CHINA ENVIRONMENTAL INVESTMENT HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)

Stock code : 260

2012
Annual Report

中國環投

CHINA ENVIRONMENTAL INVESTMENT

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Non-Executive Director

Ji Guirong *(Chairman)*

Executive Directors

Ji Hui *(Chief Executive Officer)*
Zang Zheng
Zhang Chuanjun
Zhang Ning
Xiao Wei

Independent Non-Executive Directors

Wang Zhonghua
Zhong Qiang
Hu Xiaowen

COMPANY SECRETARY

Li Chi Chung

SHARE REGISTRAR

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 2805-6, 28th Floor
Bank of America Tower
12 Harcourt Road
Hong Kong

WEBSITE

http://www.irasia.com/listco/hk/cei/index.htm

STOCK CODE

260

CHAIRMAN'S STATEMENT

2012 was a difficult year for the Chinese economy where growth slowed down and China Environmental Investment Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") faced numerous challenges in its business. Comparing to 2011, the Group achieved consolidated revenue of HK$1.2 billion but recorded a net loss of HK$21.6 million. The Group's gas business maintained its modest growth and achieved HK$1.1 billion of segment revenue, representing an increase of 8.5% from last year. Although the gas segment experienced increasing operating costs, impairment of trade receivables and some other write-offs, it contributed a positive segment profit to the Group.

The Group's light-emitting diode ("LED") business performance was below expectations. The segment result for the LED energy management contracts ("EMC") business recorded a loss of HK$11.4 million in 2012, mainly attributed to two reasons: on the macro front, in the year of the Communist Party's 18th Congress, China experienced changes in leadership, from the central government to local levels. This leadership change slowed down many project negotiations that were already at or close to final stage. Apparently this delayed many of our projects. In addition, many domestic LED makers ventured into the EMC business as a measure to cope with the over-supply and pricing pressure issues in the LED manufacturing business. This makes our project acquisitions more difficult. Due to a lack of new meaningful LED EMC contracts, our LED business model has not attained the desired level of economies of scale.

The Group's finance leasing business, Guangdong Zi Yu Tai Finance Leasing Company Limited (廣東資雨泰融資租賃有限公司) ("Guangdong Ziyutai") recorded a segment profit of HK$2.4 million. Meanwhile, after substantial capital injection, Guangdong Ziyutai secured over RMB2 billion credit line from local banks during the year, equipping the Group with stronger funding capacities for our LED EMC business expansions.

Looking into the year 2013, I believe this year the Group's efforts in the LED EMC business will start to bear fruits. Guangdong Ziyutai is expected to continue to play an important role in providing financing to the Group's LED business. Also, given strong demand of natural gas in China and continuous policy supports, I believe our gas business will continue its growth.

CHAIRMAN'S STATEMENT

During the year, the Group has continued its steps of making new investments by acquiring an indoor LED EMC business in Jiangsu Province as well as acquiring 23.5% issued shares of another Hong Kong listed company. In addition, after the reporting period, the Group has completed a placing of existing shares and top-up subscription of new shares in January 2013. In February 2013, the Group has entered into a conditional agreement to form a joint venture with Peace Town International Holdings Limited to acquire its entire shareholding in three Hong Kong companies mainly engaged in the financial service businesses in Hong Kong. In addition to our existing gas, LED EMC and finance leasing businesses, I believe these new investments will broaden our portfolio and further diversify the income base.

Finally, I would like to extend my thanks to the board of directors of the Company (the "Board"), all staff, professionals and shareholders for their support during the year.

Ji Guirong
Chairman

Hong Kong
18 March 2013

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's consolidated revenue increased by 14.9% to HK$1,177,611,000 for the year ended 31 December 2012 (2011: HK$1,024,588,000). The consolidated revenue consisted of its business of compressed natural gas ("CNG") and liquefied petroleum gas ("LPG") vehicle refueling stations in China, new businesses of LED EMC and provision of finance lease and loan services since March 2012. Increase of 8.5% in consolidated revenue was attributed to growth in the gas business in the PRC and inclusion of the new businesses of LED EMC and provision of finance lease and loan services accounted for the remaining increase in consolidated revenue.

The Group's gross profit for the year ended 31 December 2012 was HK$229,209,000 (2011: HK$209,494,000), representing an increase of 9.4% from last year mainly resulted from continuous growth in gas sales volume.

The Group made a loss attributable to owners of the parent for the year ended 31 December 2012 amounting to HK$25,966,000 (2011: profit of HK$8,482,000). The change of profit to loss was mainly caused by (i) non-recurring expenses associated with the open offer and business acquisitions at the beginning of 2012; (ii) increased administrative expenses due to expansion of the Hong Kong office catering for anticipated growth of the Group's business in LED and finance leases; (iii) impairment of trade receivables and write-off of vehicle conversion parts in the gas subsidiaries; and (iv) higher interest expenses.

OPERATIONAL REVIEW

(1) Gas Business

The Group's sales volume of CNG and LPG amounted to 176,082,630 m^3 and 48,909 tons respectively during the year, representing an increase of 11.4% and a decrease of 5.8% respectively over last year. 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 year, the Group's gas business encountered 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 South-western China, management continued to seek for new investment opportunities and a new CNG station has been built by the jointly-controlled entity. 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. In Southern China, a new LPG station in Guangzhou has started to operate.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATIONAL REVIEW (Continued)

(2) LED Business

The Group's LED business performance in 2012 was below expectation.

There was little progress in acquiring new projects in 2012. Aside from Beijing Dajianlu project, which is the 2nd phase of Beijing Fangshan District LED street light project, no meaningful new projects were secured. As a result, the LED segment suffered a loss of HK$11.4 million in 2012 due to a lack of economies of scale. We believe there were two major reasons behind this slow progress.

First and foremost, 2012 was a year when the Chinese governments, from local to the central, experienced major leadership changes prior to and after the Communist Party's 18th Congress. As a result of these personnel changes, many projects which were at closing stages, were either postponed or needed to be re-negotiated.

Secondly, 2012 was a tough year for domestic LED makers. Two issues have been hurting this industry: over-supply and constant pricing pressure due to technology migration. In some cases we saw LED street light unit price fall by close to 50% last year caused by severe over-capacity. Under these circumstances, many LED makers were forced to enter into the EMC market, which directly competes with the business model we adopt in our LED business.

During 2012, the Group set up LED subsidiaries in Fujian Province, Zhejiang Province and Guangdong Province in an effort to expand and manage the Group's EMC business in the respective provinces as almost all local governments prefer to do business with companies registered in their own respective jurisdictions. We have also expanded our LED business to indoor EMC by acquiring a small indoor LED EMC company in Suzhou, which will provide a platform for the Group to further enhance its market presence in this segment. The setup costs of these subsidiaries have to be expensed in 2012 while most of these newly setup unit did not generate sales yet as of end of 2012, which is another factor which led to a loss of our LED segment.

On the positive side, there are signs business activities in EMC are picking up again after the Communist Party's 18th Congress. The LED unit is currently working on a number of LED street light projects which if proceeded according to the plan, are expected to bear fruits in 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATIONAL REVIEW (Continued)

(3) Finance Leasing Business

The Group aims to become a leading player in the energy saving and environmental friendly technology field. The biggest challenge the Group has to face is how to leverage on the Company's limited resources, especially funding capacities, to achieve the Group's long term goal. Guangdong Ziyutai, being a finance leasing company, is well positioned to provide the Group with required funding.

Following Guangdong Ziyutai becoming a 100% owned subsidiary of the Group in the first quarter of 2012, Guangdong Ziyutai's registered capital was increased from US$10 million to US$100 million, making it one of the biggest finance leasing companies in Guangzhou and enhancing its funding capacities. In 2012, Industrial and Commercial Bank of China ("ICBC") signed a strategic corporation agreement with Guangdong Ziyutai, giving the company a credit line of RMB1 billion for three years in collaboration to explore the leasing business opportunities in China's energy saving and environmental friendly technologies. Following ICBC's footsteps, China Industrial Bank gave Guangdong Ziyutai a credit line of RMB1 billion for one year as well.

In 2012, Guangdong Ziyutai made noticeable progress and recorded a segment profit of HK$2.4 million in 2012. In addition to providing funding support to group companies, Guangdong Ziyutai also started to explore finance leasing opportunities outside the Group. At the end of 2012, China Leasing Business Association awarded Guangdong Ziyutai "Financial Leasing Innovation Award" in recognition of its achievements in pioneering finance leasing business model in the EMC field.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATIONAL REVIEW (Continued)

(4) New Investments

(a) On 26 November 2012, the Group, through its wholly-owned subsidiary, completed an acquisition of entire issued share capital of Suzhou Target Lighting Company Limited (蘇州達冠照明有限公司) ("Suzhou Target") at a consideration of RMB500,000. Suzhou Target is registered in Suzhou, Jiangsu Province with principal business of LED EMC in the PRC.

(b) On 11 December 2012, the Group, through its wholly-owned subsidiary, completed the transaction of acquiring 433,000,000 issued shares of Mongolia Investment Group Limited ("MIG"), a main-board listed company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with principal businesses of provision of maintenance and construction works on civil engineering contracts in respect of waterworks engineering, road works and drainage and slope upgrading in Hong Kong, water supply services in the PRC and mining and exploration of mineral resources in Mongolia. MIG's shares were acquired at an average price of HK$0.23 per share sourced through securities brokers via the trading system of the Stock Exchange and these MIG shares represent approximately 23.5% of MIG's issued share capital as at the date of the acquisition. The total consideration for the 433,000,000 MIG shares was HK$98,954,000 excluding transaction costs.

BUSINESS OUTLOOK

In the Natural Gas Utilization Policy issued by the PRC National Development and Reform Commission in late 2012, natural gas users have been categorized into several groups: prioritized, permitted, restricted and prohibited. The utilization of natural gas for automobiles falls into the prioritized group, which will be better supported comparing to the other groups. With China's accelerating urbanization process, increasing car ownership coupled with the continuous support of government policies to promote clean energy, the prospects of the Group's natural gas business are promising. The Group will continue to look for ways to further improve its operating efficiency and for more effective deployment of its resources.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OUTLOOK (Continued)

The Group's LED EMC and finance leasing businesses have already begun to contribute to Group's turnover. For the LED EMC segment, after successful post-merger integration 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") and establishment of new subsidiaries in several provinces in the PRC, the Group is expected to proceed to secure more new projects in 2013. Given the over-supply situation and market downturn for the LED manufacturers, we believe it is a good timing to accelerate our market penetration by taking the advantage of decreasing LED manufacturing costs as well as getting into collaboration with LED manufacturers.

On the other hand, apart from outdoor street lighting LED projects, we believe our newly acquired indoor LED EMC business will also provide us with growth opportunities in 2013. Basically, most of the target indoor LED EMC clients are commercial users including 5-star hotels, supermarkets, factories, schools and hospital. The project negotiation is less complicated and the project cycle is much shorter. Given we have an experienced project team in the indoor LED EMC industry, we believe our indoor LED EMC business will make further contributions to the Group in future.

In addition, as our major funding platform, Guangdong Ziyutai also enjoys ample opportunities to grow its loan book within and outside the Group businesses under the current credit market condition. After the capital injection during the year, Guangdong Ziyutai now has become one of the leading finance leasing players with strong funding capacity. With the anticipated growth in the Group's LED EMC business, Guangdong Ziyutai's loan book is also expected to grow in 2013.

FINANCIAL RESOURCES

During the year ended 31 December 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 31 December 2012, the Group's total borrowings (including interest-bearing bank and other borrowings, loans from a related company and convertible bond) amounted to approximately HK$363.7 million (2011: HK$136.5 million), of which HK$166.4 million (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$947.5 million (2011: HK$679.1 million) was 38.4% (2011: 20.1%). Cash and bank balances were HK$353.8 million (2011: HK$183.4 million).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESOURCES (Continued)

During the year ended 31 December 2012, 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 2012 (2011: Nil).

STAFF BENEFITS

At 31 December 2012, the Group had a total of 1,340 employees (2011: 1,315). The staff costs for the year amounted to approximately HK$98 million (2011: HK$69.8 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 year.

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 31 December 2012, the Group had pledged certain buildings, gas station equipment, motor vehicles and finance lease receivables for certain bank borrowings granted.

CHANGE OF COMPANY NAME

To signify the Group's new business portfolio and strategy, the Company has changed its name 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" effective from 2 February 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

EVENTS AFTER THE REPORTING PERIOD

(a) Tianxu Hengyuan has completed the acquisition of the entire issued share capital of Shanghai Shangju Enterprise Company Limited (上海商聚實業有限公司) ("Shanghai Shangju") on 5 January 2013. The consideration of the acquisition of RMB63 million had been paid before the balance sheet date. Shanghai Shangju is an investment company and currently owns six adjacent investment properties in Changning District, Shanghai. The Group intends to occupy a substantial portion of the properties for its own use as the new branch office of its LED business in Shanghai.

(b) The Company has completed a placing and top-up subscription to issue 730,000,000 shares of the Company at the subscription price of HK$0.2 per share on 28 January 2013 such that, the number of issued shares of the Company has increased to 4,383,782,539 shares and the issued share capital has increased to HK$876,757,000. The net proceeds are approximately HK$141 million which would be used partly as reserve of cash resources to fund the future business expansion of the Group and partly as general working capital.

(c) On 4 February 2013, the Group entered into a conditional agreement with Peace Town International Holdings Limited ("PTI"), an independent third party, and two individual guarantors, who are the beneficial owners of PTI. Pursuant to the agreement, the Group and PTI agreed to form a joint venture, in which the Group agreed to invest a sum of HK$79.2 million in cash for an 88% interest of the joint venture and PTI agreed to invest a sum of HK$10.8 million in cash for an 12% interest of the joint venture. The joint venture then formed will acquire the entire equity interests of three wholly-owned subsidiaries of PTI, which are mainly engaged in the financial services business, at a consideration of HK$54.6 million, subject to adjustment. The joint venture was formed on 20 February 2013 and the acquisition of the respective interests by the joint venture is not yet completed up to the date of approval of these financial statements.

BIOGRAPHICAL DETAILS OF DIRECTORS

NON-EXECUTIVE DIRECTOR

Mr. Ji Guirong, aged 51, was appointed as an executive director, the chairman of the Company and, the chairman and a member of the remuneration committee of the Company in January 2005 and re-designated as a non-executive director of the Company in April 2007. Mr. Ji resigned as the chairman of the remuneration committee of the Company and was appointed as the chairman and a member of the nomination committee of the Company in March 2012. He is currently the chairman of the Company, the chairman and a member of the nomination committee and a member of the remuneration committee of the Company. Mr. Ji holds a Master's Degree in Engineering Management and a Bachelor's Degree in Engineering and is a Senior Engineer. Mr. Ji is an executive director, a deputy chairman and the chief executive officer of AVIC International Holding (HK) Limited ("AVIC Int'l") (stock code: 232), which is listed on the main board of the Stock Exchange, and a director of AVIC International (HK) Group Limited ("AVIC Int'l Group"), Tacko International Limited ("Tacko") and Speed Profit Enterprises Limited ("Speed Profit"), while all are the substantial shareholders of the Company. He is also a director of certain subsidiaries of AVIC Int'l. Mr. Ji is a director and the vice chairman of NavInfo Co., Ltd., a company listed on Shenzhen Stock Exchange.

EXECUTIVE DIRECTORS

Mr. Ji Hui, aged 43, was appointed as an executive director of the Company in May 2005. He is currently the chief executive officer of the Company and a director of certain subsidiaries of the Company. Mr. Ji holds a Master of Science Degree in Environmental Engineering from the University of Southern California, Los Angeles. Mr. Ji has 21 years of experience in equipment, facilities and product sales in the PRC and the United States of America. He also has research experience in environmental engineering.

Mr. Zang Zheng, aged 62, was appointed as an executive director of the Company in December 2010 and was a vice president of a subsidiary of the Company since 2008. Mr. Zang was educated in Northwestern Polytechnical University, the PRC in Aeronautics Material. Mr. Zang is currently a professional senior engineer in the Aviation Industry Corporation of China Group (the "AVIC Group"). He has held various executive positions in the AVIC Group in the past 32 years and has over 32 years of experience in management and investment.

BIOGRAPHICAL DETAILS OF DIRECTORS

Mr. Zhang Chuanjun, aged 42, was appointed as an executive director in May 2012. He is currently a vice president of the Company and a director of certain subsidiaries of the Company. Mr. Zhang holds a Master's degree and a Bachelor's degree in Management Accounting and is a senior accountant. He has over 20 years of experience in accounting, corporate finance and treasury. Mr. Zhang is currently an executive director and the chief financial officer of AVIC Int'l (stock code: 232), which is listed on the main board of the Stock Exchange and a substantial shareholder of the Company. He is also the deputy chief financial officer of AVIC International Holding Corporation and the chief financial officer of AVIC Int'l Group, both AVIC International Holding Corporation and AVIC Int'l Group are substantial shareholders of the Company. Mr. Zhang is also a director of Speed Profit and certain subsidiaries of AVIC Int'l. He is an executive director of Mongolia Investment Group Limited ("MIG") (stock code: 402) which is listed on the main board of the Stock Exchange and an associate of the Company.

Mr. Zhang Ning, aged 44, was appointed as an executive director in May 2012. Mr. Zhang is currently the chief financial officer of the Company and a director of certain subsidiaries of the Company. Mr. Zhang holds a Master of Business Administration Degree in Finance and Accounting from the Columbia Business School, the United States of America in 2000 and a Bachelor of Science Degree in Economics and Business Administration from the University of Pittsburgh, the United States of America in 1997. Mr. Zhang has worked for UBS Securities Asia Limited, Morgan Stanley and Boyer Allan Investment Management Group and has 12 years of experience in finance field.

