中油潔能
SINOGAS

Sino Gas Group Limited

(Incorporated in Hong Kong with limited liability)

Stock code : 260

ANNUAL REPORT

2008

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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

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 2008 amounted to HK$343 million, compared with HK$169.5 million reported in the previous corresponding year, there is an increase in gas sales revenue of approximately HK$173.5 million for the current year, a jump in 102%. 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").

The Group recorded a gross profit from gas sales activities of HK$69.7 million for the year ended 31 December 2008, which represented an improvement on the gas sales gross profit of HK$21.5 million reported in the previous year. The overall gross profit margin improved from 12.7% in 2007 to 20.3% in 2008.

Although there was an improvement on gas sales revenue and margins in 2008, the new business development and 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. The Group's consolidated loss attributable to equity holders for the year ended 31 December 2008 amounted to HK$10.5 million, compared with the loss amounted to HK$183.3 million for the previous year. The increase in fixed overheads was mainly due to the normal increment in depreciation and labour costs.

The improved performance in 2008 signified the return from the Group's investment and effort. The Group has focused on the CNG and liquefied petroleum gas ("LPG") vehicles refueling stations business since 2005 and its business achievement up-to-date is respectable. The board of directors (the "Board") is confident of its business outlook and is in well position to achieve further growth in the medium to long term.

OPERATIONAL REVIEW

During the year, the Group has successfully constructed new CNG refueling stations in Changchun, Shandong, Xinzheng, Xuzhou and Chengdu, the PRC. The Group is committed to build more stations to penetrate this vast vehicles market.

The Group has successfully established presence and increased its retail penetrations in various cities in the PRC, including Guangzhou, Changchun, Jinan, Chengdu, Xuzhou, Anhui, Zhengzhou and Xinzheng. Although the result for 2008 has not yet reflected the full capacity of the new projects, the Board expects these 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 key major cities in Jiangxi Province and Shanxi Province, the PRC. 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

At 31 December 2008, the Group's borrowings (including interest-bearing bank and other borrowings, finance lease payables and loan from a shareholder) amounted to approximately HK$92.4 million (2007: HK$95 million), of which HK$49.4 million (2007: HK$62.1 million) were related to bank and other borrowings at operating subsidiaries level funding the local PRC operations denominated in Renminbi, and therefore the Group's gearing ratio, representing the ratio of Group's borrowings to equity attributable to equity holders of the parent of HK$455.2 million (2007: HK$430.5 million) was 20.3% (2007: 22.1%). Cash and bank balances were HK$75.3 million (2007: HK$135.2 million).

During the year ended 31 December 2008, 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 2008 (2007: Nil).

STAFF BENEFIT

At 31 December 2008, the Group had a total of 997 employees. The total employees' remuneration for the year ended 31 December 2008 amounted to approximately HK$41.7 million (2007: 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 2008, 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 47, 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 24 years of experience in engineering, corporate finance, mergers and acquisitions and project investments. Mr. Ji is an executive director, the Deputy Chairman and Chief Executive Officer of 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.

EXECUTIVE DIRECTORS

Mr. Lo Chi Ho, William, aged 43, 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 20 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 and international investment banks. Mr. Lo is also an independent non-executive director of China Motion Telecom International Limited and Bright Prosperous Holdings Limited (formerly known as Magnesium Resources Corporation of China Limited), both of which are listed on the main board of the Stock Exchange. He was formerly an executive director of Artfield Group Limited, a company listed on the main board of the Stock Exchange and an independent director of China Spacesat Co., Ltd., a company listed on the Shanghai Stock Exchange.

Mr. Sun Wenhao, aged 46, 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 14 years with extensive experience. He is currently a practicing lawyer in Shanghai Xun Ye Law Firm.

Mr. Ji Hui, aged 39, 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 17 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wang Zhonghua, aged 47, was appointed as an independent non-executive director of the Company in January 2005. Mr. Wang is a Member of the Royal Institution of Chartered Surveyors (MRICS). Mr. Wang holds a Bachelor's Degree in Engineering from Lanzhou Jiaotong University. Mr. Wang is a Senior Engineer, Registered 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 and member of Shenzhen Pricing Engineers Association Expert Commission, Mr Wang has been working in the engineering field for over 24 years with extensive experience. He has been serving Shenzhen Province Mass Transit Railway Company Limited since 1993.

