

CHINA ENVIRONMENTAL INVESTMENT HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)

Stock code : 260

2012
Interim Report



中國環投
CHINA
ENVIRONMENTAL
INVESTMENT



CONTENTS

	<i>PAGE(S)</i>
MANAGEMENT DISCUSSION AND ANALYSIS	2-5
OTHER INFORMATION	6-11
REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	12-13
INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT	14
INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	15
INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION	16-17
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	18
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS	19
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	20-38

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

The Group's consolidated revenue increased by 10.5% to HK\$501,990,000 for the six-month period ended 30 June 2012 (2011: HK\$454,409,000). The consolidated revenue was derived from its business of compressed natural gas ("CNG") and liquefied petroleum gas ("LPG") vehicle refueling stations in China, and also new businesses of light-emitting diode ("LED") build-operate-transfer ("BOT") projects and provision of finance lease and loan services since March 2012. The growth in consolidated revenue was mainly attributed to growth in the gas business in the PRC and to a less extent, inclusion of the new businesses of LED BOT projects and provision of finance lease and loan services.

The Group's gross profit for the six-month period ended 30 June 2012 was HK\$98,500,000 (2011: HK\$90,573,000), representing an increase of 8.8% from last corresponding period mainly resulted from continuous growth in the gas sales volume and stable price margins.

The Group made a loss attributable to owners of the parent for the six-month period ended 30 June 2012 amounting to HK\$8,703,000 (2011: profit of HK\$4,723,000). The change of profit to loss was mainly caused by (i) there was no one-off gain on disposals comparing to last corresponding period; (ii) non-recurring expenses associated with the open offer and business acquisitions at the beginning of 2012; (iii) increased administrative expenses due to expansion of the Hong Kong office catering for the anticipated growth of the Group's businesses in LED and finance lease; and (iv) write-off of vehicle conversion parts in the gas subsidiaries.

Operational Review

(1) Gas Business

The Group's gas business registered growth and made positive contributions to the Group on a segment basis excluding unallocated expenses and the impact of the above-mentioned one-off items.

The Group achieved sales volume of CNG and LPG amounted to 78,580,000m³ and 22,973 tons respectively during the period, representing an increase of 10.5% and a decrease of 6.3% respectively over the last corresponding period. The decrease of LPG sales volume was mainly due to a LPG refueling station in the North-eastern China district has been altered into a CNG station.

During the period under review, the Group's gas business faced intensified competition and further squeeze in gross profit margins. The Group sought to expand its gas business in places where it had relative competitive strengths. In Chengdu, a new CNG station has been built by the jointly-controlled entity and management is finalizing its operating licenses. In North-eastern China, management is finalizing relevant land use documents for a LPG storage facility. In Henan district, as affected by local urban planning projects, one of the refueling stations had to temporarily cease operation and management has taken actions to accelerate the relocation.

(2) *LED Business*

In March 2012, the Group completed the acquisition of Beijing Tianxu Hengyuan Energy-Saving Technology Co., Ltd. (北京天旭恆源節能科技有限公司) (“Tianxu Hengyuan”). The total consideration was RMB25 million and no consideration share was issued for the acquisition in accordance with the acquisition agreement.

This is a major step forward for the Group to develop LED street light BOT business. During the reporting period, Tianxu Hengyuan has successfully concluded the first LED BOT project in Fangshan District of Beijing. The Fangshan project is to replace 8,551 units of incandescent lights with much more energy efficient LED street lights on a BOT basis, for a term of 16 years with service contract value of approximately HK\$281.6 million. The project has started to generate revenue in the second quarter of 2012. It has made positive EBITDA return, but the depreciation cost and finance expense dragged the segment profits to negative territory in the first half of 2012.

The LED business is still at the initial stage to expand business. Tianxu Hengyuan has established a subsidiary in Fujian province in July 2012. There are additional LED BOT projects under negotiation with local government authorities in provinces such as Shandong, Sichuan, Fujian and Zhejiang. The coming project size is expected to be much larger than the size of Fangshan. Upon successful negotiation of these projects, Tianxu Hengyuan is expected to generate new service contract value in excess of billions of Renminbi.

(3) *Finance Leasing Business*

In March 2012, Guangdong Zi Yu Tai Finance Leasing Company Limited (廣東資雨泰融資租賃有限公司) (“Guangdong Ziyutai”) became a wholly-owned subsidiary of the Group through the acquisition of the remaining 64.58% beneficial equity interest of Guangdong Ziyutai. Following the acquisition, Guangdong Ziyutai’s shareholder’s equity was increased from HK\$86 million in February 2012 to HK\$163 million by capital injection of US\$10 million, which has further enhanced Guangdong Ziyutai’s bank borrowing capacity.

For the six-month period ended 30 June 2012, Guangdong Ziyutai has recorded a net profit of RMB2.1 million, in which RMB0.9 million was contributed to the Group. As of 30 June 2012, the LED business accounted for about 27% of Guangdong Ziyutai’s loan book. The Group expects the LED business to be the key driver to grow Guangdong Ziyutai’s loan book in future.

Business Outlook

Given continuous urbanization in China and emphasis on increasing the natural gas proportion in the national’s energy composition as set forth in the National Twelfth Five-Year Plan, the Group believes the gas business will continue its growing trend. Nonetheless, in view of the intensifying competition of its gas business, the Group would only seek expansion opportunities in areas where it believes to have relative competitive strengths and put emphasis on ways to improve its operating efficiency.

After a few months' post-acquisition integration, the newly acquired LED BOT business and finance leasing business have already begun to contribute to the Group's consolidated income and further diversify its income base, and are expected to make further contributions to the Group in future.

In general, investment return of the LED BOT business is very sensitive to: 1) power saving rate; and 2) LED street lights' manufacturing costs. The Group expects technology migration and mass productions of LED street lights to further improve LED power saving rate and to push down LED street lights' costs in the coming year. In addition, while Tianxu Hengyuan grows the business scale, the average operating cost per LED light is expected to trend down.

