中油潔能
SINOGAS

Annual Report 2007

Sino Gas Group Limited

(Incorporated in Hong Kong with limited liability)
Stock code : 260

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Non-Executive Director

Ji Guirong *(Chairman)*

Executive Directors

Lo Chi Ho, William *(Chief Executive Officer)*
Sun Wenhao
Ji Hui

Independent Non-Executive Directors

Wang Zhonghua
Zhong Qiang
Xiao Wei

COMPANY SECRETARY

Shing Mei Fong

QUALIFIED ACCOUNTANT

Lo Chi Ho, William

SHARE REGISTRARS

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

AUDITORS

Ernst & Young
Certified Public Accountants

SOLICITORS

Sidley Austin
Michael Li & Co

PRINCIPAL BANKERS

Chiyu Banking Corporation Limited
The Hongkong and Shanghai Banking Corporation Limited
Bank of China (Hong Kong) Limited
Bank of Communications Co., Limited

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

WEBSITE

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

STOCK CODE

260

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's consolidated revenue for the year ended 31 December 2007 amounted to HK$169.5 million, compared with HK$160.8 million reported in the previous corresponding year. Excluding the revenue on other gas related services amounted to HK$29 million recorded in the revenue related to the operation of gas stations in previous year, there is an increase in gas sales revenue of approximately HK$42 million for the current year, a jump in 39.3%. The increase in gas sales revenue was mainly contributed from the newly constructed compressed natural gas ("CNG") refueling stations in the People's Republic of China (the "PRC") in this year.

The Group recorded a gross profit from gas sales activities of HK$21.5 million for the year ended 31 December 2007, which represented a slight improvement on the gas sales gross profit of HK$17.1 million reported in the previous year while excluding the gross profit from other gas related services of HK$25.4 million in the previous year.

Although there was improvement on gas sales revenue in 2007, the launch of new gas refueling stations during the year resulted in the surge of related fixed overheads, which could not be balancing off by the increase in gas sales owing to the initial running under-utilizations. Couple with the provisions in goodwill and other historical investments, the Group's consolidated loss attributable to equity holders for the year ended 31 December 2007 amounted to HK$183.3 million, compared with the loss amounted to HK$132.7 million for the previous year. The increase in fixed overheads was mainly due to the normal increment in depreciation and staff costs, and also finance costs on bank borrowings and convertible bonds issued during the year.

Besides, an employee share options expense amounted to approximately HK$12.7 million (2006: HK$7.5 million) was recorded in administrative expenses during the year.

The Group has focused on the CNG vehicles refueling stations business since January 2005 and its business achievement up-to-date is respectable. The board of directors (the "Board") is confident of its business outlook and the Group is in well position to achieve its business roadmap.

OPERATIONAL REVIEW

During the year, the Group has successfully constructed 4 new mother stations in the PRC to secure additional gas supply in facilitating further downstream CNG refueling stations expansion in future.

In 2007, the Group has also successfully penetrated into a number of new cities in the PRC including Guangzhou, which the Group have already constructed 2 new gas refueling stations and is committed to build more stations to penetrate this vast vehicles market.

In addition to Guangzhou, the Group has successfully established presence and increased its retail penetrations in various cities in the PRC, including Changchun, Jinan, Chengdu, Xuzhou, Anhui and Henan Province. Although the result for the year 2007 has not yet reflected the full capacity of these new projects, the Board expects these new projects should contribute respectable revenue and profit in the near future. In addition to expand presence in existing cities, the Group is expanding into other

MANAGEMENT DISCUSSION AND ANALYSIS

key major cities in the PRC including Jiangxi Province and Shanxi Province. Going forward, the Group continues to focus on the vehicles gas consumption market and targets to complete more CNG mother and daughter stations. The next few years will be a great leap period for the Group and the Board is confident that the Group is well positioned to capture this growing market in the PRC.

BUSINESS OUTLOOK

The Group will continue to focus its activities of gas related business and expand its natural gas business in the PRC. The use of CNG in the PRC is becoming more popular, partly due to government policies in the PRC in promoting natural gas as a more environmental friendly energy source and partly due to the fact that natural gas is more cost-efficient than other energy sources such as petroleum. In addition to the use of CNG in households and for industrial purposes, CNG has also become increasingly popular energy sources for motor vehicles because it is a cheaper and cleaner substitute of petroleum. The Group will continue to construct more CNG refueling stations in various cities in the PRC. Leveraging on its experience and management expertise, the Group will further consolidate its leading marketplace in the PRC.

FINANCIAL RESOURCES

During the year ended 31 December 2007, the financial position of the Group was strengthened by the net proceeds of approximately HK$145.3 million received from the issuance of 284,500,000 Company's shares and 41,000,000 options in January and June 2007, respectively, and by issuing convertible bonds with aggregate principal amounts of HK$85.8 million to shareholders in January and March 2007. The proceeds are used for the expansion of the Group's gas related business.

At 31 December 2007, the Group's borrowings (including interest-bearing bank and other loans and finance lease payables) amounted to approximately HK$95 million (2006: HK$84 million), of which HK$62 million (2006: HK$50 million) were related to bank borrowings at operating subsidiaries level funding the local PRC operations denominated in Renminbi, and therefore the Group's gearing ratio, representing the ratio of total borrowings to equity attributable to equity holders of the parent of HK$430.5 million (2006: HK$421.1 million) was 22.1% (2006: 19.9%). Cash and bank balances were HK$135.2 million (2006: HK$59.5 million). Accordingly, the Group has maintained a net cash position as at 31 December 2007.

During the year ended 31 December 2007, the Group was not materially exposed to foreign currency risk.

DIVIDEND

The Board does not recommend the payment of dividend for the year ended 31 December 2007 (2006: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

STAFF BENEFIT

At 31 December 2007, the Group had a total of 673 employees. The total employees' remuneration for the year ended 31 December 2007 amounted to approximately HK$36.3 million. The Group continues to provide remuneration package to employees according to market practices, their experience and performance. Other benefits include contribution of statutory mandatory provident fund for the employees and medical scheme. There was no major change on staff remuneration policies during the year.

CHARGES ON GROUP ASSETS

At 31 December 2007, the Group had pledged equity interests of certain subsidiaries of the Company and the office premises in Hong Kong for the loans granted from a local financial institution.

BIOGRAPHICAL DETAILS OF DIRECTORS

NON-EXECUTIVE DIRECTOR

Mr. Ji Guirong, aged 46, was appointed as the Chairman and an executive director of the Company in January 2005 and re-designated as non-executive director of the Company in April 2007. Mr. Ji holds a Master's Degree in Engineering Management and a Bachelor's Degree in Engineering and is a Senior Engineer. Mr. Ji has over 23 years of experience in engineering, corporate finance, mergers and acquisitions and project investments. Mr. Ji is an executive director, a Deputy Chairman and the Chief Executive Officer of CATIC International Holdings Limited, which is listed on the main board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") and a substantial shareholder of the Company. He is also an independent director of China Spacesat Co., Ltd. and was formerly a director of Jiangxi Hongdu Aviation Industry Co., Ltd., both of which are listed on the Shanghai Stock Exchange.

EXECUTIVE DIRECTORS

Mr. Lo Chi Ho, William, aged 42, was appointed as an executive director of the Company in May 2005 and further appointed as the Chief Executive Officer in December 2005. Mr. Lo has obtained Chartered Accountant qualification in the U.K. and is a fellow of the Hong Kong Institute of Certified Public Accountants. Mr. Lo holds an honour Bachelor's Degree in Chemical Engineering and Fuel Technology from Sheffield University, the U.K. Mr. Lo has over 19 years of accounting and corporate finance experience working as senior management in international accounting firms in the U.K. and Hong Kong, multinational consumable goods company, international investment banks and was formerly an executive director of Artfield Group Limited and a non-executive director of Paul Y. Engineering Group Limited, both of which are listed on the main board of the Stock Exchange. He is also an independent director of China Spacesat Co., Ltd., a company listed on the Shanghai Stock Exchange; an independent non-executive director of China Motion Telecom International Limited and Magnesium Resources Corporation of China Limited, both of which are listed on the main board of the Stock Exchange.

Mr. Sun Wenhao, aged 45, was appointed as an executive director of the Company in January 2005. Mr. Sun holds an International Economic Law Degree from Fudan University Law School, the PRC. Mr. Sun has been working in the legal field for over 13 years with extensive experience. He is currently a practicing solicitor in Shanghai Xun Ye Law Office.

Mr. Ji Hui, aged 38, was appointed as an executive director of the Company in May 2005. Mr. Ji holds a Master of Science Degree in Environmental Engineering from the University of Southern California, Los Angeles. Mr. Ji has 16 years of experience in equipment, facilities and product sales in the PRC and the U.S.A. He also has research experience in environmental engineering.

BIOGRAPHICAL DETAILS OF DIRECTORS

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wang Zhonghua, aged 46, was appointed as an independent non-executive director of the Company in January 2005. Mr. Wang holds a Bachelor's Degree in Engineering from Lanzhou Jiaotong University. Mr. Wang is a Senior Engineer; Registered State Consulting (Investment) Engineer; Registered State Supervising Engineer and Registered State Pricing Engineer. Mr. Wang has been employed as a senior expert in Shenzhen Province Engineering Development, inspectorate expert of Shenzhen Government-Funded Major Construction Project, member of Shenzhen Senior Engineer (Railway Engineering Specialized) Evaluation Committee, member of Shenzhen Senior Engineer (Engineering Cost Specialized) Evaluation Committee and member of Shenzhen Pricing Engineers Association Expert Commission. Mr. Wang has been working in the engineering field for over 23 years with extensive experience. He has been serving Shenzhen Province Mass Transit Railway Company Limited since 1993.

Mr. Zhong Qiang, aged 40, was appointed as an independent non-executive director of the Company in February 2005. Mr. Zhong graduated from Changsha Railway University. Mr. Zhong is an accountant and has been working in the accounting field for over 17 years with extensive experience. He is currently a director of Shanghai Jun Zheng Ke Mao Company Limited.

Mr. Xiao Wei, aged 45, was appointed as an independent non-executive director of the Company in May 2005. Mr. Xiao graduated from the Electric Engineering Department of Shanghai Tong Ji University. Mr. Xiao has 23 years of experience in engineering and management.

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 17 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS

The Group's loss for the year ended 31 December 2007 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 26 to 117.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 118. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL, SHARE OPTIONS, WARRANTS AND CONVERTIBLE BONDS

Details of movements in the Company's share capital, share options, warrants and convertible bonds during the year are set out in notes 30, 31 and 28, respectively to the financial statements.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

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

DISTRIBUTABLE RESERVES

At 31 December 2007, the Company had no reserves available for distribution in accordance with the provisions of Section 79B of the Hong Kong Companies Ordinance.

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 28% of the total sales for the year and sales to the largest customer included therein amounted to 15%. Purchases from the Group's five largest suppliers accounted for less than 76% of the total purchases for the year and purchases from the largest supplier included therein amounted to 23%.

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

DIRECTORS

The directors of the Company during the year were:

Non-executive director:

Ji Guirong (re-designated with effect from 3 April 2007, formerly an executive director)

Executive directors:

Lo Chi Ho, William
Sun Wenhao
Wu Ding
Ji Hui

Independent non-executive directors:

Wang Zhonghua
Zhong Qiang
Xiao Wei

Subsequent to the balance sheet date, Mr. Wu Ding resigned as an executive director of the Company with effect from 4 February 2008.

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

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

REPORT OF THE DIRECTORS

DIRECTORS' BIOGRAPHIES

Biographical details of the directors of the Company are set out on pages 6 to 7 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of Messrs. Lo Chi Ho, William and Ji Hui has a service contract with the Company which commenced on 17 May 2005 and is subject to termination by either party giving not less than two months' written notice. Both of them are subject to reappointment or retirement by rotation in accordance with articles 86(B), 87 and 88 of the Company's articles of association.

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

DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2007, the interests and short positions of the directors in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in the Rules Governing the Listing Securities on the Stock Exchange (the "Listing Rules") were as follows:

Name of director	Note	Long/Short position	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital	Number of underlying shares held
Lo Chi Ho, William	(a)	Long	Interest of controlled corporation	30,000,000	1.71%	45,000,000
		Long	Beneficial owner	19,060,000	1.09%	–

Long positions in share options of the Company:

Name of director	Number of options directly beneficially owned
Ji Guirong	14,900,000
Lo Chi Ho, William	24,900,000
Ji Hui	2,000,000
	41,800,000

Note:

(a) The 30,000,000 shares and 45,000,000 underlying shares are held by Universal Vantage Limited, which is wholly and beneficially owned by Mr. Lo Chi Ho, William.