Mr. Xiao Wei, aged 50, was re-designated as an executive director from an independent non-executive director, and resigned as the chairman and a member of each of the audit committee and the remuneration committee of the Company, and a member of nomination committee of the Company in November 2012. Mr. Xiao was also appointed as a vice general manager of a subsidiary of the Company in November 2012. He was appointed as an independent non-executive director in May 2005 and had been the chairman and a member of the audit committee and the remuneration committee of the Company, and a member of the nomination committee of the Company since April 2008. Mr. Xiao graduated from the Electric Engineering Department of Shanghai Tong Ji University. He has 28 years of experience in engineering and management.

BIOGRAPHICAL DETAILS OF DIRECTORS

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wang Zhonghua, aged 51, was appointed as an independent non-executive director of the Company in January 2005. He is a member of each of the audit committee and nomination committee of the Company. 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 30 years with extensive experience. He has been serving Shenzhen Province Mass Transit Railway Company Limited since 1993.

Mr. Zhong Qiang, aged 45, was appointed as an independent non-executive director of the Company in February 2005. He is a member of each of the audit committee, the remuneration committee and the nomination committee of the Company. Mr. Zhong graduated from Changsha Railway University. Mr. Zhong is an accountant and has been working in the accounting field for over 22 years with extensive experience. He is currently a director of Shanghai Jun Zheng Ke Mao Company Limited.

Mr. Hu Xiaowen, age 37, was appointed as an independent non-executive director of the Company in November 2012. He is the chairman and a member of each of the audit committee and the remuneration committee of the Company, and a member of the nomination committee of the Company. He obtained his master degree of accounting from Capital University of Economics and Business in 2004 and obtained his bachelor degree of accountancy from Central University of Finance and Economics in 1997. Mr. Hu served as the financial controller of Beijing Bosheng Advanced Technology Co. Ltd. since August 2012. During June 2004 to April 2012, he was working in Tongfang Co. Ltd. as the financial manager and financial controller respectively in digital TV department. In April 2001 to January 2003, Mr. Hu served as the financial controller of Beijing Foseb Auctioneers. He has over 11 years of experience in financial planning and management, mergers and acquisitions and corporate finance field.

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 2012.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 19 to the financial statements.

RESULTS

The Group's loss for the year ended 31 December 2012 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 43 to 166.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling 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 pages 167 to 168. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

Details of movements in the property, plant and equipment, and investment property of the Company and the Group during the year are set out in notes 14 and 15 to the financial statements, respectively.

SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE BONDS

Details of movements in the Company's share capital, share options and convertible bonds during the year are set out in notes 34, 35 and 32 to the financial statements, respectively.

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 36(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

REPORT OF THE DIRECTORS

DISTRIBUTABLE RESERVES

At 31 December 2012, the Company had no reserves available for distribution in accordance with the provisions of 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 16% of the total sales for the year and sales to the largest customer included therein amounted to 5%. Purchases from the Group's five largest suppliers accounted for less than 56% of the total purchases for the year and purchases from the largest supplier included therein amounted to 19%.

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:

Ji Hui	
Zang Zheng	
Zhang Chuanjun	(appointed on 3 May 2012)
Zhang Ning	(appointed on 3 May 2012)
Xiao Wei	(re-designated from an independent non-executive director on 5 November 2012)

Independent non-executive directors:

Wang Zhonghua	
Zhong Qiang	
Hu Xiaowen	(appointed on 5 November 2012)

REPORT OF THE DIRECTORS

DIRECTORS (Continued)

In accordance with article 87 of the Company's articles of association (the "Articles"), Mr. Ji Guirong, Mr. Xiao Wei and Mr. Wang Zhonghua will retire by rotation, whereas in accordance with Article 86(B), Mr. Hu Xiaowen will retire from office, and being eligible, each of Mr. Ji Guirong, Mr. Xiao Wei, Mr. Wang Zhonghua and Mr. Hu Xiaowen 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.

The Company has received annual confirmations of independence from Mr. Wang Zhonghua, Mr. Zhong Qiang and Mr. Hu Xiaowen 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 12 to 14 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.

Mr. Zhang Chuanjun has entered into a service contract with the Company which commenced on 3 May 2012 and is subject to termination by either party giving not less than two months' written notice.

Mr. Zhang Ning has entered into a service contract with the Company which commenced on 14 September 2011 and is subject to termination by either party giving not less than one month's written notice.

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 remuneration committee with reference to directors' duties, responsibilities and performance and the results of the Group.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN CONTRACTS

Save for Mr. Ji Guirong (a director of the Company) who is also a director of AVIC Int'l, Tacko and Speed Profit (all are the substantial shareholders of the Company); and Mr. Zhang Chuanjun (a director of the Company) who is also a director of AVIC Int'l, Speed Profit and MIG (an associate 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.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 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 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 31 December 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 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.

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 35 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 2012	Granted during the year	Reclassified during the year[1]	Adjusted during the year[2]	Forfeited during the year	At 31 December 2012	Date of grant of share options[3]	Exercise period of share options	Exercise price of share options HK$ per share[4]
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			

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (Continued)

Name or category of participant	Number of share options: At 1 January 2012	Granted during the year	Reclassified during the year[1]	Adjusted during the year[2]	Forfeited during the year	At 31 December 2012	Date of grant of share options[3]	Exercise period of share options	Exercise price of share options HK$ per share[4]
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	(3,750,000)	78,750,000	31-8-10	31-8-10 to 30-8-20	0.227
	85,000,000	–	(30,000,000)	27,500,000	(3,750,000)	78,750,000			
	341,200,000	78,980,000	–	164,600,000	(3,750,000)	581,030,000			

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

1. During the year ended 31 December 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 number of shares of the outstanding options have been adjusted as a result of the completion of an open offer, details of which were set out in 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.

SHARE OPTION SCHEME (Continued)

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.

Save as disclosed above, 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 of the directors 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.

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

At 31 December 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 ("Tacko")	(a)	Long	Interest of a controlled corporation	1,031,595,000	28.23%	220,322,859	6.03%

REPORT OF THE DIRECTORS

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

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
AVIC International (HK) Group Limited ("AVIC Int'l Group")	(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%	200,322,859	6.03%
Aviation Industry Corporation of China ("AVIC")	(a)	Long	Interest of a controlled corporation	1,535,618,891	42.03%	200,322,859	6.03%
Grand Win Overseas Ltd. ("Grand Win")	(b)	Long	Beneficial owner	313,965,000	8.59%	–	–
Sun Shining Investment Corp.	(b)	Long	Interest of a controlled corporation	313,965,000	8.59%	–	–
Tai Yuen Textile Company Ltd.	(b)	Long	Interest of a controlled corporation	313,965,000	8.59%	–	–

Notes:

(a) Billirich is a wholly-owned subsidiary of AVIC Int'l. Tacko, together with its wholly-owned subsidiary, hold in aggregate approximately 40.76% of the issued capital of AVIC Int'l. Tacko is a wholly-owned subsidiary of AVIC Int'l Group, which in turn is a wholly-owned subsidiary of AVIC International Holding Corporation. AVIC International Holding Corporation is a non-wholly-owned subsidiary of AVIC. 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.

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

Save as disclosed above, as at 31 December 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.

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

The Company entered into three unsecured loan agreements with AVIC Int'l, a substantial shareholder of the Company, on 23 October 2008, 5 January 2009 and 23 November 2011, pursuant to which AVIC Int'l agreed to lend US$1,160,000, HK$22,000,000 and HK$10,000,000 to the Company respectively at the interest rate of 3.65%, 3.65% and 3.50% per annum respectively for each in a term of twelve months with an option to extend the repayment dates by the Company (the "Loans"). During the year ended 31 December 2012, the Company charged an aggregate interest expense of HK$1,079,000 to the income statement and all of the Loans were fully repaid during the year ended 31 December 2012.

On 2 November 2011, the Company entered into an underwriting agreement with AVIC Int'l Group, a substantial shareholder of the Company, pursuant to which AVIC Int'l Group unconditionally agreed to underwrite the new shares, which are to be allotted and issued by the Company under open offer, but not subscribed for by the qualifying shareholders on a fully underwritten basis, subject to the terms and conditions of the underwriting agreement. Upon the completion of the open offer on 22 February 2012, the Company paid an underwriting commission at a rate of 1.7% of the aggregate subscription price for the total underwritten shares underwritten by AVIC Int'l Group, which amounted to HK$2,972,000.

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"), a wholly-owned subsidiary of AVIC Int'l, 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 575 shares and 200 shares in the issued share capital of Fidelity Finance Leasing Limited ("Fidelity Finance") 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. The acquisition was completed on 6 March 2012 and Fidelity Finance became an indirect wholly-owned subsidiary of the Company.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS (Continued)

Continuing connected transaction

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 2012, a facility of HK$30,300,000 was utilised by Beijing Sinogas.

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 Company and the shareholders of the Company as a whole.

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 of the Group after the reporting period are set out in note 46 of 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
18 March 2013

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company is committed to pursuing strict and high standards of corporate governance since the Board of directors ("Directors") of the Company 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 the shareholders of the Company (the "Shareholders").

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 31 December 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 ("Non-Executive Director") of the Company should be appointed for a specific term, subject to re-election. The Non-Executive Directors have not been appointed for a specific term. However, the Non-Executive Directors are subject to retirement and re-election at least once every three years in accordance with the Articles.

(ii) under code provision A.6.7 of the CG Code, independent non-executive Directors ("INEDs") of the Company and other Non-Executive Directors should attend general meetings of the Company. An executive Director and two INEDs were unable to attend the annual general meeting of the Company held on 15 June 2012 as they had other engagements in China.

(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. 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 statue and common law, the Listing Rules, legal and other regulatory requirements.

CORPORATE GOVERNANCE REPORT

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. Having made specific enquiry by the Company, all Directors confirmed that they had complied with the required standards as set out in the Model Code during the year.

BOARD OF DIRECTORS

Board Composition

The Board currently comprises nine Directors in total, with one Non-Executive Director, five executive Directors ("Executive Directors") and three INEDs. The composition of the Board during the year and up to the date of this report is set out as follows:

Non-Executive Director:	Ji Guirong *(Chairman)*
Executive Directors:	Ji Hui *(Chief Executive Officer)* Zang Zheng Zhang Chuanjun *(appointed on 3 May 2012)* Zhang Ning *(Chief Financial Officer)* *(appointed on 3 May 2012)* Xiao Wei *(re-designated to Executive Director from INED on 5 November 2012)*
INEDs:	Wang Zhonghua Zhong Qiang Hu Xiaowen *(appointed on 5 November 2012)*

During the year 2012, Mr. Xiao Wei re-designated as an Executive Director and resigned as an INED, as the chairman and a member of each of the audit committee and the remuneration committee of the Company, and as a member of the nomination committee of the Company with effect from 5 November 2012. Mr. Hu Xiaowen was appointed as an INED, the chairman and a member of each of the audit committee and the remuneration committee of the Company, and as a member of the nomination committee of the Company with effect from 5 November 2012.

The biographical details of the Directors are set out in the "Biographical Details of Directors" section on pages 12 to 14 of this annual report. The Directors have no other financial, business, family or other material/relevant relationships with one another.

Functions and Duties of the Board

The main functions and duties of the Board include:

— determining overall strategic planning and policy formulation of the Group;

— determining substantial investments;

— considering acquisitions and disposals;

— deciding business and investment plans;

— reviewing and monitoring financial and project budgeting;

— reviewing and determining dividend policy;

— approving the publication of annual and interim results and reports;

— recommending the re-election of Directors *(based on the recommendations made by the nomination committee)*; and

— determining or considering other substantial operating and financial matters.

Corporate Governance Functions

The Board is also responsible for performing corporate governance functions with the following duties:

— to develop and review the Company's policies and practices on corporate governance and make recommendations on changes and updating;

— to review and monitor the training and continuous professional development of Directors and senior management;

CORPORATE GOVERNANCE REPORT

— to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

— to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

— to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

During the year 2012, the Board had considered the following corporate governance matters:

— adoption of the CG Code as the Company's corporate governance practices;

— adoption of corporate governance duties under the CG Code;

— reviewed the compliance with the CG Code; and

— reviewed the effectiveness of the internal controls and risk management systems of the Company through the audit committee.

Implementation of the decisions and plans of the Board and direction of the day-to-day operation are delegated to the management. The respective functions of the Board and management of the Company have been formalized and will be reviewed by the Board from time to time to ensure that they are consistent with the existing rules and regulations.

Board Meetings

The Board meets regularly to discuss the overall strategy of the Group and to review and approve the Group's annual and interim results and other matters which need to be dealt with. At least 14 days' notice of all regular Board meetings is given to all Directors, and all Directors are given the opportunity to include matters for discussion in the agenda. The company secretary of the Company (the "Company Secretary") assists the Chairman in preparing the agenda for meetings and ensures that all applicable rules and regulations are complied with. The agenda and the accompanying Board papers are normally sent to all Directors at least 3 days before the intended date of a regular Board meeting. The Company Secretary is responsible for keeping minutes for the Board meetings.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2012, six Board meetings were held and the attendance records of each Director at the Board, committees and general meetings are set out below:

	Number of meetings attended/held				
Name of Directors	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**General Meeting**
Non-Executive Director					
Mr. Ji Guirong	6/6		3/3	1/1	2/2
Executive Directors					
Mr. Ji Hui	5/6				1/2
Mr. Zang Zheng	6/6				1/2
Mr. Zhang Chuanjun *(Appointed on 3 May 2012)*	3/3				0/1
Mr. Zhang Ning *(Appointed on 3 May 2012)*	3/3				1/1
Mr. Xiao Wei *(Re-designated from INED on 5 November 2012)*	0/0				0/0
INEDs					
Mr. Wang Zhonghua	5/6	3/3		1/1	0/2
Mr. Zhong Qiang	6/6	3/3	3/3	1/1	0/2
Mr. Xiao Wei *(Re-designated to Executive Director on 5 November 2012)*	6/6	3/3	3/3	1/1	2/2
Mr. Hu Xiaowen *(Appointed on 5 November 2012)*	0/0	0/0	0/0	0/0	0/0

According to the current Board practice, if a substantial shareholder or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter should be dealt with by the Board at a duly convened Board meeting.

CORPORATE GOVERNANCE REPORT

Every Director is entitled to have access to Board papers and related materials, and has access to the advice and services of the Company Secretary. The Board and each Director also have separate and independent access to the Company's management. Directors will be continuously updated on the major development of the Listing Rules and other applicable regulatory requirements to ensure compliance and upkeep of good corporate governance practices. Each Director has the liberty to seek independent professional advice at the Company's expenses if so reasonably required.

The Company has arranged appropriate insurance cover in respect of legal actions against its Directors and officers. The Company reviews the extent of this insurance each year.

Independent Non-Executive Directors

The Company appointed three INEDs, representing one-third of its members as INEDs, one of the INEDs has the appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10 of the Listing Rules. The Board considers that all INEDs have appropriate and sufficient industry or finance experience and qualifications to carry out their duties as to protect the interests of the Shareholders.

The Board has received from each INED an annual confirmation of independence of his independent and considers that all the INEDs are independent under the guidelines set out in Rule 3.13 of the Listing Rules.

Continuous Professional Development

Pursuant to A.6.5 of the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. During the year, all Directors have participated in continuous professional development by attending seminars or programmes or studying relevant materials on the topics related to corporate governance and regulations.

CORPORATE GOVERNANCE REPORT

The individual training record of each Director received for the year ended 31 December 2012 is summarized below:

	Participation of Continuous Professional Development Activities	
	Attending training(s)/or briefing/ seminar(s)/or conference	Reading materials and updates
Name of Directors		
Non-Executive Director		
Mr. Ji Guirong *(Chairman)*		✓
Executive Directors		
Mr. Ji Hui *(Chief Executive Officer)*		✓
Mr. Zang Zheng		✓
Mr. Zhang Chuanjun *(Appointed on 3 May 2012)*		✓
Mr. Zhang Ning *(Chief Financial Officer)* *(Appointed on 3 May 2012)*	✓	✓
Mr. Xiao Wei *(re-designated from INED on 5 November 2012)*		✓
INEDs		
Mr. Wang Zhonghua		✓
Mr. Zhong Qiang		✓
Mr. Hu Xiaowen *(Appointed on 5 November 2012)*	✓	✓

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code provision A.2.1 of the CG Code stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. Mr. Ji Guirong, being the Chairman of the Company, is primarily responsible for the leadership of the Board ensuring that all significant policy issues are discussed by the Board in a timely and constructive manner by drawing up and approving the agenda and taking into account any matters proposed by other Directors for inclusion in the agenda, and that all Directors are properly briefed on issues arising at Board meetings, and that the Directors receive accurate, timely and clear information. Mr. Ji Hui, being the Chief Executive Officer of the Company is responsible for day-to-day management of the Group's business. Their responsibilities are clearly segregated and have been set out in writing.

Appointment and Re-election of Directors

During the year, the Non-Executive Directors (a majority of whom are independent) provide the Group with a wide range of expertise and experience as well as checks and balance to safeguard the interests of the Shareholders by their participation in the Board and committee meetings with independent judgment on issues relating to the Group's strategy, performance and management process.

