1,015
Trade payables		**(4)**	(4,124)
Other payables and accruals		**(1,533)**	(37,008)
Tax payable		**–**	(82)
Minority interests		**278**	7,808
		(747)	(18,219)
Goodwill disposed of	16	**19**	186
Gain on disposal of subsidiaries	6	**2,248**	18,593
		1,520	560
Satisfied by cash		**1,520**	560

NOTES TO FINANCIAL STATEMENTS

31 December 2009

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(a) Disposal of subsidiaries (Continued)

An analysis of the net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2009	2008
	HK$'000	HK$'000
Cash consideration	**1,520**	560
Cash and bank balances disposed of	**(512)**	(1,015)
Net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries	**1,008**	(455)

(b) Major non-cash transactions

(i) During the year, deposits for acquisition of property, plant and equipment of HK$24,156,000 (2008: HK$22,982,000) were reclassified as items of property, plant and equipment upon the receipt of the relevant property, plant and equipment by the Group.

(ii) During the year, interest expenses of HK$2,846,000 (2008: Nil) have been capitalised into items of property, plant and equipment.

(iii) During the year, the proceeds from the issuance of convertible bonds with an aggregate nominal value of HK$58,700,000 were offset with repayment amount for the redemption of convertible bonds with an aggregate nominal value of HK$46,800,000, with a net proceeds of HK$11,900,000.

35. CONTINGENT LIABILITIES AND LITIGATION

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	Group		**Company**	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Corporate guarantees given to banks in connection with facilities granted to subsidiaries	**–**	–	**71,910**	65,860

As at 31 December 2009, the corporate guarantees granted to subsidiaries of HK$71,910,000 (2008: HK$65,860,000) by the Company were utilised to the extent of approximately HK$71,910,000 (2008: HK$65,860,000).

35. CONTINGENT LIABILITIES AND LITIGATION (Continued)

In addition to the pending litigation set out in note 20 above, the Company is currently a defendant in a lawsuit brought by a third party alleging the Company for a debt amounting to HK$2,150,000 under a loan agreement dated 12 October 2004 together with the interest thereon since 12 February 2005. The Company is in the course of defending such litigation, and the related liabilities were accrued for in the financial statements at the end of the reporting period.

36. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases certain of its gas station equipment and motor vehicles under non-cancellable operating lease arrangements with terms ranging from one to fifteen years.

At 31 December 2009, the Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Within one year	**1,378**	4,365
In the second to fifth years, inclusive	**5,652**	5,531
After five years	**14,803**	16,156
	21,833	26,052

NOTES TO FINANCIAL STATEMENTS

31 December 2009

36. OPERATING LEASE ARRANGEMENTS (Continued)

(b) As lessee

The Group leases certain of its office premises, land and staff quarters under non-cancellable operating lease arrangements with terms ranging from one to twenty years.

At 31 December 2009, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Within one year	**11,485**	9,709
In the second to fifth years, inclusive	**33,845**	38,857
After five years	**62,986**	63,767
	108,316	112,333

37. COMMITMENTS

In addition to the operating lease commitments detailed in note 36 above, the Group had capital commitments in respect of the acquisition of items of property, plant and equipment of HK$57,907,000 (2008: HK$80,460,000) contracted but not provided for in the financial statements as at the end of the reporting period.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

38. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

		Group	
		2009	2008
	Notes	**HK$'000**	HK$'000
Associate:			
Rental income	(i)	**433**	1,915
Interest income	(ii)	**–**	327
Jointly-controlled entity:			
Purchases of products	(iii)	**–**	1,383
Minority shareholders:			
Sale of products	(iv)	**97,605**	35,090
Interest income	(ii)	**–**	40
Shareholder:			
Interest expenses	(v)	**1,114**	63

Notes:

(i) The rental income received from an associate was mutually agreed between the Group and the associate with reference to the market rent.

(ii) The interest income received from a minority shareholder and an associate was charged at an interest rate of 3% per annum.

(iii) The purchases of gas from a jointly-controlled entity were made according to the published prices and conditions offered by the jointly-controlled entity to its major customers.