Save as disclosed above, as at 31 December 2007, none of the directors of the Company had an interest or a short position in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code in the Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

REPORT OF THE DIRECTORS

SHARE 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. Further details of the Scheme are disclosed in note 31 to the financial statements.

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

Name or category of participant	At 1 January 2007	Granted during the year	Exercised during the year	Expired during the year	At 31 December 2007***	Date of grant of share options*	Exercise period of share options	Exercise price of share options per share** HK$
Emloyees' share option scheme								
Directors								
Ji Guirong	–	4,966,667	–	–	4,966,667	23-8-07	1-10-07 to 31-1-15	0.35
	–	4,966,667	–	–	4,966,667	23-8-07	1-1-08 to 31-1-15	0.35
	–	4,966,666	–	–	4,966,666	23-8-07	1-7-08 to 31-1-15	0.35
	–	14,900,000	–	–	14,900,000			
Lo Chi Ho, William	10,000,000	–	–	–	10,000,000	3-1-06	1-2-06 to 31-1-15	0.20
	–	4,966,667	–	–	4,966,667	23-8-07	1-10-07 to 31-1-15	0.35
	–	4,966,667	–	–	4,966,667	23-8-07	1-1-08 to 31-1-15	0.35
	–	4,966,666	–	–	4,966,666	23-8-07	1-7-08 to 31-1-15	0.35
	10,000,000	14,900,000	–	–	24,900,000			
Ji Hui	2,000,000	–	–	–	2,000,000	3-1-06	1-2-06 to 31-1-15	0.20
	2,000,000	–	–	–	2,000,000			
Consultants								
In aggregate	12,000,000	–	–	–	12,000,000	3-1-06	1-2-06 to 31-1-09	0.20
	–	38,100,000	–	–	38,100,000	23-8-07	1-10-07 to 31-1-15	0.35
	–	38,100,000	–	–	38,100,000	23-8-07	1-1-08 to 31-1-15	0.35
	–	38,100,000	–	–	38,100,000	23-8-07	1-7-08 to 31-1-15	0.35
	12,000,000	114,300,000	–	–	126,300,000			
Other employees								
In aggregate	17,000,000	–	(3,000,000)	–	14,000,000	3-1-06	1-2-06 to 31-1-15	0.20
	–	1,633,333	–	–	1,633,333	23-8-07	1-10-07 to 31-1-15	0.35
	–	1,633,333	–	–	1,633,333	23-8-07	1-1-08 to 31-1-15	0.35
	–	1,633,334	–	–	1,633,334	23-8-07	1-7-08 to 31-1-15	0.35
	17,000,000	4,900,000	(3,000,000)	–	18,900,000			
	41,000,000	149,000,000	(3,000,000)	–	187,000,000			

During the year, share options were also granted to certain shareholders of the Company pursuant to certain share placements and the following table discloses movements of these Company's share options outstanding during the year.

Name or category of participant	At 1 January 2007	Granted during the year	Exercised during the year	Expired during the year	At 31 December 2007***	Date of grant of share options*	Exercise period of share options	Exercise price of share options per share** HK$
In aggregate	–	41,000,000	(11,000,000)	(30,000,000)	–	8-6-07	8-6-07 to 7-12-07	0.51

REPORT OF THE DIRECTORS

SHARE OPTIONS (Continued)

Notes to the tables 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 weighted average closing price of the Company's shares immediately before the exercise dates of the share options was HK$0.71 per share. The closing prices of the Company's shares immediately before the dates on which the options were granted during the year were HK$0.35 to HK$0.69 per share.

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

At 31 December 2007, the following interests and short positions of 5% or more of the issued share capital and convertible bonds of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name	Notes	Long/Short position/ Lending pool	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital	Number of convertible shares (issuable under the convertible bonds) held
Billirich Investment Limited	(a)	Long	Beneficial owner	341,280,000	19.48%	24,644,549
	(a)	Short	Beneficial owner	45,000,000	2.57%	–
CATIC (H.K.) Limited	(a)	Long	Interest of a controlled corporation	341,280,000	19.48%	24,644,549
	(a)	Short	Interest of a controlled corporation	45,000,000	2.57%	–
CATIC International Holdings Limited	(a)	Long	Interest of a controlled corporation	341,280,000	19.48%	24,644,549
	(a)	Short	Interest of a controlled corporation	45,000,000	2.57%	–
China Aviation Industry Corporation I	(a)	Long	Interest of a controlled corporation	341,280,000	19.48%	24,644,549
	(a)	Short	Interest of a controlled corporation	45,000,000	2.57%	–

REPORT OF THE DIRECTORS

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

Name	Notes	Long/Short position/ Lending pool	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital	Number of convertible shares (issuable under the convertible bonds) held
China Aviation Industry Corporation II	(a)	Long	Interest of a controlled corporation	341,280,000	19.48%	24,644,549
	(a)	Short	Interest of a controlled corporation	45,000,000	2.57%	–
China National Aero-Technology Import & Export Corporation	(a)	Long	Interest of a controlled corporation	341,280,000	19.48%	24,644,549
	(a)	Short	Interest of a controlled corporation	45,000,000	2.57%	–
Tacko International Limited	(a)	Long	Interest of a controlled corporation	341,280,000	19.48%	24,644,549
	(a)	Short	Interest of a controlled corporation	45,000,000	2.57%	–
Deephaven Relative Value Equity Trading Ltd.	(b)	Long	Beneficial owner	110,000,000	6.28%	61,611,374
Deephaven Capital Management LLC	(b)	Long	Interest of a controlled corporation	110,000,000	6.28%	61,611,374
Knight Capital Group Inc.	(b)	Long	Interest of a controlled corporation	110,000,000	6.28%	61,611,374
Sun Shining Investment Corp.	(c)	Long	Beneficial owner and interest of a controlled corporation	89,050,000	5.08%	49,289,099
Tai Yuen Textile Company Limited	(c)	Long	Interest of a controlled corporation	89,050,000	5.08%	49,289,099

Notes:

(a) Billirich Investment Limited ("Billirich") is a wholly-owned subsidiary of CATIC International Holdings Limited ("CATIC International"). Tacko International Limited which holds approximately 38.54% of the issued capital of CATIC International, is a wholly-owned subsidiary of CATIC (H.K.) Limited, which in turn is a wholly-owned subsidiary of China National Aero-Technology Import & Export Corporation. China National Aero-Technology Import & Export Corporation is owned as to 50% by China Aviation Industry Corporation I and as to 50% by China Aviation Industry Corporation II. Accordingly, all these corporations are deemed to be interested in the shares held by Billirich.

REPORT OF THE DIRECTORS

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

Notes: (Continued)

(b) Deephaven Relative Value Equity Trading Ltd. ("Deephaven") is a wholly-owned subsidiary of Deephaven Market Neutral Master Fund LP ("DMNMF"). Deephaven Capital Management LLC, which holds an equity interest of approximately 0.10% in DMNMF, is a wholly-owned subsidiary of KEP Holdings I LLC, which in turn is a wholly-owned subsidiary of Knight Capital Group Inc. Accordingly, all these corporations are deemed to be interested in the shares and convertible shares held by Deephaven.

(c) The 89,050,000 shares and 49,289,099 convertible shares which to be issued upon exercise of the convertible bonds are beneficially held by Sun Shining Investment Corp. ("Sun Shining") and Grand Win Overseas Ltd. ("Grand Win"), a wholly-owned subsidiary of Sun Shining, respectively. Tai Yuen Textile Company Limited beneficially owns an 82.86% equity interest in Sun Shining and is therefore deemed to be interested in the 89,050,000 shares and 49,289,099 convertible shares held by Sun Shining and Grand Win.

Save as disclosed above, as at 31 December 2007, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or a short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

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

Connected transactions

On 6 September 2006, by reference to the facility agreement dated 14 March 2005 entered into between the Company and Beijing Sinogas Company Limited ("Beijing Sinogas") pursuant to which the Company agreed to provide a facility of up to HK$40,000,000 (which is unsecured and bears interest at 3-month Hong Kong Interbank Offered Rate plus 2.5% per annum) to Beijing Sinogas, the Company and Beijing Sinogas agreed in writing to extend the repayment date of the loan, the interest and fees accrued and to be accrued to 27 October 2008. As Ms. Ka Ying, who held a 50% interest in Best Rich International Limited, which in turn held a 30.6% interest in Beijing Sinogas, was a connected person of the Company by reason of her being a former director of the Company within the 12 months immediately preceding the date of the transaction, Beijing Sinogas was a connected person of the Company under the Listing Rules.

On 25 January 2007, the Company entered into a convertible bond agreement with Billirich pursuant to which Billirich agreed to subscribe for the convertible bonds with a principal amount of HK$15,600,000 at the initial conversion price of HK$0.65 per share. As of that date, Billirich was interested in 290,500,000 shares, representing approximately 19.42% of the issued share capital of the Company. Billirich was a substantial shareholder (as defined under the Listing Rules) of the Company and a connected person (as defined under the Listing Rules) of the Company. On 25 May 2007, the Company adjusted the initial conversion price from HK$0.65 per share to HK$0.633 per share upon the issuance of ordinary shares as the condition of the conversion adjustment has been met.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS (Continued)

Continuing connected transactions

On 28 February 2005, the Company and Beijing Sinogas entered into a master agreement in relation to the supply of equipment and machinery for the operations of liquefied natural gas and compressed natural gas refueling stations in Mainland China. During the year, no equipment and machinery were supplied by the Company to Beijing Sinogas, and the master agreement expired on 31 December 2007.

On 14 March 2005, the Company and Beijing Sinogas entered into a facility agreement, pursuant to which the Company conditionally agreed to provide a facility up to HK$40,000,000 to Beijing Sinogas. As at 31 December 2007, a facility of HK$34,300,000 was utilised by Beijing Sinogas.

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

SUFFICIENCY OF PUBLIC FLOAT

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

POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group are set out in note 41 to the financial statements.

REPORT OF THE DIRECTORS

AUDITORS

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

ON BEHALF OF THE BOARD

Ji Guirong
Chairman

Hong Kong
25 April 2008

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

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

The Company has complied with the relevant provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Listing Rules throughout the year ended 31 December 2007.

A. DIRECTORS

The Board

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

During the year ended 31 December 2007, the Board held four regular meetings which were participated by the directors either in person or through other electronic means of communication. The attendance record of each director is set out below:

Directors	Attendance
Non-Executive Director	
Ji Guirong *(Chairman)*	4/4
Executive Directors	
Lo Chi Ho, William *(Chief Executive Officer)*	4/4
Sun Wenhao	4/4
Wu Ding*	2/4
Ji Hui	4/4
Independent Non-executive Directors	
Wang Zhonghua	4/4
Zhong Qiang	4/4
Xiao Wei	4/4

* *resigned with effect from 4 February 2008*

CORPORATE GOVERNANCE REPORT

A. DIRECTORS (Continued)

Chairman and Chief Executive Officer

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

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

Board Composition

As at 31 December 2007, the Board consisted of eight directors including one non-executive director; four executive directors and three independent non-executive directors. Mr. Ji Guirong, an executive director, has been re-designated as non-executive director on 3 April 2007. Mr. Wu Ding has resigned as an executive director with effect from 4 February 2008 for pursuing other business engagement. The biographical details of the directors are set out on pages 6 to 7 of this annual report.

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

Appointments, re-election and removal

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

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

CORPORATE GOVERNANCE REPORT

A. DIRECTORS (Continued)

Appointments, re-election and removal (Continued)

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

Responsibilities of Directors

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

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

Supply of and access to information

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

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

CORPORATE GOVERNANCE REPORT

B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Board has established the Remuneration Committee with specific written terms of reference defining its duties and authorities. As at 31 December 2007, the Remuneration Committee comprises three members which include one non-executive director namely Mr. Ji Guirong (previously an executive director) and two independent non-executive directors namely Mr. Zhong Qiang and Mr. Xiao Wei.