The Company did not have formal letters of appointment for Directors. Directors shall be subject to retirement and re-election in accordance with the Articles and 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, Directors are required to comply with the requirements under statue and common law, the Listing Rules, legal and other regulatory requirements.

In accordance with the Articles, at each annual general meeting of the Company ("AGM"), one-third of the Directors or for the time being (or, if the 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 Directors shall be subject to retirement by rotation once every three years. Every retiring Director shall be eligible for elections. As such no Director has a term of appointment longer than three years.

Further, any Director appointed by the Board to fill a casual vacancy shall hold office only until the next following general meeting of the Company whilst for those appointed as an addition to the Board shall hold office until the next following AGM and in both cases, those Directors shall then be eligible for re-lection at the relevant meeting.

Every newly appointed Director will receive an induction package from the legal advisor of the Company on the first occasion of his/her appointment. This induction package is a comprehensive, formal and tailored induction on the responsibilities and on-going obligations to be observed by a Director pursuant to the Companies Ordinance, the Listing Rules and the SFO. Directors will be continuously updated on any major developments of the Listing Rules and other applicable regulatory requirements to ensure compliance and upkeep of good corporate governance practices.

Board Committees

The Company has established three Board committees (the "Board Committees"), namely the audit committee (the "Audit Committee"), the remuneration committee (the "Remuneration Committee") and the nomination committee (the "Nomination Committee") (established on 16 March 2012), each of which has its specific written terms of reference, to assist the Board in discharging its duties and responsibilities. Copies of minutes of all meetings and resolutions of the Board Committees, which are kept by the Company Secretary, are circulated to all Board members and the Board Committees are required to report back to the Board on their decision and recommendations where appropriate. The Board Committees are provided with sufficient resources to perform their duties and have access to independent professional advice at the Company's expenses if so reasonably required.

Audit Committee

The Audit Committee comprises three INEDs, namely, Mr. Hu Xiaowen (act as Chairman with effect from 5 November 2012), Mr. Xiao Wei (act as Chairman until 4 November 2012), Mr. Wang Zhonghua and Mr. Zhong Qiang. The Audit Committee is chaired by an INED with appropriate professional qualifications, or accounting or related financial management expertise.

The Audit Committee shall meet at least twice a year. During the year ended 31 December 2012, three meetings of the Audit Committee were held, of which two meetings were attended by the external auditors of the Company. The attendance of the members was set out in the sub-section headed "Board Meetings" of this Corporate Governance Report.

CORPORATE GOVERNANCE REPORT

The terms of reference of the Audit Committee were revised with effect from 16 March 2012 to include the code provisions set out in the revised CG Code. The terms of reference are available on the websites of the Stock Exchange and the Company.

The primary duties of the Audit Committee are:

(i) to make recommendation to the Board on the appointment, reappointment and removal of the external auditors, and to approve the remuneration and terms of engagement of the external auditors, and any questions of its resignation or dismissal;

(ii) to review and monitor the external auditors' independence and objectivity;

(iii) to consider and discuss with the external auditors the nature and scope of audit and reporting obligations before the audit commences;

(iv) to report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

(v) to act as the key representative body for overseeing the Company's relations with the external auditors;

(vi) to monitor the integrity of the Company's financial statements, including the interim and annual accounts, interim reports and annual reports before submission to the Board;

(vii) to review the Company's financial controls, internal control and risk management systems;

(viii) to consider major investigation findings on internal control matters as delegated by the Board and management's response to these findings; and

(ix) to review the external auditors' management letter and management's response.

The Audit Committee has held three meetings and the committee has reviewed and discussed the financial reporting matters, including:

(i) reviewed and recommended for the Board's approval on the interim and annual results, the interim report and annual report and other financial, internal control and risk management matters of the Group and making recommendations to the Board;

(ii) considered and discussed the reports and presentations of senior management and the external auditors, with a view to ensure that the Group's consolidated financial statements are prepared in accordance with accounting principles generally accepted in Hong Kong; and

(iii) discussed with the external auditors of its independent review of the interim financial report and its annual audit of the consolidated financial statement.

Remuneration Committee

In compliance with Rule 3.25 of the Listing Rules which came into effect on 1 April 2012, Mr. Xiao Wei, was an INED for that time being (who was re-designated as an Executive Director and resigned as the chairman and a member of Remuneration Committee on 5 November 2012), had been appointed as the chairman of the Remuneration Committee in place of Mr. Ji Guirong with effect from 16 March 2012. Mr. Ji Guirong has remained as a member of the Remuneration Committee with effect from 16 March 2012. Mr. Hu Xiaowen was appointed as an INED, the chairman and a member of the Remuneration Committee in place of Mr. Xiao Wei with effect from 5 November 2012.

The Remuneration Committee comprises Mr. Hu Xiaowen (Chairman) and Mr. Zhong Qiang, both are INEDs, and Mr. Ji Guirong, a Non-Executive Director and the Chairman of the Company.

The Remuneration Committee shall meet at least once a year. During the year ended 31 December 2012, three meetings of the Remuneration Committee were held and the attendance of the members was set out in the sub-section headed "Board Meetings" of this Corporate Governance Report.

Details of the Directors' emoluments and remuneration payable to members of senior management by band set out in notes 9 and 10 to the financial statements.

The terms of reference of the Remuneration Committee were revised with effect from 16 March 2012 to include the code provisions set out in the revised CG Code. The terms of reference are available on the websites of the Stock Exchange and the Company. The Remuneration Committee adopted the model "to determine, with delegated responsibility, the remuneration packages of individual Executive Directors and senior management".

CORPORATE GOVERNANCE REPORT

The primary duties of the Remuneration Committee are:

(i) to make recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

(ii) to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;

(iii) to determine, with delegated responsibility, the remuneration package of individual Executive Directors and senior management;

(iv) to make recommendations to the Board on the remuneration of Non-Executive Directors;

(v) to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;

(vi) to review and approve compensation payable to Executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

(vii) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and

(viii) to ensure that no Director or any of his associates is involved in deciding his own remuneration.

During the year ended 31 December 2012, the Remuneration Committee has held three meetings and the committee performed the following duties:

(a) formulated and recommended the policy and structure of the remuneration of the Directors and senior management of the Company to the Board;

(b) assessed individual performance of the Directors and senior management of the Company;

(c) reviewed specific remuneration packages of the Directors and senior management of the Company with reference to the Board's corporate goals and objectives as well as individual performances; and

(d) reviewed and made recommendations to the Board on compensation-related issues.

Nomination Committee

In compliance with code provision A.5.1 of the CG Code which came into effect on 1 April 2012, the Company has established a Nomination Committee on 16 March 2012 comprising Mr. Ji Guirong (Chairman), a Non-Executive Director and the Chairman of the Company, Mr. Wang Zhonghua, Mr. Zhong Qiang and Mr. Hu Xiaowen, all are INEDs.

The Nomination Committee shall meet at least once a year. During the year ended 31 December 2012, one meeting of the Nomination Committee was held and the attendance of the members was set out in the sub-section headed "Board Meetings" of this Corporate Governance Report.

The terms of reference of the Nomination Committee were adopted with effect from 16 March 2012 to include the code provisions set out in the revised CG Code. The terms of reference are available on the websites of the Stock Exchange and the Company.

The primary duties of the Nomination Committee are:

(i) to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(ii) to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

(iii) to assess the independence of INEDs; and

(iv) to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and the chief executive.

During the year ended 31 December 2012, the Nomination Committee has held one meeting and the committee performed the following duties:

(a) reviewed the structure, size and composition including the skills knowledge and experience of the Board;

(b) reviewed and recommended for the Board's approval the proposed resolutions of the retiring Directors at 2012 AGM; and

(c) reviewed the annual confirmation of independence submitted by the INEDs and assessed their independence.

CORPORATE GOVERNANCE REPORT

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Directors acknowledge their responsibilities for preparing the financial statements which provide a true and fair view of the state of affairs of the Group in accordance with the relevant statutory requirements and applicable accounting standards. The financial statements are prepared on a going concern basis and the Directors 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 responsibilities 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 announcements, in accordance with the requirement of the Listing Rules and other relevant regulations, in a timely manner within three months and two months respectively after the end of the relevant periods.

Internal Controls

The Board is responsible for maintaining the Group's internal control system and reviewing its effectiveness through the Audit Committee. A system is designed, for compliance of applicable laws, rules and regulations, to manage the Group's risks within an acceptable risk profile, rather than to eliminate the risk of failure, to achieve the business objectives of the Group. Accordingly, it can only provide reasonable, but not absolute, assurance against material misstatement of management and financial information and records or against financial losses or fraud.

The Board conducted an annual review of the effectiveness of the internal control system of the Group. The review covered all material controls, including financial, operational and compliance controls and risk management functions. The Board is of the view that the internal control system in place for the year ended 31 December 2012 is sufficient to safeguard the interests of the Group's assets.

In 2012, the Board through the Audit Committee, had reviewed the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting functions, and their training programmes and budget.

Auditors' Remuneration

During the year ended 31 December 2012, the remuneration paid or payable to the Company's auditors, Ernst & Young is set out below:

Services rendered for the Group	HK$'000
Audit services	2,400
Non-audit services (including review of interim results and transactions)	1,127
Total	3,527

COMPANY SECRETARY

The Company has engaged Mr. Li Chi Chung, a lawyer and an external service provider, as our Company Secretary, who fulfills the requirement under Rules 3.28 and 3.29 of the Listing Rules. He has attained not less than 15 hours of relevant professional training up to the year ended 31 December 2012. The Company Secretary provided advices to the Board to ensure that the Board procedures and all applicable laws are followed and direct reported to Mr. Ji Hui, an Executive Director and Chief Executive Officer.

COMMUNICATION WITH SHAREHOLDERS

The Board recognizes the importance of good communication with Shareholders. Information in relation to the Group is disseminated to Shareholders in a timely manner through a number of formal channels, which include interim and annual reports, announcements and circulars. Such published documents together with the latest corporate information and news are also made available on the website of the Company.

The general meetings of the Company provide a forum for communication between the Board and the Shareholders. The Chairman of the Board, and the chairman and the members of the Board Committees will be available to answer questions at the general meetings. Separate resolution is proposed at the general meetings for each substantial issue. The notice to Shareholders is to be sent at least 20 clear business days before an annual general meeting and at least 10 clear business days before a meeting other than an annual general meeting. An explanation of the detailed procedures for conducting a poll is provided to the Shareholders at the commencement of the meeting. The Chairman answers questions from Shareholders regarding voting by way of a poll. The poll results are published in the manner prescribed under the requirements of the Listing Rules.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS

Shareholders holding not less than one-twentieth of the paid-up capital of the Company which carries the right of voting at general meetings can request the convening of an extraordinary general meeting according to Section 113 of the Companies Ordinance by written requisition, with stated business proposed to be transacted, which must be validly served at the registered office of the Company ("Registered Office"). Besides, Shareholders may make a proposal at a Shareholders' meeting by submitting it in written form to the Board at the Registered Office in the form of a proposed resolution, which shall clearly and concisely set out the proposal for discussion and be relevant to the Company's business scope.

The Board established and adopted a shareholders' communication policy in 2012. A Shareholder may serve an enquiry to the Board at the Registered Office for the attention of the Board in written form, which shall state the nature of the enquiry and the reason for making the enquiry. In addition, Shareholders can contact Tricor Tengis Limited, the share registrar of the Company, for any questions about their shareholdings.

Investor Relations

At the 2012 AGM, special resolutions were passed regarding amendments to the Articles of the Company and the adoption of a new Articles of Association in order to bring the Articles in line with certain amendment to the Listing Rules. Details of the amendments are set out in the circular of the Company dated 14 May 2012.

INDEPENDENT AUDITORS' REPORT

ERNST & YOUNG
安 永

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To the shareholders of China Environmental Investment Holdings Limited
(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of China Environmental Investment Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 43 to 166, which comprise the consolidated and company statements of financial position as at 31 December 2012, 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 information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's loss 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
18 March 2013

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
REVENUE	6	**1,177,611**	1,024,588
Cost of sales		**(948,402)**	(815,094)
Gross profit		**229,209**	209,494
Other income and gains	6	**23,257**	12,221
Selling and distribution expenses		**(93,863)**	(76,743)
Administrative expenses		**(127,807)**	(95,894)
Other operating expenses, net		**(17,035)**	(4,946)
Finance costs	8	**(16,911)**	(9,632)
Share of profits and losses of jointly-controlled entities		**7,281**	1,413
Share of profits and losses of an associate		**(95)**	404
PROFIT BEFORE TAX	7	**4,036**	36,317
Income tax expense	11	**(25,609)**	(17,615)
PROFIT/(LOSS) FOR THE YEAR		**(21,573)**	18,702
Attributable to:			
Owners of the parent	12	**(25,966)**	8,482
Non-controlling interests		**4,393**	10,220
		(21,573)	18,702
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic and diluted		**(HK0.75 cents)**	HK0.36 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2012

	Notes	**2012** **HK$'000**	2011 HK$'000
PROFIT/(LOSS) FOR THE YEAR		**(21,573)**	18,702
OTHER COMPREHENSIVE INCOME			
Available-for-sale investments:			
Change in fair value		**–**	606
Reclassification adjustment for a gain included in the consolidated income statement			
– gain on disposal	6	**–**	(606)
Reserve released on deemed disposal of an interest in a jointly-controlled entity		**(239)**	–
		(239)	–
Exchange differences on translation of foreign operations		**28,810**	10,072
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**28,571**	10,072
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**6,998**	28,774
Attributable to:			
Owners of the parent	12	**(403)**	17,640
Non-controlling interests		**7,401**	11,134
		6,998	28,774

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**406,355**	390,945
Investment property	15	**5,787**	5,723
Prepaid land lease payments	16	**51,943**	28,183
Goodwill	17	**150,518**	128,462
Intangible assets	18	**16,022**	–
Investments in jointly-controlled entities	20	**54,800**	40,593
Investments in associates	21	**98,954**	32,781
Concession finance receivables	23	**45,469**	–
Prepayments and deposits	25	**49,543**	7,483
Deposit paid for acquisition of land use right	25	**3,645**	13,800
Deposit paid for acquisition of a subsidiary	25	**78,352**	–
Finance lease receivables	26	**9,691**	–
Due from a non-controlling shareholder	42(b)(i)	**–**	18,000
Total non-current assets		**971,079**	665,970
CURRENT ASSETS			
Inventories	22	**4,706**	4,212
Trade and bills receivables	24	**70,927**	53,009
Prepayments, deposits and other receivables	25	**56,658**	50,893
Finance lease receivables	26	**18,073**	–
Due from non-controlling shareholders	42(b)(i)	**27,784**	44,440
Due from jointly-controlled entities	42(b)(ii)	**7,024**	12,582
Investment at fair value through profit or loss	27	**3,317**	–
Pledged deposit	28	**–**	3,360
Cash and bank balances	28	**353,838**	183,388
Total current assets		**542,327**	351,884
CURRENT LIABILITIES			
Trade and bills payables	29	**44,945**	37,036
Other payables and accruals	30	**47,352**	45,930
Interest-bearing bank and other borrowings	31	**142,963**	95,493
Due to non-controlling shareholders	42(b)(i)	**4,745**	3,032
Due to associates and a jointly-controlled entity	42(b)(ii)	**556**	2,527
Loans from a shareholder	42(b)(iii)	**–**	40,974
Tax payable		**18,318**	20,663
Total current liabilities		**258,879**	245,655
NET CURRENT ASSETS		**283,448**	106,229
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,254,527**	772,199

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
NON-CURRENT LIABILITIES			
Other payable	30	**4,828**	–
Interest-bearing bank and other borrowings	31	**25,605**	–
Convertible bond	32	**44,182**	–
Loans from a related company	42(b)(iv)	**150,937**	–
Deferred tax liabilities	33	**3,724**	–
Total non-current liabilities		**229,276**	–
Net assets		**1,025,251**	772,199
EQUITY			
Equity attributable to owners of the parent			
Issued capital	34	**730,757**	487,171
Equity component of convertible bond	32	**21,686**	–
Reserves	36(a)	**195,031**	191,926
		947,474	679,097
Non-controlling interests		**77,777**	93,102
Total equity		**1,025,251**	772,199

Ji Hui
Director

Zhang Ning
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2012

		Attributable to owners of the parent											
	Notes	Issued capital HK$'000 (note 34)	Share premium account HK$'000 (note 34)	Share option reserve HK$'000 (note 34)	Equity component of convertible bonds HK$'000 (note 32)	Special capital reserve HK$'000 (note 36(a))	Exchange fluctuation reserve HK$'000	Reserve funds HK$'000 (note 36(a))	Capital redemption reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'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 for the year		–	–	–	–	–	–	–	–	8,482	8,482	10,220	18,702
Other comprehensive income for the year:													
Exchange differences on translation of foreign operations		–	–	–	–	–	9,158	–	–	–	9,158	914	10,072
Total comprehensive income for the year		–	–	–	–	–	9,158	–	–	8,482	17,640	11,134	28,774
Conversion of convertible bonds	32	58,700	–	–	–	–	–	–	–	–	58,700	–	58,700
Transfer of reserve upon conversion of convertible bonds	32	–	–	–	(12,872)	–	–	–	–	12,872	–	–	–
Share of reserve funds of an associate		–	–	–	–	–	–	58	–	(58)	–	–	–
Disposal of subsidiaries	38(a)	–	–	–	–	–	–	–	–	–	–	18	18
Dividends declared/paid to non-controlling shareholders		–	–	–	–	–	–	–	–	–	–	(1,917)	(1,917)
Capital contribution from non-controlling shareholders		–	–	–	–	–	–	–	–	–	–	27,000	27,000
Appropriation of reserve funds		–	–	–	–	–	–	3,013	–	(3,013)	–	–	–
At 31 December 2011		487,171	829,393*	36,514*	–	828,646*	76,850*	4,936*	3,865*	(1,588,278)*	679,097	93,102	772,199

