NOTES TO FINANCIAL STATEMENTS

31 December 2006

1. CORPORATE INFORMATION

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

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

(i) operation of petroleum, CNG and liquefied petroleum gas ("LPG") refueling stations;

(ii) trading of gas related products; and

(iii) securities trading and investment holding.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

Basis of presentation

The comparative consolidated financial statements covered a financial period of eighteen months from 1 July 2004 to 31 December 2005. Accordingly, the comparative amounts for the consolidated income statement, consolidated statement of changes in equity, consolidated cash flow statement and the related notes are not comparable with those of the current year.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2006. Adjustments are made to bring into line any dissimilar accounting policies that exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 27 Amendment	Consolidated and Separate Financial Statements: Amendments as a consequence of the Companies (Amendment) Ordinance 2005
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The principal changes in accounting policies are as follows:

(a) HKAS 21 *The Effects of Changes in Foreign Exchange Rates*

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

(b) HKAS 27 *Consolidated and Separate Financial Statements*

The adoption of the revised HKAS 27 has resulted in a change in accounting policy relating to the definition of a subsidiary for the purpose of the consolidated financial statements. This change has had no material impact on these financial statements.

(c) HKAS 39 *Financial Instruments: Recognition and Measurement*

Amendment for financial guarantee contracts

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*. The adoption of this amendment has had no material impact on these financial statements.

(d) HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a lease*

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2006

2.3 IMPACT OF 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.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 *Financial Reporting in Hyperinflationary Economies*
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard specifies how an entity should report information about its operating segments in annual financial statements and, as a consequential amendment to HKAS 34 *Interim Financial Reporting*, requires an entity to report selected information about its operating segments in interim financial reports. It also sets out requirements for related disclosures about the products and services provided by the segments, geographical areas in which the Group operates and revenues from the Group's major customers. This standard will supersede HKAS 14 *Segment Reporting*.

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10, HK(IFRIC)-Int 11 and HK(IFRIC)-Int 12 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007 and 1 January 2008, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment, HKFRS 7 and HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Joint ventures

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

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

A joint venture is treated as:

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

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

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

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

Jointly-controlled entities

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

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

NOTES TO FINANCIAL STATEMENTS

31 December 2006

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 share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill arising from the acquisition of associates, which was not previously eliminated or recognised in the consolidated reserves, is included as part of the Group's interests in associates.

Goodwill

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

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005

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

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

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. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 *Segment Reporting*.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

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

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as 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 each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such 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, however 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 impairment loss is credited to the income statement in the period in which it arises.

NOTES TO FINANCIAL STATEMENTS

31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

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

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

(b) the party is an associate;

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

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

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

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

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 each balance sheet date.

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

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

Leases

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

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.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

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

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using 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 and option pricing models.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost 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 been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed 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, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured 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 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 assets

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 transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

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 where:

- the rights to receive cash flows from the asset have expired;

- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. 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.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables, an amount due to an associate, amounts due to jointly-controlled entities, amounts due to minority shareholders and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest 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 amortisation process.

NOTES TO FINANCIAL STATEMENTS

31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

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.

Inventories

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

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which 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.

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 balance sheet date 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period 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.

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

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

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

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

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

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

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date 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. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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 at the balance sheet date.

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, natural gas and gas related products, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of services, when the services are rendered;

(c) securities transactions are accounted for on the trade date and gains and losses on investments are calculated on the average cost basis;

(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 through the expected life of the financial instrument to the net carrying amount of the financial assets.

Employee benefits

Share-based payment transactions

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

The cost of equity-settled transactions with employees 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 the Black-Scholes-Merton model, further details of which are given in note 29 to the financial statements. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits (Continued)

Share-based payment transactions (Continued)

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, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date 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 awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance 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. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. 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.

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

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested by 1 January 2005 and to those granted on or after 1 January 2005.

Pension schemes and other retirement benefits

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits (Continued)

Pension schemes and other retirement benefits (Continued)

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

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

Borrowing costs

Borrowing costs are recognised as expenses in the income statement in the period which they are incurred.

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 are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transaction. Non-monetary items at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

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

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequent 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2006

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

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

Impairment of assets

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

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of goodwill on the acquisition of subsidiaries and associates at 31 December 2006 were HK$199,372,000 (2005: HK$100,158,000) and nil (2005: HK$30,784,000). More details are given in notes 16 and 19 to the financial statements on the impairment testing of goodwill on acquisition of subsidiaries and associates.

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 amount of unrecognised tax losses at 31 December 2006 in Hong Kong was HK$142,831,000 (2005: HK$125,627,000) and in Mainland China was HK$6,905,000 (2005: HK$7,038,000). Further details are contained in note 11 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Impairment of assets

(a) Impairment of property, plant and equipment
Items of property, plant and equipment are tested for impairment if there is any indication that the carrying value of these assets may not be recoverable and the assets are subject to an impairment loss. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the relevant cash-generating unit and a suitable discount rate is used in order to calculate the present value. The carrying amount of property, plant and equipment at 31 December 2006 was HK$175,378,000 (2005: HK$143,142,000).

(b) Impairment of available-for-sale financial assets
For available-for-sale financial assets are tested for impairment if there is any objective evidence of impairment. Judgement is required when determining whether there is any objective evidence of impairment. In making this judgement, the historical data on market volatility as well as the price of the specific investment are taken into account. The Group also considers other factors, such as industry and sector performance and financial information regarding the issuer. The carrying amount of available-for-sale investments at 31 December 2006 was HK$1,800,000 (2005: HK$3,319,000).

(c) Impairment of trade receivables and prepayments, deposits and other receivables
The Group maintains an allowance for estimated loss arising from the inability of its customers to make the required payments. The Group makes its estimates based on the ageing of its trade receivable balances, customers' creditworthiness, and historical write-off experience. If the financial condition of its customers was to deteriorate so that the actual impairment loss might be higher than expected, the Group would be required to revise the basis of making the allowance and its future results would be affected. The carrying amounts of trade receivables and prepayments, deposits and other receivables at 31 December 2006 were HK$37,471,000 (2005: HK$16,202,000) and HK$46,240,000 (2005: HK$85,083,000).

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

5. SEGMENT INFORMATION

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

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(i) operation of gas stations segment engages in the operation of petroleum, CNG and LPG refueling stations;

(ii) trading of gas related products segment engages in the trading of motor vehicles conversion parts and gas station equipment; and

(iii) trading of securities and investment holding segment engages in the trading of and investment in equity investments.

In determining the Group's geographical segments, revenues 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.

5. SEGMENT INFORMATION (Continued)

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the year ended 31 December 2006 and the period from 1 July 2004 to 31 December 2005.