(iv) The sale of gas to minority shareholders was made according to the published prices and conditions offered to the major customers of the Group.

(v) The interest expenses paid to a shareholder were charged at an interest rate of 3.65% per annum.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

38. RELATED PARTY TRANSACTIONS (Continued)

(b) Outstanding balances with related parties

(i) The loan to a minority shareholder is unsecured, non-interest-bearing and repayable within one year (2008: two years).

(ii) The balances with minority shareholders are unsecured, interest-free and have no fixed terms of repayment except for a balance of HK$17,100,000 which is not expected to be repaid within 12 months from the end of the reporting period.

(iii) Details of the balances with a jointly-controlled entity and an associate as at the end of the reporting period are disclosed in notes 18 and 19 to the financial statements, respectively.

(iv) The loans from a shareholder are unsecured, bear interest at 3.65% per annum and repayable within one year.

(v) The amount due from a subsidiary is unsecured, non-interest-bearing and has no fixed terms of repayment.

(c) Compensation of key management personnel of the Group

	2009	2008
	HK$'000	HK$'000
Short term employee benefits	**4,834**	6,198
Post-employment benefits	**21**	24
Equity-settled share option expense	**–**	788
Total compensation paid to key management personnel	**4,855**	7,010

Further details of directors' emoluments are included in note 9 to the financial statements.

The related party transactions in respect of items (a)(i), (a)(iii), (a)(iv) and (a)(v) above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

39. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2009

Financial assets

	Group		
	Loans and receivables	**Available-for-sale financial assets**	**Total**
	HK$'000	HK$'000	HK$'000
Available-for-sale investments	–	3,326	3,326
Trade receivables	11,751	–	11,751
Financial assets included in prepayments, deposits and other receivables	7,856	–	7,856
Loan to a minority shareholder	9,500	–	9,500
Due from minority shareholders	33,760	–	33,760
Cash and bank balances	118,944	–	118,944
	181,811	3,326	185,137

2009

Financial liabilities

	Financial liabilities at amortised cost
	HK$'000
Trade payables	11,814
Financial liabilities included in other payables and accruals	27,723
Due to an associate	109
Due to a jointly-controlled entity	503
Due to minority shareholders	1,060
Loans from a shareholder	30,974
Interest-bearing bank and other borrowings	167,229
Convertible bonds	50,570
	289,982

NOTES TO FINANCIAL STATEMENTS
31 December 2009

39. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

2008

Financial assets

	Group		
	Loans and receivables	**Available-for-sale financial assets**	**Total**
	HK$'000	HK$'000	HK$'000
Available-for-sale investments	–	1,356	1,356
Trade receivables	20,644	–	20,644
Financial assets included in prepayments, deposits and other receivables	6,827	–	6,827
Loan to a minority shareholder	9,500	–	9,500
Due from minority shareholders	7,295	–	7,295
Cash and bank balances	75,349	–	75,349
	119,615	1,356	120,971

2008

Financial liabilities

	Financial liabilities at amortised cost
	HK$'000
Trade payables	13,686
Financial liabilities included in other payables and accruals	22,082
Due to an associate	537
Due to a jointly-controlled entity	1,042
Due to minority shareholders	1,096
Loan from a shareholder	8,974
Interest-bearing bank and other borrowings	83,384
Convertible bonds	85,767
Finance lease payables	88
	216,656

NOTES TO FINANCIAL STATEMENTS
31 December 2009

39. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Financial assets

	Company	
	2009	2008
	Loans and receivables HK$'000	Loans and receivables HK$'000
Financial assets included in prepayments, deposits and other receivables	**257**	297
Due from a subsidiary	**267**	–
Cash and bank balances	**2,607**	21,521
	3,131	21,818

Financial liabilities

	Company	
	2009	2008
	Financial liabilities at amortised cost HK$'000	Financial liabilities at amortised cost HK$'000
Loans from a shareholder	**30,974**	8,974
Financial liabilities included in other payables and accruals	**3,177**	65
Interest-bearing bank and other borrowings	**2,150**	9,650
Convertible bonds	**50,570**	85,767
Finance lease payables	**-**	88
	86,871	104,544

NOTES TO FINANCIAL STATEMENTS

31 December 2009

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank and other borrowings, and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate. The Group has no specific policy to deal with cash flow interest rate risk. However, management monitors the exposure and will consider hedging the interest rate risk exposure for significant cash flow risks should the need arise.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit/(loss) before tax (through the impact on floating rate borrowings) and the Group's and the Company's equity.