		Attributable to owners of the parent											
	Notes	Issued capital HK$'000 (note 34)	Share premium account HK$'000 (note 34)	Share option reserve HK$'000 (note 34)	Equity component of convertible bonds HK$'000 (note 32)	Special capital reserve HK$'000 (note 36(a))	Exchange fluctuation reserve HK$'000	Reserve funds HK$'000 (note 36(a))	Capital redemption reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
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
Loss for the year		–	–	–	–	–	–	–	–	(25,966)	(25,966)	4,393	(21,573)
Other comprehensive income for the year:													
Exchange differences on translation of foreign operations		–	–	–	–	–	25,802	–	–	–	25,802	3,008	28,810
Reserve released on deemed disposal of an interest in a jointly-controlled entity		–	–	–	–	–	(239)	–	–	–	(239)	–	(239)
Total comprehensive income for the year		–	–	–	–	–	25,563	–	–	(25,966)	(403)	7,401	6,998
Issue of shares	34	243,586	–	–	–	–	–	–	–	–	243,586	–	243,586
Share issue expenses	34	–	(50)	–	–	–	–	–	–	–	(50)	–	(50)
Issue of convertible bond	32	–	–	–	21,686	–	–	–	–	–	21,686	–	21,686
Equity-settled share option arrangements	35	–	–	3,558	–	–	–	–	–	–	3,558	–	3,558
Transfer of share option reserve upon the forfeiture of share options	34	–	265	(265)	–	–	–	–	–	–	–	–	–
Disposal of subsidiaries	38(a)	–	–	–	–	–	–	–	–	–	–	(1,159)	(1,159)
Dividends paid to non-controlling shareholders		–	–	–	–	–	–	–	–	–	–	(21,567)	(21,567)
At 31 December 2012		730,757	829,608*	39,807*	21,686	828,646*	102,413*	4,936*	3,865*	(1,614,244)*	947,474	77,777	1,025,251

* These reserve accounts comprise the consolidated reserves of HK$195,031,000 (2011: HK$191,926,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**4,036**	36,317
Adjustments for:			
Finance costs	8	**16,911**	9,632
Depreciation on property, plant and equipment	7	**49,082**	46,536
Depreciation on an investment property	7	**127**	210
Amortisation of prepaid land lease payments	7	**1,750**	8,106
Amortisation of intangible assets	7	**879**	–
Loss on disposal of items of property, plant and equipment	7	**310**	2,028
Interest income	6	**(2,183)**	(1,158)
Finance income on concession finance receivables	6	**(1,425)**	–
Impairment of items of property, plant and equipment	7	**2,315**	1,396
Impairment of trade receivables	7	**12,330**	–
Impairment of deposits and other receivables	7	**1,860**	1,522
Equity-settled share option expense	35	**3,558**	–
Gain on disposal of subsidiaries	6	**(3,837)**	(4,964)
Gain on disposal of an associate	6	**–**	(375)
Gain on deemed disposal of a jointly-controlled entity	6	**(5,864)**	–
Fair value gain, net:			
Available-for-sale investments (transfer from equity)	6	**–**	(606)
Fair value loss, net:			
Gold investment at fair value through profits or loss	7	**220**	–
Share of profits and losses of jointly-controlled entities		**(7,281)**	(1,413)
Share of profits and losses of associates		**95**	(404)
		72,883	96,827
Decrease/(increase) in inventories		**(344)**	547
Increase in trade and bills receivables		**(27,738)**	(38,443)
Decrease/(increase) in prepayments, deposits and other receivables		**102,280**	(28,478)
Increase in concession finance receivables		**(44,612)**	–
Increase in finance lease receivables		**(27,040)**	–
Movement in balances with jointly-controlled entities		**6,138**	(10,444)
Increase/(decrease) in trade and bills payables		**(2,327)**	28,092
Increase/(decrease) in other payables and accruals		**(14,375)**	25,862
Increase/(decrease) in an amount due to an associate		**(1,997)**	1,978
Cash generated from operations		**62,868**	75,941
Overseas taxes paid		**(24,777)**	(14,295)
Net cash flows from operating activities		**38,091**	61,646

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 20112

	Notes	2012 HK$'000	2011 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	6	**2,183**	1,158
Purchases of items of property, plant and equipment	14	**(60,236)**	(41,348)
Proceeds from disposal of items of property, plant and equipment		**3,717**	11,575
Deposit paid for acquisition of land use right		**(3,645)**	(12,093)
Deposit paid for acquisition of a subsidiary		**(78,352)**	–
Increase in prepaid land lease payments	16	**(27,678)**	(6,438)
Purchase of gold investment at fair value through profit or loss		**(3,537)**	–
Proceeds from disposal of an available-for-sale investment		**–**	24,606
Acquisition of intangible assets	18	**(992)**	–
Acquisition of subsidiaries	37	**(6,650)**	–
Acquisition of associates	21	**(98,954)**	–
Disposal of subsidiaries	38(a)	**11,784**	11,893
Disposal of associates		**–**	2,640
Net cash flows used in investing activities		**(262,360)**	(8,007)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	34	**243,586**	–
Share issue expenses	34	**(50)**	–
Interest paid on bank and other loans	8	**(13,470)**	(9,312)
Interest paid on convertible bonds	32	**(517)**	(587)
Repayment of bank loans		**(107,126)**	(91,200)
Repayment of other loans		**(11,743)**	(6,023)
Repayment of loans from a shareholder		**(40,974)**	–
New bank loans		**148,509**	81,600
Loan from a shareholder		**–**	10,000
Loans from a related company		**150,937**	–
Capital contribution from non-controlling shareholders		**–**	27,000
Advance from/(to) non-controlling shareholders, net		**37,750**	(27,001)
Dividends paid to non-controlling shareholders		**(21,567)**	(623)
Net cash flows from/(used in) financing activities		**385,335**	(16,146)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**161,066**	37,493
Cash and cash equivalents at beginning of year		**186,748**	146,807
Effect of foreign exchange rate changes, net		**6,024**	2,448
CASH AND CASH EQUIVALENTS AT END OF YEAR		**353,838**	186,748
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**353,838**	183,388
Pledged deposit		**–**	3,360
Cash and cash equivalents as stated in the statement of cash flows		**353,838**	186,748

STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	**2012** **HK$'000**	2011 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**1,687**	732
Investments in subsidiaries	19	**815,847**	541,122
Total non-current assets		**817,534**	541,854
CURRENT ASSETS			
Prepayments, deposits and other receivables	25	**1,072**	1,244
Due from subsidiaries	19	**78,619**	267
Cash and bank balances	28	**7,835**	5,978
Total current assets		**87,526**	7,489
CURRENT LIABILITIES			
Other payables and accruals	30	**2,756**	7,656
Loans from a shareholder	42(b)(iii)	**–**	40,974
Interest-bearing bank and other borrowings	31	**2,150**	2,150
Due to a subsidiary	19	**54,574**	–
Total current liabilities		**59,480**	50,780
NET CURRENT ASSETS/(LIABILITIES)		**28,046**	(43,291)
TOTAL ASSETS LESS CURRENT LIABILITIES		**845,580**	498,563
NON-CURRENT LIABILITIES			
Convertible bond	32	**44,182**	–
Loans from a related company	42(b)(iv)	**150,937**	–
Total non-current liabilities		**195,119**	–
Net assets		**650,461**	498,563
EQUITY			
Issued capital	34	**730,757**	487,171
Equity component of convertible bond	32	**10,518**	–
Reserves	36(b)	**(90,814)**	11,392
Total equity		**650,461**	498,563

Ji Hui
Director

Zhang Ning
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2012

1. CORPORATE INFORMATION

China Environmental Investment Holdings Limited is a limited liability company incorporated in Hong Kong. The registered office of the Company is located at Units 2805-6, 28th Floor, Bank of America Tower, 12 Harcourt Road, Hong Kong.

During the year, the Group was principally involved in the operation of CNG and LPG refueling stations, management and operation of LED EMC and provision of finance lease and loan services.

2.1 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, except for investment classified as fair value through profit or loss, which have been measured at fair value. 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 2012. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. 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 intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if it results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

NOTES TO FINANCIAL STATEMENTS

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2.1 BASIS OF PREPARATION (Continued)

Basis of consolidation (Continued)

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or accumulated losses, as appropriate.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

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

The adoption of the revised HKFRSs has had no significant financial effect on these financial statements.

2.3 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 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans*[2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[2]
HKFRS 9	*Financial Instruments*[4]
HKFRS 10	*Consolidated Financial Statements*[2]
HKFRS 11	*Joint Arrangements*[2]
HKFRS 12	*Disclosure of Interests in Other Entities*[2]
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 *– Transition Guidance*[2]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) *– Investment Entities*[3]
HKFRS 13	*Fair Value Measurement*[2]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[1]
HKAS 19 (2011)	*Employee Benefits*[2]
HKAS 27 (2011)	*Separate Financial Statements*[2]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[3]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]
Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012[2]

NOTES TO FINANCIAL STATEMENTS

31 December 2012

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

1 Effective for annual periods beginning on or after 1 July 2012
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2014
4 Effective for annual periods beginning on or after 1 January 2015

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

The HKFRS 7 Amendments require an entity to disclose information about rights to set-off and related arrangements (e.g.,collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with HKAS 32. The Group expects to adopt the amendments from 1 January 2013.

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

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

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2015. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in HK(SIC)-Int 12. Based on the preliminary analyses performed, HKFRS 10 is not expected to have any impact on the currently held investments of the Group.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

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

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

In July 2012, the HKICPA issued amendments to HKFRS 10, HKFRS 11 and HKFRS 12 which clarify the transition guidance in HKFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between HKFRS 10 and HKAS 27 or HK(SIC)-Int 12 at the beginning of the annual period in which HKFRS 10 is applied for the first time. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before HKFRS 12 is first applied.

The amendments to HKFRS 10 issued in December 2012 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with HKFRS 9 rather than consolidate them. Consequential amendments were made to HKFRS 12 and HKAS 27 (2011). The amendments to HKFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in HKFRS 10.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (2011), HKAS 28 (2011), and the subsequent amendments to these standards issued in July and December 2012 from 1 January 2013.

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

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Group expects to adopt HKFRS 13 prospectively from 1 January 2013.

The HKAS 1 Amendments change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to the income statement at a future point in time (for example, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments will affect presentation only and have no impact on the financial position or performance. The Group expects to adopt the amendments from 1 January 2013.

HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt HKAS 19 (2011) from 1 January 2013.

The HKAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to set off" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in HKAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

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

The *Annual Improvements to HKFRSs 2009-2011 Cycle* issued in June 2012 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2013. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

(a) HKAS 1 *Presentation of Financial Statements*: Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

In addition, the amendment clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

(b) HKAS 32 *Financial Instruments: Presentation*: Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with HKAS 12 *Income Taxes*. The amendment removes existing income tax requirements from HKAS 32 and requires entities to apply the requirements in HKAS 12 to any income tax arising from distributions to equity holders.

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 investments in subsidiaries are stated at cost less any impairment losses.

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 or 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Jointly-controlled entities

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.

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 investments 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 investments in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of jointly-controlled entities is included as part of the Group's investments in jointly-controlled entities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 investments 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 investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates and is not individually tested for impairment.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested 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 has been allocated to a cash-generating unit (or 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 the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets, investment property 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 an 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 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

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

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 depreciates them accordingly.

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:

Land and 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 including any significant part initially recognised are 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

Construction in progress represents gas stations under construction, which are stated at cost less any impairment losses, and are 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.

Investment property

Investment property is interest in land and building (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is stated at cost less accumulated depreciation and any impairment losses.

Depreciation is calculated on the straight-line basis to write off the cost of each investment property to its residual value over its estimated useful life at an annual rate of 2%. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill) (Continued)

Service contract

Service contract is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated life of 16 years.

Franchise

Purchased franchise is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated life of 20 years.

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, including prepaid land lease payments under 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at investment through profit or loss, loans and receivables, and available-for-sale financial investments, 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 transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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.

Subsequent measurement

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

Investment at fair value through profit or loss

Investment at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

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 by 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

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 revaluation reserve until the investment is derecognised, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to 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. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the income statement as "Other income".

When the fair value of unlisted equity investments 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 investments are stated at cost less any impairment losses.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

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, it evaluates if and to what extent it has retained the risk and rewards of ownership of the assets. When it 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 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 2012

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 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 write-off is later recovered, the recovery is credited to profit or loss.

Financial 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.

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.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through the income statement if the increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as 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, net of directly attributable transaction costs.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (Continued)

Initial recognition and measurement (Continued)

The Group's financial liabilities include trade and bills payables, accruals and other payables, amounts due to an associate, a jointly-controlled entity, non-controlling shareholders and a shareholder, a related company and interest-bearing loans and other borrowings.

Subsequent measurement

The subsequent 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 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a 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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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

- when 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 joint ventures, when 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, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised, 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:

- when 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

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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.

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 concession arrangements, under the financial assets model, as further explained in the accounting policy for "Concession arrangements";

(c) from the rendering of services, when the services have been rendered;

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concession financial assets

The Group constructs or upgrades infrastructure (construction services) used to provide a public service and operates and maintains that infrastructure (operation services) for a specified period of time. These arrangements may include infrastructure used in a public-to-private service concession arrangement for its entire useful life. These arrangements are accounted for based on the nature of the consideration. The financial asset model is used when the Group has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services. When the unconditional right to receive cash covers only part of the service, the two models are combined to account separately for each component. If the Group performs more than one service (i.e., construction or upgrade services and operation services) under a single contract or arrangement, consideration received or receivable is allocated by reference to the relative fair values of the services delivered, when the amounts are separately identifiable.

In the financial asset model, the amount due from the grantor meets the definition of a receivable which is measured at fair value. It is subsequently measured at amortised cost. The amount initially recognised plus the cumulative interest on that amount is calculated using the effective interest method. Any asset carried under concession arrangements is derecognised on disposal or when no future economic benefits are expected from its future use or disposal or when the contractual rights to the financial asset expire.

Concession arrangements

The Group manages concession arrangements which include the construction of LED streetlight infrastructure followed by a period during which the Group maintains and services the infrastructure. This may also include, in the secondary period, asset replacement or refurbishment. These concession arrangements set out rights and obligations relative to the infrastructure and the service to be provided.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concession arrangements (Continued)

For fulfilling those obligations, the Group is entitled to receive either cash from the grantor or a contractual right to charge the users of the service. The consideration received or receivable is allocated by reference to the relative fair values of the services provided; typically:

- A construction component

- A service element for operating and maintenance services performed

As set out above, the right to consideration gives rise to a financial asset:

- Revenue from the concession arrangements earned under the financial asset model consists of (i) the fair value of the amount due from the grantor; and (ii) the interest income related to the capital investment in the project.

Contracts for services

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments

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 payments, 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 fair value is determined by an external valuer using a binomial model, further details of which are given in note 35 to the financial statements.

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.

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 payments, or is otherwise beneficial to the employee as measured at the date of modification.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments (Continued)

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 loss per share.

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 all of its Hong Kong employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF scheme.

The employees of the Group's 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 a 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 prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items 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 measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

NOTES TO FINANCIAL STATEMENTS

31 December 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

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 prevailing 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.

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 their accompanying disclosures, and the disclosure of contingent liabilities. 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:

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Judgements (Continued)

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of this property which is leased out on an operating lease.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

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 described 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 2012 was HK$150,518,000 (2011: HK$128,462,000). Further details on the impairment testing of goodwill on acquisition of subsidiaries are given in note 17 to the financial statements.

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. Accordingly, a provision for impairment of property, plant and equipment of HK$2,315,000 (2011: HK$1,396,000) was charged to the consolidated income statement during the year. The carrying amounts of the Group's and the Company's property, plant and equipment at 31 December 2012 were HK$406,355,000 (2011: HK$390,945,000) and HK$1,687,000 (2011: HK$732,000), respectively. The carrying amount of the Group's investment property at 31 December 2012 was HK$5,787,000 (2011: HK$5,723,000). More details are given in notes 14 and 15 to the financial statements.

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$146,235,000 (2011: HK$146,235,000) and HK$55,993,000 (2011: HK$28,595,000) as at 31 December 2012. Further details are given in note 33 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 and bills 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.

As at 31 December 2012, the directors had conducted impairment testing on the Group's trade and bills receivables, and deposits and other receivables, and considered the status of recoverability of certain of these balances based on the financial position of the respective counterparties or the collection of some of the receivables which were provided in prior years. Accordingly, a provision for impairment of trade receivables of HK$12,330,000 (2011: Nil) and a provision for impairment of deposits and other receivables of HK$1,860,000 (2011: HK$1,522,000) were charged to the consolidated income statement during the year.

The carrying amounts of the Group's trade and bills receivables and the Group's and the Company's prepayments, deposits and other receivables at 31 December 2012 were HK$70,927,000 (2011: HK$53,009,000), HK$188,198,000 (2011: HK$72,176,000) and HK$1,072,000 (2011: HK$1,244,000), respectively. Further details are given in notes 24 and 25 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

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

In determining the useful lives and residual values of items of property, plant and equipment, and investment property, 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, and investment property are different from previous estimates. Useful lives and residual values are reviewed at each financial year end based on changes in circumstances.