	Operation of gas stations		Trading of gas related products		Securities trading and investment holding		Consolidated	
	Year ended 31 December 2006 HK$'000	Period ended 31 December 2005 HK$'000	**Year ended 31 December 2006 HK$'000**	Period ended 31 December 2005 HK$'000	**Year ended 31 December 2006 HK$'000**	Period ended 31 December 2005 HK$'000	**Year ended 31 December 2006 HK$'000**	Period ended 31 December 2005 HK$'000
Segment revenue:								
Sales to external customers	**135,808**	136,001	**25,030**	20,728	**–**	14,007	**160,838**	170,736
Other revenue	**–**	–	**2,542**	–	**–**	–	**2,542**	–
Total	**135,808**	136,001	**27,572**	20,728	**–**	14,007	**163,380**	170,736
Segment results	**19,929**	44,397	**(147,054)**	2,676	**(2,238)**	(139,149)	**(129,363)**	(92,076)
Interest and rental income and unallocated gains							**2,544**	4,143
Unallocated expenses							**(32,053)**	(26,749)
Finance costs							**(3,436)**	(10,545)
Gain on disposal of subsidiaries	**–**	–	**–**	–	**39,638**	2,917	**39,638**	2,917
Gain on disposal of an associate						1,446	**–**	1,446
Gain on disposal of an available-for-sale investment						6,123	**–**	6,123
Impairment of interests in associates	**(30,784)**	–	**–**	–	**(8,307)**	(27,980)	**(39,091)**	(27,980)
Impairment of loans to shareholders of an associate							**(14,300)**	–
Share of profits and losses of:								
Jointly-controlled entities	**(11)**	(51)	**–**	–	**(240)**	(184)	**(251)**	(235)
Associates	**1,016**	671	**–**	–	**(1,153)**	(1,497)	**(137)**	(826)
Loss before tax							**(176,449)**	(143,782)
Tax							**(7,909)**	(3,802)
Loss for the year/period							**(184,358)**	(147,584)

NOTES TO FINANCIAL STATEMENTS

31 December 2006

5. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

	Operation of gas stations		Trading of gas related products		Securities trading and investment holding		Consolidated	
	Year ended 31 December 2006 HK$'000	Period ended 31 December 2005 HK$'000	Year ended 31 December 2006 HK$'000	Period ended 31 December 2005 HK$'000	Year ended 31 December 2006 HK$'000	Period ended 31 December 2005 HK$'000	Year ended 31 December 2006 HK$'000	Period ended 31 December 2005 HK$'000
Assets and liabilities								
Segment assets	416,011	229,078	67,718	131,993	1,800	21,448	485,529	382,519
Interests in associates	8,365	37,683	–	–	–	9,176	8,365	46,859
Interests in jointly-controlled entities	–	9,369	–	–	9,043	8,851	9,043	18,220
Unallocated assets							77,056	32,358
Total assets							579,993	479,956
Segment liabilities	9,541	19,993	26,176	35,481	–	–	35,717	55,474
Interest-bearing bank and other borrowings							83,992	77,612
Unallocated liabilities							16,764	14,549
Total liabilities							136,473	147,635
Other segment information:								
Depreciation	2,465	1,932	955	1,122	324	947	3,744	4,001
Corporate and other unallocated amounts							83	–
							3,827	4,001
Capital expenditure	151,936	94,543	4,520	36,347	728	18	157,184	130,908
Corporate and other unallocated amounts							23,300	–
							180,484	130,908
Impairment losses recognised in the income statement in respect of:								
Available-for-sale investments	–	–	1,462	–	776	139,027	2,238	139,027
Trade receivables	255	–	1,573	–	–	–	1,828	–
Deposits and other receivables	17,415	–	97,955	–	777	–	116,147	–
Property, plant and equipment	–	–	36,706	–	–	–	36,706	–

NOTES TO FINANCIAL STATEMENTS

31 December 2006

5. SEGMENT INFORMATION (Continued)

(b) Geographical segments

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments for the year ended 31 December 2006 and the period from 1 July 2004 to 31 December 2005.

	Hong Kong		Mainland China		Consolidated	
	Year ended 31 December 2006 HK$'000	Period ended 31 December 2005 HK$'000	**Year ended 31 December 2006 HK$'000**	Period ended 31 December 2005 HK$'000	**Year ended 31 December 2006 HK$'000**	Period ended 31 December 2005 HK$'000
Segment revenue:						
Sales to external customers	**–**	14,007	**160,838**	156,729	**160,838**	170,736
Other segment information:						
Segment assets	**77,056**	32,650	**502,937**	447,306	**579,993**	479,956
Capital expenditure	**24,028**	18	**156,456**	130,890	**180,484**	130,908

6. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents gas related sales and the trading of gas related products during the year.

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

	Note	Year ended 31 December 2006 HK$'000	Period from 1 July 2004 to 31 December 2005 HK$'000
Revenue			
Operation of gas stations		**135,808**	136,001
Trading of gas related products		**25,030**	20,728
Gain on disposal of equity investments		**–**	14,007
		160,838	170,736
Other income			
Interest income		**1,602**	1,288
Income from installation of infrastructure for CNG supply		**2,542**	–
Rental income		**259**	478
Commission income		**–**	2,312
Others		**683**	1,523
		5,086	5,601
Gains			
Gain on disposal of subsidiaries	32	**39,638**	2,917
Gain on disposal of an associate		**–**	1,446
Gain on disposal of an available-for-sale investment		**–**	6,123
		39,638	10,486
		44,724	16,087

NOTES TO FINANCIAL STATEMENTS

31 December 2006

7. LOSS BEFORE TAX

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

	Notes	Year ended 31 December 2006 HK$'000	Period from 1 July 2004 to 31 December 2005 HK$'000
Cost of inventories sold*		**114,715**	99,245
Cost of services provided		**3,633**	–
Cost of equity investments held for trading sold		**–**	14,122
Auditors' remuneration		**1,450**	1,563
Depreciation	14	**3,827**	4,001
Recognition of prepaid land lease payments	15	**558**	10
Minimum lease payments under operating leases in respect of land and buildings		**4,396**	3,363
Loss on disposal of items of property, plant and equipment***		**2,615**	3,038
Employee benefits expense (excluding directors' remuneration *(note 9)*):			
Wages and salaries and allowances		**12,177**	10,656
Equity-settled employee share option expense		**6,591**	–
Pension scheme contributions		**200**	618
Less: Forfeited contributions		**(140)**	(316)
Net pension scheme contributions**		**60**	302
		18,828	10,958
Impairment of deposits and other receivables#		**116,147**	–
Impairment/(reversal of impairment) of trade receivables***		**1,828**	(10,809)
Foreign exchange differences, net		**(1,877)**	1,214

* Included wages and salaries of HK$167,000 (period ended 31 December 2005: Nil) disclosed under employee benefits expense and depreciation charges of HK$1,023,000 (period ended 31 December 2005: Nil) disclosed under depreciation.

** At 31 December 2006, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (period ended 31 December 2005: Nil).

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

As at 31 December 2006, the directors had performed an impairment testing on the Group's deposits and other receivables and considered that certain deposits cannot be recovered as a result of the deterioration of the financial positions of relevant debtors and/or the termination of certain contracts for acquisition of plant and machinery as a result of the change of the principal activities of certain subsidiaries and accordingly, provision for impairment of HK$116,147,000 was charged to the consolidated income statement during the year (period ended 31 December 2005: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2006

8. FINANCE COSTS

	Group	
	Year ended 31 December 2006 HK$'000	Period from 1 July 2004 to 31 December 2005 HK$'000
Interest on bank loans wholly repayable within five years	**2,728**	6,055
Interest on bank loans wholly repayable after five years	**131**	–
Interest on other loans wholly repayable within five years	**–**	63
Interest on finance leases	**31**	126
Total interest	**2,890**	6,244
Other finance costs:		
Increase in discounted amount of a loan from an associate and other loans arising from the passage of time	**546**	4,301
	3,436	10,545

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:

	Group	
	Year ended 31 December 2006 HK$'000	Period from 1 July 2004 to 31 December 2005 HK$'000
Fees:		
Executive directors	**211**	–
Independent non-executive directors	**330**	142
	541	142
Other emoluments (executive directors):		
Salaries, allowances and benefits in kind	**1,920**	1,735
Performance related bonuses	**530**	4,020
Equity-settled employee share option expense	**880**	–
Pension scheme contributions	**24**	59
	3,354	5,814
	3,895	5,956

NOTES TO FINANCIAL STATEMENTS

31 December 2006

9. DIRECTORS' REMUNERATION (Continued)

During the year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 29 to the financial statements. The fair value of such options which has been recognised to the income statement over the vesting period, was determined as at the date of grant and the amount included in the above directors' remuneration disclosures.