The LED BOT business requires substantial capital investment at the initial stage. Better access to funding is the key competitive advantage. On the one hand, the Group's finance leasing arm Guangdong Ziyutai will provide the financial capabilities and lower funding cost to develop LED business. On the other hand, the development in LED BOT business also helps Guangdong Ziyutai to grow its loan book.

In addition, Guangdong Ziyutai also enjoys ample opportunities to grow its loan book outside the Group businesses under the current credit market condition. After the capital injection, Guangdong Ziyutai now has the ability to expand the loan book to a maximum of RMB1.35 billion.

Given the weakening economy of China, the Group expects the operating environment in the second half of 2012 remains difficult. The Group will continue to look for ways for more effective deployment of its resources and identify investment opportunities to broaden its earnings base and enhance its shareholder value.

Financial Resources

During the six-month period ended 30 June 2012, the financial position of the Group was strengthened by the net proceeds of approximately HK\$240.6 million received from the completion of open offer (as described in more details in the Company's announcement dated 22 February 2012 and the prospectus dated 1 February 2012).

At 30 June 2012, the Group's total borrowings (including interest-bearing bank and other borrowings, loans from a shareholder and convertible bonds) amounted to approximately HK\$209 million (31 December 2011: HK\$136.5 million), of which HK\$145.3 million (31 December 2011: HK\$93.3 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 total borrowings to equity attributable to owners of the parent of HK\$935 million (31 December 2011: HK\$679.1 million) was 22.4% (31 December 2011: 20.1%). Cash and bank balances were HK\$380.9 million (31 December 2011: HK\$183.4 million).

During the six-month period ended 30 June 2012, the Group was not materially exposed to foreign currency risk.

Interim Dividend

The board of directors of the Company ("Board") does not recommend the payment of any interim dividend for the six-month period ended 30 June 2012 (2011: Nil).

Staff Benefits

At 30 June 2012, the Group had a total of 1,338 employees (2011: 1,278). The staff costs for the six-month period ended 30 June 2012 amounted to approximately HK\$40.9 million (2011: HK\$36.8 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 period.

Human Resources

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.

Pledge of Assets

At 30 June 2012 the Group had pledged certain finance lease receivables for certain bank borrowings granted.

By order of the Board

Ji Hui

Chief Executive Officer

Hong Kong
23 August 2012

As of the date of this interim report, the Board comprises eight directors, of which Mr. Ji Guirong (Chairman) is the non-executive director; Mr. Ji Hui (Chief Executive Officer), Mr. Zang Zheng, Mr. Zhang Chuanjun and Mr. Zhang Ning (Chief Financial Officer) are the executive directors; Mr. Wang Zhonghua, Mr. Zhong Qiang and Mr. Xiao Wei are the independent non-executive directors.

OTHER INFORMATION

CHANGE OF COMPANY NAME

Pursuant to a special resolution passed by the shareholders at the extraordinary general meeting of the Company held on 12 January 2012, the name of the Company was changed from Sino Gas Group Limited (中油潔能集團有限公司) to China Environmental Investment Holdings Limited (中國環保投資股份有限公司).

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 June 2012, 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 of 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	52,350,000
Ji Hui	32,000,000
Zhang Chuanjun	40,000,000
Zhang Ning	30,000,000
	154,350,000

Save as disclosed above, as at 30 June 2012, 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 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 pursuant to the Model Code in the Listing Rules.

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.

Pursuant to the ordinary resolution passed by the shareholders at the annual general meeting of the Company held on 15 June 2012 (the "AGM"), the Scheme mandate limit was refreshed so that the Company was authorised to grant share options under the existing Scheme for subscription of up to a total of 365,378,253 shares, representing approximately 10% of the issued share capital of the Company as at the date of the AGM.

SHARE OPTION SCHEME (Continued)

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

Name or category of participant	Number of share options					At 30 June 2012	Date of grant of share options ³	Exercise period of share options	Exercise price of share options HK\$ per share ⁴
	At 1 January 2012	Granted during the period	Reclassified during the period ¹	Adjusted during the period ²	Forfeited during the period				
Directors									
Ji Guirong	4,966,667	-	-	2,483,333	-	7,450,000	23-8-07	1-10-07 to 31-1-15	0.233
	4,966,667	-	-	2,483,333	-	7,450,000	23-8-07	1-1-08 to 31-1-15	0.233
	4,966,666	-	-	2,483,334	-	7,450,000	23-8-07	1-7-08 to 31-1-15	0.233
	20,000,000	-	-	10,000,000	-	30,000,000	31-8-10	31-8-10 to 30-8-20	0.227
	34,900,000	-	-	17,450,000	-	52,350,000			
Ji Hui	2,000,000	-	-	-	-	2,000,000	3-1-06	1-2-06 to 31-1-15	0.20
	20,000,000	-	-	10,000,000	-	30,000,000	31-8-10	31-8-10 to 30-8-20	0.227
	22,000,000	-	-	10,000,000	-	32,000,000			
Zhang Chuanjun	-	-	10,000,000	-	-	10,000,000	3-1-06	1-2-06 to 31-1-15	0.20
	-	-	20,000,000	10,000,000	-	30,000,000	31-8-10	31-8-10 to 30-8-20	0.227
	-	-	30,000,000	10,000,000	-	40,000,000			
Zhang Ning	-	15,000,000	-	-	-	15,000,000	13-6-12	13-6-13 to 12-6-22	0.236
	-	15,000,000	-	-	-	15,000,000	13-6-12	13-6-14 to 12-6-22	0.236
	-	30,000,000	-	-	-	30,000,000			
	56,900,000	30,000,000	30,000,000	37,450,000	-	154,350,000			
Consultants									
In aggregate	38,100,000	-	-	19,050,000	-	57,150,000	23-8-07	1-10-07 to 31-1-15	0.233
	38,100,000	-	-	19,050,000	-	57,150,000	23-8-07	1-1-08 to 31-1-15	0.233
	38,100,000	-	-	19,050,000	-	57,150,000	23-8-07	1-7-08 to 31-1-15	0.233
	85,000,000	-	-	42,500,000	-	127,500,000	31-8-10	31-8-10 to 30-8-20	0.227
	-	24,490,000	-	-	-	24,490,000	13-6-12	13-6-13 to 12-6-22	0.236
	-	24,490,000	-	-	-	24,490,000	13-6-12	13-6-14 to 12-6-22	0.236
	199,300,000	48,980,000	-	99,650,000	-	347,930,000			
Other employees									
In aggregate	10,000,000	-	(10,000,000)	-	-	-	3-1-06	1-2-06 to 31-1-15	0.20
	75,000,000	-	(20,000,000)	27,500,000	-	82,500,000	31-8-10	31-8-10 to 30-8-20	0.227
	85,000,000	-	(30,000,000)	27,500,000	-	82,500,000			
	341,200,000	78,980,000	-	164,600,000	-	584,780,000			