BIOGRAPHICAL DETAILS OF DIRECTORS

Mr. Zhong Qiang, aged 41, 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 18 years with extensive experience. He is currently a director of Shanghai Jun Zheng Ke Mao Company Limited.

Mr. Xiao Wei, aged 46, 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 24 years of experience in engineering and management.

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2008.

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 2008 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 24 to 113.

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 114. 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 2008, the Company had no reserves available for distribution in accordance with the provisions of Section 79B of the Hong Kong Companies Ordinance.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 20% of the total sales for the year and sales to the largest customer included therein amounted to 10%. Purchases from the Group's five largest suppliers accounted for less than 64% of the total purchases for the year and purchases from the largest supplier included therein amounted to 28%.

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

Executive directors:

Lo Chi Ho, William
Sun Wenhao
Wu Ding (resigned on 4 February 2008)
Ji Hui

Independent non-executive directors:

Wang Zhonghua
Zhong Qiang
Xiao Wei

In accordance with article 87 of the Company's articles of association, Mr. Lo Chi Ho, William, Mr. Sun Wenhao and Mr. Wang Zhonghua 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 Mr. Wang Zhonghua, Mr. Zhong Qiang and Mr. Xiao Wei and as at the date of this report, still considers them to be independent.

DIRECTORS' REMUNERATION

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

DIRECTORS' BIOGRAPHIES

Biographical details of the directors of the Company are set out on pages 5 to 6 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Lo Chi Ho, William and Mr. Ji Hui has a service contract with the Company which commenced on 17 May 2005 and is subject to termination by either party giving not less than two months' written notice. 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

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

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2008, 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:

Long position in ordinary shares of the Company:

Name of director	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Lo Chi Ho, William	Beneficial owner	28,710,000	1.59%

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

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (Continued)

Save as disclosed above, as at 31 December 2008, none of the directors of the Company had registered an interest or a short position in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

SHARE OPTION SCHEME

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

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

Name or category of participant	Number of share options					Date of grant of share options*	Exercise period of share options	Exercise price of share options per share** HK$
	At 1 January 2008	Granted during the year	Exercised during the year	Forfeited during the year	At 31 December 2008			
Directors								
Ji Guirong	4,966,667	–	–	–	4,966,667	23-8-07	1-10-07 to 31-1-15	0.35
	4,966,667	–	–	–	4,966,667	23-8-07	1-1-08 to 31-1-15	0.35
	4,966,666	–	–	–	4,966,666	23-8-07	1-7-08 to 31-1-15	0.35
	14,900,000	–	–	–	14,900,000			
Lo Chi Ho, William	10,000,000	–	–	–	10,000,000	3-1-06	1-2-06 to 31-1-15	0.20
	4,966,667	–	–	–	4,966,667	23-8-07	1-10-07 to 31-1-15	0.35
	4,966,667	–	–	–	4,966,667	23-8-07	1-1-08 to 31-1-15	0.35
	4,966,666	–	–	–	4,966,666	23-8-07	1-7-08 to 31-1-15	0.35
	24,900,000	–	–	–	24,900,000			
Ji Hui	2,000,000	–	–	–	2,000,000	3-1-06	1-2-06 to 31-1-15	0.20
	41,800,000	–	–	–	41,800,000			

SHARE OPTION SCHEME (Continued)

Name or category of participant	Number of share options: At 1 January 2008	Granted during the year	Exercised during the year	Forfeited during the year	At 31 December 2008	Date of grant of share options*	Exercise period of share options	Exercise price of share options per share** HK$
Consultants								
In aggregate	12,000,000	–	–	–	12,000,000	3-1-06	1-2-06 to 31-1-09	0.20
	38,100,000	–	–	–	38,100,000	23-8-07	1-10-07 to 31-1-15	0.35
	38,100,000	–	–	–	38,100,000	23-8-07	1-1-08 to 31-1-15	0.35
	38,100,000	–	–	–	38,100,000	23-8-07	1-7-08 to 31-1-15	0.35
	126,300,000	–	–	–	126,300,000			
Other employees								
In aggregate	14,000,000	–	–	(4,000,000)	10,000,000	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
	18,900,000	–	–	(4,000,000)	14,900,000			
	187,000,000	–	–	(4,000,000)	183,000,000			