5. 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) Sales of CNG, LPG and petroleum products of the Group's gas station operation;

(b) Management and operation of LED EMC; and

(c) Provision of finance lease and loan services.

Segment performance is evaluated based on operating profit/(loss), which is a measure of adjusted reportable segment profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit before tax except that interest income, finance costs, fair value gains/(losses) from the Group's financial instruments as well as head office and corporate expenses are excluded from such measurement.

5. SEGMENT INFORMATION (Continued)

Segment assets exclude tax recoverable, pledged deposits, cash and cash equivalents, investment at fair value through profit or loss and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank and other borrowings, the amount due to the ultimate holding company, convertible bond, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

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

In determining the Group's geographical segments, revenues and result 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 segments information is provided.

For management purposes, the Group had only one reportable operating segment for the year ended 31 December 2011, which was the sales of CNG, LPG and petroleum products. Accordingly, no comparative figures was presented.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

5. SEGMENT INFORMATION (Continued)

Year ended 31 December 2012

	Sales of CNG, LPG and petroleum products HK$'000	Management and operation of LED EMC HK$'000	Provision of finance lease and loan services HK$'000	Total HK$'000
Segment revenue:				
Revenue from external customers	1,111,965	57,553	–	1,169,518
Interest revenue	–	–	8,093	8,093
Intersegment revenue	–	–	4,545	4,545
	1,111,965	57,553	12,638	1,182,156
Reconciliation:				
Elimination of intersegment revenue				(4,545)
Revenue				1,177,611
Segment results	49,754	(11,435)	2,338	40,657
Reconciliation:				
Interest income				2,183
Finance income on concession finance receivables				1,425
Gain on disposal of subsidiaries				3,837
Gain on deemed disposal of a jointly-controlled entity				5,864
Fair value losses from gold investment at fair value through profit or loss				(220)
Finance costs				(16,911)
Corporate and other unallocated expenses				(32,799)
Profit before tax				4,036
Income tax expense				(25,609)
Loss for the year				(21,573)

5. SEGMENT INFORMATION (Continued)

Year ended 31 December 2012

	Sales of CNG, LPG and petroleum products HK$'000	Management and operation of LED EMC HK$'000	Provision of finance lease and loan services HK$'000	Total HK$'000
Segment assets	844,354	158,616	195,292	1,198,262
Reconciliation:				
Elimination of intersegment receivables				(140,428)
Investments in associates				98,954
Corporate and other unallocated assets				356,618
Total assets				1,513,406
Segment liabilities	101,933	72,824	8,543	183,300
Reconciliation:				
Elimination of intersegment payables				(140,428)
Corporate and other unallocated liabilities				445,283
Total liabilities				488,155
Other segment information:				
Share of profits and losses of:				
Jointly-controlled entities	7,281	–	–	7,281
An associate	–	–	(95)	(95)
Impairment losses recognised in the income statement	16,505	–	–	16,505
Depreciation and amortisation	50,405	927	99	51,431
Investments in jointly-controlled entities	54,800	–	–	54,800
Capital expenditure*	85,785	17,842	543	104,170

* Capital expenditure consists of additions to property, plant and equipment and intangible assets including assets from the acquisition of subsidiaries.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

6. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents sales of CNG, LPG and petroleum products from the operation of gas stations, income from management and operation of LED EMC and interest income on finance leases and loans during the year.

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

	Note	2012 HK$'000	2011 HK$'000
Revenue			
Sales of CNG, LPG and petroleum products		**1,111,965**	1,024,588
Construction revenue of LED EMC		**46,436**	–
Operation revenue of LED EMC		**11,117**	–
Interest income on finance leases and loans		**8,093**	–
		1,177,611	1,024,588
Other income			
Interest income		**2,183**	1,158
Advisory and maintenance service income on operation of gas stations		**3,127**	–
Trading of petroleum and gas-related products		**523**	799
Finance income on concession finance receivables		**1,425**	–
Government grants received*		**2,016**	1,112
Gross rental income		**3,437**	3,075
Others		**845**	132
		13,556	6,276
Gains			
Gain on disposal of subsidiaries	38(a)	**3,837**	4,964
Gain on disposal of an associate		**–**	375
Gain on deemed disposal of a jointly-controlled entity		**5,864**	–
Net fair value gain on disposal of available-for-sale investments		**–**	606
		9,701	5,945
		23,257	12,221

NOTES TO FINANCIAL STATEMENTS

31 December 2012

6. REVENUE, OTHER INCOME AND GAINS (Continued)

* Various government grants have been received to subsidise 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.

7. PROFIT BEFORE TAX

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

	Notes	**2012** **HK$'000**	2011 HK$'000
Cost of inventories sold*		**857,328**	784,643
Construction and operation costs of LED EMC*		**57,040**	–
Cost of finance lease and loan services provided*		**476**	–
Auditors' remuneration		**2,950**	2,761
Depreciation on property, plant and equipment	14	**49,082**	46,536
Depreciation on an investment property	15	**127**	210
Amortisation of prepaid land lease payments	16	**1,750**	8,106
Amortisation of intangible assets	18	**879**	–
Loss on disposal of items of property, plant and equipment**		**310**	2,028
Impairment of items of property, plant and equipment**	14	**2,315**	1,396
Impairment of trade receivables**	24	**12,330**	–
Impairment of deposits and other receivables**	25	**1,860**	1,522
Minimum lease payments under operating leases in respect of land and buildings		**21,739**	19,154
Contingent rent under an operating lease		**–**	243
Employee benefit expense (excluding directors' and chief executive's remuneration (note 9)):			
Wages and salaries and allowances		**89,885**	66,747
Equity-settled share option expense		**2,206**	–
Pension scheme contributions		**168**	117
		92,259	66,864
Rental income less direct operating expenses of HK$401,000 (2011: HK$381,000)		**(3,036)**	(2,694)
Fair value losses:			
Investment at fair value through profits or loss**		**220**	–
Foreign exchange differences, net		**389**	(986)

NOTES TO FINANCIAL STATEMENTS

31 December 2012

7. PROFIT BEFORE TAX (Continued)

* Cost of sales disclosed on the face of the consolidated income statement comprises cost of inventories sold, wages and salaries and allowances of HK$9,702,000 (2011: HK$6,919,000) disclosed under employee benefit expense and depreciation charges of HK$23,856,000 (2011: HK$23,532,000) above.

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

8. FINANCE COSTS

An analysis of finance costs is as follows:

	2012	2011
	HK$'000	HK$'000
Interest on loans/bonds wholly repayable within five years:		
Bank loans	**11,681**	6,413
Other loans	**1,789**	2,899
Convertible bonds (note 32)	**3,441**	2,050
Total interest expense on financial liabilities	**16,911**	11,362
Less: interest capitalised	**–**	(1,730)
	16,911	9,632

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:

	2012	2011
	HK$'000	HK$'000
Fees:		
Executive directors	**125**	36
Non-executive director	**1,692**	1,656
Independent non-executive directors	**180**	180
	1,997	1,872
Other emoluments (executive and non-executive directors):		
Salaries, allowances and benefits in kind	**2,387**	1,079
Equity-settled share option expense	**1,352**	–
Pension scheme contributions	**34**	12
	3,773	1,091
	5,770	2,963

During the year, a director was granted share options, in respective of his service to the Group, under the share option scheme of the Company, further details of which are set out in note 35 to the financial statements. The fair value of such options, which has been recognised in the consolidated income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

9. DIRECTORS' REMUNERATION (Continued)

(a) Independent non-executive directors

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

	2012 HK$'000	2011 HK$'000
Wang Zhonghua	60	60
Zhong Qiang	60	60
Xiao Wei (changed to executive director during the year)	51	60
Hu Xiaowen	9	–
	180	180

There were no other emoluments payable to the independent non-executive directors during the year (2011: Nil).

(b) Executive directors and a non-executive director

2012	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Equity-settled share option expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Non-executive director:					
Ji Guirong	1,692	–	–	–	1,692
Executive directors:					
Ji Hui	36	1,212	–	14	1,262
Zang Zeng	36	224	–	–	260
Zhang Chuanjun	24	396	–	10	430
Zhang Ning	24	555	1,352	10	1,941
Xiao Wei	5	–	–	–	5
	125	2,387	1,352	34	3,898
	1,817	2,387	1,352	34	5,590

NOTES TO FINANCIAL STATEMENTS
31 December 2012

9. DIRECTORS' REMUNERATION (Continued)

(b) Executive directors and a non-executive director (Continued)

2011	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Equity-settled share option expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Non-executive director:					
Ji Guirong	1,656	–	–	–	1,656
Executive directors:					
Ji Hui	–	1,079	–	12	1,091
Zang Zeng	36	–	–	–	36
	36	1,079	–	12	1,127
	1,692	1,079	–	12	2,783

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

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three directors (2011: two directors), details of whose remuneration are set out in note 9 above. Details of the remuneration for the year of the remaining two (2011: three) highest paid employee who is not a director of the Company, are as follows:

	2012 HK$'000	2011 HK$'000
Salaries, allowances and benefits in kind	**4,837**	2,037
Pension scheme contributions	**14**	53
	4,851	2,090

NOTES TO FINANCIAL STATEMENTS

31 December 2012

10. FIVE HIGHEST PAID EMPLOYEES (Continued)

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

	Number of employees	
	2012	2011
Nil to HK$1,000,000	**–**	3
HK$1,000,001 to HK$2,000,000	**1**	–
HK$2,000,001 to HK$3,000,000	**–**	–
HK$3,000,001 to HK$4,000,000	**1**	–
	2	3

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 (2011: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdiction in which the Group operates.

	2012	2011
	HK$'000	HK$'000
Group:		
Current – Mainland China	**21,885**	17,615
Deferred (note 33)	**3,724**	–
	25,609	17,615

11. INCOME TAX (Continued)

A reconciliation of the tax expense applicable to profit 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:

	2012		
	Hong Kong HK$'000	Mainland China HK$'000	Total HK$'000
Profit/(loss) before tax	(39,200)	43,236	4,036
Tax at the statutory tax rates	(6,468)	10,809	4,341
Lower tax rate for tax holiday	–	(1,921)	(1,921)
Effect of withholding tax at 5% or 10% on the distributable profits of the Group's PRC subsidiaries	–	8,019	8,019
Profits and losses attributable to jointly–controlled entities and associates	–	(1,820)	(1,820)
Income not subject to tax	(96)	(2,153)	(2,249)
Expenses not deductible for tax	6,564	5,858	12,422
Tax losses utilised from previous periods	–	(20)	(20)
Tax losses not recognised	–	6,850	6,850
Others	–	(13)	(13)
Tax charge at the Group's effective rate	–	25,609	25,609

NOTES TO FINANCIAL STATEMENTS

31 December 2012

11. INCOME TAX (Continued)

	2011		
	Hong Kong	Mainland China	Total
	HK$'000	HK$'000	HK$'000
Profit/(loss) before tax	(10,555)	46,872	36,317
Tax at the statutory tax rates	(1,742)	11,718	9,976
Lower tax rate for tax holiday	–	(3,873)	(3,873)
Profits and losses attributable to jointly–controlled entities and associates	–	(454)	(454)
Income not subject to tax	(1,684)	(5,593)	(7,277)
Expenses not deductible for tax	3,426	5,796	9,222
Tax losses utilised from previous periods	–	(1,300)	(1,300)
Tax losses not recognised	–	11,447	11,447
Others	–	(126)	(126)
Tax charge at the Group's effective rate	–	17,615	17,615

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.

The share of tax attributable to jointly-controlled entities and associates amounting to HK$1,975,000 (2011: HK$1,142,000) and Nil (2011: HK$195,000), respectively, is included in "Share of profits and losses of jointly-controlled entities" and "Share of profits and losses of an associate" in the consolidated income statement.

The Group has tax losses arising in Hong Kong of HK$146,235,000 (2011: HK$146,235,000) and in Mainland China of HK$55,993,000 (2011: HK$28,595,000) which have not yet been agreed by the Inland Revenue Department of Hong Kong and various local tax authorities in Mainland China, 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.

12. PROFIT/(LOSS) ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit/(loss) attributable to owners of the parent for the year ended 31 December 2012 includes a loss of HK$105,714,000 (2011: HK$41,515,000) which has been dealt with in the financial statements of the Company (note 36(b)).

13. 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 year attributable to ordinary equity holders of the parent of HK$25,966,000 (2011: profit of HK$8,482,000), and the weighted average number of ordinary shares of 3,477,415,987 (2011: 2,362,912,560) in issue during the year.

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

	2012	2011
	HK$'000	HK$'000
Earnings/(loss)		
Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**(25,966)**	8,482

	Number of shares	
	2012	2011
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**3,477,415,987**	2,362,912,560
Effect of dilution – weighted average number of ordinary shares:		
Share options	**–**	2,548,150
	3,477,415,987	2,365,460,710

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31 December 2012

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

No adjustment has been made to the basic loss per share amount presented for the year ended 31 December 2012 in respect of a dilution as the convertible bonds and share options outstanding had an anti-dilutive effect on the basic loss per share amount presented.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Notes	Land and 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 2012								
At 31 December 2011 and 1 January 2012:								
Cost		107,344	1,100	200,445	37,093	134,073	36,730	516,785
Accumulated depreciation and impairment		(24,034)	(355)	(45,785)	(9,683)	(45,983)	–	(125,840)
Net carrying amount		83,310	745	154,660	27,410	88,090	36,730	390,945
At 1 January 2012, net of accumulated depreciation and impairment		83,310	745	154,660	27,410	88,090	36,730	390,945
Additions		27,133	790	2,429	2,175	12,238	15,471	60,236
Disposals		(7)	(138)	(181)	(30)	(700)	(2,971)	(4,027)
Acquisition of subsidiaries	37	–	–	–	414	443	–	857
Disposal of subsidiaries	38(a)	–	–	(2,211)	(4)	(1,168)	–	(3,383)
Transfers		6,573	–	2,041	–	–	(8,614)	–
Impairment	7	(842)	–	–	–	–	(1,473)	(2,315)
Depreciation provided during the year	7	(8,110)	(539)	(19,190)	(1,173)	(20,070)	–	(49,082)
Exchange realignment		2,777	21	4,904	922	2,933	1,567	13,124
At 31 December 2012, net of accumulated depreciation and impairment		110,834	879	142,452	29,714	81,766	40,710	406,355
At 31 December 2012:								
Cost		142,793	1,691	206,383	40,366	137,694	40,710	569,637
Accumulated depreciation and impairment		(31,959)	(812)	(63,931)	(10,652)	(55,928)	–	(163,282)
Net carrying amount		110,834	879	142,452	29,714	81,766	40,710	406,355

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group

	Notes	Land and 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 2011								
At 31 December 2010 and 1 January 2011:								
Cost		98,529	1,155	168,693	38,285	122,133	88,338	517,133
Accumulated depreciation and impairment		(16,775)	(193)	(31,002)	(9,279)	(36,833)	–	(94,082)
Net carrying amount		81,754	962	137,691	29,006	85,300	88,338	423,051
At 1 January 2011, net of accumulated depreciation and impairment		81,754	962	137,691	29,006	85,300	88,338	423,051
Additions		459	872	8,656	1,074	26,462	5,555	43,078
Disposals		(78)	(668)	(720)	(425)	(4,133)	(7,579)	(13,603)
Disposal of subsidiaries	38(a)	(3,762)	–	(9,743)	(144)	(1,314)	(5,427)	(20,390)
Transfers		11,052	–	33,289	–	–	(44,341)	–
Impairment	7	–	–	–	–	–	(1,396)	(1,396)
Depreciation provided during the year	7	(7,456)	(434)	(16,867)	(2,291)	(19,488)	–	(46,536)
Exchange realignment		1,341	13	2,354	190	1,263	1,580	6,741
At 31 December 2011, net of accumulated depreciation and impairment		83,310	745	154,660	27,410	88,090	36,730	390,945
At 31 December 2011:								
Cost		107,344	1,100	200,445	37,093	134,073	36,730	516,785
Accumulated depreciation and impairment		(24,034)	(355)	(45,785)	(9,683)	(45,983)	–	(125,840)
Net carrying amount		83,310	745	154,660	27,410	88,090	36,730	390,945

NOTES TO FINANCIAL STATEMENTS
31 December 2012

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 2012				
At 31 December 2011 and 1 January 2012:				
Cost	228	576	627	1,431
Accumulated depreciation	(79)	(515)	(105)	(699)
Net carrying amount	149	61	522	732
At 1 January 2012, net of accumulated depreciation	149	61	522	732
Additions	790	712	–	1,502
Disposals	(139)	(1)	–	(140)
Depreciation provided during the year	(142)	(140)	(125)	(407)
At 31 December 2012, net of accumulated depreciation	658	632	397	1,687
At 31 December 2012:				
Cost	790	985	627	2,402
Accumulated depreciation	(132)	(353)	(230)	(715)
Net carrying amount	658	632	397	1,687

NOTES TO FINANCIAL STATEMENTS
31 December 2012

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 2011				
At 31 December 2010 and 1 January 2011:				
Cost	228	537	500	1,265
Accumulated depreciation	(34)	(486)	(350)	(870)
Net carrying amount	194	51	150	395
At 1 January 2011, net of accumulated depreciation	194	51	150	395
Additions	–	39	627	666
Disposals	–	–	(92)	(92)
Depreciation provided during the year	(45)	(29)	(163)	(237)
At 31 December 2011, net of accumulated depreciation	149	61	522	732
At 31 December 2011:				
Cost	228	576	627	1,431
Accumulated depreciation	(79)	(515)	(105)	(699)
Net carrying amount	149	61	522	732

The Group's land and buildings with a net carrying amount of HK$110,834,000 (2011: HK$83,310,000) are situated in Mainland China and are held under a medium term lease.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

As at 31 December 2012, certain of the Group's buildings, gas station equipment and motor vehicles with a total net carrying value of approximately HK$46,477,000 (2011: HK$19,787,000) are pledged to secure certain bank loans granted to the Group (note 31(a)).