NOTES TO FINANCIAL STATEMENTS
31 December 2009

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk (Continued)

	Group			Company	
	Increase/ (decrease)	Increase/ (decrease) in profit/(loss) before tax	Increase/ (decrease) in equity*	Increase/ (decrease)	Increase/ (decrease) in equity*
	%	HK$'000	HK$'000	%	HK$'000
2009					
Hong Kong dollar	+1	281	–	+1	–
Hong Kong dollar	–1	(281)	–	–1	–
2008					
Hong Kong dollar	+1	298	–	+1	–
Hong Kong dollar	–1	(298)	–	–1	–

* Excluding retained profits

Foreign currency risk

The Group's functional currency is RMB since the operations of its major subsidiaries are mainly in Mainland China.

The Group's transactions were mainly conducted in RMB and its major trade receivables and borrowings are denominated in RMB, hence the exposure to foreign currency risk is minimal. The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposures should the need arise.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk

Most of the gas stations of the Group trade on a cash-on-delivery basis. However, the Group also trades on credit with certain recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and bank balances, available-for-sale investments, other receivables and an amount due from a minority shareholder, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different geographical regions.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and other receivables are disclosed in notes 22 and 23 to the financial statements.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank borrowings and other funds raising activities in the capital market. The Group has detailed operating plans for future development and will also consider arranging necessary financing through fund raising activities in the capital market.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group

	2009					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Trade payables	–	5,876	5,938	–	–	11,814
Other payables	–	1,177	26,546	–	–	27,723
Due to an associate	109	–	–	–	–	109
Due to a jointly-controlled entity	503	–	–	–	–	503
Due to minority shareholders	1,060	–	–	–	–	1,060
Loans from a shareholder	–	22,000	8,974	–	–	30,974
Interest-bearing bank and other borrowings	2,150	5,003	122,688	24,971	12,417	167,229
Convertible bonds	–	–	–	50,570	–	50,570
	3,822	34,056	164,146	75,541	12,417	289,982

	2008					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Trade payables	–	13,199	487	–	–	13,686
Other payables	–	65	22,017	–	–	22,082
Due to an associate	537	–	–	–	–	537
Due to a jointly-controlled entity	1,042	–	–	–	–	1,042
Due to minority shareholders	1,096	–	–	–	–	1,096
Loan from a shareholder	–	–	8,974	–	–	8,974
Interest-bearing bank and other borrowings	2,150	3,075	48,875	14,746	14,538	83,384
Convertible bonds	–	85,767	–	–	–	85,767
Finance lease payables	–	66	22	–	–	88
	4,825	102,172	80,375	14,746	14,538	216,656

NOTES TO FINANCIAL STATEMENTS

31 December 2009

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

The maturity profile of the Company's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Company

	2009				
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Loans from a shareholder	–	22,000	8,974	–	30,974
Other payables	–	3,177	–	–	3,177
Interest-bearing bank and other borrowings	2,150	–	–	–	2,150
Convertible bonds	–	–	–	50,570	50,570
	2,150	25,177	8,974	50,570	86,871

	2008				
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Loan from a shareholder	–	–	8,974	–	8,974
Other payables	–	65	–	–	65
Interest-bearing bank and other borrowings	2,150	1,875	5,625	–	9,650
Convertible bonds	–	85,767	–	–	85,767
Finance lease payables	–	66	22	–	88
	2,150	87,773	14,621	–	104,544

NOTES TO FINANCIAL STATEMENTS

31 December 2009

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2009 and 2008.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