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

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

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

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

At 31 December 2008, the following interests and short positions of 5% or more of the issued share capital and convertible bonds of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name	Notes	Long/short position	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital	Number of convertible shares (issuable under the convertible bonds) held
Aviation Industry Corporation of China	(a)	Long	Interest of a controlled corporation	444,480,000	24.59%	24,644,549
AVIC International Holding Corporation	(a)	Long	Interest of a controlled corporation	444,480,000	24.59%	24,644,549
Billirich Investment Limited	(a)	Long	Beneficial owner	444,480,000	24.59%	24,644,549
CATIC (H.K.) Limited	(a)	Long	Interest of a controlled corporation	444,480,000	24.59%	24,644,549
CATIC International Holdings Limited	(a)	Long	Interest of a controlled corporation	444,480,000	24.59%	24,644,549
Tacko International Limited	(a)	Long	Interest of a controlled corporation	444,480,000	24.59%	24,644,549
Deephaven Relative Value Equity Trading Ltd.	(b)	Long	Beneficial owner	115,590,000	6.40%	61,611,374
Deephaven Capital Management LLC	(b)	Long	Interest of a controlled corporation and investment manager	115,590,000	6.40%	61,611,374
Deephaven Capital Management Holdings LLC	(b)	Long	Interest of a controlled corporation	115,590,000	6.40%	61,611,374
Deephaven Managing Partners, LLC	(b)	Long	Interest of a controlled corporation	115,590,000	6.40%	61,611,374
Knight Capital Group Inc.	(b)	Long	Interest of a controlled corporation	115,590,000	6.40%	61,611,374
Colin Smith	(b)	Long	Interest of a controlled corporation	115,590,000	6.40%	61,611,374
Bonus World Limited		Long	Beneficial owner	120,000,000	6.64%	–
Sun Shining Investment Corp.	(c)	Long	Beneficial owner and interest of a controlled corporation	89,050,000	4.93%	49,289,099
Tai Yuen Textile Company Limited	(c)	Long	Interest of a controlled corporation	89,050,000	4.93%	49,289,099

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

Notes:

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

(b) Deephaven Relative Value Equity Trading Ltd. ("Deephaven") is a wholly-owned subsidiary of Deephaven Global Multi-Strategy Master Fund LP (formerly known as Deephaven Market Neutral Master Fund LP) ("DGMSMF"). Deephaven Capital Management LLC, which holds an equity interest of approximately 0.10% in DGMSMF, is a wholly-owned subsidiary of Deephaven Capital Management Holdings LLC ("DCMH"). DCMH is owned as to 49% by Deephaven Managing Partners, LLC ("DMP") and 51% by KEP Holdings I LLC, which in turn is a wholly-owned subsidiary of Knight Capital Group Inc. Mr. Colin Smith beneficially owns 65% equity interest in DMP. Accordingly, all the aforesaid parties 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 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 82.85% 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 2008, 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 28 February 2005, the Company and Beijing Sinogas Company Limited ("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. As of that date, Beijing Sinogas is owned indirectly as to 51% by the Company and as to 49% by Best Rich International Limited, which is in turn owned as to 50% each by Ms. Ka Ying and Ms. Wen Tong Yun, former directors of the Company. The transactions therefore constituted connected transactions under the Listng Rules. No equipment and machinery were supplied by the Company to Beijing Sinogas during the year ended 31 December 2007, and the master agreement expired on 31 December 2007.

On 13 June 2008, Sino Gas Finance Limited ("Sino Gas Finance"), a wholly-owned subsidiary of the Company, entered into an agreement with CATIC International, Smartcon Investment Limited ("Smartcon"), an independent third party and Fidelity Finance Leasing Limited ("Fidelity Finance") in respect of the subscription of 125, 573 and 300 new shares of Fidelity Finance by Sino Gas Finance, Smartcon and the independent third party respectively, and the provision of shareholders' loan to Fidelity Finance in the aggregate amount of HK$78.3 million by the three shareholders according to the proportion of their equity interests in Fidelity Finance. Smartcon is a wholly-owned subsidiary of CATIC International and CATIC International is a substantial shareholder of the Company. Accordingly, the entering into of the agreement constitutes a connected transaction under the Listing Rules.