SHARE OPTION SCHEME (Continued)

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

1. During the period ended 30 June 2012, an employee, Mr. Zhang Chuanjun, was appointed as a director of the Company and accordingly, his share options have been reclassified from the Other employees' category to the Directors' category.
2. Pursuant to the terms of the Scheme, the exercise prices and the numbers of shares of the outstanding options have been adjusted as a result of the completion of open offer, details of which may refer to the announcement of the Company dated 22 February 2012.
3. The vesting period of the share options is from the date of grant until the commencement of the exercise period.
4. 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.
5. The closing price of the Company's shares immediately before the date on which the options granted on 13 June 2012 was HK\$0.236 per share.

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

At 30 June 2012, 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	Percentage of the Company's issued share capital if the convertible shares were exercised
Billirich Investment Limited ("Billirich")	(a)	Long	Beneficial owner	1,031,595,000	28.23%	220,322,859	6.03%
AVIC International Holding (HK) Limited ("AVIC Int'l")	(a)	Long	Interest of a controlled corporation	1,031,595,000	28.23%	220,322,859	6.03%
Tacko International Limited	(a)	Long	Interest of a controlled corporation	1,031,595,000	28.23%	220,322,859	6.03%
AVIC International (HK) Group Limited	(a)	Long	Beneficial owner and interest of a controlled corporation	1,535,618,891	42.03%	220,322,859	6.03%
AVIC International Holding Corporation	(a)	Long	Interest of a controlled corporation	1,535,618,891	42.03%	220,322,859	6.03%
Aviation Industry Corporation of China	(a)	Long	Interest of a controlled corporation	1,535,618,891	42.03%	220,322,859	6.03%
Grand Win Overseas Ltd. ("Grand Win")	(b)	Long	Beneficial owner	271,965,000	7.44%	-	-
Sun Shining Investment Corp.	(b)	Long	Interest of a controlled corporation	271,965,000	7.44%	-	-
Tai Yuen Textile Company Ltd.	(b)	Long	Interest of a controlled corporation	271,965,000	7.44%	-	-

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

Notes:

- (a) Billirich is a wholly-owned subsidiary of AVIC Int'l. Tacko International Limited, together with its wholly-owned subsidiary, hold in aggregate approximately 40.35% of the issued capital of AVIC Int'l. Tacko International Limited is a wholly-owned subsidiary of AVIC International (HK) Group Limited, which in turn is a wholly-owned subsidiary of AVIC International Holding Corporation. AVIC International Holding Corporation is a non-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) Grand Win is a wholly-owned subsidiary of Sun Shining Investment Corp. Tai Yuen Textile Company Ltd. beneficially owns 82.85% equity interest in Sun Shining Investment Corp. and therefore, these corporations are deemed to be interested in the shares held by Grand Win.

Save as disclosed above, as at 30 June 2012, 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.

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 period.

CORPORATE GOVERNANCE PRACTICES

The Company has complied with the applicable provisions set out in the Code on Corporate Governance Practices (effective until 31 March 2012) during the period from 1 January 2012 to 31 March 2012 and the Corporate Governance Code (effective from 1 April 2012) during the period from 1 April 2012 to 30 June 2012 contained in Appendix 14 to the Listing Rules (the "CG Code"), save and except as disclosed below:

- (i) under code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term, subject to re-election. The non-executive directors of the Company have not been appointed for a specific term. However, the non-executive directors of the Company are subject to retirement and re-election at least once every three years in accordance with the articles of association of the Company.
- (ii) under code provision A.6.7 of the CG Code, independent non-executive directors and other non-executive directors should attend general meetings of the Company. An executive director and two independent non-executive directors of the Company were unable to attend the annual general meeting of the Company held on 15 June 2012 as they had other engagements in China.

CORPORATE GOVERNANCE PRACTICES (Continued)

- (iii) under code provision D.1.4 of the CG Code, the Company should have formal letters of appointment for directors setting out the key terms and conditions of their appointments. The Company did not have formal letters of appointment for directors. However, the directors shall be subject to retirement and re-election in accordance with the articles of association of the Company. Moreover, the directors are required to refer to the guidelines set out in "A Guide on Directors' Duties" issued by the Companies Registry, and "Guidelines for Directors" and "Guide for Independent Non-Executive Directors" (if applicable) published by the Hong Kong Institute of Directors in performing their duties and responsibilities as directors. In addition, the directors are required to comply with the requirements under statute and common law, the Listing Rules, legal and other regulatory requirements.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. Following specific enquiry by the Company, all directors of the Company confirmed that they had complied with the required standards as set out in the Model Code during the period.

AUDIT COMMITTEE

The audit committee, comprises the three independent non-executive directors of the Company, namely Mr. Wang Zhonghua, Mr. Zhong Qiang and Mr. Xiao Wei, has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters. The Group's unaudited interim condensed consolidated financial statements for the period have been reviewed by the audit committee, who is of the opinion that such financial statements comply with the applicable accounting standards, the Listing Rules and all legal requirements, and that adequate disclosures have been made.