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

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

During the year ended 31 December 2007, the Remuneration Committee held one meeting to discuss remuneration related matters. The attendance record of each committee member is set out below:

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

C. ACCOUNTABILITY AND AUDIT

Financial Reporting

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

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

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

CORPORATE GOVERNANCE REPORT

C. ACCOUNTABILITY AND AUDIT (Continued)

Internal Controls

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

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

Audit Committee

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

The Audit Committee reviewed the interim and full year consolidated financial statements, including the Group's adopted accounting principles and practices, internal controls, and financial reporting matters in conjunction with the external auditors. The Audit Committee held two meetings during the year ended 31 December 2007. The attendance record of each committee member is set out below:

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

Auditors' Remuneration

For the year ended 31 December 2007, the fee paid/payable to Ernst & Young, auditors of the Group, for audit and non-audit services are set out below:

	Amount (HK$'000)
Audit services	1,700
Non-audit services	346

CORPORATE GOVERNANCE REPORT

D. DELEGATION BY THE BOARD

Management Functions

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

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

Board Committees

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

E. COMMUNICATION WITH SHAREHOLDERS

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

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

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

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

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

INDEPENDENT AUDITORS' REPORT

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

We have audited the financial statements of Sino Gas Group Limited set out on pages 26 to 117, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

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

INDEPENDENT AUDITORS' REPORT

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong
25 April 2008

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
REVENUE	6	**169,524**	160,838
Cost of sales		**(147,982)**	(118,348)
Gross profit		**21,542**	42,490
Other income and gain	6	**9,217**	44,724
Selling and distribution costs		**(13,231)**	(8,073)
Administrative expenses		**(61,442)**	(38,841)
Other operating expenses, net		**(1,917)**	(2,615)
Finance costs	8	**(11,863)**	(3,436)
Impairment of items of property, plant and equipment	14	**(10,232)**	(36,706)
Impairment of interests in associates	19	**(8,844)**	(39,091)
Impairment of loans to shareholders of an associate		**–**	(14,300)
Impairment of available-for-sale investments		**–**	(2,238)
Impairment of goodwill	16	**(71,740)**	–
Impairment of trade receivables	22	**(13,326)**	(1,828)
Impairment of deposits and other receivables	23	**(20,505)**	(116,147)
Share of profits and losses of:			
Jointly-controlled entities		**(1,793)**	(251)
Associates		**(103)**	(137)
LOSS BEFORE TAX	7	**(184,237)**	(176,449)
Tax	11	**(1,381)**	(7,909)
LOSS FOR THE YEAR		**(185,618)**	(184,358)
Attributable to:			
Equity holders of the parent	12	**(183,282)**	(132,748)
Minority interests		**(2,336)**	(51,610)
		(185,618)	(184,358)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic		**(11.18 cents)**	(10.51 cents)

CONSOLIDATED BALANCE SHEET

31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**246,623**	175,378
Prepaid land lease payments	15	**15,298**	11,692
Goodwill	16	**128,425**	199,372
Interests in jointly-controlled entities	18	**10,220**	9,043
Interests in associates	19	**–**	8,365
Available-for-sale investments	20	**5,029**	1,800
Deposits paid for acquisition of plant and machinery		**73,327**	14,226
Total non-current assets		**478,922**	419,876
CURRENT ASSETS			
Inventories	21	**6,433**	12,330
Trade receivables	22	**15,911**	37,471
Prepayments, deposits and other receivables	23	**52,022**	32,014
Due from an associate	38(b)(i)	**7,416**	–
Due from a jointly-controlled entity	38(b)(i)	**–**	1,678
Due from minority shareholders	38(b)(i)	**17,298**	8,077
Loan to a minority shareholder	38(b)(ii)	**9,000**	–
Loan to a partner of a jointly-controlled entity	38(b)(iii)	**–**	9,000
Cash and bank balances	24	**135,232**	59,547
Total current assets		**243,312**	160,117
CURRENT LIABILITIES			
Trade payables	25	**17,585**	15,182
Other payables and accruals	26	**41,843**	26,661
Due to an associate	38(b)(i)	**–**	82
Due to a jointly-controlled entity	38(b)(i)	**2,782**	–
Due to minority shareholders	38(b)(i)	**2,818**	1,402
Tax payable		**10,792**	9,154
Interest-bearing bank and other borrowings	27	**72,612**	52,905
Finance lease payables	29	**257**	247
Total current liabilities		**148,689**	105,633
NET CURRENT ASSETS		**94,623**	54,484
TOTAL ASSETS LESS CURRENT LIABILITIES		**573,545**	474,360

CONSOLIDATED BALANCE SHEET

31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	27	**22,088**	30,495
Convertible bonds	28	**80,506**	–
Finance lease payables	29	**88**	345
Total non-current liabilities		**102,682**	30,840
Net assets		**470,863**	443,520
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	30	**350,371**	290,671
Reserves	32(a)	**80,102**	130,445
		430,473	421,116
Minority interests		**40,390**	22,404
Total equity		**470,863**	443,520

Ji Hui
Director

Lo Chi Ho, William
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2007

	Notes	Attributable to equity holders of the parent										
		Issued capital	Share premium account	Share option reserve	Special capital reserve	Exchange fluctuation reserve	Reserve fund	Capital redemption reserve	Accumulated losses	Total	Minority interests	Total equity
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
		(note 30)	(note 30)	(note 30)	(note 32(a))		(note 32(a))					
At 1 January 2006		200,971	507,781	–	828,646	–	–	3,865	(1,255,237)	286,026	46,295	332,321
Exchange realignment and total income and expenses for the year recognised directly in equity		–	–	–	–	7,967	–	–	–	7,967	2,649	10,616
Loss for the year		–	–	–	–	–	–	–	(132,748)	(132,748)	(51,610)	(184,358)
Total income and expense for the year		–	–	–	–	7,967	–	–	(132,748)	(124,781)	(48,961)	(173,742)
Issue of shares for acquisition of a subsidiary	30	24,900	52,290	–	–	–	–	–	–	77,190	–	77,190
Issue of warrants for acquisition of a subsidiary	30	–	26,408	–	–	–	–	–	–	26,408	–	26,408
Issue of shares	30	53,000	86,450	–	–	–	–	–	–	139,450	–	139,450
Issue of shares upon exercise of options	30	11,800	4,463	(4,463)	–	–	–	–	–	11,800	–	11,800
Share issue expenses	30	–	(2,448)	–	–	–	–	–	–	(2,448)	–	(2,448)
Equity-settled share option arrangements	31	–	–	7,471	–	–	–	–	–	7,471	–	7,471
Transfer of profit to capital reserve		–	–	–	–	–	1,865	–	(1,865)	–	–	–
Disposal of a subsidiary	34(a)	–	–	–	–	–	–	–	–	–	(2,697)	(2,697)
Acquisition of an additional interest in a subsidiary		–	–	–	–	–	–	–	–	–	(576)	(576)
Capital contribution from minority shareholders		–	–	–	–	–	–	–	–	–	28,343	28,343
At 31 December 2006		290,671	674,944*	3,008*	828,646*	7,967*	1,865*	3,865*	(1,389,850)*	421,116	22,404	443,520

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2007

		Attributable to equity holders of the parent											
	Notes	Issued capital HK$'000 (note 30)	Share premium account HK$'000 (note 30)	Share option reserve HK$'000 (note 30)	Equity component of convertible bonds HK$'000 (note 28)	Special capital reserve HK$'000 (note 32(a))	Exchange fluctuation reserve HK$'000	Reserve fund HK$'000 (note 32(a))	Capital redemption reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2007		290,671	674,944	3,008	–	828,646	7,967	1,865	3,865	(1,389,850)	421,116	22,404	443,520
Exchange realignment and total income and expenses for the year recognised directly in equity		–	–	–	–	–	18,287	–	–	–	18,287	2,260	20,547
Loss for the year		–	–	–	–	–	–	–	–	(183,282)	(183,282)	(2,336)	(185,618)
Total income and expense for the year		–	–	–	–	–	18,287	–	–	(183,282)	(164,995)	(76)	(165,071)
Issue of convertible bonds	28	–	–	–	10,164	–	–	–	–	–	10,164	–	10,164
Issue of shares and options	30(a)	56,900	81,076	8,819	–	–	–	–	–	–	146,795	–	146,795
Issue of shares upon exercise of options	30(b), (c)	2,800	5,996	(2,586)	–	–	–	–	–	–	6,210	–	6,210
Share issue expenses	30	–	(1,530)	–	–	–	–	–	–	–	(1,530)	–	(1,530)
Transfer of reserve upon expiry of options	30	–	6,453	(6,453)	–	–	–	–	–	–	–	–	–
Equity-settled share option arrangements	31	–	–	12,713	–	–	–	–	–	–	12,713	–	12,713
Dividend paid to minority shareholders		–	–	–	–	–	–	–	–	–	–	(491)	(491)
Acquisition of additional interests in subsidiaries		–	–	–	–	–	–	–	–	–	–	(1,663)	(1,663)
Acquisition of subsidiaries	33	–	–	–	–	–	–	–	–	–	–	8,790	8,790
Disposal of a subsidiary	34(a)	–	–	–	–	–	–	–	–	–	–	(889)	(889)
Capital contribution from minority shareholders		–	–	–	–	–	–	–	–	–	–	12,315	12,315
At 31 December 2007		350,371	766,939*	15,501*	10,164*	828,646*	26,254*	1,865*	3,865*	(1,573,132)*	430,473	40,390	470,863

* These reserve accounts comprise the consolidated reserves of HK$80,102,000 (2006: HK$130,445,000) in the consolidated balance sheet.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(184,237)**	(176,449)
Adjustments for:			
Finance costs	8	**11,863**	3,436
Depreciation	7	**9,378**	3,827
Recognition of prepaid land lease payments	7	**990**	558
Impairment of items of property, plant and equipment	7	**10,232**	36,706
Loss on disposal of items of property, plant and equipment	7	**1,939**	2,615
Interest income	6	**(4,588)**	(1,602)
Impairment of interests in associates	7	**8,844**	39,091
Impairment of loans to shareholders of an associate		**–**	14,300
Impairment of available-for-sale investments		**–**	2,238
Impairment of goodwill	7	**71,740**	–
Impairment of trade receivables	7	**13,326**	1,828
Impairment of deposits and other receivables	7	**20,505**	116,147
Provision for inventories	7	**5,422**	–
Equity-settled share option expense	31	**12,713**	7,471
Gain on disposal of subsidiaries	6	**–**	(39,638)
Share of profits and losses of associates		**103**	137
Share of profits and losses of jointly-controlled entities		**1,793**	251
		(19,977)	10,916
Decrease/(increase) in inventories		**4,826**	(1,041)
Decrease/(increase) in trade receivables		**11,585**	(22,124)
Increase in prepayments, deposits and other receivables		**(24,253)**	(52,877)
Decrease/(increase) in an amount due from an associate		**(7,416)**	3,840
Decrease/(increase) in an amount due from a jointly-controlled entity		**1,795**	(1,678)
Increase/(decrease) in trade payables		**(4,086)**	6,271
Decrease in other payables and accruals		**(295)**	(14,758)
Increase/(decrease) in an amount due to an associate		**(88)**	82
Increase/(decrease) in an amount due to a jointly-controlled entity		**2,782**	(9,302)
Cash used in operations		**(35,127)**	(80,671)
Overseas taxes paid		**(406)**	(2,530)
Net cash outflow from operating activities		**(35,533)**	(83,201)

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**4,588**	1,602
Purchases of items of property, plant and equipment	14	**(68,761)**	(71,475)
Deposits paid for acquisition of plant and machinery		**(55,416)**	(14,226)
Increase in prepaid land lease payments	15	**(4,663)**	(11,384)
Acquisition of subsidiaries	33	**17,223**	76
Acquisition of an additional interest in a subsidiary		**(2,456)**	(873)
Purchases of available-for-sale investments		**(2,503)**	(600)
Disposal of subsidiaries	34(a)	**6,939**	6,998
Loan to a minority shareholder		**–**	(6,300)
Contribution to jointly-controlled entities		**(30,334)**	–
Net cash outflow from investing activities		**(135,383)**	(96,182)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid	8	**(6,114)**	(2,859)
Interest paid on convertible bonds	28	**(858)**	–
Interest element of finance lease rental payments	8	**(21)**	(31)
Proceeds from issue of shares and options	30(a)	**146,795**	139,450
Proceeds from issue of shares upon exercise of share options	30(b),(c)	**6,210**	11,800
Share issue expenses	30	**(1,530)**	(2,448)
Capital element of finance lease rental payments		**(247)**	(236)
Repayment of bank loans		**(51,260)**	(40,060)
Proceeds from issue of convertible bonds	28	**85,800**	–
New bank loans		**62,060**	81,310
Capital contribution from minority shareholders		**12,182**	28,343
Advance to minority shareholders, net		**(7,337)**	(9,827)
Dividend paid to minority shareholders		**(491)**	–
Net cash inflow from financing activities		**245,189**	205,442
NET INCREASE IN CASH AND CASH EQUIVALENTS		**74,273**	26,059
Cash and cash equivalents at beginning of year		**59,547**	32,358
Effect of foreign exchange rate changes, net		**1,412**	1,130
CASH AND CASH EQUIVALENTS AT END OF YEAR		**135,232**	59,547
ANAYLYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**135,232**	59,547