On 19 June 2008, Great Concept Investments Holdings Limited ("Great Concept"), a wholly-owned subsidiary of the Company, entered into a loan agreement with Sanlin Resources Limited ("Sanlin") pursuant to which Great Concept agreed to grant a loan of HK$9.5 million to Sanlin. The loan is non-interest-bearing and will be repayable within two years after its drawdown date. Sanlin is a connected person of the Company by virtue of its holding of 50% equity interest in Sino Gas (Zhuhai) Limited which is a 50% owned subsidiary of Great Concept. Accordingly, the entering into of the agreement constitutes a connected transaction under the Listing Rules.

Continuing connected transactions

On 14 March 2005, the Company and Beijing Sinogas entered into a loan facility agreement, pursuant to which the Company agreed to provide a facility of up to HK$40,000,000 to Beijing Sinogas. By virtue of indirect interest of Ms. Ka Ying and Ms. Wen Tong Yun, former directors of the Company, in Beijing Sinogas, the provision of the facility constituted a continuing connected transaction for the Company under the Listing Rules. As at 31 December 2008, a facility of HK$34,300,000 was utilised by Beijing Sinogas.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS (Continued)

Continuing connected transactions (Continued)

On 27 November 2008, Zhuhai Sinogas Transportation Company Limited ("Zhuhai Sinogas"), an indirect 45% owned subsidiary of the Company, entered into an agreement with AVIC I International Leasing Co., Ltd. ("AVIC"). Pursuant to the agreement, AVIC agreed to provide a loan facility of RMB8.7 million to Zhuhai Sinogas to finance the purchase of vehicles by Zhuhai Sinogas. On 30 December 2008, a memorandum of agreement was entered into between Zhuhai Sinogas and AVIC pursuant to which AVIC agreed to increase the loan facility to RMB20 million to finance the Group's purchase of vehicles and gas station equipment. The facility bears interest at 7.71% per annum and is repayable in 12 quarterly payments within three years after its drawdown date. AVIC is a wholly-owned subsidiary of Aviation Industry Corporation of China, a corporation which indirectly holds approximately 38.79% equity interest in CATIC International and CATIC International is a substantial shareholder of the Company. Accordingly, the entering into of the agreement constitutes a connected transaction under the Listing Rules.

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

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 EVENTS

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

AUDITORS

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

ON BEHALF OF THE BOARD

Ji Guirong
Chairman

Hong Kong
23 April 2009

CORPORATE GOVERNANCE PRACTICES

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

The Company has complied with the relevant provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Listing Rules throughout the year ended 31 December 2008.

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 2008, 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*	0/4
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*

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

Mr. Wu Ding has resigned as an executive director with effect from 4 February 2008 for pursuing other business engagement. As at 31 December 2008, the Board consisted of seven directors including one non-executive director; three executive directors and three independent non-executive directors. The biographical details of the directors are set out on pages 5 to 6 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.

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.

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 2008, the Remuneration Committee comprises three members which include one non-executive director namely Mr. Ji Guirong and two independent non-executive directors namely Mr. Zhong Qiang and Mr. Xiao Wei.

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

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

During the year ended 31 December 2008, 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.

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 2008. 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 2008, the fee paid/payable to Ernst & Young, auditors of the Group, for audit and non-audit services are set out below:

	Amount (HK$'000)
Audit services	1,800
Non-audit services	340

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.

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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 24 to 113, which comprise the consolidated and company balance sheets as at 31 December 2008, 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.