(a) Independent non-executive directors

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

	Year ended 31 December 2006 HK$'000	Period from 1 July 2004 to 31 December 2005 HK$'000
Wang Zhonghua	**118**	–
Zhong Qiang	**115**	–
Xiao Wei	**97**	–
Li Xingzhong	**–**	105
Gerald Godfrey	**–**	37
	330	142

There were no other emoluments payable to the independent non-executive directors during the year (period ended 31 December 2005: Nil).

(b) Executive directors

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Performance related bonuses HK$'000	Equity-settled employee share option expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Year ended 31 December 2006						
Ji Guirong	71	–	–	–	–	71
Lo Chi Ho, William	–	1,200	500	733	12	2,445
Sun Wenhao	71	–	–	–	–	71
Wu Ding	69	–	–	–	–	69
Ji Hui	–	720	30	147	12	909
	211	1,920	530	880	24	3,565

9. DIRECTORS' REMUNERATION (Continued)

(b) Executive directors (Continued)

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Performance related bonuses HK$'000	Equity-settled employee share option expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Period ended 31 December 2005						
Lo Chi Ho, William	–	600	4,020	–	6	4,626
Ji Hui	–	300	–	–	5	305
George Han Hsiao Yue	–	216	–	–	17	233
Bruce Cheung Kang Tong	–	619	–	–	31	650
	–	1,735	4,020	–	59	5,814

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 two (period ended 31 December 2005: two) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining three (period ended 31 December 2005: three) non-director, highest paid employees for the year are as follows:

	Group	
	Year ended 31 December 2006 HK$'000	Period from 1 July 2004 to 31 December 2005 HK$'000
Salaries, allowances and benefits in kind	**1,895**	2,463
Equity-settled employee share option expense	**1,032**	–
Pension scheme contributions	**127**	159
	3,054	2,622

NOTES TO FINANCIAL STATEMENTS

31 December 2006

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	
	Year ended 31 December 2006	Period from 1 July 2004 to 31 December 2005
Nil to HK$1,000,000	**2**	2
HK$1,000,001 to HK$1,500,000	**1**	1
	3	3

During the year, share options were granted to these three non-director, highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 29 to the financial statements. The fair value of such options, which has been recognised to the 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 non-director, highest paid employees' remuneration disclosures.

11. 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 (period ended 31 December 2005: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the country in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Year ended 31 December 2006 HK$'000	Period ended 1 July 2004 to 31 December 2005 HK$'000
Group:		
Current – Mainland China	**7,909**	3,802
Total tax charge for the year/period	**7,909**	3,802

11. TAX (Continued)

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

	Group	
	Year ended 31 December 2006 HK$'000	Period from 1 July 2004 to 31 December 2005 HK$'000
Loss before tax	**(176,449)**	(143,782)
Tax at the statutory tax rates	**(30,879)**	(25,162)
Lower tax rates for specific provinces	**1,961**	(3,269)
Profits and losses attributable to jointly-controlled entities and associates	**68**	186
Income not subject to tax	**(2,765)**	(3,349)
Expenses not deductible for tax	**36,345**	32,019
Tax losses not recognised	**3,542**	2,703
Others	**(363)**	674
Tax charge for the year/period	**7,909**	3,802

Certain subsidiaries of the Group in Mainland China were eligible for exemption from corporate income tax ("CIT") for the two or three 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 associates and jointly-controlled entities amounting to nil (period ended 31 December 2005: HK$195,000) and nil (period ended 31 December 2005: Nil), respectively, is included in "Share of profits and losses of jointly-controlled entities and associates" on the face of the consolidated income statement.

The Group has tax losses arising in Hong Kong of HK$142,831,000 (2005: HK$125,627,000) and in Mainland China of HK$6,905,000 (2005: HK$7,038,000) that are available indefinitely 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. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated loss attributable to equity holders of the parent for the year ended 31 December 2006 includes a loss of HK$132,226,000 (period ended 31 December 2005: HK$191,699,000) which has been dealt with in the financial statements of the Company (note 30(b)).

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

The calculation of basic loss per share amounts is based on the loss for the year/period attributable to ordinary equity holders of the parent of HK$132,748,000 (period ended 31 December 2005: HK$159,767,000), and the weighted average number of 1,263,228,999 (2005: 500,391,862) ordinary shares in issue during the year/period, as adjusted to reflect the rights issue during the year/period.

Diluted loss per share amounts for the year ended 31 December 2006 and period ended 31 December 2005 have not been disclosed, as the share options and warrants outstanding during the year/period had anti-dilutive effects on the basic loss per share for the year/period.

NOTES TO FINANCIAL STATEMENTS

31 December 2006

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2006							
At 31 December 2005 and at 1 January 2006:							
Cost	23,588	826	4,482	4,000	5,252	111,392	149,540
Accumulated depreciation	(699)	(825)	(910)	(2,961)	(1,003)	–	(6,398)
Net carrying amount	22,889	1	3,572	1,039	4,249	111,392	143,142
At 1 January 2006, net of accumulated depreciation	22,889	1	3,572	1,039	4,249	111,392	143,142
Additions	25,546	784	446	3,090	3,254	38,355	71,475
Disposals	–	(2)	–	(2)	(2,611)	–	(2,615)
Transfers	–	–	30,087	–	2,524	(32,611)	–
Acquisition of a subsidiary *(note 31)*	–	–	–	15	127	9,540	9,682
Disposal of subsidiaries *(note 32)*	(12,708)	–	(70)	(60)	(243)	(387)	(13,468)
Impairment	–	–	–	–	–	(36,706)	(36,706)
Depreciation provided during the year	(915)	(10)	(1,504)	(576)	(822)	–	(3,827)
Exchange realignment	1,056	–	178	45	193	6,223	7,695
At 31 December 2006, net of accumulated depreciation and impairment	35,868	773	32,709	3,551	6,671	95,806	175,378
At 31 December 2006:							
Cost	37,389	783	35,154	5,087	8,405	133,472	220,290
Accumulated depreciation and impairment	(1,521)	(10)	(2,445)	(1,536)	(1,734)	(37,666)	(44,912)
Net carrying amount	35,868	773	32,709	3,551	6,671	95,806	175,378

NOTES TO FINANCIAL STATEMENTS

31 December 2006

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group

	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2005							
At 1 July 2004:							
Cost	12,300	826	3,847	3,640	5,361	3,861	29,835
Accumulated depreciation	(158)	(710)	(127)	(2,618)	(336)	–	(3,949)
Net carrying amount	12,142	116	3,720	1,022	5,025	3,861	25,886
At 1 July 2004, net of accumulated depreciation	12,142	116	3,720	1,022	5,025	3,861	25,886
Additions	11,780	–	502	292	1,398	78,642	92,614
Disposals	(3,108)	–	–	(7)	(1,009)	(1,538)	(5,662)
Acquisition of subsidiaries *(note 31)*	3,514	–	133	109	411	32,376	36,543
Disposal of subsidiaries *(note 32)*	–	–	–	(4)	(285)	(1,949)	(2,238)
Depreciation provided during the period	(1,439)	(115)	(783)	(373)	(1,291)	–	(4,001)
At 31 December 2005, net of accumulated depreciation	22,889	1	3,572	1,039	4,249	111,392	143,142
At 31 December 2005:							
Cost	23,588	826	4,482	4,000	5,252	111,392	149,540
Accumulated depreciation	(699)	(825)	(910)	(2,961)	(1,003)	–	(6,398)
Net carrying amount	22,889	1	3,572	1,039	4,249	111,392	143,142

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 2006				
At 1 January 2006:				
Cost	826	2,689	1,350	4,865
Accumulated depreciation	(825)	(2,622)	(473)	(3,920)
Net carrying amount	1	67	877	945
At 1 January 2006, net of accumulated depreciation	1	67	877	945
Additions	630	98	–	728
Disposals	(1)	(1)	–	(2)
Depreciation provided during the year	(10)	(45)	(270)	(325)
At 31 December 2006, net of accumulated depreciation	620	119	607	1,346
At 31 December 2006:				
Cost	630	771	1,350	2,751
Accumulated depreciation	(10)	(652)	(743)	(1,405)
Net carrying amount	620	119	607	1,346