BALANCE SHEET

31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**1,451**	1,346
Interests in subsidiaries	17	**439,771**	352,400
Available-for-sale investments	20	**–**	–
Total non-current assets		**441,222**	353,746
CURRENT ASSETS			
Prepayments, deposits and other receivables	23	**894**	2,656
Cash and bank balances	24	**62,453**	39,341
Total current assets		**63,347**	41,997
CURRENT LIABILITIES			
Other payables and accruals	26	**1,818**	3,305
Interest-bearing bank and other borrowings	27	**9,650**	2,150
Finance lease payables	29	**257**	247
Total current liabilities		**11,725**	5,702
NET CURRENT ASSETS		**51,622**	36,295
TOTAL ASSETS LESS CURRENT LIABILITIES		**492,844**	390,041
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	27	**7,500**	15,000
Convertible bonds	28	**80,506**	–
Finance lease payables	29	**88**	345
Total non-current liabilities		**88,094**	15,345
Net assets		**404,750**	374,696
EQUITY			
Issued capital	30	**350,371**	290,671
Reserves	32(b)	**54,379**	84,025
Total equity		**404,750**	374,696

Ji Hui
Director

Lo Chi Ho, William
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2007

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, compressed natural gas ("CNG") and liquefied petroleum gas ("LPG") refueling stations; and

(ii) trading of gas-related products.

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2007. 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.

2.1 BASIS OF PREPARATION (Continued)

Basis of consolidation (Continued)

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

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 interpretations has had no material effect on these financial statements.

HKFRS 7	Financial Instruments: Disclosures
HKAS 1 Amendment	Capital Disclosures
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

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 7 *Financial Instruments: Disclosures*

This 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. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operation of the Group, comparative information has been included/revised where appropriate.

(b) Amendment to HKAS 1 *Presentation of Financial Statements – Capital Disclosures*

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 40 to the financial statements.

NOTES TO FINANCIAL STATEMENTS
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2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

(c) HK(IFRIC)-Int 8 *Scope of HKFRS 2*

This interpretation requires HKFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the Group has only issued equity instruments to its employees for identified services provided in accordance with the Group's share option scheme, the interpretation has had no effect on these financial statements.

(d) HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives*

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation has had no material impact on these financial statements.

(e) HK(IFRIC)-Int 10 *Interim Financial Reporting and Impairment*

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

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.

HKFRS 2 Amendments	Share-based Payments [1]
HKFRS 3 (Revised)	Business Combinations [5]
HKFRS 8	Operating Segments [1]
HKAS 1 (Revised)	Presentation of Financial Statements [1]
HKAS 23 (Revised)	Borrowing Costs [1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements [5]
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions [2]
HK(IFRIC)-Int 12	Service Concession Arrangements [4]
HK(IFRIC)-Int 13	Customer Loyalty Programmes [3]
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction [4]

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 March 2007
[3] Effective for annual periods beginning on or after 1 July 2008
[4] Effective for annual periods beginning on or after 1 January 2008
[5] Effective for annual periods beginning on or after 1 July 2009

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

The amendments to HKFRS 2 restrict the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The Group has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, does not expect significant implications on its accounting for share-based payments.

HKFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. The changes introduced by the revised HKFRS 3 must be applied prospectively and will affect future acquisitions and transactions with minority interests.

HKFRS 8, which will replace HKAS 14 Segment Reporting, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt HKFRS 8 from 1 January 2009.

The revised HKAS 1 *Presentation of Financial Statements* separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income: it presents all items of income and expenses recognised in profit or loss, together with all other items of recognised income and expenses, either in one single statement, or in two linked statements. The Group is still evaluating whether it will have one or two statements.

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. In accordance with the transitional provisions in the revised standard, the Group shall apply the revised standard on a prospective basis to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009.

The revised HKAS 27 requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by the revised HKAS 27 must be applied prospectively and will affect future acquisitions and transactions with minority interests.

NOTES TO FINANCIAL STATEMENTS

31 December 2007

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

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. HK(IFRIC)-Int 12 also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services. As the Group currently has no such arrangements, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 Employee Benefits on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists.

As the Group currently has no customer loyalty award credits and defined benefit scheme, HK(IFRIC)-Int 13 and HK(IFRIC)-Int 14 are not applicable to the Group and therefore are unlikely to have any financial impact on the Group.

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 HKFRS 8 may result in new or amended disclosures and the adoption of HKAS 23 (Revised) may result in a change in accounting policy, 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.

NOTES TO FINANCIAL STATEMENTS

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Jointly-controlled entities

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

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

Associates

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

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

Goodwill 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. The Group perform its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets other than goodwill

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at 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, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

NOTES TO FINANCIAL STATEMENTS

31 December 2007

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

NOTES TO FINANCIAL STATEMENTS

31 December 2007

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

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 assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the 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 less any allowance for impairment. 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. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as "Other income" in accordance with the policies set out for "Revenue recognition" below. Losses arising from the impairment of such investments are recognised in the income statement as "Impairment losses on available-for-sale financial assets" and are transferred from the available-for-sale investment revaluation reserve.

NOTES TO FINANCIAL STATEMENTS

31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Available-for-sale financial assets (Continued)

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

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.

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. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

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 by adjusting the allowance account. 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 and other 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 and significant changes in the technological, market economic or legal environment that have an adverse effect on 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Assets carried at cost

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

Available-for-sale financial 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. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or ''prolonged" requires judgement. In addition, the Group evaluates other factors, such as the share price volatility. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets (Continued)

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, amounts due to an associate, a jointly-controlled entity, and 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. The related interest expense is recognised within "finance costs" in the income statement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

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 less 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*.

Convertible bonds

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

NOTES TO FINANCIAL STATEMENTS

31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial liabilities

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

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

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 that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and bank balances comprised cash on hand and at banks which are not restricted as to use.

Provisions

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

When the effect of discounting is material, the amount recognised for a provision is the present value at the 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2007

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.

Government grants

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

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 have been rendered;

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 model, further details of which are given in note 31 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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other employee benefits

Pension schemes and other retirement benefits

The Group operates a defined contribution Mandatory Provident Fund retirement 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.

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 ORSO Scheme was terminated with effect from 1 November 2007.

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

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.

NOTES TO FINANCIAL STATEMENTS
31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

The functional currencies of certain overseas subsidiaries, jointly-controlled entities and associates are currencies other than the Hong Kong dollar. As at the 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. Frequently recurring cash flows of the overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Impairment of assets

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

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the 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 amount of goodwill on the acquisition of subsidiaries at 31 December 2007 was HK$128,425,000 (2006: HK$199,372,000). More details are given in note 16 to the financial statements on the impairment testing of goodwill on acquisition of subsidiaries.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets including property, plant and equipment, and deposits paid for acquisition of plant and machinery at each reporting date. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of property, plant and equipment, and deposits for acquisition of plant and machinery at 31 December 2007 were HK$246,623,000 (2006: HK$175,378,000) and HK$73,327,000 (2006: HK$14,226,000), respectively. More details related to property, plant and equipment are given in note 14 to the financial statements.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The amounts of unrecognised tax losses arising in Hong Kong and in Mainland China were HK$152,119,000 (2006: HK$142,831,000) and HK$13,107,000 (2006: HK$7,042,000) as at 31 December 2007. Further details are given in note 11 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2007

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Impairment of available-for-sale financial assets

The Group classifies certain assets as available-for-sale and recognises movements of their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the income statement. At 31 December 2007, the carrying amount of available-for-sale assets was HK$5,029,000 (2006: HK$1,800,000). Further details are given in note 20 to the financial statements.

Impairment of trade receivables and prepayments, deposits and other receivables

The Group maintains an allowance for estimated losses arising from the inability of its customers to make the required payments. The Group makes its estimates based on the ageing of its trade receivable balances, customers' creditworthiness, and historical write-off experience. If the financial condition of its customers was to deteriorate so that the actual impairment loss might be higher than expected, the Group would be required to revise the basis of making the allowance, and its future results would be affected. The carrying amounts of trade receivables and prepayments, deposits and other receivables at 31 December 2007 were HK$15,911,000 (2006: HK$37,471,000) and HK$52,022,000 (2006: HK$32,014,000), respectively. Further details are given in notes 22 and 23 to the financial statements.

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

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

5. 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; and

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

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2007

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 years ended 31 December 2007 and 2006.

	Operation of gas stations		Trading of gas-related products		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:						
Sales to external customers	**148,790**	135,808	**20,734**	25,030	**169,524**	160,838
Other revenue	**2,425**	–	**2,044**	2,542	**4,469**	2,542
Total	**151,215**	135,808	**22,778**	27,572	**173,993**	163,380
Segment results	**(26,879)**	19,929	**(35,877)**	(147,054)	**(62,756)**	(127,125)
Interest and rental income and unallocated gains					**4,748**	42,182
Unallocated expenses					**(31,886)**	(34,291)
Finance costs					**(11,863)**	(3,436)
Impairment of interests in associates	**(8,844)**	(39,091)	**–**	–	**(8,844)**	(39,091)
Impairment of loans to shareholders of an associate					**–**	(14,300)
Impairment of goodwill	**(71,740)**	–	**–**	–	**(71,740)**	–
Share of profits and losses of:						
Jointly-controlled entities	**(1,793)**	(251)	**–**	–	**(1,793)**	(251)
Associates	**(103)**	(137)	**–**	–	**(103)**	(137)
Loss before tax					**(184,237)**	(176,449)
Tax					**(1,381)**	(7,909)
Loss for the year					**(185,618)**	(184,358)

NOTES TO FINANCIAL STATEMENTS

31 December 2007

5. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

	Operation of gas stations		Trading of gas-related products		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Assets and liabilities						
Segment assets	**539,468**	416,011	**70,494**	67,718	**609,962**	483,729
Interests in jointly-controlled entities	**10,220**	9,043	**–**	–	**10,220**	9,043
Interests in associates	**–**	8,365	**–**	–	**–**	8,365
Unallocated assets					**102,052**	78,856
Total assets					**722,234**	579,993
Segment liabilities	**22,159**	9,541	**36,750**	26,176	**58,909**	35,717
Unallocated liabilities					**192,462**	100,756
Total liabilities					**251,371**	136,473
Other segment information:						
Depreciation	**7,714**	2,465	**645**	955	**8,359**	3,420
Corporate and other unallocated amounts					**1,019**	407
					9,378	3,827
Capital expenditure	**83,013**	151,936	**2,652**	4,520	**85,665**	156,456
Corporate and other unallocated amounts					**625**	24,028
					86,290	180,484
Impairment losses recognised in the income statement in respect of:						
Items of property, plant and equipment	**10,061**	–	**171**	36,706	**10,232**	36,706
Available-for-sale investments	**–**	–	**–**	2,238	**–**	2,238
Goodwill	**71,740**	–	**–**	–	**71,740**	–
Trade receivables	**10,300**	255	**3,026**	1,573	**13,326**	1,828
Deposits and other receivables	**9,905**	18,192	**10,600**	97,955	**20,505**	116,147

NOTES TO FINANCIAL STATEMENTS
31 December 2007

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 years ended 31 December 2007 and 2006.