ERNST & YOUNG
安 永

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 2008 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong
23 April 2009

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2008

	Notes	**2008 HK$'000**	2007 HK$'000
REVENUE	6	**342,990**	169,524
Cost of sales		**(273,246)**	(147,982)
Gross profit		**69,744**	21,542
Other income and gains	6	**41,670**	9,217
Selling and distribution costs		**(35,713)**	(13,231)
Administrative expenses		**(73,155)**	(61,442)
Other operating expenses, net		**(328)**	(1,917)
Finance costs	8	**(11,183)**	(11,863)
Impairment of items of property, plant and equipment	7	**(1,126)**	(10,232)
Impairment of interests in associates	7	**–**	(8,844)
Impairment of goodwill	7	**–**	(71,740)
Impairment of trade receivables	7	**(406)**	(13,326)
Impairment of deposits and other receivables	7	**(9,125)**	(20,505)
Share of profits and losses of:			
Jointly-controlled entities		**338**	(1,793)
Associates		**–**	(103)
LOSS BEFORE TAX	7	**(19,284)**	(184,237)
Tax	11	**(3,344)**	(1,381)
LOSS FOR THE YEAR		**(22,628)**	(185,618)
Attributable to:			
Equity holders of the parent	12	**(10,536)**	(183,282)
Minority interests		**(12,092)**	(2,336)
		(22,628)	(185,618)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic		**(HK 0.59 cents)**	(HK 11.18 cents)

CONSOLIDATED BALANCE SHEET

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**368,982**	246,623
Prepaid land lease payments	15	**18,100**	15,298
Goodwill	16	**128,269**	128,425
Interests in jointly-controlled entities	18	**12,286**	10,220
Interests in associates	19	**–**	–
Available-for-sale investments	20	**1,356**	5,029
Deposits paid for acquisition of plant and machinery		**54,744**	73,327
Loan to a minority shareholder	38(b)(ii)	**9,500**	–
Total non-current assets		**593,237**	478,922
CURRENT ASSETS			
Inventories	21	**11,624**	6,433
Trade receivables	22	**20,644**	15,911
Prepayments, deposits and other receivables	23	**26,159**	52,022
Due from an associate	38(b)(i)	**–**	7,416
Due from minority shareholders	38(b)(i)	**7,295**	17,298
Loan to a minority shareholder	38(b)(ii)	**–**	9,000
Cash and bank balances	24	**75,349**	135,232
Total current assets		**141,071**	243,312
CURRENT LIABILITIES			
Trade payables	25	**13,686**	17,585
Other payables and accruals	26	**34,598**	41,843
Due to an associate	38(b)(i)	**537**	–
Due to a jointly-controlled entity	38(b)(i)	**1,042**	2,782
Due to minority shareholders	38(b)(i)	**1,096**	2,818
Loan from a shareholder	38(b)(iii)	**8,974**	–
Tax payable		**13,136**	10,792
Interest-bearing bank and other borrowings	27	**54,100**	72,612
Convertible bonds	28	**85,767**	–
Finance lease payables	29	**88**	257
Total current liabilities		**213,024**	148,689
NET CURRENT ASSETS/(LIABILITIES)		**(71,953)**	94,623
TOTAL ASSETS LESS CURRENT LIABILITIES		**521,284**	573,545

CONSOLIDATED BALANCE SHEET

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	27	**29,284**	22,088
Convertible bonds	28	**–**	80,506
Finance lease payables	29	**–**	88
Total non-current liabilities		**29,284**	102,682
Net assets		**492,000**	470,863
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	30	**361,471**	350,371
Equity component of convertible bonds	28	**10,164**	10,164
Reserves	32(a)	**83,563**	69,938
		455,198	430,473
Minority interests		**36,802**	40,390
Total equity		**492,000**	470,863

Ji Hui
Director

Sun Wenhao
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2008

		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 expense 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 share options	30	56,900	81,076	8,819	–	–	–	–	–	–	146,795	–	146,795
Issue of shares upon exercise of share options	30	2,800	5,996	(2,586)	–	–	–	–	–	–	6,210	–	6,210
Share issue expenses	30	–	(1,530)	–	–	–	–	–	–	–	(1,530)	–	(1,530)
Transfer to reserve upon expiry of share options	30	–	6,453	(6,453)	–	–	–	–	–	–	–	–	–
Equity-settled share option arrangements	31	–	–	12,713	–	–	–	–	–	–	12,713	–	12,713
Dividends 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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2008