NOTES TO FINANCIAL STATEMENTS

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 2005				
At 1 July 2004:				
Cost	826	2,671	2,700	6,197
Accumulated depreciation	(710)	(2,561)	(135)	(3,406)
Net carrying amount	116	110	2,565	2,791
At 1 July 2004, net of accumulated depreciation	116	110	2,565	2,791
Additions	–	18	–	18
Disposals	–	–	(945)	(945)
Depreciation provided during the period	(115)	(61)	(743)	(919)
At 31 December 2005 and at 1 January 2006, net of accumulated depreciation	1	67	877	945
At 31 December 2005:				
Cost	826	2,689	1,350	4,865
Accumulated depreciation	(825)	(2,622)	(473)	(3,920)
Net carrying amount	1	67	877	945

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

	2006 HK$'000	2005 HK$'000
At cost, located in:		
Hong Kong	**23,300**	–
Mainland China	**14,089**	23,588
	37,389	23,588

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

The net book value of the Group's and the Company's items of property, plant and equipment held under a finance lease included in the total amount of motor vehicles as at 31 December 2006 amounted to HK$607,000 (2005: HK$877,000).

As at 31 December 2006, one of the Group's buildings with net book value of approximately HK$23,217,000 (2005: Nil) was pledged to secure a bank loan granted to the Group (note 26).

As at 31 December 2006, the directors had performed an impairment testing on the Group's property, plant and equipment and considered that the carrying amounts of certain property, plant and equipment are in excess of their recoverable amounts as a result of the continuing non-performance of the businesses of certain subsidiaries, and accordingly, provision for impairment of HK$36,706,000 was charged to the consolidated income statement during the year (period ended 31 December 2005: Nil).

15. PREPAID LAND LEASE PAYMENTS

		Group	
		2006	2005
	Notes	**HK$'000**	HK$'000
Carrying amount at 1 January 2006/1 July 2004		**3,497**	485
Recognised during the year/period	7	**(558)**	(10)
Disposal of a subsidiary	32	**(2,124)**	–
Addition for the year/period		**11,384**	3,022
Exchange realignment		**161**	–
Carrying amount at 31 December		**12,360**	3,497
Current portion included in prepayments, deposits and other receivables		**(668)**	(132)
Non-current portion		**11,692**	3,365

The leasehold land is held under a long term lease and is situated in Mainland China.

16. GOODWILL

Group

	HK$'000
At 1 July 2004:	
Cost	98,407
Accumulated impairment	–
Net carrying amount	98,407
Cost at 1 July 2004	98,407
Acquisition of subsidiaries *(note 31)*	285
Acquisition of an additional interest in a subsidiary	1,466
At 31 December 2005	100,158
Cost at 1 January 2006	100,158
Acquisition of a subsidiary *(note 31)*	99,030
Acquisition of an additional interest in a subsidiary *(note 17)*	297
Disposal of a subsidiary *(note 32)*	(117)
Exchange realignment	4
Carrying amount at 31 December 2006	199,372
At 31 December 2006:	
Cost	199,372
Accumulated impairment	–
Net carrying amount	199,372

Impairment testing of goodwill

Goodwill arising from the acquisition of Global King Investments Limited and its subsidiaries and Jetco Innovations Limited ("Jetco") and its subsidiary has been allocated to the operation of gas stations cash-generating unit, one of the reporting segments of the Group, for impairment testing.

The recoverable amount of the operation of gas stations 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 ten-year period. The discount rate applied to cash flow projections is 15.9% (2005: 15.9%).

Key assumptions used in its cash flow projections to undertake impairment testing of goodwill are as follows:

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

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.

NOTES TO FINANCIAL STATEMENTS

31 December 2006

17. INTERESTS IN SUBSIDIARIES

	Company	
	2006	2005
	HK$'000	HK$'000
Unlisted shares, at cost	**99,022**	12,405
Due from subsidiaries	**349,189**	218,572
Loans to a subsidiary	**38,102**	–
	486,313	230,977
Impairment	**(133,913)**	(45,829)
	352,400	185,148

The amounts due from subsidiaries of HK$349,189,000 (2005: HK$218,572,000) are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these amounts due from subsidiaries approximate to their fair values.

As at 31 December 2005, the loans advanced to a subsidiary were unsecured, bore interest at 3-month HIBOR plus 2.5% per annum and repayable in 2006. During the year, the repayment date of the said loans, together with the unpaid interest payable to the Company, was extended to 2008 and therefore the loans were classified as non-current assets and were included in the interests in subsidiaries above. The carrying amounts of the loans to a subsidiary approximate to their fair values.

Particulars of the principal subsidiaries at the balance sheet date 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		Principal activities
			Direct	Indirect	
			%	%	
Jetco Innovations Limited**	British Virgin Islands/ Hong Kong	US$1	100	–	Investment holding
Global King Investments Limited	British Virgin Islands/ Hong Kong	US$32,000	–	69.4	Investment holding
Beijing Sinogas Company Limited#	PRC/ Mainland China	RMB100,000,000	–	69.4	Trading of conversion parts and gas station equipment

17. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries at the balance sheet date are as follows: (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
Jilin Sinogas Company Limited*^	PRC/ Mainland China	RMB8,000,000	–	35.39	Trading of conversion parts and gas station equipment and operation of gas stations
Qingdao Sinogas Company Limited^	PRC/ Mainland China	RMB10,000,000	–	65.93	Trading of conversion parts and gas station equipment and operation of gas stations
Xinjiang Sinogas Company Limited*^	PRC/ Mainland China	RMB500,000	–	41.64	Trading of conversion parts and gas station equipment
Guangzhou Sinogas Company Limited^	PRC/ Mainland China	RMB10,000,000	–	62.46	Operation of gas stations
Zhengzhou Sinogas Company Limited*^	PRC/ Mainland China	RMB29,400,000	–	41.64	Operation of gas stations
Wuxi CNPC Limited^	PRC/ Mainland China	RMB12,900,000	–	69.4	Trading of conversion parts and gas station equipment and operation of gas stations
Anhui Sinogas Company Limited#	PRC/ Mainland China	HK$20,000,000	–	100	Operation of gas stations
Changchun Sinogas Company Limited^	PRC/ Mainland China	RMB20,000,000	–	93	Operation of gas stations
Maanshan Sinogas Company Limited#**	PRC/ Mainland China	HK$20,000,000	–	100	Operation of gas stations
Shandong Sinogas Company Limited^**	PRC/ Mainland China	RMB20,000,000	–	84.7	Operation of gas stations

NOTES TO FINANCIAL STATEMENTS

31 December 2006

17. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries at the balance sheet date are as follows: (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
Sinogas (Xuzhou) Cleanly Fuel Co., Limited#**	PRC/ Mainland China	HK$8,500,000	–	85	Operation of gas stations
Sino Cleanly (Pizhou) Environment Protect Energy Sources Co., Limited#**	PRC/ Mainland China	HK$8,500,000	–	85	Operation of gas stations
Xuzhou Sinogas Bus Fuel Company Limited^**	PRC/ Mainland China	US$600,000	–	70	Operation of gas stations
Henan Sinogas Nanhai Energy Sources Company, Limited^**	PRC/ Mainland China	RMB10,000,000	–	80	Operation of gas stations
Ningxia Jianrong New Energy Limited^**	PRC/ Mainland China	RMB11,557,000	–	85	Operation of gas stations
Sinogas Chengdu Company Limited^**	PRC/ Mainland China	RMB16,814,922	–	85	Operation of gas stations
Sino Gas Group Holdings Limited**	British Virgin Islands/ Hong Kong	US$1	100	–	Property holding

* These companies are subsidiaries of a non-wholly-owned subsidiary of the Company and accordingly, are accounted for as subsidiaries by virtue of the Company's control over them.