	Hong Kong		Mainland China		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:						
Sales to external customers	**–**	–	**169,524**	160,838	**169,524**	160,838
Other segment information:						
Segment assets	**97,023**	77,056	**625,211**	502,937	**722,234**	579,993
Capital expenditure	**625**	24,028	**85,665**	156,456	**86,290**	180,484

6. REVENUE, OTHER INCOME AND GAIN

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 gain is as follows:

	Note	2007 HK$'000	2006 HK$'000
Revenue			
Operation of gas stations		**148,790**	135,808
Trading of gas-related products		**20,734**	25,030
		169,524	160,838
Other income			
Interest income		**4,588**	1,602
Income from the installation of infrastructure for CNG supply		**2,044**	2,542
Government grants received*		**2,425**	–
Rental income		**–**	259
Others		**160**	683
		9,217	5,086
Gain			
Gain on disposal of subsidiaries	34(a)	**–**	39,638
		9,217	44,724

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

NOTES TO FINANCIAL STATEMENTS

31 December 2007

7. LOSS BEFORE TAX

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

	Notes	2007 HK$'000	2006 HK$'000
Cost of inventories sold*		**142,560**	114,715
Cost of services provided		**–**	3,633
Auditors' remuneration		**1,700**	1,450
Depreciation	14	**9,378**	3,827
Recognition of prepaid land lease payments	15	**990**	558
Minimum lease payments under operating leases in respect of land and buildings		**5,225**	4,396
Loss on disposal of items of property, plant and equipment**		**1,939**	2,615
Employee benefits expense (excluding directors' remuneration *(note 9)*):			
Wages and salaries and allowances		**21,221**	12,177
Equity-settled share option expense		**10,170**	6,591
Pension scheme contributions		**148**	200
Less: Forfeited contributions		**–**	(140)
Net pension scheme contributions***		**148**	60
		31,539	18,828
Impairment of items of property, plant and equipment	14	**10,232**	36,706
Impairment of interests in associates	19	**8,844**	39,091
Impairment of goodwill	16	**71,740**	–
Impairment of trade receivables#	22	**13,326**	1,828
Impairment of deposits and other receivables#	23	**20,505**	116,147
Provision for inventories*		**5,422**	–
Foreign exchange differences, net		**119**	(1,877)

* Cost of sales disclosed on the face of the consolidated income statement represents cost of inventories sold which included wages and salaries of HK$2,029,000 (2006: HK$167,000) disclosed under employee benefits expense and depreciation charges of HK$5,209,000 (2006: HK$1,023,000) and also provision for inventories of HK$5,422,000 (2006: Nil) above.

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

*** At 31 December 2007, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2006: Nil).

As at 31 December 2007, the directors had performed an impairment testing on the Group's trade receivables, and deposits and other receivables, and considered that certain deposits could not be recovered as a result of the deterioration of the financial positions of the relevant debtors. Accordingly, provision for impairment of trade receivables of HK$13,326,000 (2006: HK$1,828,000) and of deposits and other receivables of HK$20,505,000 (2006: HK$116,147,000), respectively, were charged to the consolidated income statement during the year.

NOTES TO FINANCIAL STATEMENTS

31 December 2007

8. FINANCE COSTS

	Note	2007 HK$'000	2006 HK$'000
Interest on loans/bonds wholly repayable within five years:			
Bank loans		**5,334**	2,728
Other loans		**14**	–
Convertible bonds	28	**5,728**	–
Interest on bank loans wholly repayable after five years		**766**	131
Interest on a finance lease		**21**	31
Total interest expense on financial liabilities not at fair value through profit or loss		**11,863**	2,890
Other finance costs:			
Increase in the discounted amounts of a loan from an associate and other loans arising from the passage of time		**–**	546
		11,863	3,436

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:

	2007 HK$'000	2006 HK$'000
Fees:		
Executive directors	**72**	211
Non-executive director	**36**	–
Independent non-executive directors	**180**	330
	288	541
Other emoluments (executive and non-executive directors):		
Salaries, allowances and benefits in kind	**1,920**	1,920
Performance related bonuses	**–**	530
Equity-settled share option benefits	**2,543**	880
Pension scheme contributions	**24**	24
	4,487	3,354
	4,775	3,895

NOTES TO FINANCIAL STATEMENTS

31 December 2007

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 31 to the financial statements. The fair value of such options which has been recognised in 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:

	2007	2006
	HK$'000	HK$'000
Wang Zhonghua	**60**	118
Zhong Qiang	**60**	115
Xiao Wei	**60**	97
	180	330

There were no other emoluments payable to the independent non-executive directors during the year (2006: Nil).

(b) Executive directors and a non-executive director

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Equity-settled share option benefits	Pension scheme contributions	Total remuneration
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2007						
Non-executive director:						
Ji Guirong	36	–	–	1,271	–	1,307
Executive directors:						
Lo Chi Ho, William	–	1,200	–	1,272	12	2,484
Sun Wenhao	36	–	–	–	–	36
Wu Ding	36	–	–	–	–	36
Ji Hui	–	720	–	–	12	732
	72	1,920	–	1,272	24	3,288
	108	1,920	–	2,543	24	4,595

NOTES TO FINANCIAL STATEMENTS

31 December 2007

9. DIRECTORS' REMUNERATION (Continued)

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

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Equity-settled share option benefits	Pension scheme contributions	Total remuneration
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2006						
Executive directors:						
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

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

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2006: two) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining two (2006: three) non-director, highest paid employees for the year are as follows:

	2007	2006
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**1,340**	1,895
Equity-settled share option benefits	**171**	1,032
Pension scheme contributions	**67**	127
	1,578	3,054

NOTES TO FINANCIAL STATEMENTS

31 December 2007

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	
	2007	2006
Nil to HK$1,000,000	**2**	2
HK$1,000,001 to HK$1,500,000	**–**	1
	2	3

During the year, share options were granted to these two non-director, highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 31 to the financial statements. The fair value of such options, which has been recognised in 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 (2006: 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.

	2007	2006
	HK$'000	HK$'000
Group:		
Current – Mainland China	**1,381**	7,909
Total tax charge for the year	**1,381**	7,909

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 is as follows:

	2007 HK$'000	2006 HK$'000
Loss before tax	**(184,237)**	(176,449)
Tax at the statutory tax rate	**(32,241)**	(30,879)
Lower tax rates for specific provinces	**(3,767)**	1,961
Profits and losses attributable to jointly-controlled entities and associates	**332**	68
Income not subject to tax	**(1,211)**	(2,765)
Expenses not deductible for tax	**29,456**	36,345
Tax losses not recognised	**8,866**	3,542
Others	**(54)**	(363)
Tax charge for the year	**1,381**	7,909

Certain subsidiaries of the Group in Mainland China were eligible for exemption from corporate income tax ("CIT") for 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 HK$35,000 (2006: Nil) and HK$11,000 (2006: Nil), respectively, is included in "Share of profits and losses of associates and jointly-controlled entities" on the face of the consolidated income statement.

The Group has tax losses arising in Hong Kong of HK$152,119,000 (2006: HK$142,831,000) and in Mainland China of HK$13,107,000 (2006: HK$7,042,000) that are available indefinitely and five years, respectively, for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

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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 2007 includes a loss of HK$144,298,000 (2006: HK$132,226,000) which has been dealt with in the financial statements of the Company (note 32(b)).

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

The calculation of basic loss per share amounts is based on the loss for the year attributable to ordinary equity holders of the parent of HK$183,282,000 (2006: HK$132,748,000), and the weighted average number of 1,639,415,300 (2006: 1,263,228,999) ordinary shares in issue during the year.

Diluted loss per share amounts for the years ended 31 December 2007 and 2006 have not been disclosed, as the share options, warrants and convertible bonds outstanding during these years had anti-dilutive effects on the basic loss per share amounts for these years.

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14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Leasehold improvements	Plant and machinery	Furniture and fixtures	Motor vehicles	Construction in progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
31 December 2007							
At 1 January 2007:							
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
At 1 January 2007, net of accumulated depreciation and impairment	35,868	773	32,709	3,551	6,671	95,806	175,378
Additions	8,285	80	1,374	1,232	28,913	28,877	68,761
Disposals	–	–	(12)	(662)	(1,265)	–	(1,939)
Transfers	10,013	–	9,841	14,384	–	(34,238)	–
Acquisition of subsidiaries *(note 33)*	2,686	–	410	173	12,915	553	16,737
Disposal of a subsidiary *(note 34(a))*	–	–	(36)	(85)	(194)	(3,861)	(4,176)
Impairment	(966)	–	(86)	(9)	(158)	(9,013)	(10,232)
Depreciation provided during the year	(1,814)	(141)	(2,571)	(820)	(4,032)	–	(9,378)
Exchange realignment	986	13	2,211	220	1,169	6,873	11,472
At 31 December 2007, net of accumulated depreciation and impairment	55,058	725	43,840	17,984	44,019	84,997	246,623
At 31 December 2007:							
Cost	58,346	875	49,039	20,348	49,818	125,300	303,726
Accumulated depreciation and impairment	(3,288)	(150)	(5,199)	(2,364)	(5,799)	(40,303)	(57,103)
Net carrying amount	55,058	725	43,840	17,984	44,019	84,997	246,623

NOTES TO FINANCIAL STATEMENTS

31 December 2007

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 2006							
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 subsidiaries	–	–	–	15	127	9,540	9,682
Disposal of subsidiaries *(note 34(a))*	(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 2007

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 2007				
At 1 January 2007:				
Cost	630	771	1,350	2,751
Accumulated depreciation	(10)	(652)	(743)	(1,405)
Net carrying amount	620	119	607	1,346
At 1 January 2007, net of accumulated depreciation	620	119	607	1,346
Additions	80	45	500	625
Depreciation provided during the year	(141)	(60)	(319)	(520)
At 31 December 2007, net of accumulated depreciation	559	104	788	1,451
At 31 December 2007:				
Cost	710	816	1,850	3,376
Accumulated depreciation	(151)	(712)	(1,062)	(1,925)
Net carrying amount	559	104	788	1,451

NOTES TO FINANCIAL STATEMENTS

31 December 2007

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

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

	2007 **HK$'000**	2006 HK$'000
At cost, located in:		
Hong Kong	**23,300**	23,300
Mainland China	**35,046**	14,089
	58,346	37,389

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 2007 amounted to HK$337,000 (2006: HK$607,000).

As at 31 December 2007, one of the Group's buildings with net book value of approximately HK$22,720,000 (2006: HK$23,217,000) was pledged to secure a bank loan granted to the Group (note 27(a)(ii)).

As at 31 December 2007, the directors had performed an impairment testing on the Group's property, plant and equipment, and they considered that the carrying amounts of certain property, plant and equipment are in excess of their recoverable amounts as a result of the continuing non-performance of the businesses of certain subsidiaries. Accordingly, provision for impairment of HK$10,232,000 (2006: HK$36,706,000) was charged to the consolidated income statement during the year.

15. PREPAID LAND LEASE PAYMENTS

		Group	
		2007	2006
	Notes	**HK$'000**	HK$'000
Carrying amount at 1 January		**12,360**	3,497
Recognised during the year	7	**(990)**	(558)
Disposal of a subsidiary	34(a)	**–**	(2,124)
Addition for the year		**4,663**	11,384
Exchange realignment		**827**	161
Carrying amount at 31 December		**16,860**	12,360
Current portion included in prepayments, deposits and other receivables		**(1,562)**	(668)
Non-current portion		**15,298**	11,692

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

NOTES TO FINANCIAL STATEMENTS

31 December 2007

16. GOODWILL

Group

	HK$'000
At 1 January 2006:	
Cost	100,158
Accumulated impairment	–
Net carrying amount	100,158
Cost at 1 January 2006	100,158
Acquisition of subsidiaries	99,030
Acquisition of an additional interest in a subsidiary	297
Disposal of a subsidiary *(note 34(a))*	(117)
Exchange realignment	4
At 31 December 2006	199,372
At 31 December 2006:	
Cost	199,372
Accumulated impairment	–
Net carrying amount	199,372
Cost at 1 January 2007	199,372
Acquisition of an additional interest in a subsidiary	793
Impairment during the year	(71,740)
At 31 December 2007	128,425
At 31 December 2007:	
Cost	200,165
Accumulated impairment	(71,740)
Net carrying amount	128,425

Impairment testing of goodwill

Goodwill acquired through business combinations 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 10 year period. The discount rate applied to cash flow projections is 18.4% (2006: 15.9%).

NOTES TO FINANCIAL STATEMENTS
31 December 2007

16. GOODWILL (Continued)

Impairment testing of goodwill (Continued)

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

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

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

As at 31 December 2007, the directors had performed an impairment testing on the Group's goodwill, and they considered that the goodwill arising from the acquisition of Jetco Innovations Limited could not be recovered as a result of the non-performance of its business. Accordingly, provision for impairment of HK$71,740,000 was charged to the consolidated income statement during the year.