The directors had conducted impairment testing on the Group's property, plant and equipment, and they considered that the carrying amounts of certain plant and equipment are in excess of their recoverable amounts as a result of the continuing operating losses of certain subsidiaries. Accordingly, a provision for impairment of HK$2,315,000 (2011: HK$1,396,000) was charged to the consolidated income statement as at 31 December 2012 (note 7).

15. INVESTMENT PROPERTY

Group

	HK$'000
31 December 2012	
At 1 January 2012:	
Cost	7,113
Accumulated depreciation	(1,390)
Net carrying amount	5,723
At 1 January 2012, net of accumulated depreciation	5,723
Depreciation provided during the year (note 7)	(127)
Exchange realignment	191
At 31 December 2012, net of accumulated depreciation	5,787
At 31 December 2012:	
Cost	7,351
Accumulated depreciation	(1,564)
Net carrying amount	5,787

15. INVESTMENT PROPERTY (Continued)

Group

	HK$'000
31 December 2011	
At 1 January 2011:	
Cost	6,995
Accumulated depreciation	(1,161)
Net carrying amount	5,834
At 1 January 2011, net of accumulated depreciation	5,834
Depreciation provided during the year (note 7)	(210)
Exchange realignment	99
At 31 December 2011, net of accumulated depreciation	5,723
At 31 December 2011:	
Cost	7,113
Accumulated depreciation	(1,390)
Net carrying amount	5,723

The Group's investment property of HK$5,787,000 (2011:HK$5,723,000) is situated in Mainland China and is held under a medium term lease.

Details of the investment property at the end of the reporting period are as follows:

Location	**Use**	**Tenure**	**Attributable interest of the Group**
Rooms 808-809, Jinma Building, Xue Qing Road, Hai Dian District, Beijing	Office	Medium term lease	69.4%

NOTES TO FINANCIAL STATEMENTS

31 December 2012

16. PREPAID LAND LEASE PAYMENTS

		Group	
		2012	2011
	Notes	**HK$'000**	HK$'000
Carrying amount at 1 January		**30,868**	44,436
Recognised during the year	7	**(1,750)**	(8,106)
Additions for the year		**27,678**	6,438
Disposal of subsidiaries	38(a)	**(3,320)**	(12,605)
Exchange realignment		**1,029**	705
Carrying amount at 31 December		**54,505**	30,868
Current portion included in prepayments, deposits and other receivables		**(2,562)**	(2,685)
Non-current portion		**51,943**	28,183

The leasehold land is all held under long term leases and situated in Mainland China.

17. GOODWILL

Group

	HK$'000
At 1 January 2011:	
Cost	200,202
Accumulated impairment	(71,740)
At 31 December 2011	128,462
Cost at 1 January 2011, 31 December 2011 and 1 January 2012, net of accumulated impairment	128,462
Acquisition of subsidiaries (note 37)	22,056
Cost and net carrying amount at 31 December 2012	150,518
At 31 December 2012:	
Cost	222,258
Accumulated impairment	(71,740)
Net carrying amount	150,518

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 13.7% (2011: 14.5%).

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

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17. GOODWILL (Continued)

Impairment testing of goodwill (Continued)

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 reflects specific risks relating to the relevant unit.

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

18. INTANGIBLE ASSETS

	Service contract HK$'000	**Franchise** HK$'000	**Total** HK$'000
31 December 2012			
Cost at 1 January 2012	–	–	–
Additions	–	992	992
Acquisition of subsidiaries (note 37)	15,909	–	15,909
Amortisation provided during the year (note 7)	(829)	(50)	(879)
At 31 December 2012	15,080	942	16,022
At 31 December 2012:			
Cost	15,909	992	16,901
Accumulated amortisation	(829)	(50)	(879)
Net carrying amount	15,080	942	16,022

19. INVESTMENTS IN SUBSIDIARIES

	Company	
	2012	2011
	HK$'000	HK$'000
Unlisted shares, at cost	**99,410**	99,410
Due from subsidiaries	**952,377**	609,598
Loans to a subsidiary	**108,185**	108,185
	1,159,972	817,193
Impairment on unlisted shares#	**(71,740)**	(71,740)
Impairment on amounts due from subsidiaries#	**(272,385)**	(204,331)
	815,847	541,122

\# Impairment of HK$71,740,000 (2011: HK$71,740,000) and HK$272,385,000 (2011: HK$204,331,000) were recognised for the unlisted investments in certain subsidiaries with a carrying amount of HK$99,410,000 (2011: HK$99,410,000) (before deducting impairment loss) and amounts due from subsidiaries, respectively, as a result of the continuing non-performance of the businesses of those subsidiaries.

The amounts due from subsidiaries of HK$952,377,000 (2011: HK$609,598,000) are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, these balances are not repayable within one year and are considered as quasi-equity loans to the subsidiaries.

The amounts due from and to subsidiaries included in the Company's current assets and current liabilities of HK$78,619,000 (2011: HK$267,000) and HK$54,574,000, respectively, are unsecured, interest-free and have no fixed terms of repayment.

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19. INVESTMENTS IN SUBSIDIARIES (Continued)

As at 31 December 2012, the loans advanced to a subsidiary are unsecured, bear interest at the 3-month Hong Kong Interbank Offered Rate ("HIBOR") plus 2.5% per annum and have no fixed terms of repayment. In the opinion of the directors, the loans are not repayable within one year and therefore the loans are classified as non-current assets and are included in investments in subsidiaries.

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
Jetco Innovations Limited	British Virgin Islands/Hong Kong	US$1	100	–	Investment holding
Anhui Sinogas Company Limited#	PRC/ Mainland China	HK$30,000,000	–	100	Operation of gas stations
Beijing Tianxu Hengyuan Energy-Saving Technology Co., Ltd.#	PRC/ Mainland China	RMB35,000,000	–	100	Management and operation of LED EMC
Beijing Sinogas Company Limited#	PRC/ Mainland China	RMB100,000,000	–	69.4	Investment holding
Changchun Sinogas Company Limited^	PRC/ Mainland China	RMB20,000,000	–	97.9	Operation of gas stations
Chengdu Cheng Yuan Natural Gas Company Limited*^	PRC/ Mainland China	RMB5,000,000	–	38.5	Operation of gas stations

19. INVESTMENTS 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
Chengdu Sinogas Company Limited^	PRC/ Mainland China	HK$20,000,000	–	70	Operation of gas stations
China Full Limited (note)	Hong Kong	HK$2	–	50	Investment holding
Chuang Jie Ran Qi (Chengdu) Company Limited^	PRC/ Mainland China	HK$30,000,000	–	91	Operation of gas stations
Global King Investments Limited	British Virgin Islands/Hong Kong	US$32,000	–	69.4	Investment holding
Ganzhou Sinogas LPG Company Limited*	PRC/ Mainland China	RMB10,000,000	–	50	Trading of LPG
Guangzhou Sinogas Company Limited*	PRC/ Mainland China	RMB20,000,000	–	50	Operation of gas stations
Guangdong Zi Yu Tai Finance Leasing Company Limited#	PRC/ Mainland China	US$28,000,000	–	100	Provision of finance lease and loan services
Henan Sinogas Nanhai Energy Sources Company Limited^	PRC/ Mainland China	RMB10,000,000	–	80	Operation of gas stations
Jilin Sinogas Company Limited*^	PRC/ Mainland China	RMB8,000,000	–	35.4	Operation of gas stations
Shandong Sinogas Company Limited^	PRC/ Mainland China	RMB40,000,000	–	84.7	Operation of gas stations

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19. INVESTMENTS 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
Shenzhen Sinogas Investment Company Limited	PRC/ Mainland China	RMB20,000,000	–	69.4	Investment holding
Sino Gas (Zhuhai) Limited*#	PRC/ Mainland China	HK$38,000,000	–	50	Investment holding and trading of LPG and petroleum
Sinogas (Xuzhou) Cleanly Fuel Co., Limited#	PRC/ Mainland China	HK$10,000,000	–	100	Operation of gas stations
Xinzheng Sinogas Company Limited^	PRC/ Mainland China	HK$12,000,000	–	96.9	Operation of gas stations
Xuzhou Sinogas Bus Fuel Company Limited^	PRC/ Mainland China	US$1,975,000	–	70	Operation of gas stations
Zhengzhou Sinogas Company Limited*^	PRC/ Mainland China	RMB29,400,000	–	41.6	Operation of gas stations
Zhuhai Sinogas Transportation Company Limited*^	PRC/ Mainland China	RMB10,000,000	–	45	Transportation of natural gas

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

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

\# These subsidiaries are registered as wholly-foreign-owned enterprises under PRC law.

19. INVESTMENTS IN SUBSIDIARIES (Continued)

Note:

China Full Limited is owned as to 50% by the Group and the remaining 50% is owned by Sanlin Resources Limited. The board of China Full Limited is consisted of one sole director who is being 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 China Full Limited and accordingly, China Full Limited has been accounted for as a subsidiary of the Group.

The statutory financial statements of all of the above subsidiaries were not audited by Ernst & Young, Hong Kong or another 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.

20. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2012	2011
	HK$'000	HK$'000
Share of net assets	**53,462**	34,838
Goodwill	**1,338**	5,755
	54,800	40,593

The balances with jointly-controlled entities are unsecured, interest-free and have no fixed terms of repayment.

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20. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

Particulars of the principal jointly-controlled entities at the end of the reporting period, which are held indirectly through wholly-owned and non-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
Sinogas Chengdu Company Limited	RMB31,497,300	PRC	63.5	50	63.5	Operation of gas stations
Hunan Sinogas Shihua Company Limited	RMB2,010,000	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 another member firm of the Ernst & Young global network.

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20. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

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

	2012	2011
	HK$'000	HK$'000
Share of the jointly-controlled entities' assets and liabilities:		
Current assets	**20,164**	24,706
Non-current assets	**68,978**	50,566
Current liabilities	**(35,680)**	(40,434)
Net assets	**53,462**	34,838
Share of the jointly-controlled entities' results:		
Revenue	**108,413**	83,059
Other income	**461**	298
	108,874	83,357
Total expenses	**(99,618)**	(80,802)
Tax	**(1,975)**	(1,142)
Profit after tax	**7,281**	1,413

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21. INVESTMENTS IN ASSOCIATES

	Group	
	2012	2011
	HK$'000	HK$'000
Share of net assets and goodwill on acquisition	**98,954**	42,655
Provision for impairment	**–**	(39,629)
	98,954	3,026
Loans to an associate	**–**	29,755
	98,954	32,781
Market value of listed shares	**82,270**	–

The loans to an associate in 2011 were unsecured, interest-free and had no fixed terms of repayment.

The initial accounting for the acquisition of Mongolia Investment Group Limited ("MIG") has been determined provisionally, awaiting the receipt of professional valuations in relation to certain underlying assets and liabilities at the acquiree.

21. INVESTMENTS IN ASSOCIATES (Continued)

Particulars of the principal associates, which are held indirectly through wholly-owned subsidiaries 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		Principal activities
			2012	2011	
Mongolia Investment Group Limited	433,000,000 ordinary shares of HK$0.25 each	Cayman Islands	**23.5**	–	Provision of maintenance and construction works, water supply and renovation services, mining and exploration of mineral resources
Fidelity Finance Leasing Limited	Ordinary shares of HK$1,200	Hong Kong	**100***	35.4	Investment holding
Guangdong Zi Yu Tai Finance Leasing Company Limited	Registered capital of US$28,000,000	PRC	**100***	35.4	Provision of finance lease and loan services

* Interests in these companies have been reclassified to interests in subsidiaries in the current year.

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

The above table lists the associates 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.

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21. INVESTMENTS IN ASSOCIATES (Continued)

All the associates have been accounted for using the equity method in these financial statements.

The following table illustrates the summarised financial information of the Group's principal associates extracted from their unaudited management accounts:

	2012	2011
	HK$'000	HK$'000
Assets	**1,417,225**	115,925
Liabilities	**1,187,626**	115,554
Revenues	**451,796**	6,096
Profit/(loss)	**(94,354)**	1,141

The financial years of the above associates are coterminous with that of the Group, except for MIG which has a financial year ending 31 March.

The Group acquired 23.5% of the issued share capital of MIG in December 2012. MIG's most recently available accounts were drawn up to 30 September 2012. The Group has taken advantage of the provision contained in HKAS 28 *Investments in Associates* whereby it is permitted to include the attributable share of associates results based on accounts drawn up to a non-coterminous period end where the difference must be no greater than three months. Accordingly, the above summarised financial information included MIG's results for its six-month period ended 30 September 2012 extracted from MIG's published interim financial statements.

22. INVENTORIES

	Group	
	2012	2011
	HK$'000	HK$'000
Conversion parts and gas station equipment	**2,899**	3,039
CNG and LPG	**1,611**	956
Sub-materials	**196**	217
	4,706	4,212

23. CONCESSION FINANCE RECEIVABLES

During the year, the Group entered into a number of service concession arrangements in respect of its LED lights services with a governmental authority and the provision of energy management services for commercial buildings. These service concession arrangements generally involve the Group as an operator (i) constructing streetlights for those arrangements on a build-operate-transfer basis; (ii) operating and maintaining the streetlights on behalf of the relevant government authority for a period of 16 years; and (iii) the replacement of light bulbs in commercial buildings for periods ranging from 5 to 7 years.

At 31 December 2012, the Group had a service concession arrangement for constructing and operation and maintaining streetlights for the Beijing Fangshan government and two service concession arrangements for the provision of energy management services for two commercial buildings. Particulars of the concession finance arrangements are set out as follows:

Name	Description of arrangement	Significant terms of arrangement
Streetlights	Financing, design building and operating of LED lights in Beijing Fangshan District	Period of concession: 2012 – 2027 Remuneration: quarterly fixed payment by the grantor Investment grant from concession grantor: nil Infrastructure return to grantor at end of concession Investment and renewal obligations: replace all LED lights twice within the operating period of 16 years Re-pricing dates: semi-annually Basis upon which re-pricing or re-negotiation is determined: electricity price, inflation salary level of the district

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23. CONCESSION FINANCE RECEIVABLES (Continued)

Name	Description of arrangement	Significant terms of arrangement
Commercial building	Financing, design and operating of LED lights in the grantor's building	Period of concession: 2012 – 2017 Remuneration: monthly fixed payment Investment grant from concession grantor: nil Infrastructure return to grantor at end of concession Investment and renewal obligation: nil Re-pricing dates: annually Basis upon which re-pricing or re-negotiation is determined: electricity price

As further explained in the accounting policy for "Concession arrangements" set out in note 3 to the financial statements, the consideration paid by the Group for a service concession arrangement is accounted for as a financial asset (receivables under a service concession arrangement) as appropriate. The following is the summarised information of the financial asset component (receivables under a service concession arrangement) with respect to the Group's service concession arrangements.

	Group	
	2012	2011
	HK$'000	HK$'000
Receivables under service concession arrangements	**47,231**	–
Current portion included in prepayments, deposits and other receivables	**(1,762)**	–
Non-current portion	**45,469**	–

Concession finance receivables comprise amounts receivable with respect to concession agreements in the PRC. The Group's concession finance receivables are unbilled as at the end of the reporting period.

24. TRADE AND BILLS RECEIVABLES

	Group 2012 HK$'000	2011 HK$'000
Trade and bills receivables	**85,074**	54,641
Impairment	**(14,147)**	(1,632)
	70,927	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, extending up to 180 days for major customers. 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 these 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:

	Group 2012 HK$'000	2011 HK$'000
0 to 90 days	**83,634**	51,936
91 to 120 days	**412**	364
Over 120 days	**1,028**	2,341
	85,074	54,641

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24. TRADE AND BILLS RECEIVABLES (Continued)

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

	Group	
	2012	2011
	HK$'000	HK$'000
At 1 January	**1,632**	1,605
Impairment losses recognised (note 7)	**12,330**	–
Exchange realignment	**185**	27
	14,147	1,632

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade and bills receivables of HK$14,147,000 (2011: HK$1,632,000) with a carrying amount before provision of HK$15,759,000 (2011: HK$1,632,000) as at 31 December 2012.

The aged analysis of the trade and bills receivables that are not individually nor collectively considered to be impaired is as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Neither past due nor impaired	**67,875**	51,936
Less than 30 days past due	**412**	364
31 to 180 days past due	**1,028**	709
	69,315	53,009

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were 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.

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**27,121**	38,506	**506**	488
Deposits and other receivables	**301,202**	167,475	**6,768**	6,958
Impairment	**(140,125)**	(133,805)	**(6,202)**	(6,202)
	188,198	72,176	**1,072**	1,244
Non-current portion included in prepayments, deposits and other receivables	**(131,540)**	(21,283)	**–**	–
	56,658	50,893	**1,072**	1,244

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

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

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
At 1 January	**133,805**	130,078	**6,202**	6,202
Impairment losses recognised (note 7)	**1,860**	1,522	**–**	–
Exchange realignment	**4,460**	2,205	**–**	–
	140,125	133,805	**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$140,125,000 (2011: HK$133,805,000) with an aggregate carrying amount of HK$140,125,000 (2011: HK$133,805,000).