REMUNERATION COMMITTEE

The remuneration committee, comprises the non-executive director, Mr. Ji Guirong, and two independent non-executive directors, namely Mr. Zhong Qiang and Mr. Xiao Wei, of the Company, is responsible for reviewing and evaluating the remuneration policies of executive directors and senior management and making recommendations to the Board from time to time. The chairman of the remuneration committee has been changed from Mr. Ji Guirong to Mr. Xiao Wei with effect from 16 March 2012.

NOMINATION COMMITTEE

On 16 March 2012, the Board established a nomination committee in accordance with the CG Code, which comprises four members including the non-executive director, Mr. Ji Guirong (chairman of the nomination committee) and three independent non-executive directors, namely Mr. Wang Zhonghua, Mr. Zhong Qiang and Mr. Xiao Wei. The principal duties of the nomination committee are to review the structure, size and composition of the Board and to make recommendations to the Board on appointment of directors.

DISCLOSURE OF INFORMATION OF DIRECTORS UNDER RULE 13.51B(1) OF THE LISTING RULES

Mr. Zhang Chuanjun was appointed as an executive director of the Company with effect from 3 May 2012 and remains as the vice president of the Company. Mr. Zhang Ning was appointed as an executive director of the Company with effect from 3 May 2012 and remains as the chief financial officer of the Company.

An annual director's fee of HK\$36,000 will be paid annually to each Mr. Ji Guirong, the Chairman and non-executive director, and Mr. Ji Hui, the Chief Executive Officer and executive director, in addition to their existing remuneration packages with effect from 1 January 2012.

Save as mentioned above, the Company is not aware of other changes in the information of director that is required to be disclosed under Rule 13.51B(1) of the Listing Rules.

REVIEW OF INTERIM FINANCIAL STATEMENTS

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2012 have been reviewed by the audit committee, and the external auditors, Ernst & Young, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

**REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**



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Hong Kong

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香港中環添美道1號
中信大廈22樓

**To the shareholders of China Environmental Investment Holdings Limited
(Formerly known as Sino Gas Group Limited)**

(Incorporated in Hong Kong with limited liabilities)

Introduction

We have reviewed the interim financial information of China Environmental Investment Holdings Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2012 set out on pages 14 to 38, which comprises the interim condensed consolidated statement of financial position as at 30 June 2012 and the related interim condensed consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and explanatory information. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants.

The directors are responsible for the preparation and presentation of these interim condensed consolidated financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primary of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young

Certified Public Accountants

Hong Kong
23 August 2012

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	For the six months ended	
		30 June	
		2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
REVENUE	5	501,990	454,409
Cost of sales		(403,490)	(363,836)
Gross profit		98,500	90,573
Other income and gains	5	4,506	11,105
Selling and distribution costs		(45,353)	(39,532)
Administrative expenses		(54,973)	(44,401)
Other operating expenses, net		(1,806)	(2,431)
Finance costs	6	(7,328)	(5,480)
Share of profits and losses of jointly-controlled entities		4,245	(721)
Share of profits and losses of associates		(95)	151
PROFIT/(LOSS) BEFORE TAX	7	(2,304)	9,264
Income tax expense	8	(5,274)	(5,125)
PROFIT/(LOSS) FOR THE PERIOD		(7,578)	4,139
Attributable to:			
Owners of the parent		(8,703)	4,723
Non-controlling interests		1,125	(584)
		(7,578)	4,139
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic and diluted		(HK0.26 cents)	HK0.21 cents

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended	
	30 June	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
PROFIT/(LOSS) FOR THE PERIOD	(7,578)	4,139
OTHER COMPREHENSIVE INCOME/(LOSS):		
Share of other comprehensive income of jointly-controlled entities	-	560
Share of other comprehensive income of associates	-	665
Exchange differences on translation of foreign operations	(903)	10,172
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	(903)	11,397
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	(8,481)	15,536
Attributable to:		
Owners of the parent	(9,606)	15,205
Non-controlling interests	1,125	331
	(8,481)	15,536

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	11	425,892	390,945
Investment property		5,662	5,723
Prepaid land lease payments		27,510	28,183
Goodwill		150,517	128,462
Intangible asset	12	15,909	–
Investments in jointly-controlled entities		44,838	40,593
Investments in associates		–	32,781
Prepayments and deposits	14	62,123	21,283
Long term finance lease receivables	15	21,624	–
Due from a non-controlling shareholder	24(b)(i)	18,000	18,000
Total non-current assets		772,075	665,970
CURRENT ASSETS			
Inventories		2,811	4,212
Trade and bills receivables	13	87,406	53,009
Prepayments, deposits and other receivables	14	57,243	50,893
Short term finance lease receivables	15	21,188	–
Due from non-controlling shareholders	24(b)(i)	23,987	44,440
Due from jointly-controlled entities	24(b)(ii)	12,281	12,582
Pledged deposit		1,200	3,360
Cash and bank balances		380,894	183,388
Total current assets		587,010	351,884
CURRENT LIABILITIES			
Trade and bills payables	16	57,239	37,036
Other payables and accruals		45,382	45,930
Due to non-controlling shareholders	24(b)(i)	5,881	3,032
Due to associates	24(b)(ii)	115	2,099
Due to a jointly-controlled entity	24(b)(ii)	423	428
Loans from a shareholder	24(b)(iii)	18,974	40,974
Tax payable		16,011	20,663
Interest-bearing bank and other borrowings	17	118,477	95,493
Total current liabilities		262,502	245,655
NET CURRENT ASSETS		324,508	106,229
TOTAL ASSETS LESS CURRENT LIABILITIES		1,096,583	772,199