17. INTERESTS IN SUBSIDIARIES

	Company	
	2007	2006
	HK$'000	HK$'000
Unlisted shares, at cost	**99,022**	99,022
Due from subsidiaries	**498,624**	349,189
Loans to a subsidiary	**91,968**	38,102
	689,614	486,313
Impairment#	**(249,843)**	(133,913)
	439,771	352,400

\# An impairment was recognised for certain unlisted investments in subsidiaries with a carrying amount of HK$249,843,000 (2006: HK$133,913,000) (before deducting impairment loss) as a result of the continuing non-performance of the businesses of those subsidiaries.

The amounts due from subsidiaries of HK$498,624,000 (2006: HK$349,189,000) are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, these balances are considered as quasi-equity loans to the subsidiaries.

NOTES TO FINANCIAL STATEMENTS

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17. INTERESTS IN SUBSIDIARIES (Continued)

As at 31 December 2006, the loans advanced to a subsidiary were unsecured and bore interest at 3-month Hong Kong Interbank Offered Rate ("HIBOR") plus 2.5% per annum and were repayable in 2007. During the year, the repayment date of the said loans, together with the unpaid interest payable to the Company, was extended to 2008. In the opinion of the directors, the loans are quasi-equity loans to the subsidiaries and therefore the loans were classified as non-current assets and were included in interests in subsidiaries. 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#	People's Republic of China ("PRC")/ Mainland China	RMB100,000,000	–	69.4	Trading of conversion parts and gas station equipment
Jilin Sinogas Company Limited*^	PRC/Mainland China	RMB8,000,000	–	35.39	Trading of conversion parts and gas station equipment and operation of gas stations
Qingdao Sinogas Company Limited^	PRC/Mainland China	RMB10,000,000	–	68.91	Trading of conversion parts and gas station equipment and operation of gas stations
Xinjiang Sinogas Company Limited*^	PRC/Mainland China	RMB500,000	–	41.64	Trading of conversion parts and gas station equipment
Zhengzhou Sinogas Company Limited*^	PRC/Mainland China	RMB29,400,000	–	41.64	Operation of gas stations

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NOTES TO FINANCIAL STATEMENTS

31 December 2007

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 %	Percentage of equity attributable to the Company Indirect %	Principal activities
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$30,000,000	–	100	Operation of gas stations
Changchun Sinogas Company Limited^	PRC/Mainland China	RMB20,000,000	–	96.5	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
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$825,000	–	70	Operation of gas stations
Henan Sinogas Nanhai Energy Sources Company Limited^	PRC/Mainland China	RMB10,000,000	–	80	Operation of gas stations
Ningxia Jianrong New Energy Limited^	PRC/Mainland China	RMB11,557,000	–	85	Operation of gas stations
Sinogas Chengdu Company Limited^	PRC/Mainland China	RMB20,000,000	–	85	Operation of gas stations

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NOTES TO FINANCIAL STATEMENTS

31 December 2007

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
Sino Gas Group Holdings Limited	British Virgin Islands/Hong Kong	US$1	100	–	Property holding
Chengdu Sinogas Company Limited@#	PRC/Mainland China	HK$20,000,000	–	85	Operation of gas stations
Chuang Jie Ran Qi (Chengdu) Company Limited@^	PRC/Mainland China	HK$30,000,000	–	95.5	Operation of gas stations
Xinzheng Sinogas Company Limited@^	PRC/Mainland China	HK$3,643,864	–	90	Operation of gas stations
Sino Gas (Jiangxi) Limited@^	PRC/Mainland China	HK$24,252,000	–	85	Operation of gas stations
Sino Gas (Jiujiang) Limited@#	PRC/Mainland China	USD1,013,822	–	100	Operation of gas stations
Sino Gas (Ganzhou) Limited@#	PRC/Mainland China	USD750,000	–	100	Operation of gas stations
Sino Gas (Zhengzhou) Company Limited@#	PRC/Mainland China	HK$10,000,000	–	100	Operation of gas stations
Sino Gas (Zhuhai) Limited*@# (note)	PRC/Mainland China	HK$38,000,000	–	50	Investment holding
Guangzhou Sinogas Company Limited*	PRC/Mainland China	RMB20,000,000	–	50	Operation of gas stations
Zhuhai Sinogas Transportation Company Limited*@^	PRC/Mainland China	RMB10,000,000	–	45	Transportation of natural gas

* These companies are subsidiaries of a non-wholly-owned subsidiary of the Company and are accordingly, 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 the PRC laws.

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

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17. INTERESTS IN SUBSIDIARIES (Continued)

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

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

Note:

Sino Gas (Zhuhai) Limited ("Sino Gas (Zhuhai)") was a joint venture, of which 50% of the total registered capital is held by the Group and the remaining 50% is held by Sanlin Resources Limited.

In prior years, the board of directors of Sino Gas (Zhuhai) comprised four seats and two representatives were assigned by both parties. Besides, the articles of associations also stated that all significant decisions related to the financial and operating policies of Sino Gas (Zhuhai) required to be approved by at least two-third votes from the board of directors. Accordingly, Sino Gas (Zhuhai) was accounted for by the Group as a jointly-controlled entity in prior years. During the year, the articles of association of Sino Gas (Zhuhai) were amended to confer the Group the right to appoint one more representative to the board of directors and the two-third vote requirement to pass any resolution in the board of directors' meeting was also cancelled. Accordingly, in the opinion of the directors, the Group can exercise a dominant control over the financial and operating policies of Sino Gas (Zhuhai), and accordingly, Sino Gas (Zhuhai) was accounted for as a subsidiary of the Group in the current year. Further details of the transaction are given in note 33 to the financial statements.

18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2007	2006
	HK$'000	HK$'000
Share of net assets	**10,220**	9,043

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 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 registration	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activity
Henan Blue Sky Sinopetroleum Clean Energy Science & Technology Co. Limited*	RMB20,000,000	PRC	50	50	50	Not yet commenced business

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

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18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

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

	2007 HK$'000	2006 HK$'000
Share of jointly-controlled entities' assets and liabilities:		
Current assets	**7,347**	8,737
Non-current assets	**2,940**	814
Current liabilities	**(67)**	(508)
Net assets	**10,220**	9,043
Share of jointly-controlled entities' results:		
Revenue	**6,335**	–
Other income	**23**	16
	6,358	16
Total expenses	**(8,151)**	(267)
Loss after tax	**(1,793)**	(251)

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19. INTERESTS IN ASSOCIATES

	Group	
	2007	2006
	HK$'000	HK$'000
Share of net assets	**17,151**	16,672
Provision for impairment	**(17,151)**	(8,307)
	–	8,365
Goodwill on acquisition	**58,764**	58,764
Provision for impairment	**(58,764)**	(58,764)
	–	–
	–	8,365

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 in goodwill on acquisition of the associates is set out below:

	HK$'000
At 1 January 2006:	
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)
At 31 December 2006	–
At 31 December 2006:	
Cost	58,764
Accumulated impairment	(58,764)
Net carrying amount	–

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19. INTERESTS IN ASSOCIATES (Continued)

The movement in goodwill on acquisition of the associates is set out below: (Continued)

	HK$'000
Cost at 1 January 2007, net of accumulated impairment	–
Impairment during the year	–
At 31 December 2007	–
At 31 December 2007:	
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 associates which engaged in the development and manufacture of bio-agricultural pesticide products and the operation of gas stations. During the year ended 31 December 2006, the goodwill arising from acquisition of the associate engaged in the operation of gas stations, amounted to HK$30,784,000 was determined to be impaired and had been fully provided for during that year.

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$75,915,000 (2006: HK$67,071,000) in aggregate was made by the Group against its interests in those associates, including the related goodwill on acquisition, as at 31 December 2007. Accordingly, the provision for impairment charged to the consolidated income statement for the year amounted to HK$8,844,000 (2006: HK$39,091,000).

19. INTERESTS IN ASSOCIATES (Continued)

Impairment testing of interests in associates and goodwill (Continued)

The recoverable amounts of the interests in associates and the goodwill arising from the acquisition of the associates which engaged in the development and manufacture of bio-agricultural pesticide products and 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 10 year period. The discount rate applied to cash flow projections is 18.4% (2006: 15.9%).

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

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

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

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*	Registered capital of RMB20,476,817	PRC	35.3	Operation of gas stations

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

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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 that 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:

	2007	2006
	HK$'000	HK$'000
Assets	**89,704**	84,752
Liabilities	**(22,568)**	(21,726)
Revenues	**28,173**	37,294
Loss	**(209)**	(1,782)

20. AVAILABLE-FOR-SALE INVESTMENTS

	Group		**Company**	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Overseas unlisted equity investments, at cost	**152,300**	148,965	**145,665**	145,665
Impairment	**(147,271)**	(147,165)	**(145,665)**	(145,665)
	5,029	1,800	**–**	–

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 2007, the Group's and the Company's unlisted equity investments with carrying amounts of HK$5,029,000 (2006: HK$1,800,000) and nil (2006: Nil), 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 values cannot be measured reliably. The Group does not intend to dispose of them in the near future.

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20. AVAILABLE-FOR-SALE INVESTMENTS (Continued)

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 (2006: HK$137,858,000) acquired in 2003 which had been fully provided for in 2005. CMEP is a company incorporated in the British Virgin Islands and principally engages in the holding of a contractual right to receive fees from the business of trading of television commercial airtime in Mainland China.

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

However, such undertakings and guarantees were not fulfilled. The Company instigated legal proceedings against CMI in 2004 to claim for, among others, damages for breach of the Agreement. A judgement was granted by the court in favour of the Company 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 was fully impaired as at 31 December 2005 and an impairment loss of HK$137,858,000 in respect of the investment in CMEP was charged to the income statement for the period ended 31 December 2005.

The remaining impairment losses of HK$9,413,000 (2006: HK$9,307,000) as at 31 December 2007 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	
	2007	2006
	HK$'000	HK$'000
Conversion parts	**4,455**	7,474
Gas station equipment	**821**	2,949
CNG and LPG	**1,157**	1,907
	6,433	12,330

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22. TRADE RECEIVABLES

	Group	
	2007	2006
	HK$'000	HK$'000
Trade receivables	**31,341**	39,347
Impairment	**(15,430)**	(1,876)
	15,911	37,471

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

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

	Group	
	2007	2006
	HK$'000	HK$'000
0 to 90 days	**15,793**	8,784
91 to 120 days	**59**	3,222
Over 120 days	**15,489**	27,341
	31,341	39,347

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

	Group	
	2007	2006
	HK$'000	HK$'000
At 1 January	**1,876**	–
Impairment losses recognised *(note 7)*	**13,326**	1,828
Exchange realignment	**228**	48
	15,430	1,876

22. TRADE RECEIVABLES (Continued)

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$15,430,000 (2006: HK$1,876,000) with carrying amounts of HK$15,430,000 (2006: HK$1,876,000).

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

	Group	
	2007	2006
	HK$'000	HK$'000
Neither past due nor impaired	**15,698**	11,983
Less than 30 days past due	**180**	23
31 to 90 days past due	**33**	25,465
	15,911	37,471

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

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

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

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**27,111**	15,921	**597**	2,401
Deposits and other receivables	**173,134**	135,117	**6,499**	6,457
Impairment	**(148,223)**	(119,024)	**(6,202)**	(6,202)
	52,022	32,014	**894**	2,656

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

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23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (Continued)

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

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
At 1 January	**119,024**	–	**6,202**	–
Impairment losses recognised *(note 7)*	**20,505**	116,147	**–**	6,202
Exchange realignment	**8,694**	2,877	**–**	–
	148,223	119,024	**6,202**	6,202

Included in the above provision for impairment of deposit and other receivables of the Group is a provision for individually impaired deposits and other receivables of HK$148,223,000 (2006: HK$119,024,000) with carrying amounts of HK$148,223,000 (2006: HK$119,024,000).

24. CASH AND BANK BALANCES

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$72,717,000 (2006: HK$20,167,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earn interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and bank balances approximate to their fair values.

25. TRADE PAYABLES

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

	Group	
	2007	2006
	HK$'000	HK$'000
0 to 90 days	**10,850**	13,988
91 to 120 days	**214**	343
Over 120 days	**6,521**	851
	17,585	15,182

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.