		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 2008		350,371	766,939	15,501	10,164	828,646	26,254	1,865	3,865	(1,573,132)	430,473	40,390	470,863
Exchange realignment and total income and expense for the year recognised directly in equity		-	-	-	-	-	20,223	-	-	-	20,223	1,453	21,676
Loss for the year		-	-	-	-	-	-	-	-	(10,536)	(10,536)	(12,092)	(22,628)
Total income and expense for the year		-	-	-	-	-	20,223	-	-	(10,536)	9,687	(10,639)	(952)
Issue of shares upon exercise of warrants	30(a)	11,100	-	-	-	-	-	-	-	-	11,100	-	11,100
Transfer to reserve upon forfeiture of share options	30	-	294	(294)	-	-	-	-	-	-	-	-	-
Equity-settled share option arrangements	31	-	-	3,938	-	-	-	-	-	-	3,938	-	3,938
Dividends paid to minority shareholders		-	-	-	-	-	-	-	-	-	-	(372)	(372)
Acquisition of additional interests in subsidiaries		-	-	-	-	-	-	-	-	-	-	(430)	(430)
Disposal of a subsidiary	34(a)	-	-	-	-	-	-	-	-	-	-	7,808	7,808
Capital contribution from minority shareholders		-	-	-	-	-	-	-	-	-	-	45	45
At 31 December 2008		361,471	767,233*	19,145*	10,164	828,646*	46,477*	1,865*	3,865*	(1,583,668)*	455,198	36,802	492,000

* These reserve accounts comprise the consolidated reserves of HK$83,563,000 (2007: HK$69,938,000) in the consolidated balance sheet.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(19,284)**	(184,237)
Adjustments for:			
Finance costs	8	**11,183**	11,863
Depreciation	7	**19,359**	9,378
Recognition of prepaid land lease payments	7	**2,588**	990
Impairment of items of property, plant and equipment	7	**1,126**	10,232
Loss on disposal of items of property, plant and equipment	7	**328**	1,939
Interest income	6	**(1,116)**	(4,588)
Impairment of interests in associates	7	**–**	8,844
Impairment of goodwill	7	**–**	71,740
Impairment of trade receivables	7	**406**	13,326
Impairment of deposits and other receivables	7	**9,125**	20,505
Impairment/(write-back of impairment) of inventories	7	**(2,260)**	5,422
Equity-settled share option expense	31	**3,938**	12,713
Gain on disposal of a subsidiary	6	**(18,593)**	–
Gain on disposal of an available-for-sale investment	6	**(5,232)**	–
Share of profits and losses of associates		**–**	103
Share of profits and losses of jointly-controlled entities		**(338)**	1,793
		1,230	(19,977)
Decrease/(increase) in inventories		**(2,674)**	4,826
Decrease/(increase) in trade receivables		**(5,710)**	11,585
Decrease/(increase) in prepayments, deposits and other receivables		**21,329**	(24,253)
Decrease/(increase) in an amount due from an associate		**7,861**	(7,416)
Decrease in an amount due from a jointly-controlled entity		**–**	1,795
Decrease in trade payables		**(829)**	(4,086)
Increase/(decrease) in other payables and accruals		**27,620**	(295)
Increase/(decrease) in an amount due to an associate		**537**	(88)
Increase/(decrease) in an amount due to a jointly-controlled entity		**(1,907)**	2,782
Cash from/(used in) operations		**47,457**	(35,127)
Overseas taxes paid		**(1,565)**	(406)
Net cash inflow/(outflow) from operating activities		**45,892**	(35,533)