** These companies were newly formed/acquired during the year.

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

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

17. INTERESTS IN SUBSIDIARIES (Continued)

All the statutory financial statements of these subsidiaries were not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

During the year, the Group acquired Jetco from an independent third party. Further details of this acquisition are included in note 31 to the financial statements. In addition, the Group also acquired an additional equity interest in Changchun Sinogas Company Limited for a total consideration of HK$873,000, resulting in a goodwill on acquisition of HK$297,000 (note 16).

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.

18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2006	2005
	HK$'000	HK$'000
Share of net assets	**9,043**	18,220

The balances with jointly-controlled entities are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these balances approximate to their fair values.

Particulars of the principal jointly-controlled entity at the balance sheet date, which is held indirectly through a wholly-owned subsidiary of the Company, are as follows:

Name	Particulars of registered shares capital held	Place of incorporation/ registration	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activity
Sino Gas (Zhuhai) Limited*	HK$18,000,000	PRC	50	50	50	Investment holding

* The statutory financial statements of this jointly-controlled entity were not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

During the year, a former jointly-controlled entity, Shandong Sinogas Company Limited ("Shandong Sinogas"), became a subsidiary of the Company upon the acquisition of Jetco (note 17) by the Group which holds a 50% interest in Shandong Sinogas. Further details of this acquisition are included in note 31 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2006

18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

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

	2006 **HK$'000**	2005 HK$'000
Share of the jointly-controlled entities' assets and liabilities:		
Current assets	**8,737**	14,013
Non-current assets	**814**	4,674
Current liabilities	**(508)**	(467)
Net assets	**9,043**	18,220

	Year ended 31 December 2006 HK$'000	Period from 1 July 2004 to 31 December 2005 HK$'000
Share of the jointly-controlled entities' results:		
Turnover	**–**	–
Other revenue	**16**	3
Total revenue	**16**	3
Total expenses	**(267)**	(238)
Loss after tax	**(251)**	(235)

19. INTERESTS IN ASSOCIATES

	Group	
	2006 **HK$'000**	2005 HK$'000
Share of net assets	**16,672**	16,075
Provision for impairment	**(8,307)**	–
	8,365	16,075
Goodwill on acquisition	**58,764**	58,764
Provision for impairment	**(58,764)**	(27,980)
	–	30,784
	8,365	46,859

19. INTERESTS IN ASSOCIATES (Continued)

The balances with an associate are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these amounts approximate to their fair values.

The movement of goodwill on acquisition of the associates is set out below:

	HK$'000
At 1 July 2004:	
Cost	58,764
Accumulated impairment	–
Net carrying amount	58,764
Cost at 1 July 2004	58,764
Impairment during the period	(27,980)
At 31 December 2005	30,784
At 31 December 2005:	
Cost	58,764
Accumulated impairment	(27,980)
Net carrying amount	30,784
Cost at 1 January 2006, net of accumulated impairment	30,784
Impairment during the year	(30,784)
Carrying amount at 31 December 2006	–
At 31 December 2006:	
Cost	58,764
Accumulated impairment	(58,764)
Net carrying amount	–

Impairment testing of interests in associates and goodwill

For the purposes of impairment testing, the goodwill is mainly attributable to two cash generating units related to the development and manufacture of bio-agricultural pesticide products and the operation of gas stations of the Group's associates. During the period ended 31 December 2005, the goodwill arising from acquisition of the associate engaged in the development and manufacture of bio-agricultural pesticide products, amounted to HK$27,980,000 was determined impaired and had been fully provided during that period.

The recoverable amounts of the goodwill arising from acquisition of the associate engaged in the operation of gas stations has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a ten-year period. The discount rate applied to cash flow projections is 15.9% (2005: 15.9%).

NOTES TO FINANCIAL STATEMENTS

31 December 2006

19. INTERESTS IN ASSOCIATES (Continued)

Impairment testing of interests in associates and goodwill (Continued)

Key assumptions used in its cash flow projections to undertake impairment testing of goodwill are as follows:

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

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.

Due to the continuing non-performance of certain associates, the directors considered that the carrying amounts of the interests in certain associates exceeded their recoverable amounts, and provision for impairment of HK$67,071,000 (2005: HK$27,980,000) in aggregate, was made by the Group against its interests in these associates, including the related goodwill on acquisition, as at 31 December 2006. Accordingly, the provision for impairment charged to the consolidated income statement for the year amounted to HK$39,091,000 (period ended 31 December 2005: HK$27,980,000).

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
Tone Communication Limited*	Ordinary shares of US$1 each	British Virgin Islands	30	Investment holding
Trend Technology Limited*	Ordinary shares of US$1 each	British Virgin Islands	21.6	Investment holding
Trend (Ezhou) Technology Limited*	Registered capital of RMB23,721,276	PRC	21.6	Development and manufacture of bio-agricultural pesticide products
Solution Technology Limited*	Ordinary shares of US$1 each	British Virgin Islands	49	Investment holding
Yinchuan Sinogas Company Limited*	RMB20,476,817	PRC	34.3	Operation of gas stations

* All the statutory financial statements of these associates were not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms

NOTES TO FINANCIAL STATEMENTS

19. INTERESTS IN ASSOCIATES (Continued)

The above 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.

The financial statements of the above associates are coterminous with those of the Group. All the above 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 associates extracted from their management accounts:

	2006	2005
	HK$'000	HK$'000
Assets	**84,752**	91,581
Liabilities	**(21,726)**	(29,897)
Revenues	**37,294**	424,376
Loss	**(1,782)**	(1,467)

20. AVAILABLE-FOR-SALE INVESTMENTS

	Group		**Company**	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Overseas unlisted equity investments, at cost	**148,965**	148,208	**145,665**	145,665
Impairment	**(147,165)**	(144,889)	**(145,665)**	(144,889)
	1,800	3,319	**–**	776

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

At 31 December 2006, the Group's and the Company's unlisted equity investments with carrying amounts of HK$1,800,000 (2005: HK$3,319,000) and nil (2005: HK$776,000), respectively, were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

20. AVAILABLE-FOR-SALE INVESTMENTS (Continued)

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

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

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

The remaining impairment losses of HK$9,307,000 (2005: HK$7,031,000) as at 31 December 2006 represent impairment losses recognised in respect of the other available-for-sale investments determined by the directors with reference to the present value of the estimated cash flows of those investments.

21. INVENTORIES

	Group	
	2006	2005
	HK$'000	HK$'000
Conversion parts	**7,474**	3,306
Gas station equipment	**2,949**	6,293
Natural gas	**1,907**	1,034
	12,330	10,633

22. TRADE RECEIVABLES

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

22. TRADE RECEIVABLES (Continued)

An aged analysis of the trade receivables as at the balance sheet date, based on the invoice date and net of provisions, is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
0 – 90 days	**8,784**	14,019
91 – 120 days	**3,222**	286
Over 120 days	**25,465**	1,897
	37,471	16,202

The carrying amounts of the trade receivables approximate to their fair values.

23. CASH AND BANK BALANCES

At the balance sheet date, the cash and bank balances of the Group denominated in RMB amounted to HK$20,167,000 (2005: HK$21,142,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earn interest at floating rates based on daily bank deposit rates. The carrying amounts of the cash and bank balances approximate to their fair values.

24. TRADE PAYABLES

An aged analysis of the trade payables as at the balance sheet date, based on the invoice date, is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
0 – 90 days	**13,988**	3,315
91 – 120 days	**343**	–
Over 120 days	**851**	6,585
	15,182	9,900

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

25. OTHER PAYABLES AND ACCRUALS

Other payables are non-interest-bearing and have an average term of three months. The carrying amounts of the payables approximate to their fair values.

26. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	2006			2005		
	Effective interest rate (%)	Maturity	HK$'000	Effective interest rate (%)	Maturity	HK$'000
Current						
Other loans – unsecured	–	On demand	2,150	–	On demand	39,104
Bank loans – unsecured	5 – 6.7	Within 1 year	50,000	6.3-7.3	Within 1 year	37,680
Long term bank loans – secured	Prime-2.8	Within 1 year	755			–
			52,905			76,784
Non-current						
Bank loans – secured	Prime-2.8	2008 – 2021	15,495			–
Bank loans – secured	HIBOR+1.75	2008 – 2009	15,000			–
			30,495			–
			83,400			76,784

Company

	2006			2005		
	Effective interest rate (%)	Maturity	HK$'000	Effective interest rate (%)	Maturity	HK$'000
Current						
Other loans – unsecured	–	On demand	2,150	–	On demand	2,150
			2,150			2,150
Non-current						
Bank loans – secured	HIBOR+1.75	2008-2009	15,000			–
			15,000			–
			17,150			2,150

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

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Analysed into:				
Bank loans repayable:				
Within one year or on demand	**50,755**	37,680	**–**	–
In the second year	**8,294**	–	**7,500**	–
In the third to fifth years, inclusive	**10,130**	–	**7,500**	–
Over five years	**12,071**	–	**–**	–
	81,250	37,680	**15,000**	–
Other borrowings repayable:				
Within one year or on demand	**2,150**	39,104	**2,150**	2,150
	83,400	76,784	**17,150**	2,150

Notes:

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

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

(ii) pledges of the Group's office premises in Hong Kong with carrying value of HK$23,217,000 (2005: Nil) (note 14); and

(iii) corporate guarantees amounting to an aggregate of HK$26,310,000 (2005: HK$10,000,000) executed by the Company.

(b) Except for the unsecured bank loans of HK$50,000,000 which are denominated in RMB, all other bank borrowings are in Hong Kong dollars.

(c) The Group's and the Company's other loans are unsecured, interest-free and repayable on demand.

Other interest rate information of the bank loans:

	Group			
	2006		2005	
	Fixed rate	**Floating rate**	Fixed rate	Floating rate
	HK$'000	**HK$'000**	HK$'000	HK$'000
Bank loans – unsecured	**50,000**	**–**	37,680	–
Bank loans – secured	**–**	**31,250**	–	–

	Company			
	2006		2005	
	Fixed rate	**Floating rate**	Fixed rate	Floating rate
	HK$'000	**HK$'000**	HK$'000	HK$'000
Bank loans – secured	**–**	**15,000**	–	–

NOTES TO FINANCIAL STATEMENTS

31 December 2006

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

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 prevailing interest rates.

27. FINANCE LEASE PAYABLES

The Group and the Company leases one of its motor vehicles under a finance lease agreement. The finance lease is repayable by instalment of 60 months and has a remaining lease term of 28 months as at 31 December 2006.

At 31 December 2006, the total future minimum lease payments under the finance lease and their present values were as follows:

	Minimum lease payments		**Present value of minimum lease payments**	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Group and Company				
Amounts payable:				
Within one year	**267**	267	**247**	236
In the second year	**267**	267	**257**	247
In the third to fifth years, inclusive	**89**	356	**88**	345
Total minimum finance lease payments	**623**	890	**592**	828
Future finance charges	**(31)**	(62)	**–**	–
Total net finance lease payables	**592**	828	**592**	828
Portion classified as current liabilities	**(247)**	(236)		
Non-current portion	**345**	592		

The Group's and the Company's finance lease arrangement bears interest at fixed rates and its carrying amount approximates to its fair value.

28. SHARE CAPITAL

Shares

	2006	2005
	HK$'000	HK$'000
Authorised:		
10,000,000,000 (2005: 10,000,000,000) ordinary shares of HK$0.2 each	**2,000,000**	2,000,000
Issued and fully paid:		
1,453,355,000 (2005: 1,004,855,000) ordinary shares of HK$0.2 each	**290,671**	200,971

During the year, the movements in share capital were as follows:

(a) 124,500,000 ordinary shares of HK$0.20 each and 55,500,000 warrants of HK$0.02 each were issued as part of the consideration for acquisition of Jetco. Further details of the acquisition are included in note 31 to the financial statements.

(b) 265,000,000 ordinary shares of HK$0.20 each were issued at prices ranging from HK$0.52 to HK$0.53 per share to certain independent third parties and existing shareholders for a total cash consideration, before expenses, of HK$139,450,000.

(c) 59,000,000 shares of HK$0.20 each were issued for cash at a subscription price of HK$0.20 per share pursuant to the exercise of 59,000,000 share options (note 29) for a total cash consideration, before expenses, of HK$11,800,000. The related share option reserve of HK$4,463,000 was transferred to the share premium account accordingly.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

28. SHARE CAPITAL (Continued)

Shares (Continued)

A summary of the transactions during the year with reference to the above movements in the Company's issued ordinary share capital is as follows:

	Number of shares in issue	Issued share capital	Share premium account	Total
		HK$'000	HK$'000	HK$'000
At 1 July 2004	3,149,517,000	62,990	497,496	560,486
Issue of shares	200,000,000	4,000	15,000	19,000
Rights issue	6,699,033,000	133,981	–	133,981
Shares consolidation	(9,043,695,000)	–	–	–
	1,004,855,000	200,971	512,496	713,467
Share issue expenses	–	–	(6,315)	(6,315)
Issue of warrants	–	–	1,600	1,600
At 31 December 2005 and 1 January 2006	1,004,855,000	200,971	507,781	708,752
Issue of shares for acquisition of a subsidiary (a)	124,500,000	24,900	52,290	77,190
Issue of warrants for acquisition of a subsidiary (a)	–	–	26,408	26,408
Issue of shares (b)	265,000,000	53,000	86,450	139,450
Share options exercised (c)	59,000,000	11,800	4,463	16,263
	1,453,355,000	290,671	677,392	968,063
Share issue expenses	–	–	(2,448)	(2,448)
At 31 December 2006	1,453,355,000	290,671	674,944	965,615

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 29 to the financial statements.

Warrants

In connection with the acquisition of a subsidiary as disclosed in note 31 to the financial statements, the Company issued 55,500,000 warrants (the "2008 Warrants") as part of the purchase consideration. Each warrant entitles to the holder thereof to subscribe for one ordinary share at a subscription price of HK$0.20 per share for a period of 24 months commencing from the date of issue of 2008 Warrants. No 2008 Warrants were exercised during the year.

NOTES TO FINANCIAL STATEMENTS

31 December 2006

28. SHARE CAPITAL (Continued)

Warrants (Continued)

In connection with the placement of shares during the period ended 31 December 2005, the Company also placed 200,000,000 warrants (the "2005 Warrants") at an issue price of HK$0.003 per unit and 200,000,000 warrants (the "2006 Warrants") at an issue price of HK$0.005 per unit. The 2005 Warrants and the 2006 Warrants could be exercised for periods of 12 and 24 months, respectively, commencing from the date of allotment and issue of the warrants and lapsed on 20 September 2005 and 20 September 2006, respectively. Neither the 2005 Warrants nor the 2006 Warrants were exercised during the year and the prior period.