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26. FINANCE LEASE RECEIVABLES

The Group provides finance leasing services on certain equipments in Mainland China. These leases are classified as finance lease and have remaining lease terms ranging from one to five years.

	Minimum lease payments		Present value of minimum lease payments	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Finance lease receivables comprise:				
Within one year	**19,094**	–	**18,073**	–
In the second to fifth years, inclusive	**12,077**	–	**9,691**	–
	31,171	–	**27,764**	–
Less: unearned finance income	**(3,407)**	–		
Present value of minimum lease payments	**27,764**	–		
Analysed for reporting purposes as:				
Current assets	**18,073**	–		
Non-current assets	**9,691**	–		
	27,764	–		

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

Finance lease receivables are secured over the equipment leases of approximately HK$74,736,000. No contingent rent arrangements were made for both years.

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

27. INVESTMENT AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2012	2011
	HK$'000	HK$'000
Gold bars held for trading, at market value	**3,317**	–

The gold bars investment at 31 December 2012 was classified as held for trading and was, upon initial recognition, designated by the Group as financial assets at fair value through profit or loss.

28. CASH AND BANK BALANCES AND PLEDGED DEPOSIT

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at banks and on hand	**353,838**	183,388	**7,835**	5,978
Time deposit	**–**	3,360	**–**	–
	353,838	186,748	**7,835**	5,978
Less:				
Pledged time deposit for bills payable (note 29)	**–**	(3,360)	**–**	–
Cash and cash equivalents	**353,838**	183,388	**7,835**	5,978

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to HK$345,675,000 (2011: HK$177,368,000). 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 earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

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29. 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:

	Group	
	2012	2011
	HK$'000	HK$'000
0 to 90 days	**41,549**	35,383
91 to 120 days	**62**	–
Over 120 days	**3,334**	1,653
	44,945	37,036

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

As at 31 December 2011, the Group's bills payable had an average maturity period of 30 days and were interest-free and were secured by a time deposit of HK$3,360,000 (note 28). Bills payable were denominated in RMB.

30. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Deferred income	**–**	7,702	**–**	–
Other payables	**44,325**	30,392	**–**	2,292
Accruals	**7,855**	7,836	**2,756**	5,364
	52,180	45,930	**2,756**	7,656
Non-current portion included in other payables and accruals	**(4,828)**	–	**–**	–
	47,352	45,930	**2,756**	7,656

Other payables are non-interest-bearing and have an average repayment term of three months.

Included in the other payables and accruals in the prior year was an interest payable of HK$2,292,000 due to a shareholder which was unsecured, interest-free and had been repaid in year 2012.

31. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group	2012			2011		
	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	**-**	**-**	**-**	6.9 to 8.15	2012	11,743
Bank loans – unsecured	**5.5 to 8.86**	**2013**	**105,400**	5.31 to 6.94	2012	75,600
Bank loans – secured	**6.56 to 10**	**2013**	**35,413**	8.83	2012	6,000
			142,963			95,493
Non-current						
Bank loans – secured	**6.77 to 10**	**2014-2017**	**25,605**	–	–	–
			168,568			95,493

Company	2012			2011		
	Effective interest rate (%)	**Maturity**	**HK$'000**	Effective interest rate (%)	Maturity	HK$'000
Current						
Other loans – unsecured	**-**	**On demand**	**2,150**	–	On demand	2,150

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

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Analysed into:				
Bank loans repayable:				
Within one year or on demand	**140,813**	81,600	**–**	–
In the second year	**14,755**	–	**–**	–
In the third to fifth years, inclusive	**10,850**	–	**–**	–
	166,418	81,600	**–**	–
Other borrowings repayable:				
Within one year or on demand	**2,150**	13,893	**2,150**	2,150

Notes:

(a) Certain of the bank loans are secured by (i) pledges of the Group's buildings, gas station equipment and motor vehicles with aggregate carrying value of HK$46,477,000 (2011: HK$19,787,000) (note 14); and (ii) pledges of the Group's finance lease receivables with aggregate carrying amount of HK$20,741,000 (2011: Nil) (note 26).

(b) All bank loans of HK$166,418,000 (2011: HK$81,600,000) are denominated in RMB which all other borrowings are in Hong Kong dollars, except for HK$11,743,000 of other borrowings in 2011 which were denominated in RMB.

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.

32. CONVERTIBLE BOND

On 18 March 2009 and 15 April 2009, the Group issued convertible bonds with an aggregate nominal value of HK$58,700,000. The bonds were convertible at the option of the bondholders into ordinary shares at the initial conversion price of HK$0.20 per share anytime after the issuance of the convertible bonds. Any convertible bonds not converted would be redeemed at par in two years after the date of issuance or would be further extended as agreed between the bondholders and the Group. The convertible bonds bore interest at 2% per annum and were payable half-yearly in arrears. The convertible bonds were fully converted upon maturity in the last year.

Meanwhile, on 6 March 2012, the Group issued convertible bonds with a principal amount of HK$51,776,000. 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 Group. The convertible bond bears interest 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 shareholders' equity.

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32. CONVERTIBLE BOND (Continued)

The convertible bond issued has been split into the liability and equity component as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Nominal value		
At 1 January	**–**	58,700
Issuance of convertible bond	**51,776**	–
Conversion during the year	**–**	(58,700)
At 31 December	**51,776**	–
Liability component		
At 1 January	**–**	57,237
Issuance of convertible bond	**41,258**	–
Conversion during the year	**–**	(58,700)
Interest expense (note 8)	**3,441**	2,050
Interest paid	**(517)**	(587)
At 31 December	**44,182**	–
Equity component		
At 1 January	**–**	12,872
Issuance of convertible bond	**21,686**	–
Conversion during the year	**–**	(12,872)
At 31 December	**21,686**	–

32. CONVERTIBLE BOND (Continued)

	Company	
	2012	2011
	HK$'000	HK$'000
Nominal value		
At 1 January	**–**	58,700
Issuance of convertible bond	**51,776**	–
Conversion during the year	**–**	(58,700)
At 31 December	**51,776**	–
Liability component		
At 1 January	**–**	57,237
Issuance of convertible bond	**41,258**	–
Conversion during the year	**–**	(58,700)
Interest expense	**3,441**	2,050
Interest paid	**(517)**	(587)
At 31 December	**44,182**	–
Equity component		
At 1 January	**–**	12,872
Issuance of convertible bond	**10,518**	–
Conversion during the year	**–**	(12,872)
At 31 December	**10,518**	–

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33. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

	Withholding taxes HK$'000
At 31 December 2010, 31 December 2011 and 1 January 2012	–
Deferred tax charged to income statement during the year (note 11)	3,724
Gross deferred tax liabilities at 31 December 2012	3,724

The Group has tax losses arising in Hong Kong of HK$146,235,000 (2011: HK$146,235,000) and in Mainland China of HK$55,993,000 (2011: HK$28,595,000) 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 and it is not considered probably that taxable profits will be available against which the tax losses can be utilised.

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 rates are 5% or 10% for the relevant entities. For the year ended 31 December 2012, deferred tax liabilities were provided based on the forecasted dividend payout because the directors believe that certain PRC subsidiaries would pay out all their earnings as dividends and the new basis of provision could more accurately reflect the actual deferred tax liabilities of the Group arising from distribution of dividends by its PRC subsidiaries.

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

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34. SHARE CAPITAL

Shares

	2012	2011
	HK$'000	HK$'000
Authorised:		
10,000,000,000 (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 (2011: 2,435,855,026) ordinary shares of HK$0.20 each	**730,757**	487,171

On 22 February 2012, the Company announced the completion of an open offer of 1,217,927,513 offer shares on the basis of one offer share for every two shares in issue of the Company at the subscription price of HK$0.20 per share (the "Open Offer") to raise long-term equity funding for the general working capital and the long-term development of the Group. Upon the completion of the Open Offer, the number of ordinary shares of the Company has been increased to 3,653,782,539 and the issued share capital of the Company has been increased to HK$730,757,000.

Details of the adjustment of exercise prices and numbers of outstanding share options in relation to the Open Offer are included in note 35 to the financial statements.

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

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34. SHARE CAPITAL (Continued)

Shares (Continued)

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 2011	2,142,355,026	428,471	829,393	36,514	1,294,378
Conversion of convertible bonds	293,500,000	58,700	–	–	58,700
At 31 December 2011 and 1 January 2012	2,435,855,026	487,171	829,393	36,514	1,353,078
Issue of shares	1,217,927,513	243,586	–	–	243,586
Share issue expenses	–	–	(50)	–	(50)
Equity-settled share option arrangements	–	–	–	3,558	3,558
Transfer of reserve upon forfeiture of options	–	–	265	(265)	–
At 31 December 2012	3,653,782,539	730,757	829,608	39,807	1,600,172

Share options

Details of the Company's share option scheme, the share options issued under the scheme and the share option expenses during the year are included in note 35 to the financial statements.

35. 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.

Share options granted to a director 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 in total by the grantee. 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.

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35. SHARE OPTION SCHEME (Continued)

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.

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

	2012		2011	
	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	**0.34**	**341,200**	0.34	341,200
Adjusted during the year	**0.23**	**164,600**	–	–
Forfeited during the year	**0.23**	**(3,750)**	–	–
Issued during the year	**0.24**	**78,980**	–	–
At 31 December	**0.23**	**581,030**	0.34	341,200

35. SHARE OPTION SCHEME (Continued)

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

2012

Number of options '000	Exercise price* HK$ per share	Exercise period
12,000	0.20	1-7-06 to 31-1-15
64,600	0.23	1-10-07 to 31-1-15
64,600	0.23	1-1-08 to 31-1-15
64,600	0.23	1-7-08 to 31-1-15
296,250	0.23	31-8-10 to 30-8-20
39,490	0.24	13-6-13 to 12-6-22
39,490	0.24	13-6-14 to 12-6-22
581,030		

2011

Number of options '000	Exercise price* HK$ per share	Exercise period
12,000	0.20	1-7-06 to 31-1-15
43,067	0.35	1-10-07 to 31-1-15
43,067	0.35	1-1-08 to 31-1-15
43,066	0.35	1-7-08 to 31-1-15
200,000	0.34	31-8-10 to 30-8-20
341,200		

* 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.

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35. SHARE OPTION SCHEME (Continued)

The fair value of the share options granted during 2012 was HK$8,652,000 (HK$0.11 each), of which the Group recognised a share option expense of HK$3,558,000 during the year ended 31 December 2012.

The fair value of equity-settled share options granted during 2012 was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2012
Historical volatility (%)	50.33
Risk-free interest rate (%)	1.067
Expected exercise multiple	2
Expected life of options (year)	10
Share price at grant date (HK$ per share)	0.236

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur.

No other feature of the options granted was incorporated into the measurement of fair value.

Upon the completion of the Open Offer as explained in the note 34 above, the exercise prices of the outstanding share options have been adjusted from HK$0.35 per share and HK$0.341 per share to HK$0.233 per share and HK$0.227 per share, respectively, and the number of share options granted on 23 August 2007 and 31 August 2010, respectively has been adjusted from 129,200,000 and 200,000,000 to 193,800,000 and 300,000,000, respectively, which remained outstanding at 31 December 2012. No adjustment has been made to the exercise price and the number of share options with an exercise price HK$0.20 (being the par value of the ordinary shares of the Company) for the share options granted on 3 January 2006.

At the date of approval of these financial statements, the Company had 581,030,000 share options outstanding under the Scheme, which represented approximately 13.3% of the Company's shares in issue as at that date.

36. 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 page 47 of the financial statements.

The Group's reserve funds represent 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 their profit after tax at the rate of 10% to the statutory surplus reserve funds, 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.

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36. 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 2011		829,393	36,514	12,872	828,646	3,865	(1,658,383)	52,907
Total comprehensive loss for the year		–	–	–	–	–	(41,515)	(41,515)
Transfer of reserve upon conversion of convertible bonds	32	–	–	(12,872)	–	–	12,872	–
At 31 December 2011 and 1 January 2012		829,393*	36,514*	–	828,646*	3,865*	(1,687,026)*	11,392
Total comprehensive loss for the year		–	–	–	–	–	(105,714)	(105,714)
Share issue expenses	34	(50)	–	–	–	–	–	(50)
Transfer of share option reserve	34	265	(265)	–	–	–	–	–
Equity-settled share option arrangements	35	–	3,558	–	–	–	–	3,558
Issue of convertible bond	32	–	–	10,518	–	–	–	10,518
At 31 December 2012		829,608*	39,807*	10,518	828,646*	3,865*	(1,792,740)*	(80,296)

* These reserve accounts comprise the reserves of HK$90,814,000 (2011: HK$11,392,000) included in the statement of financial position of the Company.

37. BUSINESS COMBINATIONS

The fair values of the identifiable assets and liabilities of the Tongda Information Technology Limited and its subsidiaries (collectively, the "Tongda Group"), Fidelity Finance Leasing Limited and its subsidiary (collectively, the "Fidelity Group") and Suzhou Target Lighting Company Limited ("Suzhou Target") as at the dates of acquisitions were as follows:

	Tongda Group	**Fidelity Group**	**Suzhou Target**	**Total**
	HK'000	HK$'000	HK$'000	HK$'000
Notes	(a)	(b)	(c)	
Property, plant and equipment	285	498	74	857
Intangible asset – service contract	15,909	–	–	15,909
Prepayments, deposits and other receivables	26,591	103,224	4,281	134,096
Cash and bank balances	8,048	19,035	1,224	28,307
Trade payables	(5,345)	–	(3,719)	(9,064)
Other payables and accruals	(14,706)	(4,058)	(1,237)	(20,001)
Interest-bearing bank and other borrowings	–	(42,035)	–	(42,035)
Loans from shareholders	–	(29,755)	–	(29,755)
Total identifiable net assets at fair value and consideration transferred	30,782	46,909	623	78,314
Goodwill on acquisition	–	22,056	–	22,056
Consideration	30,782	68,965	623	100,370
Satisfied by:				
Cash	30,782	3,552	623	34,957
Convertible bond	–	62,944	–	62,944
	30,782	66,496	623	97,901
Acquisition date fair value of previous held 35.4% equity interest in Fidelity Group	–	2,469	–	2,469
	30,782	68,965	623	100,370

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37. BUSINESS COMBINATIONS (continued)

An analysis of the cash flows in respect of the acquisition of subsidiaries is as follows:

	Tongda Group HK'000	**Fidelity Group** HK$'000	**Suzhou Target** HK$'000	**Total** HK$'000
Cash consideration	(30,782)	(3,552)	(623)	(34,957)
Cash and bank balances acquired	8,048	19,035	1,224	28,307
Net inflow/(outflow) of cash and cash equivalents included in cash flows from investing activities	(22,734)	15,483	601	(6,650)
Transaction costs of the acquisitions included in cash flows from operating activities	(764)	(389)	–	(1,153)
	(23,498)	15,094	601	(7,803)

Notes:

(a) In the prior year, the Group entered into sale and purchase agreements with TCC Capital Corp., City Light Trading Limited, Cyber Smart Capital Investment Group Limited and Grandest International Limited for the acquisition of the Tongda Group which includes Beijing Tianxu Hengyuan Energy-Saving Technology Co., Ltd. ("Tianxu Hengyuan"), a company engaged in management and operation of LED EMC in Mainland China. The acquisition was completed on 12 March 2012.

Since the acquisition, the Tongda Group contributed HK$54,216,000 to the Group's turnover and HK$8,115,000 to the consolidated loss for the year ended 31 December 2012.

37. BUSINESS COMBINATIONS (continued)

Notes: (continued)

(b) In the prior year, the Group entered into an agreement with Smartcon Investment Limited and Dong Yuen Investment Limited which in aggregate owned 64.6% of the issued share capital of the Fidelity Group (together, the "sellers"), pursuant to which the sellers agreed to sell aggregate 64.6% interest in the Fidelity Group and to assign the shareholders' loans due from the Fidelity Group to the Group. The acquisition was completed during the year and the Fidelity Group has become a wholly-owned subsidiary of the Company.

The fair values of the other receivables as at the date of acquisition amounted to HK$13,078,000. The gross contractual amount of other receivables was HK$13,078,000, of which no other balances 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 consolidated income statement.

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

Since the acquisition, the Fidelity Group contributed HK$8,093,000 to the Group's turnover and HK$1,805,000 to the consolidated loss for the year ended 31 December 2012.

(c) On 22 September 2012, the Group entered into a sales and purchase agreement with an independent third party, for the acquisition of a 100% interest in Suzhou Target. Suzhou Target is engaged in the provision of EMC for commercial buildings. The acquisition was completed on 26 November 2012.

The fair values of the other receivables as at the date of acquisition amounted to HK$245,000. The gross contractual amount of other receivables was HK$245,000, of which no other balances are expected to be uncollectible.

Since the acquisition, Suzhou Target contributed HK$3,336,000 to the Group's revenue and HK$2,233,000 to the consolidated loss for the year ended 31 December 2012.

Had the three combinations taken place at the beginning of the year, the revenue from continuing operations of the Group would have been increased to HK$1,180,326,000 and the loss of the Group for the year would have been decreased to HK$25,738,000, respectively.

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38. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Disposal of subsidiaries

During the year, the Group disposed of Winfield Innovations Limited, a wholly-owned subsidiary, to an independent third party at a cash consideration of HK$11,904,000.