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**1,116**	4,588
Purchases of items of property, plant and equipment	14, 34(b)	**(115,120)**	(68,761)
Deposits paid for acquisition of plant and machinery		**–**	(55,416)
Increase in prepaid land lease payments	15	**(5,545)**	(4,663)
Acquisition of subsidiaries	33	**–**	17,223
Acquisition of additional interests in subsidiaries		**(430)**	(2,456)
Purchases of available-for-sale investments		**–**	(2,503)
Proceeds from disposal of items of property, plant and equipment		**217**	–
Proceeds from disposal of an available-for-sale investment		**5,232**	–
Disposal of subsidiaries	34(a)	**(455)**	6,939
Loan to a minority shareholder		**(500)**	–
Contribution to jointly-controlled entities		**(1,141)**	(30,334)
Net cash outflow from investing activities		**(116,626)**	(135,383)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid	8	**(4,196)**	(6,114)
Interest paid on convertible bonds		**(1,716)**	(858)
Interest element of finance lease rental payments	8	**(10)**	(21)
Proceeds from issue of shares and options	30	**–**	146,795
Proceeds from issue of shares upon exercise of share options	30	**–**	6,210
Proceeds from issue of shares upon exercise of warrants	30(a)	**11,100**	–
Share issue expenses	30	**–**	(1,530)
Capital element of finance lease rental payments		**(257)**	(247)
Repayment of bank loans		**(74,179)**	(51,260)
Proceeds from issue of convertible bonds	28	**–**	85,800
New bank loans		**49,550**	62,060
New other loans		**9,831**	–
Loan from a shareholder		**8,974**	–
Capital contribution from minority shareholders		**45**	12,182
Advance from/(to) minority shareholders, net		**9,150**	(7,337)
Dividends paid to a minority shareholder		**(372)**	(491)
Net cash inflow from financing activities		**7,920**	245,189
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(62,814)**	74,273
Cash and cash equivalents at beginning of year		**135,232**	59,547
Effect of foreign exchange rate changes, net		**2,931**	1,412
CASH AND CASH EQUIVALENTS AT END OF YEAR		**75,349**	135,232
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**75,349**	135,232

BALANCE SHEET

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**918**	1,451
Interests in subsidiaries	17	**502,981**	439,771
Available-for-sale investments	20	**–**	–
Total non-current assets		**503,899**	441,222
CURRENT ASSETS			
Prepayments, deposits and other receivables	23	**581**	894
Cash and bank balances	24	**21,521**	62,453
Total current assets		**22,102**	63,347
CURRENT LIABILITIES			
Other payables and accruals	26	**1,942**	1,818
Loan from a shareholder	38b(iii)	**8,974**	–
Interest-bearing bank and other borrowings	27	**9,650**	9,650
Convertible bonds	28	**85,767**	–
Finance lease payables	29	**88**	257
Total current liabilities		**106,421**	11,725
NET CURRENT ASSETS/(LIABILITIES)		**(84,319)**	51,622
TOTAL ASSETS LESS CURRENT LIABILITIES		**419,580**	492,844
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	27	**–**	7,500
Convertible bonds	28	**–**	80,506
Finance lease payables	29	**–**	88
Total non-current liabilities		**–**	88,094
Net assets		**419,580**	404,750
EQUITY			
Issued capital	30	**361,471**	350,371
Equity component of convertible bonds	28	**10,164**	10,164
Reserves	32(b)	**47,945**	44,215
Total equity		**419,580**	404,750

Ji Hui
Director

Sun Wenhao
Director

1. CORPORATE INFORMATION

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

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

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

(ii) trading of gas-related products.

2.1 BASIS OF PRESENTATION

The Group sustained a consolidated loss attributable to equity holders of the parent for the year ended 31 December 2008 of HK$10,536,000 and had net current liabilities of HK$71,953,000 as at 31 December 2008. In order to improve the Group's financial position, immediate liquidity and cash flows, as further discussed in note 41 to the financial statements, the Group managed to obtain new funding of approximately HK$114,600,000 from various financing activities to finance the Group to repay the outstanding convertible bonds with an aggregate principal amount of HK$85,800,000 as at 31 December 2008 and to finance the Group's daily working capital and capital expenditure requirements. Most of these new funding are not repayable within twelve months. In view of the foregoing, the directors of the Company considered that the Group has sufficient working capital to finance its operations and financial obligations as and when they fall due, and accordingly, are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

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

2.2 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, 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.

2.2 BASIS OF PREPARATION (Continued)

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 2008. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

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.