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

		30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
	Notes		
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	17	28,986	–
Convertible bonds	18	42,568	–
Total non-current liabilities		71,554	–
Net assets		1,025,029	772,199
EQUITY			
Equity attributable to owners of the parent			
Issued capital	19	730,757	487,171
Equity component of convertible bonds	18	21,686	–
Reserves		182,585	191,926
		935,028	679,097
Non-controlling interests		90,001	93,102
Total equity		1,025,029	772,199

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the parent											
	Issued capital	Share premium account	Share option reserve	Equity component of convertible bonds	Special capital reserve	Exchange fluctuation reserve	Reserve fund	Capital redemption reserve	Accumulated losses	Total	Non-controlling interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2011	428,471	829,393	36,514	12,872	828,646	67,692	1,865	3,865	(1,606,561)	602,757	56,867	659,624
Profit/(loss) for the period	-	-	-	-	-	-	-	-	4,723	4,723	(584)	4,139
Other comprehensive income for the period:												
Share of other comprehensive income of jointly-controlled entities	-	-	-	-	-	560	-	-	-	560	-	560
Share of other comprehensive income of associates	-	-	-	-	-	621	44	-	-	665	-	665
Exchange differences on translation of foreign operations	-	-	-	-	-	9,257	-	-	-	9,257	915	10,172
Total comprehensive income for the period	-	-	-	-	-	10,438	44	-	4,723	15,205	331	15,536
Issue of shares upon conversion of convertible bonds	58,700	-	-	-	-	-	-	-	-	58,700	-	58,700
Transfer of reserve upon conversion of convertible bonds	-	-	-	(12,872)	-	-	-	-	12,872	-	-	-
Dividend paid to non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	(623)	(623)
Disposal of a subsidiary	-	-	-	-	-	-	-	-	-	-	18	18
At 30 June 2011 (unaudited)	487,171	829,393	36,514	-	828,646	78,130	1,909	3,865	(1,588,966)	676,662	56,593	733,255
At 1 January 2012	487,171	829,393	36,514	-	828,646	76,850	4,936	3,865	(1,588,278)	679,097	93,102	772,199
Profit/(loss) for the period	-	-	-	-	-	-	-	-	(8,703)	(8,703)	1,125	(7,578)
Other comprehensive loss for the period:												
Exchange differences on translation of foreign operations	-	-	-	-	-	(903)	-	-	-	(903)	-	(903)
Total comprehensive income/(loss) for the period	-	-	-	-	-	(903)	-	-	(8,703)	(9,606)	1,125	(8,481)
Issue of shares	243,586	-	-	-	-	-	-	-	-	243,586	-	243,586
Share issue expenses	-	(52)	-	-	-	-	-	-	-	(52)	-	(52)
Equity-settled share option arrangement	-	-	317	-	-	-	-	-	-	317	-	317
Issue of convertible bonds	-	-	-	21,686	-	-	-	-	-	21,686	-	21,686
Dividend paid to non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	(4,226)	(4,226)
At 30 June 2012 (unaudited)	730,757	829,341*	36,831*	21,686	828,646*	75,947*	4,936*	3,865*	(1,596,981)*	935,028	90,001	1,025,029

* These reserve accounts comprise the consolidated reserves of HK\$182,585,000 (31 December 2011: HK\$191,926,000) in the interim condensed consolidated statement of financial position.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended	
	30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
NET CASH FLOWS FROM OPERATING ACTIVITIES	35,330	17,424
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(81,787)	(3,097)
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES	241,803	(17,227)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	195,346	(2,900)
Cash and cash equivalents at beginning of period	186,748	146,807
Effect of foreign exchange rate changes, net	-	3,044
CASH AND CASH EQUIVALENTS AT END OF PERIOD	382,094	146,951
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	380,894	146,951
Pledged deposit	1,200	-
Cash and cash equivalents as stated in the interim condensed consolidated statement of cash flows	382,094	146,951

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

China Environmental Investment Holdings Limited is a limited liability company incorporated in Hong Kong whose shares are publicly traded.

During the period, the Group was principally involved in the operation of CNG and LPG refueling stations, management of BOT projects to replace streetlights into LED lights and provision of finance lease and loan services.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The interim condensed consolidated financial statements for the six months ended 30 June 2012 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the disclosure requirements set out in Appendix 16 of the Listing Rules.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2011.

The accounting policies and basis of preparation adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011, except for the Group's new intangible asset acquired in a business combination and the adoption of certain new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), which also include HKASs and Interpretations ("Ints"), that affect the Group and are adopted for the first time for the current period's interim condensed consolidated financial statements as disclosed in note 3 below.

Intangible asset (other than goodwill)

Intangible asset acquired separately is measured on initial recognition at cost. The cost of intangible asset acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible asset is assessed to be either finite or indefinite. Intangible asset with finite life is subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Reclassifications

Certain amounts in the interim financial information for the six months ended 30 June 2011 have been reclassified to be consistent with the current period's presentation. These reclassifications have no effect on the previously reported profits for the prior period.

3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The following new and revised HKFRSs are adopted for the first time for the current period's interim condensed consolidated financial statements:

HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Transfers of Financial Assets</i>
HKAS 12 Amendments	Amendments to HKAS 12 <i>Income Taxes – Deferred Tax: Recovery of Underlying Assets</i>

The adoption of the new and revised HKFRSs had no material impact on the results and financial position for the current or prior accounting periods which have been prepared and presented.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into operating segments based on their products and services and has three reporting segments as follows:

- (a) Operation of gas stations engages in the operation of CNG and LPG refueling stations;
- (b) LED BOT projects; and
- (c) Provision of finance lease and loan services.

Management monitors the operating results of its operating segments separately for the purpose of making decision about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss in the interim condensed consolidated financial statements. Group financing (including finance costs and interest income) and income taxes are managed on a group basis and are not allocated to operating segments.

4. OPERATING SEGMENT INFORMATION (Continued)

The following table presents revenue and profit/(loss) for the Group's primary segments for the six months ended 30 June 2012 and 2011.