	Notes	**2012** **HK$'000**	2011 HK$'000
Net assets disposed of:			
Property, plant and equipment	14	**3,383**	14,963
Construction in progress	14	**–**	5,427
Prepaid land lease payments	16	**3,320**	12,605
Prepayments, deposits and receivables		**2,729**	17,687
Inventories		**–**	1,025
Trade receivables		**–**	632
Cash and bank balances		**120**	5,504
Trade payables		**–**	(550)
Other payables and accruals		**(184)**	(20,884)
Tax payable		**(142)**	–
Non-controlling interests		**(1,159)**	18
		8,067	36,427
Gain on disposal of subsidiaries	6	**3,837**	4,964
		11,904	41,391
Satisfied by:			
Investment in a jointly-controlled entity		**–**	23,994
Cash consideration		**11,904**	17,397
		11,904	41,391

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

(a) Disposal of subsidiaries (Continued)

An analysis of the cash flows in respect of the disposal of subsidiaries is as follows:

	2012	2011
	HK$'000	HK$'000
Cash consideration	**11,904**	17,397
Cash and bank balances disposed of	**(120)**	(5,504)
Net inflow of cash and cash equivalents included in cash flows from investing activities	**11,784**	11,893

(b) Major non-cash transactions

(i) During the year ended 31 December 2011, interest expenses of HK$1,730,000 have been capitalised into items of property, plant and equipment (note 8).

(ii) During the year, a dividend of HK$653,000 (2011: HK$1,294,000) was declared and has been credit to amount due to a non-controlling shareholder.

39. 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**	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Corporate guarantees given to banks in connection with facilities granted to subsidiaries	**–**	–	**24,800**	–

As at 31 December 2012, the corporate guarantees granted to subsidiaries of HK$24,800,000 by the Company were utilised to the extent of approximately HK$24,800,000.

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40. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

At 31 December 2012, the Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Within one year	**585**	1,485
In the second to fifth years, inclusive	**6,455**	4,583
After five years	**11,209**	14,023
	18,249	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 31 December 2012, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Within one year	**17,990**	14,078
In the second to fifth years, inclusive	**38,060**	32,896
After five years	**48,234**	46,763
	104,284	93,737

At 31 December 2012, the Company did not have any lease commitments.

41. COMMITMENTS

In addition to the operating lease commitments detailed in note 40(b) above, the Group had capital commitments in respect of the acquisition of items of property, plant and equipment of HK$49,223,000 (2011: HK$21,899,000) contracted but not provided for in the financial statements as at the end of the reporting period.

At 31 December 2012, the Company did not have any commitments.

42. RELATED PARTY TRANSACTIONS

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

		Group	
		2012	2011
	Notes	**HK$'000**	HK$'000
Sales of gas to non-controlling shareholders	(i)	**89,517**	119,739
Sales of gas to a jointly-controlled entity	(i)	**5,336**	25,443
Purchases of gas from a jointly-controlled entity	(ii)	**–**	6,392
Provision of transportation service to a jointly-controlled entity	(iii)	**4,705**	4,525
Interest expenses to a shareholder	(iv)	**1,079**	1,169
Interest expenses to a related company	(v)	**710**	–
Underwriting commission expenses to a shareholder	(vi)	**2,972**	–
Sales of gas station equipment to a jointly-controlled entity	(vii)	**–**	3,432

NOTES TO FINANCIAL STATEMENTS

31 December 2012

42. RELATED PARTY TRANSACTIONS (Continued)

(a) (Continued)

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 rates ranging from 3.50% to 3.65% per annum.

(v) The interest expenses paid to a related company, which is a fellow subsidiary of a major shareholder, were charged at a rate of 5% per annum.

(vi) The underwriting commission expenses paid to a shareholder were charged at a rate of 1.7% of the aggregate subscription price of the total underwritten shares.

(vii) The sales of gas station equipment to a jointly-controlled entity were made at prices mutually agreed between the parties, which approximated market rates.

(b) Other transactions and outstanding balances with related parties

(i) The balances with non-controlling shareholders are unsecured, non-interest-bearing and have no fixed terms of repayment.

(ii) Details of the balances with jointly-controlled entities and associates as at the end of the reporting period are disclosed in notes 20 and 21 to the financial statements, respectively.

(iii) During the year ended 31 December 2011, the loans from a shareholder were unsecured, bear interest at rates ranging from 3.50% to 3.65% per annum and were repayable in year 2012.

(iv) The loans from a related company, which is a fellow subsidiary of a major shareholder, are unsecured, bear interest at rates at 5% per annum and are repayable in year 2015 (2011: Nil).

42. RELATED PARTY TRANSACTIONS (Continued)

(c) Compensation of key management personnel of the Group

	2012 HK$'000	2011 HK$'000
Short term employee benefits	**4,384**	2,832
Post-employment benefits	**34**	12
Equity-settled share option expense	**1,352**	–
Total compensation paid to key management personnel	**5,770**	2,844

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(vi) above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

43. FINANCIAL INSTRUMENTS BY CATEGORY

2012 **Group**

Financial assets

	Held for trading HK$'000	Loans and receivables HK$'000	Total HK$'000
Trade and bills receivables	–	70,927	70,927
Investment at fair value through profit or loss	3,317	–	3,317
Financial assets included in prepayments, deposits and other receivables	–	159,315	159,315
Finance lease receivables	–	27,764	27,764
Concession finance receivables	–	47,231	47,231
Due from non-controlling shareholders	–	27,784	27,784
Due from jointly-controlled entities	–	7,024	7,024
Cash and bank balances	–	353,838	353,838
	3,317	693,883	697,200

NOTES TO FINANCIAL STATEMENTS

31 December 2012

43. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

2012 — **Group**

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Trade and bills payables	44,945
Financial liabilities included in other payables and accruals	47,106
Due to non-controlling shareholders	4,745
Due to associates and a jointly-controlled entity	556
Loans from a related company	150,937
Interest-bearing bank and other borrowings	168,568
Convertible bond	44,182
	461,039

2011 — **Group**

Financial assets

	Loans and receivables HK$'000
Trade and bills receivables	53,009
Financial assets included in prepayments, deposits and other receivables	33,670
Due from non-controlling shareholders	62,440
Due from jointly-controlled entities	12,582
Pledged deposit	3,360
Cash and bank balances	183,388
	348,449

43. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

2011 — **Group**

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Trade and bills payables	37,036
Financial liabilities included in other payables and accruals	38,228
Due to non-controlling shareholders	3,032
Due to associates and a jointly-controlled entity	2,527
Loans from a shareholder	40,974
Interest-bearing bank and other borrowings	95,493
	217,290

Company

Financial assets

	2012	2011
	Loans and receivables HK$'000	Loans and receivables HK$'000
Financial assets included in prepayments, deposits and other receivables	**566**	756
Due from subsidiaries	**78,619**	267
Cash and bank balances	**7,835**	5,978
	87,020	7,001

NOTES TO FINANCIAL STATEMENTS

31 December 2012

43. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Financial liabilities

	Company	
	2012	2011
	Financial liabilities at amortised cost HK$'000	Financial liabilities at amortised cost HK$'000
Financial liabilities included in other payables and accruals	**2,200**	7,656
Due to a subsidiary	**54,574**	–
Loans from a shareholder	**–**	40,974
Loans from a related company	**150,937**	–
Interest-bearing bank and other borrowings	**2,150**	2,150
Convertible bond	**44,182**	–
	254,043	50,780

44. FAIR VALUE AND FAIR VALUE HIERARCHY

The carrying amounts and fair values of the Group's and the Company's financial instruments are as follows:

Group

	Carrying amounts		Fair values	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets				
Trade and bills receivables	**70,927**	53,009	**70,927**	53,009
Investment at fair value through profit or loss	**3,317**	–	**3,317**	–
Financial assets included in prepayments, deposits and other receivables	**159,315**	33,670	**159,315**	33,670
Finance lease receivables	**27,764**	–	**27,764**	–
Concession finance receivables	**47,231**	–	**47,231**	–
Due from non-controlling shareholders	**27,784**	62,440	**27,784**	62,440
Due from jointly-controlled entities	**7,024**	12,582	**7,024**	12,582
Pledged deposit	**–**	3,360	**–**	3,360
Cash and bank balances	**353,838**	183,388	**353,838**	183,388
	697,200	348,449	**697,200**	348,449

NOTES TO FINANCIAL STATEMENTS

31 December 2012

44. FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

Group

	Carrying amounts		Fair values	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial liabilities				
Trade and bills payables	**44,945**	37,036	**44,945**	37,036
Financial liabilities included in other payables and accruals	**47,106**	38,228	**47,106**	38,228
Due to non-controlling shareholders	**4,745**	3,032	**4,745**	3,032
Due to associates and a jointly-controlled entity	**556**	2,527	**556**	2,527
Loans from a shareholder	**–**	40,974	**–**	40,974
Loans from a related company	**150,937**	–	**169,765**	–
Interest-bearing bank and other borrowings	**168,568**	95,493	**174,591**	95,493
Convertible bond	**44,182**	–	**54,365**	–
	461,039	217,290	**496,073**	217,290

44. FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

Company

	Carrying amounts		Fair values	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets				
Financial assets included in prepayments, deposits and other receivables	**566**	756	**566**	756
Due from subsidiaries	**78,619**	267	**78,619**	267
Cash and bank balances	**7,835**	5,978	**7,835**	5,978
	87,020	7,001	**87,020**	7,001

	Carrying amounts		Fair values	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial liabilities				
Financial liabilities included in other payables and accruals	**2,200**	7,656	**2,200**	7,656
Due to a subsidiary	**54,574**	–	**54,574**	–
Loans from a shareholder	**–**	40,974	**–**	40,974
Loans from a related company	**150,937**	–	**169,765**	–
Interest-bearing bank borrowings and other borrowings	**2,150**	2,150	**2,150**	2,150
Convertible bond	**44,182**	–	**54,365**	–
	254,043	50,780	**283,054**	50,780

The fair values of the financial assets and liabilities are included at the amounts at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

NOTES TO FINANCIAL STATEMENTS

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44. FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

The following methods and assumptions were used to estimate the fair values:

The fair values of cash and bank balances, a pledged deposit, trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, finance lease receivables, concession finance receivables, financial liabilities included in other payables and accruals, amounts with associates, jointly-controlled entities and non-controlling shareholders approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the interest-bearing bank and other borrowings and convertible bond have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The fair value of the liability portion of the convertible bond is estimated using an equivalent market interest rate for a similar convertible bond.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

44. FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

Fair value hierarchy (Continued)

Asset measured at fair value:

Group

As at 31 December 2012

	Level 1 HK$'000	**Level 2** HK$'000	**Level 3** HK$'000	**Total** HK$'000
Investment at fair value through profit or loss	3,317	–	–	3,317

The Group and the Company did not have any financial liabilities measured at fair value as at 31 December 2012 and 2011.

45. 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 and bills receivables, and trade and bills 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.

NOTES TO FINANCIAL STATEMENTS

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45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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 Group had no debt obligations with floating interest rates for the years ended 31 December 2012 and 2011.

Foreign currency risk

The Group's transactions were mainly conducted in RMB and its major trade and bills receivables, and borrowings were denominated in RMB and 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.

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, other receivables, concession finance receivables, finance lease receivables and an amount due from a non-controlling shareholder, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

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 and bills 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 bills receivables, and other receivables are disclosed in notes 24 and 25 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 and bills 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 fund 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 2012

45. 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

	2012				
	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
Trade and bills payables	–	41,549	3,396	–	44,945
Accruals and other payables	–	–	42,278	4,828	47,106
Due to non-controlling shareholders	4,745	–	–	–	4,745
Due to associates and a jointly-controlled entity	556	–	–	–	556
Loans from a related company	–	–	–	169,772	169,772
Interest-bearing bank and other borrowings	2,150	–	140,813	30,463	173,426
Convertible bond	–	–	–	46,771	46,771
	7,451	41,549	186,487	251,834	487,321

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

Group

	2011				
	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
Trade and bills payables	–	35,383	1,653	–	37,036
Accruals and other payables	–	7,836	30,392	–	38,228
Due to non-controlling shareholders	3,032	–	–	–	3,032
Due to associates and a jointly-controlled entity	2,527	–	–	–	2,527
Loans from a shareholder	40,974	–	–	–	40,974
Interest-bearing bank and other borrowings	2,150	–	93,343	–	95,493
	48,683	43,219	125,388	–	217,290

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

	2012				
	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
Due to a subsidiary	–	–	–	54,574	54,574
Other payables	–	2,200	–	–	2,200
Loans from a related company	–	–	–	169,772	169,772
Interest-bearing bank and other borrowings	2,150	–	–	–	2,150
Convertible bond	–	–	–	46,771	46,771
	2,150	2,200	–	271,117	275,467

NOTES TO FINANCIAL STATEMENTS

31 December 2012

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

Company

	2011				
	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
Other payables	–	–	7,656	–	7,656
Loans from a shareholder	–	–	40,974	–	40,974
Interest-bearing bank and other borrowings	2,150	–	–	–	2,150
	2,150	–	48,630	–	50,780

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 2012 and 2011.

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 below 20%. Net debt includes interest-bearing bank and other borrowings, amounts due to related parties, trade, bills and other payables, accruals, less cash and bank balances and a pledged deposit. Capital includes convertible bond and equity attributable to owners of the parent. The gearing ratios as at the end of the reporting periods were as follows:

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

Group

	2012	2011
	HK$'000	HK$'000
Trade and bills payables	**44,945**	37,036
Other payables and accruals (note 30)	**52,180**	38,228
Due to non-controlling shareholders	**4,745**	3,032
Due to associates and a jointly-controlled entity	**556**	2,527
Loans from a shareholder	**–**	40,974
Loans from a related company	**150,937**	–
Interest-bearing bank and other borrowings	**168,568**	95,493
Convertible bond – the liability component	**44,182**	–
Less: Cash and bank balances	**(353,838)**	(183,388)
Less: Pledged deposit	**–**	(3,360)
Net debt	**112,275**	30,542
Equity attributable to owners of the parent	**947,474**	679,097
Adjusted capital and net debt	**1,059,749**	709,639
Gearing ratio	**10.6%**	4.3%

NOTES TO FINANCIAL STATEMENTS
31 December 2012

46. EVENTS AFTER THE REPORTING PERIOD

(a) On 26 November 2012, Tianxu Hengyuan, an indirect wholly-owned subsidiary of the Company, entered into an acquisition agreement with the shareholders of Shanghai Shangju Enterprise Company Limited ("Shanghai Shangju") (the "Vendors") pursuant to which Tianxu Hengyuan agreed to purchase and the Vendors agreed to sell the entire issued share capital of Shanghai Shangju for a cash consideration of RMB63 million based on the net asset value of Shanghai Shangju after revaluation on the properties of Shanghai Shangju by an independent valuer. Shanghai Shangju has not conducted any business operation but own six adjacent investment properties in Shanghai. The consideration had been settled before the balance sheet date. Upon completion of the acquisition on 5 January 2013, Shanghai Shangju has become an indirect wholly-owned subsidiary of the Company.

(b) On 17 January 2013, the Company entered into a placing and subscription agreement with Billirich, a wholly-owned subsidiary of AVIC Int'l, and a placing agent pursuant to which Billirich has agreed to sell, and the placing agent has agreed to procure purchasers for up to 730,000,000 shares of the Company owned by Billirich at the placing price of HK$0.2 per share. Billirich also conditionally agreed to subscribe for up to 730,000,000 shares of the Company at the subscription price of HK$0.2 per share. The placing and subscription was completed on 28 January 2013 such that the number of issued shares of the Company has increased to 4,383,782,539 shares and the issued share capital has increased to HK$876,757,000.

(c) On 4 February 2013, the Group entered into a conditional agreement with Peace Town International Holdings Limited ("PTI"), an independent third party, and two individual guarantors, who are the beneficial owners of PTI. Pursuant to the agreement, the Group and PTI agreed to form a joint venture, in which the Group and PTI agreed to invest HK$79.2 million and HK$10.8 million in cash for an 88% interest and 12% interest, respectively. The joint venture then formed will acquire the entire equity interests of three wholly-owned subsidiaries of PTI, which are mainly engaged in the financial services business, at an aggregate consideration of HK$54.6 million, subject to adjustment. Such transaction was publicly announced on 4 February 2013. The joint venture was formed on 20 February 2013 and the acquisition of the respective interests by the joint venture is not yet completed up to the date of approval of these financial statements.

47. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on 18 March 2013.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling 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.

RESULTS

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**1,177,611**	1,024,588	808,709	614,325	331,856
PROFIT/(LOSS) BEFORE TAX	**4,036**	36,317	(25,121)	31,034	(19,284)
Income tax expense	**(25,609)**	(17,615)	(10,631)	(13,945)	(3,344)
Profit/(loss) for the year	**(21,573)**	18,702	(35,752)	17,089	(22,628)
Attributable to:					
Owners of the parent	**(25,966)**	8,482	(27,937)	(5,023)	(10,536)
Non-controlling interests	**4,393**	10,220	(7,815)	22,112	(12,092)
	(21,573)	18,702	(35,752)	17,089	(22,628)

FIVE YEAR FINANCIAL SUMMARY

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December 2012	As at 31 December 2011	As at 31 December 2010	As at 31 December 2009	As at 31 December 2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**1,513,406**	1,017,854	925,744	858,566	734,308
Total liabilities	**(488,155)**	(245,655)	(266,120)	(320,632)	(242,308)
Non-controlling interests	**(77,777)**	(93,102)	(56,867)	(71,627)	(36,802)
	947,474	679,097	602,757	466,307	455,198