29. SHARE OPTIONS

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

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

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

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

29. SHARE OPTIONS (Continued)

The following share options were outstanding under the Scheme during the year:

	Number of share options							Price of the Company's shares***		
Name or category of participant	At 1 January 2006	Granted during the year	Exercised during the year	At 31 December 2006	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$ per share	At grant date of options HK$ per share	Immediately before the exercise date HK$ per share	At exercise date of options HK$ per share
Directors										
Mr. Lo Chi Ho, William	–	10,000,000	–	10,000,000	03-01-06	01-07-06 to 31-12-07	0.20	0.20	–	–
Mr. Ji Hui	–	2,000,000	–	2,000,000	03-01-06	01-07-06 to 31-12-07	0.20	0.20	–	–
	–	12,000,000	–	12,000,000						
Consultants										
In aggregate	–	36,000,000	34,000,000	2,000,000	03-01-06	01-02-06 to 31-03-09	0.20	0.20	0.58	0.58
	–	30,000,000	20,000,000	10,000,000	03-01-06	01-07-06 to 31-12-07	0.20	0.20	0.55	0.55
	–	66,000,000	54,000,000	12,000,000						
Other employees										
In aggregate	–	5,000,000	5,000,000	–	03-01-06	01-02-06 to 31-01-15	0.20	0.20	0.71	0.71
	–	17,000,000	–	17,000,000	03-01-06	01-07-06 to 31-12-07	0.20	0.20	–	–
	–	22,000,000	5,000,000	17,000,000						
	–	100,000,000	59,000,000	41,000,000						

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

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

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

*** The price of the Company's shares disclosed as at the date of grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of grant of the options. The price of the Company's shares disclosed immediately before the exercise date of the share options is the weighted average of the Stock Exchange closing prices immediately before the dates on which the options were exercised over all of the exercises of options within the disclosure line.

The fair value of the share options granted during the year of HK$7,471,000 was recognised as share option expense during the year ended 31 December 2006.

29. SHARE OPTIONS (Continued)

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using the Black-Scholes-Merton model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the year ended 31 December 2006:

Dividend yield (%)	0
Expected volatility (%)	88.30
Historical volatility (%)	88.30
Risk-free interest rate (%)	3.87-4.02
Expected life of option (year)	0.74-2.08
Weighted average share price (HK$)	0.20

The expected life of the options is based on the directors' estimation and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

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

The 59,000,000 share options exercised during the year resulted in the issue of 59,000,000 ordinary shares of the Company and new share capital of HK$11,800,000 and share premium of HK$4,463,000 (before issue expenses), as further detailed in note 28 to the financial statements.

At the balance sheet date, the Company had 41,000,000 share options outstanding under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 41,000,000 additional ordinary shares of the Company and additional share capital of HK$8,200,000 and share premium of HK$3,008,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 41,000,000 share options outstanding under the Scheme, which represented approximately 2.74% of the Company's shares in issue as at that date.

30. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current year and the prior period are presented in the consolidated statement of changes in equity on pages 24 to 25 of the financial statements.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

30. RESERVES (Continued)

(b) Company

	Notes	Share premium account HK$'000	Share option reserve HK$'000	Special capital reserve HK$'000	Capital redemption reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 July 2004		497,496	–	828,646	3,865	(1,102,513)	227,494
Issue of warrants		1,600	–	–	–	–	1,600
Issue of shares		15,000	–	–	–	–	15,000
Share issue expenses		(6,315)	–	–	–	–	(6,315)
Loss for the period		–	–	–	–	(191,699)	(191,699)
At 31 December 2005		507,781	–	828,646	3,865	(1,294,212)	46,080
Issue of shares for acquisition of a subsidiary	28(a)	52,290	–	–	–	–	52,290
Issue of shares	28(b)	86,450	–	–	–	–	86,450
Share issue expenses	28	(2,448)	–	–	–	–	(2,448)
Issue of warrants for acquisition of a subsidiary	28(a)	26,408	–	–	–	–	26,408
Equity-settled share option arrangements	29	–	7,471	–	–	–	7,471
Transfer of reserve upon exercise of options	29	4,463	(4,463)	–	–	–	–
Loss for the year		–	–	–	–	(132,226)	(132,226)
At 31 December 2006		674,944	3,008	828,646	3,865	(1,426,438)	84,025

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.

The share option reserve comprises the fair value of the share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 3 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to accumulated losses should the related options expire or be forfeited.

31. BUSINESS COMBINATION

On 1 February 2006, the Group entered into a sale and purchase agreement with Bonus World Limited and Mr. Zhou Fang Yi to acquire the entire share capital of Jetco. The consideration was satisfied by the issue of 124,500,000 ordinary shares of the Company of HK$0.20 each and 55,500,000 warrants at a subscription price of HK$0.20 each. The total fair value of the ordinary shares issued of HK$77,190,000 was determined with reference to the closing market price of the shares of the Company at the date of acquisition on 22 March 2006 of HK$0.62 per share. On the other hand, the total fair value of warrants issued of HK$26,408,000 was determined as at the date of acquisition, using the Black-Scholes-Merton model, taking into account the terms and conditions upon which the warrants were issued. The total consideration of this acquisition amounting to HK$103,598,000.

Jetco holds a 50% interest in Shandong Sinogas, a jointly-controlled entity of the Group which is established in Mainland China and engaged in the operation of gas stations. Upon the completion of the acquisition, Shandong Sinogas became a subsidiary of the Company.

NOTES TO FINANCIAL STATEMENTS

31 December 2006

31. BUSINESS COMBINATION (Continued)

The carrying amounts, which approximate to their fair values, of the identified assets and liabilities of Jetco and Shandong Sinogas as at the date of acquisition are as follows:

	Notes	**Fair value recognised on acquisition 2006 HK$'000**	Fair value recognised on acquisition 2005 HK$'000
Property, plant and equipment	14	**9,682**	36,543
Deposits paid for acquisition of plant and machinery		**–**	20,724
Inventories		**–**	512
Trade receivables		**–**	118
Prepayments, deposits and other receivables		**4,851**	9,963
Cash and bank balances		**76**	2,828
Trade payables		**–**	(18,248)
Other payables and accruals		**(501)**	(9,384)
Minority interests		**–**	(2,835)
		14,108	40,221
Less: Interest acquired in previous years as an interest in a jointly-controlled entity, including the share of post-acquisition results		**(9,540)**	–
		4,568	40,221
Goodwill on acquisition	16	**99,030**	285
		103,598	40,506
Satisfied by:			
Offset with consideration received from the disposal of an associate		**–**	26,188
Cash consideration		**–**	14,318
Issue of ordinary shares	28	**77,190**	–
Issue of warrants	28	**26,408**	–
		103,598	40,506

Net inflow of cash and cash equivalents in respect of the acquisition represents cash and bank balances acquired.

Since their acquisition, Jetco and Shandong Sinogas contributed HK$14,520,000 to the Group's turnover and HK$13,682,000 to the consolidated profit for the year ended 31 December 2006.

Had the combination taken place at the beginning of the year, the total Group's revenue and profit for the year would have been similar as the current year actual amount.

32. DISPOSAL OF SUBSIDIARIES

	Notes	2006 HK$'000	2005 HK$'000
Net assets disposed of:			
Property, plant and equipment	14	**13,468**	2,238
Prepaid land lease payments	15	**2,124**	–
Interest in a jointly-controlled entity		**–**	8,773
Inventories		**–**	12
Trade receivables		**24**	–
Prepayments, deposits and other receivables		**81**	418
Due from minority shareholders		**1,989**	–
Cash and bank balances		**48**	71
Trade payables		**(1,599)**	(306)
Other payables and accruals		**(8,647)**	(1,148)
Due to an associate		**–**	(265)
Interest-bearing bank and other borrowings		**(37,500)**	–
Finance lease payables		**–**	(272)
Minority interests		**(2,697)**	(141)
Net assets disposed of		**(32,709)**	9,380
Goodwill disposed of	16	**117**	–
Capital reserve released		**–**	(1,647)
Exchange reserve released		**–**	(2,562)
Gain on disposal of subsidiaries		**39,638**	2,917
		7,046	8,088
Satisfied by cash		**7,046**	8,088

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

	2006 HK$'000	2005 HK$'000
Cash consideration	**7,046**	8,088
Cash and bank balances disposed of	**(48)**	(71)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	**6,998**	8,017

NOTES TO FINANCIAL STATEMENTS

31 December 2006

33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transactions

The Group entered into the following major non-cash transactions:

(a) During the year, the Group acquired a subsidiary for a total consideration of HK$103,598,000 by way of issuing 124,500,000 ordinary shares in the Company valued at HK$77,190,000 and 55,500,000 warrants valued at HK$26,408,000 (note 31).