	Operation of gas stations		LED BOT projects		Finance lease and loan services		Consolidated	
	2012	2011	2012	2011	2012	2011	2012	2011
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Segment revenue:								
Sales to external customers	494,387	454,409	4,308	-	3,295	-	501,990	454,409
Segment results	14,426	13,762	(1,302)	-	1,522	-	14,646	13,762
Interest income and unallocated gains							1,228	484
Unallocated expenses							(15,000)	(6,343)
Finance costs							(7,328)	(5,480)
Gain on disposal of subsidiaries	-	6,784	-	-	-	-	-	6,784
Gain on disposal of an associate	-	375	-	-	-	-	-	375
Gain on disposal of an available-for-sale investment	-	252	-	-	-	-	-	252
Share of profits and losses of:								
Jointly-controlled entities	4,245	(721)	-	-	-	-	4,245	(721)
Associates	(95)	151	-	-	-	-	(95)	151
Profit/(loss) before tax							(2,304)	9,264
Income tax expenses							(5,274)	(5,125)
Profit/(loss) for the period							(7,578)	4,139

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents sales of CNG and LPG from operation of gas stations, LED lights service income and interest income on finance leases and loans during the period.

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

	For the six months ended	
	30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Revenue		
Operation of gas stations	494,387	454,409
LED service income	4,308	–
Interest income on finance leases and loans	3,295	–
	501,990	454,409
Other income		
Interest income	1,228	484
Rental income	1,127	1,161
Trading of petroleum and gas-related products	306	786
Government grants received*	1,842	–
Others	3	1,263
	4,506	3,694
Gains		
Gain on disposal of subsidiaries	–	6,784
Gain on disposal of an associate	–	375
Gain on disposal of an available-for-sale investment	–	252
	–	7,411
	4,506	11,105

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

6. FINANCE COSTS

	For the six months ended	
	30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on loans/bonds wholly repayable within five years:		
Bank loans	5,226	2,868
Other loans	792	1,620
Convertible bonds	1,310	2,050
Total interest expense on financial liabilities	7,328	6,538
Less: interest capitalised	-	(1,058)
	7,328	5,480

7. PROFIT/(LOSS) BEFORE TAX

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

	For the six months ended	
	30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Cost of inventories sold	381,214	348,235
Depreciation on property, plant and equipment	27,107	21,590
Depreciation on investment property	61	149
Recognition of prepaid land lease payments	1,204	3,916
Loss/(gain) on disposal of items of property, plant and equipment*	(567)	873
Impairment of other receivables*	-	1,558
Impairment of inventories*	2,373	-

* Included in "Other operating expenses, net" on the face of the interim condensed consolidated income statement.

8. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the period (2011: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the country in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	For the six months ended	
	30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Group:		
Current – Mainland China	5,274	5,125

9. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings/(loss) per share amount is based on the loss for the period attributable to ordinary equity holders of the parent of HK\$8,703,000 (2011: profit of HK\$4,723,000), and the weighted average number of ordinary shares of 3,299,111,340 (2011: 2,288,761,103) in issue during the period.

The calculation of the diluted earnings per share for the period ended 30 June 2011 is based on the profit for the period attributable to ordinary equity holders of the parent, as used in the basic earnings per share calculation. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all the dilutive potential ordinary shares into ordinary shares.

The diluted loss per share for the period ended 30 June 2012 has not been presented as the conversion of the outstanding share options and convertible bonds would have an anti-dilutive effect on the basic loss per share for that period.

9. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (Continued)

The calculations of basic and diluted earnings/(loss) per share are based on:

	For the six months ended 30 June	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Earnings/(loss)		
Profit/(loss) attributable to ordinary equity holders of the parent	(8,703)	4,723

	Number of shares For the six months ended 30 June	
	2012	2011
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings/(loss) per share calculation	3,299,111,340	2,288,761,103
Effect of dilution – weighted average number of ordinary shares:		
Share options	-	3,518,196
	3,299,111,340	2,292,279,299

10. INTERIM DIVIDEND

The directors do not recommend the payment of any interim dividend to shareholders for the six months ended 30 June 2012 (2011: Nil).

11. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$28 million (2011: HK\$5 million) in the development of construction in progress and HK\$14 million (2011: HK\$18 million) in purchasing other items of property, plant and equipment.

12. INTANGIBLE ASSET

During the period, the Group acquired a service contract of approximately HK\$15.9 million (2011: Nil) through business combination with Tongda Information Technology Limited, a company incorporated in the British Virgin Islands, and its subsidiaries (note 20(a)).

13. TRADE AND BILLS RECEIVABLES

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Trade and bills receivables	89,038	54,641
Impairment	(1,632)	(1,632)
	87,406	53,009

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 and bills receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade and bills receivable balances. Trade and bills receivables are non-interest-bearing.

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

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
0 to 90 days	87,260	51,936
91 to 120 days	101	364
Over 120 days	1,677	2,341
	89,038	54,641

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Prepayments	29,215	38,506
Deposits and other receivables	223,956	167,475
Impairment	(133,805)	(133,805)
	119,366	72,176
Non-current portion included in prepayments, deposits and other receivables	(62,123)	(21,283)
	57,243	50,893

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.

Except for other receivables amounted to HK\$19,454,000 (31 December 2011: Nil) which is secured by a property of and 100% equity interest in a PRC incorporated company owned by a debtor, the Group does not hold any collateral or other credit enhancements over its prepayments, deposits and other receivables balances.

15. FINANCE LEASE RECEIVABLES

The Group provides finance leasing services in Mainland China. All interest rates inherent in the leases are fixed at the respective contract dates over the lease terms.