The Group monitors capital using a gearing ratio, which is net debt divided by adjusted capital plus net debt. The Group's policy is to maintain the gearing ratio to below 20%. Net debt includes interest-bearing bank and other borrowings, finance lease payables, amounts due to related parties, trade and other payables, accruals, less cash and bank balances. Capital includes convertible bonds and equity attributable to owners of the parent. The gearing ratios as at the ends of the reporting periods were as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Interest-bearing bank and other borrowings	**167,229**	83,384
Finance lease payables	**–**	88
Trade payables	**11,814**	13,686
Other payables and accruals *(note 26)*	**33,414**	26,155
Due to an associate	**109**	537
Due to a jointly-controlled entity	**503**	1,042
Due to minority shareholders	**1,060**	1,096
Loans from a shareholder	**30,974**	8,974
Less: Cash and bank balances	**(118,944)**	(75,349)
Net debt	**126,159**	59,613
Convertible bonds – the liability component	**50,570**	85,767
Equity attributable to owners of the parent	**466,307**	455,198
Adjusted capital	**516,877**	540,965
Adjusted capital and net debt	**643,036**	600,578
Gearing ratio	**20%**	10%

NOTES TO FINANCIAL STATEMENTS

31 December 2009

41. EVENTS AFTER THE REPORTING PERIOD

(a) In January 2010, the Group entered into an agreement with an independent third party to dispose of a CNG station for a cash consideration of RMB10,000,000 (equivalent to approximately HK$11,400,000), which is expected to generate a gain of approximately HK$1,000,000. The disposal is not yet completed up to the date of approval of these financial statements.

(b) In February 2010, the Group disposed of an available-for-sale investment to an independent third party for a cash consideration of RMB3,100,000 (equivalent to approximately HK$3,534,000), which is expected to generate a gain of approximately HK$2,000,000.

(c) In February 2010, the Group entered into an agreement with an independent third party to dispose of the Group's office unit located in Hong Kong for a net cash proceeds of HK$11,311,000 after deducting the related mortgage loans. The disposal will be completed on 14 April 2010 and a gain of approximately HK$12,000,000 is expected to be generated.

(d) In March 2010, the shareholder of the Company agreed to extend the maturity date of the loans of HK$30,974,000 advanced to the Group to January 2012.

42. COMPARATIVE AMOUNTS

During the year, the directors of the Company performed a detailed review of the revenue structure of the Group and considered that it is no longer appropriate to continue to classify the trading of gas-related products as one of the Group's principal activities for the year. Accordingly, certain comparative amounts have been reclassified and restated to conform with the current year's presentation.

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 March 2010.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below. This summary is not part of the audited financial statements.

	Year ended 31 December 2009	Year ended 31 December 2008	Year ended 31 December 2007	Year ended 31 December 2006	Eighteen months ended 31 December 2005
	HK$'000	HK$'000 (Restated)	HK$'000	HK$'000	HK$'000
RESULTS					
Revenue	**614,325**	331,856	169,524	160,838	170,736
PROFIT/(LOSS) BEFORE TAX	**31,034**	(19,284)	(184,237)	(176,449)	(143,782)
Income tax expense	**(13,945)**	(3,344)	(1,381)	(7,909)	(3,802)
Profit/(loss) for the year/period	**17,089**	(22,628)	(185,618)	(184,358)	(147,584)
Attributable to:					
Owners of the parent	**(5,023)**	(10,536)	(183,282)	(132,748)	(159,767)
Minority interests	**22,112**	(12,092)	(2,336)	(51,610)	12,183
	17,089	(22,628)	(185,618)	(184,358)	(147,584)
ASSETS, LIABILITIES AND MINORITY INTERESTS					
Total assets	**858,566**	734,308	722,234	579,993	479,956
Total liabilities	**(320,632)**	(242,308)	(251,371)	(136,473)	(147,635)
Minority interests	**(71,627)**	(36,802)	(40,390)	(22,404)	(46,295)
	466,307	455,198	430,473	421,116	286,026