(b) In the prior period, the Group acquired certain subsidiaries with part of the considerations of HK$26,188,000 settled by offsetting the proceeds receivable from disposal of an associate during that period (note 31).

(c) In the prior period, the Group acquired certain subsidiaries and associates with HK$37,500,000 of the total consideration of HK$92,179,000 satisfied by way of issuing promissory notes, which was included in the balance of interest-bearing bank and other borrowings as at 31 December 2005. In addition, part of the remaining consideration of HK$4,245,000 was not yet settled and was included in the other payables and accruals as at 31 December 2005 and 31 December 2006.

34. CONTINGENT LIABILITIES AND LITIGATIONS

At balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Corporate guarantees given to banks in connection with facilities granted to:				
Subsidiaries	**–**	–	**26,310**	10,000
An associate	**9,000**	–	**–**	–
An independent third party	**100,000**	19,240	**–**	–
	109,000	19,240	**26,310**	10,000

As at 31 December 2006, the corporate guarantees granted to the subsidiaries of HK$26,310,000 (2005: HK$10,000,000) by the Company were utilised to the extent of approximately HK$26,310,000 (2005: HK$10,000,000), and the corporate guarantees granted by the Group to an associate and an independent third party were utilised to the extent of HK$8,000,000 (2005: Nil) and HK$100,000,000 (2005: HK$19,240,000), respectively.

NOTES TO FINANCIAL STATEMENTS

31 December 2006

34. CONTINGENT LIABILITIES AND LITIGATIONS (Continued)

Subsequent to the balance sheet date, certain bank loans of an independent third party with aggregate amount of HK$100,000,000, which were guaranteed by the Group, were repaid. Part of the repayment was financed by a loan advanced by the Group to such party amounting to RMB28,634,000 (equivalent to HK$27,904,000). The directors had performed an impairment testing on this other receivable and considered that its recoverability is remote as a result of the deterioration of the financial position of the independent third party and accordingly, provision for impairment of HK$27,904,000 was charged to the consolidated income statement during the year.

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

35. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group and the Company sub-leased its office premises under an operating lease arrangement, with the lease negotiated for a term of three years.

At 31 December 2006, the Group and the Company had total future minimum lease receivables under a non-cancellable operating lease with its tenant falling due as follows:

	Group and Company	
	2006	2005
	HK$'000	HK$'000
Within one year	**–**	183

(b) As lessee

The Group leases certain of its gas stations and the Company leases its office premises under non-cancellable operating lease arrangements with terms ranging from three to twenty years.

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

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**2,859**	2,511	**–**	793
In the second to fifth years, inclusive	**5,500**	2,633	**–**	–
After five years	**3,591**	994	**–**	–
	11,950	6,138	**–**	793

NOTES TO FINANCIAL STATEMENTS

36. COMMITMENTS

In addition to the operating lease commitments detailed in note 35(b) above, the Group had capital commitments in respect of the acquisition of items of property, plant and equipment of HK$16,552,000 (2005: HK$22,295,000) contracted for but not provided in the financial statements as at 31 December 2006.

37. RELATED PARTY TRANSACTIONS

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

		Group	
	Notes	**Year ended 31 December 2006 HK$'000**	Period from 1 July 2004 to 31 December 2005 HK$'000
Associate:			
Sale of products	(i)	**51**	211
Purchases of products	(ii)	**–**	34
Jointly-controlled entity:			
Sale of products	(i)	**–**	8,919
Purchases of products	(ii)	**2,713**	–
Minority shareholders:			
Sale of products	(i)	**32,942**	–
Interest income from a partner of a jointly-controlled entity	(iii)	**185**	5
Interest expense to a shareholder	(iv)	**–**	63

Notes:

(i) The sales to the associate, the jointly-controlled entity and minority shareholders were made according to the published prices and conditions offered to the major customers of the Group.

(ii) The purchases from the associate and the jointly-controlled entity were made according to the published prices and conditions offered by the associate and the jointly-controlled entity to their major customers.

(iii) The interest income received from a partner of a jointly-controlled entity was charged at an interest rate of 3% per annum on the loan of HK$9,000,000 (period ended 31 December 2005: HK$2,700,000) granted.

(iv) During the period ended 31 December 2005, the Group was granted a loan of HK$5,350,000 from a shareholder of the Group. The loan bore interest at 3-month HIBOR plus 2.5% per annum and had been fully repaid during the period ended 31 December 2005.

NOTES TO FINANCIAL STATEMENTS

37. RELATED PARTY TRANSACTIONS (Continued)

(b) Outstanding balances with related parties:

(i) At 31 December 2005, the loans to shareholders of an associate were unsecured, bore interest at 4% per annum and repayable on demand. During the current year, the loans to shareholders of an associate was fully impaired.

(ii) Details of the Group's balances with jointly-controlled entities and associates as at the balance sheet date are disclosed in notes 18 and 19 to the financial statements, respectively. The balances with minority shareholders are unsecured, interest-free and have no fixed terms of repayment.

(iii) The loan to a partner of a jointly-controlled entity is unsecured, bears interest at 3% per annum and repayable within one year.

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

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

	Year ended 31 December 2006 HK$'000	Period from 1 July 2004 to 31 December 2005 HK$'000
Short term employee benefits	**2,991**	5,897
Post-employment benefits	**24**	59
Share-based payments	**880**	–
Total compensation paid to key management personnel	**3,895**	5,956

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

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

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

The main risks arising from the Group's financial instruments are cash flow 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.

Cash flow 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 the 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.

Foreign currency risk

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

The Group's transactions were mainly conducted in RMB and Hong Kong dollars and its major trade receivables and borrowings are denominated in RMB, hence the exposure to foreign currency risk is minimal. The Group currently does not have a foreign currency hedging policy. However, the 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 are traded on a cash-on-delivery basis. However, the Group also trades on credit with certain recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

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

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

Liquidity risk

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

39. POST BALANCE SHEET EVENTS

(a) On 19 December 2006, the Company entered into a share subscription agreement with an existing shareholder to issue 42,500,000 ordinary shares of the Company at a subscription price of HK$0.55 per share for a total cash consideration of HK$23,375,000, before expenses. On the same date, the Company entered into a convertible bond agreement with this party to issue convertible bonds with a principal amount of HK$39,000,000. The convertible bonds can be converted into the ordinary shares of the Company at the initial conversion price of HK$0.65 per conversion share. These transactions were completed on 10 January 2007 upon the approval of the Stock Exchange.

(b) In January 2007, the Company issued convertible bonds with principal amounts of HK$46,800,000 to existing shareholders. Assuming full conversion of the convertible bonds at the conversion price of HK$0.65 per share, the convertible bonds can be converted into 72,000,000 ordinary shares of the Company.

(c) During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the future financial impact of the New Corporate Income Tax Law to the Group cannot be reasonably estimated at this stage.

The convertible bonds as mentioned in (a) and (b) above are interest-bearing at 2% per annum and the holders have the right to convert the convertible bonds into ordinary shares of the Company at HK$0.65 per share (subject to adjustment upon the change in the capital structure of the Company) and the convertible bonds will mature at two years after the issue of the convertible bonds. Besides, upon the occurrence of certain mandatory conversion events, the Company shall have the right to require the conversion of the principal amount then outstanding and all interest accrued thereon into ordinary shares of the Company at the then conversion price.

40. COMPARATIVE AMOUNTS

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

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 24 April 2007.