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26. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2007	2006	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000
Deferred income	10,088	3,203	–	–
Other payables	27,709	18,934	9	10
Accruals	4,046	4,524	1,809	3,295
	41,843	26,661	1,818	3,305

27. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group	2007			2006		
	Effective interest rate (%)	Maturity	HK$'000	Effective interest rate (%)	Maturity	HK$'000
Current						
Other loans – unsecured	–	On demand	2,150	–	On demand	2,150
Bank loans – unsecured	5.8 to 11.2	2008	62,060	5 to 6.7	Within 1 year	50,000
Current portion of long term bank loans – secured	Prime-2.8	2008	902	Prime-2.8	Within 1 year	755
Current portion of long term bank loans – secured	HIBOR+1.75	2008	7,500			–
			72,612			52,905
Non-current						
Bank loans – secured	Prime-2.8 to HIBOR+1.75	2009 – 2021	22,088	Prime-2.8 to HIBOR+1.75	2008 – 2021	30,495
			94,700			83,400

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

Company	2007			2006		
	Effective interest rate (%)	Maturity	HK$'000	Effective interest rate (%)	Maturity	HK$'000
Current						
Other loans – unsecured	–	On demand	2,150	–	On demand	2,150
Current portion of long term bank loans – secured	HIBOR+1.75	2008	7,500			–
			9,650			2,150
Non-current						
Bank loans – secured	HIBOR+1.75	2009	7,500	HIBOR+1.75	2008 – 2009	15,000
			17,150			17,150

	Group		Company	
	2007 HK$'000	2006 HK$'000	2007 HK$'000	2006 HK$'000
Analysed into:				
Bank loans repayable:				
Within one year or on demand	70,462	50,755	7,500	–
In the second year	8,442	8,294	7,500	7,500
In the third to fifth years, inclusive	2,998	10,130	–	7,500
Over five years	10,648	12,071	–	–
	92,550	81,250	15,000	15,000
Other borrowings repayable:				
Within one year or on demand	2,150	2,150	2,150	2,150
	94,700	83,400	17,150	17,150

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

Notes:

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

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

(ii) pledge of the Group's building in Hong Kong with carrying value of HK$22,720,000 (2006: HK$23,217,000) (note 14); and

(iii) corporate guarantees aggregating HK$43,060,000 (2006: HK$26,310,000) executed by the Company (note 35).

(b) Except for the unsecured bank loans of HK$62,060,000 (2006: 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 borrowings are unsecured, interest-free and repayable on demand.

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

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

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28. CONVERTIBLE BONDS

On 10 January 2007 and 19 March 2007, the Company issued convertible bonds with an aggregate nominal value of HK$85,800,000. There was no movement in convertible bonds during the year. The bonds are convertible at the option of the bondholders into ordinary shares at the initial conversion price of HK$0.65 per share at anytime after issue of the convertible bonds. Any convertible bonds not converted will be redeemed at par in two years after the date of issue or will be further extended as agreed between the bondholders and the Company. The bonds carry interest at a rate of 2% per annum, which is payable half-yearly in arrears.

Pursuant to the convertible bond agreements, the conversion price of these convertible bonds can be adjusted from time to time when there is (i) share consolidation or share split; (ii) issue of new shares by the Company; (iii) capital distribution made by the Company; (iv) offer of new class of shares or grant of any options or warrants by the Company to the existing shareholders. On 25 May 2007, the Company adjusted the initial conversion price from HK$0.65 per share to HK$0.633 per share upon the issuance of ordinary shares as detailed in note 30, as the condition for the conversion adjustment has been met.

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

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

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

	Note	HK$'000
Nominal value of convertible bonds issued during the year		85,800
Equity component		(10,164)
Liability component at the issuance date		75,636
Interest expense	8	5,728
Interest paid		(858)
Liability component at 31 December 2007		80,506

29. 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 instalments of 60 months and has a remaining lease term of 16 months as at 31 December 2007.

At 31 December 2007, 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**	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Group and Company				
Amounts payable:				
Within one year	**267**	267	**257**	247
In the second year	**89**	267	**88**	257
In the third to fifth years, inclusive	**–**	89	**–**	88
Total minimum finance lease payments	**356**	623	**345**	592
Future finance charges	**(11)**	(31)	**–**	–
Total net finance lease payables	**345**	592	**345**	592
Portion classified as current liabilities	**(257)**	(247)		
Non-current portion	**88**	345		

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

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30. SHARE CAPITAL

Shares

	2007 HK$'000	2006 HK$'000
Authorised:		
10,000,000,000 (2006: 10,000,000,000) ordinary shares of HK$0.2 each	**2,000,000**	2,000,000
Issued and fully paid:		
1,751,855,000 (2006: 1,453,355,000) ordinary shares of HK$0.2 each	**350,371**	290,671

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

(a) 284,500,000 ordinary shares of HK$0.20 each at prices ranging from HK$0.51 to HK$0.55 per share and share options to subscribe for 41,000,000 ordinary shares at an exercise price of HK$0.51 each were issued to certain independent third parties and existing shareholders for a total cash consideration, before expenses, of HK$146,795,000. These transactions resulted in the increase of the issued share capital, share premium and share option reserve of HK$56,900,000, HK$81,076,000 and HK$8,819,000, respectively.

(b) 11,000,000 shares of HK$0.20 each were issued for cash at an exercise price of HK$0.51 per share pursuant to the exercise of 11,000,000 share options, issued pursuant to the transactions in (a) above, for a total cash consideration, before expenses, of HK$5,610,000. The related share option reserve of HK$2,366,000 was transferred to the share premium account accordingly.

(c) 3,000,000 shares of HK$0.20 each were issued for cash at an exercise price of HK$0.20 per share pursuant to the exercise of 3,000,000 share options, issued pursuant to the Company's share option scheme (note 31), for a total cash consideration, before expenses, of HK$600,000. The related share option reserve of HK$220,000 was transferred to the share premium account accordingly.

(d) The remaining 30,000,000 share options, issued pursuant to the transactions in (a) above, were expired during the year and the related share option reserve of HK$6,453,000 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.

30. 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 HK$'000	Share premium account HK$'000	Share option reserve HK$'000	Total HK$'000
At 1 January 2006	1,004,855,000	200,971	507,781	–	708,752
Issue of shares for acquisition of a subsidiary	124,500,000	24,900	52,290	–	77,190
Issue of warrants for acquisition of a subsidiary	–	–	26,408	–	26,408
Issue of shares	265,000,000	53,000	86,450	–	139,450
Issue of shares upon exercise of options	59,000,000	11,800	4,463	(4,463)	11,800
Equity-settled share option arrangement *(note 31)*	–	–	–	7,471	7,471
	448,500,000	89,700	169,611	3,008	262,319
Share issue expenses	–	–	(2,448)	–	(2,448)
At 31 December 2006 and 1 January 2007	1,453,355,000	290,671	674,944	3,008	968,623
Issue of shares and options (a)	284,500,000	56,900	81,076	8,819	146,795
Issue of shares upon exercise of options ((b) and (c))	14,000,000	2,800	5,996	(2,586)	6,210
Equity-settled share option arrangement *(note 31)*	–	–	–	12,713	12,713
Transfer of reserve upon expiry of options (d)	–	–	6,453	(6,453)	–
	298,500,000	59,700	93,525	12,493	165,718
Share issue expenses	–	–	(1,530)	–	(1,530)
At 31 December 2007	1,751,855,000	350,371	766,939	15,501	1,132,811

Share options

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

Warrants

In connection with the acquisition of a subsidiary during the year ended 31 December 2006, 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.

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31. SHARE OPTION SCHEME

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

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

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 10 years from the date of offer of the share options or the expiry date of the Scheme, if earlier.

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

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31. SHARE OPTION SCHEME (Continued)

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

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

	2007		2006	
	Weighted average exercise price HK$ per share	**Number of options '000**	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	**0.20**	**41,000**	–	–
Granted during the year	**0.35**	**149,000**	0.20	100,000
Exercised during the year	**0.20**	**(3,000)**	0.20	(59,000)
At 31 December	**0.32**	**187,000**	0.20	41,000

The weighted average share price at the date of exercise for share options exercised during the year was HK$0.47 (2006: HK$0.58).

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31. SHARE OPTION SCHEME (Continued)

The exercise prices and exercise periods of the share options outstanding as at the balance sheet date are as follows:

2007

Number of options '000	Exercise price* HK$ per share	Exercise period
12,000	0.20	1-2-06 to 31-1-09
26,000	0.20	1-2-06 to 31-1-15
49,667	0.35	1-10-07 to 31-1-15
49,667	0.35	1-1-08 to 31-1-15
49,666	0.35	1-7-08 to 31-1-15
187,000		

2006

Number of options '000	Exercise price* HK$ per share	Exercise period
12,000	0.20	1-2-06 to 31-1-09
29,000	0.20	1-2-06 to 31-1-15
41,000		

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

The fair value of the share options granted during the year was HK$16,650,000 (2006: HK$7,471,000) for which the Group recognised share option expense of HK$12,713,000 (2006: HK$7,471,000) during the year ended 31 December 2007.

31. SHARE OPTION SCHEME (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 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 2007:

	Group	
	2007	2006
Dividend yield (%)	**0**	0
Expected volatility (%)	**64.43**	88.30
Historical volatility (%)	**64.43**	88.30
Risk-free interest rate (%)	**3.97-3.98**	3.87-4.02
Expected life of option (year)	**1-2**	0.74-2.08
Weighted average share price (HK$)	**0.33**	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.

3,000,000 share options were exercised during the year resulting in the issue of 3,000,000 ordinary shares of the Company and new share capital of HK$600,000 (before issue expenses), as further detailed in note 30 to the financial statements.

At the balance sheet date, the Company had 187,000,000 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 187,000,000 additional ordinary shares of the Company and additional share capital of HK$37,400,000 and share premium of HK$22,350,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 187,000,000 share options outstanding under the Scheme, which represent approximately 10.35% of the Company's shares in issue as at that date.

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32. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 29 and 30 of the financial statements.

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

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

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32. RESERVES (Continued)

(b) Company

	Notes	Share premium account HK$'000	Share option reserve HK$'000	Equity component of convertible bonds HK$'000	Special capital reserve HK$'000	Capital redemption reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2006		507,781	–	–	828,646	3,865	(1,294,212)	46,080
Issue of shares for acquisition of a subsidiary		52,290	–	–	–	–	–	52,290
Issue of shares		86,450	–	–	–	–	–	86,450
Share issue expenses		(2,448)	–	–	–	–	–	(2,448)
Issue of warrants for acquisition of a subsidiary		26,408	–	–	–	–	–	26,408
Equity-settled share option arrangements		–	7,471	–	–	–	–	7,471
Transfer of reserve upon exercise of options		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
Issue of convertible bonds	28	–	–	10,164	–	–	–	10,164
Issue of shares and options	30(a)	81,076	8,819	–	–	–	–	89,895
Share issue expenses	30	(1,530)	–	–	–	–	–	(1,530)
Equity-settled share option arrangements	30	–	12,713	–	–	–	–	12,713
Issue of shares upon exercise of options	30(b), (c)	5,996	(2,586)	–	–	–	–	3,410
Transfer of reserve upon expiry of options	30(d)	6,453	(6,453)	–	–	–	–	–
Loss for the year		–	–	–	–	–	(144,298)	(144,298)
At 31 December 2007		766,939	15,501	10,164	828,646	3,865	(1,570,736)	54,379

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33. BUSINESS COMBINATION

As detailed in note 17 to the financial statements, Sino Gas (Zhuhai) was accounted for as a subsidiary of the Group in the current year. The carrying amounts of the identified assets and liabilities of Sino Gas (Zhuhai), which approximate to their respective fair values, as at the date of reclassification from interest in a jointly-controlled entity to interest in a subsidiary are as follows:

	Note	**Fair value recognised on reclassification** HK$'000
Property, plant and equipment	14	16,737
Available-for-sale investments		600
Deposits paid for acquisition of plant and machinery		316
Inventories		3,506
Trade receivables		727
Prepayments, deposits and other receivables		16,993
Cash and bank balances		17,223
Trade payables		(5,531)
Other payables and accruals		(14,283)
Minority interests		(8,790)
		27,498
Satisified by:		
Reclassification of the interest in a jointly-controlled entity to interest in a subsidiary		27,498

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

	HK$'000
Cash and bank balances acquired	17,223
Net inflow of cash and cash equivalents in respect of the reclassification	17,223

Since its reclassification from interest in a jointly-controlled entity, Sino Gas (Zhuhai) contributed HK$38,467,000 to the Group's turnover and incurred losses of HK$5,154,000 which were included in the Group's consolidated income statement for the year ended 31 December 2007.

Had the combination taken place at the beginning of the year, the total Group's revenue for the year would have been HK$182,195,000.