	Minimum lease payments		Present value of minimum lease payments	
	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Finance lease receivables comprise:				
Within one year	23,675	–	21,188	–
In the second to fifth years, inclusive	23,849	–	21,624	–
	47,524	–	42,812	–
Less: unearned finance income	(4,712)	–		
Present value of minimum lease payment	42,812	–		
Analysed for reporting purposes as:				
Current assets			21,188	–
Non-current assets			21,624	–
			42,812	–

The Group's finance lease receivables are denominated in Renminbi which is the functional currency of the relevant group entity.

Finance lease receivables are secured over the equipment leased. No contingent rent arrangements were made for both periods.

At 30 June 2012, the finance lease receivables with a carrying amount of HK\$20,741,000 (31 December 2011: Nil) were pledged as security for the Group's certain bank loans, as further detailed in note 17 to the interim condensed consolidated financial statements.

16. TRADE AND BILLS PAYABLES

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

	30 June 2012 (Unaudited)	31 December 2011 (Audited)
	HK\$'000	HK\$'000
0 to 90 days	54,012	35,383
Over 120 days	3,227	1,653
	57,239	37,036

The trade payables are non-interest-bearing and are normally settled on 90-day terms.

The bills payable had an average maturity period of 30 days and was interest-free. It was secured by time deposit of HK\$1,200,000 (31 December 2011: HK\$3,360,000) and was denominated in Renminbi.

17. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	30 June 2012 (Unaudited)	31 December 2011 (Audited)
			HK\$'000	HK\$'000
Current				
Other loans – unsecured	–	On demand	2,150	2,150
Other loans – unsecured	6.9 to 8.15	2012	–	11,743
Bank loans – unsecured	6.94 to 8.83	2012 to 2013	85,200	75,600
Bank loans – secured	6 to 6.76	2012 to 2013	31,127	6,000
			118,477	95,493
Non-current				
Bank loans – secured	6.15 to 6.76	2013 to 2015	28,986	–
			147,463	95,493

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

Notes:

- (a) As at 30 June 2012, certain bank loans are secured by the pledge of the Group's finance lease receivables with total amount of HK\$20,741,000 (31 December 2011: Nil).
- (b) As at 31 December 2011, certain bank loans were secured by the pledge of the Group's gas station equipment and motor vehicles with total carrying value of HK\$19,787,000. The loans were fully settled during the period.
- (c) Except for the bank loans of HK\$145,313,000 (31 December 2011: HK\$81,600,000) and other loans of nil (31 December 2011: HK\$11,743,000) which are denominated in Renminbi, all other borrowings are in Hong Kong dollars.
- (d) As at 31 December 2011, except for the other loans of HK\$11,743,000 which were interest-bearing at the range from 6.9% to 8.15% per annum and repayable on 30 November 2012, all other loans were unsecured, interest-free and repayable on demand.

The carrying amounts of the 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.

18. CONVERTIBLE BONDS

On 6 March 2012, the Company entered into a convertible bond agreement with Billirich Investment Limited ("Billirich"), which was nominated by Smartcon Investment Limited to receive the convertible bonds as the consideration for the acquisition of the equity interest and the shareholder's loan of Fidelity Finance Leasing Limited, to issue convertible bonds with a principal amount of HK\$51,776,000 to Billirich. The bonds are convertible at the option of the bondholder into ordinary shares at the initial conversion price of HK\$0.235 per share anytime after the issuance of the convertible bonds. Any convertible bonds not converted will be redeemed at par in three 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.

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 the shareholders' equity.

18. CONVERTIBLE BONDS (Continued)

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

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Liability component		
At 1 January	-	57,237
Issuance of convertible bonds	41,258	-
Conversion during the period/year	-	(58,700)
Interest expense	1,310	2,050
Interest paid	-	(587)
At period/year end	42,568	-
Equity component		
At 1 January	-	12,872
Issuance of convertible bonds	21,686	-
Conversion during the period/year	-	(12,872)
At period/year end	21,686	-

19. SHARE CAPITAL

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Authorised:		
10,000,000,000 (31 December 2011: 10,000,000,000) ordinary shares of HK\$0.20 each	2,000,000	2,000,000
Issued and fully paid:		
3,653,782,539 (31 December 2011: 2,435,855,026) ordinary shares of HK\$0.20 each	730,757	487,171

On 23 February 2012, 1,217,927,513 offer shares were issued upon the completion of open offer on the basis of one offer share for every two shares in issue of the Company at the subscription price of HK\$0.2 per share.

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

20. BUSINESS COMBINATIONS

- (a) On 31 October 2011, the Group has entered into a conditional sale and purchase agreement (supplemented by a supplemental agreement on 8 November 2011) with TCC Capital Corp., City Light Trading Limited, Cyber Smart Capital Investment Group Limited and Grandest International Limited for the acquisition of Tongda Information Technology Limited, a company incorporated in the British Virgin Islands, and its subsidiaries (collectively, the "Tongda Group"), which include Tianxu Hengyuan, a company engaged in LED BOT projects in Mainland China. The acquisition was completed on 12 March 2012.

The fair values of the identifiable assets and liabilities of Tongda Group as at the date of acquisition were as follows:

	Fair value recognised on acquisition
	HK\$'000
Property, plant and equipment	26,062
Intangible asset	15,909
Prepayments, deposits and other receivables	814
Cash and bank balances	8,048
Trade payables	(5,345)
Other payables and accruals	(14,706)
Total identifiable net assets at fair value	30,782
Satisfied by cash	30,782

The fair values of the other receivables as at the date of acquisition amounted to HK\$59,000. The gross contractual amounts of other receivables were HK\$59,000, of which no other receivables are expected to be uncollectible.

The Group incurred transaction costs of HK\$764,000 for this acquisition. These transaction costs have been expensed and are included in administrative expenses in the interim condensed consolidated income statement.

Since the acquisition, Tongda Group contributed HK\$4,308,000 to the Group's turnover and HK\$2,141,000 to the consolidated loss for the period from 12 March 2012 to 30 June 2012.

Had the combination taken place at the beginning of the year, the revenue from continuing operations of the Group and the loss of the Group for the period would have been HK\$501,990,000 and HK\$9,967,000, respectively.

20. BUSINESS COMBINATIONS (Continued)

- (b) On 2 November 2011, Sino Gas Finance Limited ("Sino Gas Finance"), a wholly-owned subsidiary of the Company, entered into an agreement with Smartcon Investment Limited ("Smartcon") and Dong Yuen Investment Limited ("Dong Yuen"), pursuant to which (i) Smartcon and Dong Yuen agreed to sell and Sino Gas Finance agreed to purchase their 575 shares and 200 shares in the issued share capital of Fidelity Finance Leasing Limited ("Fidelity Finance") and its subsidiaries (collectively, the "Fidelity Group") respectively; and (ii) Smartcon and Dong Yuen agreed to sell and assign to Sino Gas Finance and Sino Gas Finance agreed to purchase and accept the assignment of the shareholders' loans due and owing to Smartcon and Dong Yuen by Fidelity Finance respectively. Upon completion of the acquisition during the period, Fidelity Finance become a wholly-owned subsidiary of the Company.

The fair values of the identifiable assets and liabilities of Fidelity Group as at the date of acquisition were as follows:

	Fair value recognised on acquisition
	HK\$'000
Property, plant and equipment	498
Prepayments, deposits and other receivables	103,224
Cash and bank balances	19,035
Other payables and accruals	(4,057)
Interest-bearing bank and other borrowings	(42,035)
Loan from a shareholder	(29,755)
Total identifiable net assets at fair value	46,910
Goodwill on acquisition	22,055
Consideration transferred	68,965
Satisfied by:	
Cash	3,552
Convertible bonds	62,944
Acquisition-date fair value of previous held equity interest	2,469
	68,965

20. BUSINESS COMBINATIONS (Continued)

(b) (continued)

The fair values of the other receivables as at the date of acquisition amounted to HK\$13,078,000. The gross contractual amounts of other receivables were HK\$13,078,000, of which no other receivables are expected to be uncollectible.

The Group incurred transaction costs of HK\$389,000 for this acquisition. These transaction costs have been expensed and are included in administrative expenses in the interim condensed consolidated income statement.

None of the goodwill recognised is expected to be deductible for income tax purposes.

The initial accounting for this acquisition has been determined provisionally, awaiting the receipt of professional valuations in relation to certain underlying assets and liabilities of the acquiree.

Since the acquisition, Fidelity Group contributed HK\$3,295,000 to the Group's turnover and profit of HK\$1,003,000 to the consolidated loss for the period from 6 March 2012 to 30 June 2012.

Had the combination taken place at the beginning of the year, the revenue from continuing operations of the Group and the loss of the Group for the period would have been HK\$504,705,000 and HK\$9,051,000, respectively.

21. CONTINGENT LIABILITIES AND LITIGATION

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 interim condensed consolidated financial statements at the end of the reporting period.

22. OPERATING LEASE ARRANGEMENTS**(a) As lessor**

The Group leases one of its gas stations and the investment property under non-cancellable operating lease arrangements with terms ranging from two to fifteen years.

At 30 June 2012, the Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Within one year	2,062	1,485
In the second to fifth years, inclusive	6,209	4,583
After five years	11,641	14,023
	19,912	20,091

(b) As lessee

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

At 30 June 2012, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Within one year	14,886	14,078
In the second to fifth years, inclusive	42,719	32,896
After five years	46,387	46,763
	103,992	93,737

23. COMMITMENTS

In addition to the operating lease commitments detailed in note 22 above, the Group had capital commitments in respect of the acquisition of items of property, plant and equipment of HK\$34,391,000 (31 December 2011: HK\$21,899,000) contracted but not provided for in the interim condensed consolidated financial statements as at the end of the reporting period.

24. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions disclosed elsewhere in these interim condensed consolidated financial statements, the Group had the following material transactions with related parties during the period:

	Notes	For the six months ended	
		2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Sales of products to non-controlling shareholders	(i)	45,742	59,776
Sales of products to a jointly-controlled entity	(i)	3,309	1,607
Purchases of products from a jointly-controlled entity	(ii)	2,279	16,868
Provision of transportation service to a jointly-controlled entity	(iii)	2,418	2,418
Interest expenses to a shareholder	(iv)	804	561

Notes:

- (i) The sales of gas to non-controlling shareholders and a jointly-controlled entity were made at prices mutually agreed between the parties, which approximated market rates.
- (ii) The purchases of gas from a jointly-controlled entity were made at prices mutually agreed between the parties, which approximated market rates.
- (iii) The provision of transportation service to a jointly-controlled entity was made at prices mutually agreed between the parties, which approximated market rates.
- (iv) The interest expenses paid to a shareholder were charged at an interest rate ranging from 3.5% to 3.65% per annum.

24. RELATED PARTY TRANSACTIONS (Continued)**(b) Outstanding balances with related parties:**

- (i) The balances with non-controlling shareholders are unsecured, non-interest-bearing and except for a balance of HK\$18,000,000 (31 December 2011: HK\$18,000,000) which is not expected to be repaid within 12 months from the end of the reporting period, have no fixed terms of repayment.
- (ii) All balances with jointly-controlled entities and associates are unsecured, non-interest-bearing and have no fixed terms of repayment.
- (iii) The loans from a shareholder are unsecured, bear interest at rates ranging from 3.5% to 3.65% (31 December 2011: 3.5% to 3.65%) per annum and are repayable in year 2012 (31 December 2011: year 2012).

The carrying amounts of these balances approximate to their fair values.

(c) Compensation of key management personnel of the Group:

	For the six months ended	
	30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Short term employee benefits	1,540	1,308
Post-employment benefits	11	6
Equity-settled share option expense	120	–
Total compensation paid to key management personnel	1,671	1,314

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

25. APPROVAL OF THE INTERIM FINANCIAL REPORT

These interim condensed consolidated financial statements were approved and authorised for issue by the Board on 23 August 2012.