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Disposal of subsidiaries

	Notes	2007 HK$'000	2006 HK$'000
Net assets disposed of:			
Property, plant and equipment	14	4,176	13,468
Prepaid land lease payments	15	–	2,124
Deposits paid for acquisition of plant and equipment		348	–
Inventories		18	–
Trade receivables		–	24
Prepayments, deposits and other receivables		3,531	81
Due from minority shareholders		–	1,989
Cash and bank balances		1,266	48
Trade payables		(105)	(1,599)
Other payables and accruals		(140)	(8,647)
Interest-bearing bank and other borrowings		–	(37,500)
Minority interests		(889)	(2,697)
		8,205	(32,709)
Goodwill disposed of	16	–	117
Gain on disposal of subsidiaries	6	–	39,638
		8,205	7,046
Satisfied by cash		8,205	7,046

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

	2007 HK$'000	2006 HK$'000
Cash consideration	8,205	7,046
Cash and bank balances disposed of	(1,266)	(48)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	6,939	6,998

(b) Major non-cash transaction

In the prior 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 2008 Warrants valued at HK$26,408,000.

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35. CONTINGENT LIABILITIES AND LITIGATIONS

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

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Corporate guarantees given to banks in connection with facilities granted to:				
Subsidiaries	**–**	–	**43,060**	26,310
An associate	**–**	9,000	**–**	–
An independent third party*	**–**	100,000	**–**	–
	–	109,000	**43,060**	26,310

* During the year, 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) during the year ended 31 December 2006. As at 31 December 2006, the directors had performed an impairment testing on this other receivable and considered that its recoverability was 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 ended 31 December 2006.

As at 31 December 2007, the corporate guarantees granted to the subsidiaries of HK$43,060,000 (2006: HK$26,310,000) by the Company were utilised to the extent of approximately HK$43,060,000 (2006: HK$26,310,000). As at 31 December 2006, the corporate guarantees granted by the Group to an associate and an independent third party were utilised to the extent of approximately HK$8,000,000 and HK$100,000,000, respectively, and these corporate guarantees were released upon the full repayment of bank borrowings in the current 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 were accrued for in the financial statements at the balance sheet date.

NOTES TO FINANCIAL STATEMENTS

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36. OPERATING LEASE ARRANGEMENTS

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

At 31 December 2007, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Within one year	**5,080**	2,859
In the second to fifth years, inclusive	**17,441**	5,500
After five years	**26,541**	3,591
	49,062	11,950

37. COMMITMENTS

In addition to the operating lease commitments detailed in note 36 above, the Group had capital commitments in respect of the acquisition of items of property, plant and equipment of HK$100,123,000 (2006: HK$16,552,000) contracted for but not provided for the financial statements as at 31 December 2007.

Besides, on 30 November 2007, Sino Gas (Jiangxi) Limited ("Sino Gas (Jiangxi)"), a 85% owned subsidiary of the Company, has entered into a joint venture agreement with an independent third party in relation to the formation of a limited liability joint ventre company (the "JV Company") in Jiangxi Province, the PRC. The JV Company has a registered capital of RMB100,000,000 and will be owned as to 60% by Sino Gas (Jiangxi), and accordingly, Sino Gas (Jiangxi) has a commitment to contribute RMB60,000,000 to the JV Company.

NOTES TO FINANCIAL STATEMENTS

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38. RELATED PARTY TRANSACTIONS

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

	Notes	Group 2007 HK$'000	Group 2006 HK$'000
Associate:			
Sale of products	(i)	**23**	51
Jointly-controlled entity:			
Purchases of products	(ii)	**–**	2,713
Minority shareholders:			
Sale of products	(i)	**25,733**	32,942
Interest income	(iii)	**135**	–
A partner of a jointly-controlled entity:			
Interest income	(iii)	**135**	185

Notes:

(i) The sales to the associate 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 jointly-controlled entity were made according to the published prices and conditions offered by the jointly-controlled entity to its major customers.

(iii) The interest income received from a minority shareholder and a partner of a jointly-controlled entity was charged at an interest rate of 3% per annum.

38. RELATED PARTY TRANSACTIONS (Continued)

(b) Outstanding balances with related parties:

(i) Details of the Group's balances with a jointly-controlled entity and an associate 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.

(ii) The loan to a minority shareholder is unsecured, bears interest at 3% per annum and repayable within one year.

(iii) The loan to a partner of a jointly-controlled entity as at 31 December 2006 was unsecured, bore interest at 3% per annum and had no fixed term of repayment.

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

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

	2007 HK$'000	2006 HK$'000
Short term employee benefits	**2,208**	2,991
Post-employment benefits	**24**	24
Share-based payments	**2,543**	880
Total compensation paid to key management personnel	**4,775**	3,895

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

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

NOTES TO FINANCIAL STATEMENTS

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39. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

2007 **Group**

Financial assets

	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Available-for-sale investments	–	5,029	5,029
Trade receivables	15,911	–	15,911
Financial assets included in prepayments, deposits and other receivables	24,911	–	24,911
Due from an associate	7,416	–	7,416
Due from minority shareholders	17,298	–	17,298
Loan to a minority shareholder	9,000	–	9,000
Cash and bank balances	135,232	–	135,232
	209,768	5,029	214,797

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Trade payables	17,585
Financial liabilities included in other payables and accruals	27,709
Due to a jointly-controlled entity	2,782
Due to minority shareholders	2,818
Interest-bearing bank and other borrowings	94,700
Convertible bonds	80,506
Finance lease payables	345
	226,445

NOTES TO FINANCIAL STATEMENTS
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39. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

2006 **Group**

Financial assets

	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Available-for-sale investments	–	1,800	1,800
Trade receivables	37,471	–	37,471
Financial assets included in prepayments, deposits and other receivables	16,093	–	16,093
Due from a jointly-controlled entity	1,678	–	1,678
Due from minority shareholders	8,077	–	8,077
Loan to a partner of a jointly-controlled entity	9,000	–	9,000
Cash and bank balances	59,547	–	59,547
	131,866	1,800	133,666

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Trade payables	15,182
Financial liabilities included in other payables and accruals	18,934
Due to an associate	82
Due to minority shareholders	1,402
Interest-bearing bank and other borrowings	83,400
Finance lease payables	592
	119,592

NOTES TO FINANCIAL STATEMENTS

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39. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Financial assets

	Company	
	2007	2006
	Loans and receivables	Loans and receivables
	HK$'000	HK$'000
Interests in subsidiaries	**340,749**	253,378
Financial assets included in prepayments, deposits and other receivables	**297**	255
Cash and bank balances	**62,453**	39,341
	403,499	292,974

Financial liabilities

	2007	2006
	Financial liabilities at amortised cost	Financial liabilities at amortised cost
	HK$'000	HK$'000
Financial liabilities included in other payables and accruals	**9**	10
Interest-bearing bank and other borrowings	**17,150**	17,150
Convertible bonds	**80,506**	–
Finance lease payables	**345**	592
	98,010	17,752

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans, other interest-bearing bank and other borrowings, 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.

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

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate. The Group has no specific policy to deal with 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.

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

	Group			Company	
	Increase/ (decrease) in basis points	Increase/ (decrease) in loss before tax	Increase/ (decrease) in equity	Increase/ (decrease) in basis points	Increase/ (decrease) in equity
	%	HK$'000	HK$'000	%	HK$'000
2007					
Hong Kong dollar	+1%	313	(313)	+1%	(150)
Hong Kong dollar	-1%	(313)	313	-1%	150
2006					
Hong Kong dollar	+1%	176	(176)	+1%	(150)
Hong Kong dollar	-1%	(176)	176	-1%	150

NOTES TO FINANCIAL STATEMENTS

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40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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.

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the RMB exchange rate, with all other variables held constant, of the Group's loss before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (due to changes in the fair value of forward currency contracts).

	Increase/ (decrease) in RMB rate	**Increase/ (decrease) in loss before tax**	**Increase/ (decrease) in equity**
	%	HK$'000	HK$'000
2007			
If Hong Kong dollar weakens against RMB	1%	(278)	278
If Hong Kong dollar strengthens against RMB	1%	278	(278)
2006			
If Hong Kong dollar weakens against RMB	1%	(8)	8
If Hong Kong dollar strengthens against RMB	1%	8	(8)

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk

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

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

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

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

Liquidity risk

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

NOTES TO FINANCIAL STATEMENTS

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40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

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

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, is as follows:

Group

	2007					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Convertible bonds	–	–	–	80,506	–	80,506
Finance lease payables	–	63	194	88	–	345
Interest-bearing bank and other borrowings	2,150	39,325	31,137	7,500	14,588	94,700
Trade payables	–	17,371	214	–	–	17,585
Other payables	–	9	27,700	–	–	27,709
Due to a jointly-controlled entity	2,782	–	–	–	–	2,782
Due to minority shareholders	2,818	–	–	–	–	2,818
	7,750	56,768	59,245	88,094	14,588	226,445

	2006					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Finance lease payables	–	61	186	345	–	592
Interest-bearing bank and other borrowings	2,150	30,000	20,000	15,000	16,250	83,400
Trade payables	–	14,839	343	–	–	15,182
Other payables	–	10	18,924	–	–	18,934
Due to an associate	82	–	–	–	–	82
Due to minority shareholders	1,402	–	–	–	–	1,402
	3,634	44,910	39,453	15,345	16,250	119,592

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

The maturity profile of the Company's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, is as follows:

Company

	2007				
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Other payables	–	9	–	–	9
Interest-bearing bank and other borrowings	2,150	1,875	5,625	7,500	17,150
Convertible bonds	–	–	–	80,506	80,506
Finance lease payables	–	63	194	88	345
	2,150	1,947	5,819	88,094	98,010

	2006				
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Other payables	–	10	–	–	10
Interest-bearing bank and other borrowings	2,150	–	–	15,000	17,150
Finance lease payables	–	61	186	345	592
	2,150	71	186	15,345	17,752

Capital management

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

The Group manages its capital structure and makes adjustments to it, in the light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 2006.

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40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

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

	Group	
	2007	2006
	HK$'000	HK$'000
Interest-bearing bank and other borrowings	**94,700**	83,400
Finance lease payables	**345**	592
Trade payables	**17,585**	15,182
Other payables and accruals *(note 26)*	**31,755**	23,458
Due to an associate	**–**	82
Due to a jointly-controlled entity	**2,782**	–
Due to minority shareholders	**2,818**	1,402
Less: Cash and bank balances	**(135,232)**	(59,547)
Net debt	**14,753**	64,569
Convertible bonds, the liability component	**80,506**	–
Equity attributable to equity holders of the parent	**430,473**	421,116
Adjusted capital	**510,979**	421,116
Adjusted capital and net debt	**525,732**	485,685
Gearing ratio	**3%**	13%

41. POST BALANCE SHEET EVENT

On 20 March 2008, 55,500,000 ordinary shares of HK$0.20 each were issued for cash at a subscription price of HK$0.20 per share upon the exercise of 55,500,000 2008 Warrants for a total consideration, before expenses, of HK$11,100,000.

NOTES TO FINANCIAL STATEMENTS

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42. 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 securities trading and investment holding 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.

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on 25 April 2008.

FIVE YEAR FINANCIAL SUMMARY

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

	Year ended 31 December 2007 HK$'000	Year ended 31 December 2006 HK$'000	Eighteen months ended 31 December 2005 HK$'000	Year ended 30 June 2004 HK$'000	Year ended 30 June 2003 HK$'000
RESULTS					
Revenue	**169,524**	160,838	170,736	157,227	206,193
LOSS BEFORE TAX	**(184,237)**	(176,449)	(143,782)	(5,795)	(24,769)
Tax	**(1,381)**	(7,909)	(3,802)	(111)	(2,143)
Loss for the year/period	**(185,618)**	(184,358)	(147,584)	(5,906)	(26,912)
Attributable to:					
Equity holders of the parent	**(183,282)**	(132,748)	(159,767)	(7,028)	(20,326)
Minority interests	**(2,336)**	(51,610)	12,183	1,122	(6,586)
	(185,618)	(184,358)	(147,584)	(5,906)	(26,912)
ASSETS, LIABILITIES AND MINORITY INTERESTS					
Total assets	**722,234**	579,993	479,956	502,434	254,534
Total liabilities	**(251,371)**	(136,473)	(147,635)	(179,325)	(1,207)
Minority interests	**(40,390)**	(22,404)	(46,295)	(25,637)	–
	430,473	421,116	286,026	297,472	253,327