2.3 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

HKAS 39 and HKFRS 7 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets*
HK(IFRIC)-Int 11	*HKFRS 2 – Group and Treasury Share Transactions*
HK(IFRIC)-Int 12	*Service Concession Arrangements*
HK(IFRIC)-Int 14	*HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

The adoption of these new interpretations and amendments has had no significant financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

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

(a) Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets*

The amendments to HKAS 39 permit an entity to reclassify a non-derivative financial asset classified as held for trading, other than a financial asset designated by an entity as at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss category if the financial asset is no longer held for the purpose of selling or repurchasing in the near term, if specified criteria are met.

2.3 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

(a) Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets* (Continued)

A debt instrument that would have met the definition of loans and receivables (if it had not been required to be classified as held for trading at initial recognition) may be classified out of the fair value through profit or loss category or (if it had not been designated as available for sale) may be classified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold it for the foreseeable future or until maturity.

In rare circumstances, financial assets that are not eligible for classification as loans and receivables may be transferred from the held-for-trading category to the available-for-sale category or to the held to maturity category (in the case of a debt instrument), if the financial asset is no longer held for the purpose of selling or repurchasing in the near term.

The financial asset shall be reclassified at its fair value on the date of reclassification and the fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable. The amendments to HKFRS 7 require extensive disclosures of any financial asset reclassified in the situations described above. The amendments are effective from 1 July 2008.

As the Group has not reclassified any of its financial instruments, the amendments have had no impact on the financial position or results of operations of the Group.

(b) HK(IFRIC)-Int 11 *HKFRS 2 – Group and Treasury Share Transactions*

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 buys 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 has had no impact on the financial position or results of operations of the Group.

(c) HK(IFRIC)-Int 12 *Service Concession Arrangements*

HK(IFRIC)-Int 12 applies to service concession operators and explains how to account for obligation undertaken and the rights received in service concession arrangements. No member of the Group is an operator and, therefore, this interpretation has had no impact on the financial position or results of operations of the Group.

(d) HK(IFRIC)-Int 14 *HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

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, including situations when a minimum funding requirement exists. As the Group has no defined benefit scheme, the interpretation has had no effect on these financial statements.

2.4 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 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*[1]
HKFRS 1 (Revised)	*First-time Adoption of HKFRSs*[2]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*[1]
HKFRS 3 (Revised)	*Business Combinations*[2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*[1]
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*[2]
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*[1]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*[2]
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives – Embedded Derivatives* and HKAS 39 *Financial Instruments: Recognition and Measurement*[5]
HK(IFRIC)-Int 13	*Customer Loyalty Programmes*[3]
HK(IFRIC)-Int 15	*Agreements for the Construction of Real Estate*[1]
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation*[4]
HK(IFRIC)-Int 17	*Distribution of Non-cash Assets to Owners*[2]
HK(IFRIC)-Int 18	*Transfers of Assets from Customers*[6]

Apart from the above, the HKICPA has issued *Improvements to HKFRSs** which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendment to HKFRS 5 which is effective for the annual periods on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 July 2009
3 Effective for annual periods beginning on or after 1 July 2008
4 Effective for annual periods beginning on or after 1 October 2008
5 Effective for annual periods ending on or after 30 June 2009
6 Applicable prospectively transfers of assets from customers received on or after 1 July 2009

* Improvements to HKFRSs contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

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

The HKAS 27 Amendment requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in the income statement in the separate financial statements. The amendment is applied prospectively only. The HKFRS 1 Amendment allows a first-time adopter of HKFRSs to measure its investment in subsidiaries, associates or jointly-controlled entities using a deemed cost of either fair value or the carrying amount under the previous accounting practice in the separate financial statements. The Group expects to adopt the HKAS 27 Amendment from 1 January 2009. The amendments have no impact on the consolidated financial statements.

HKFRS 1 (Revised) aims to improve the readability of the standard and does not contain any technical changes.

The HKFRS 2 Amendments clarify that vesting conditions are service conditions and performance conditions only. Any other conditions are non-vesting conditions. Where an award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this is accounted for as a cancellation. The Group has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, the amendments are unlikely to have any significant implications on its accounting for share-based payments.

The amendment to HKAS 39 addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. As the Group has not entered into any such hedges, the amendment is unlikely to have any financial impact on the Group.

HKAS 39 is amended to state that if the fair value of an embedded derivative that would have to be separated on reclassification cannot be reliably measured, the entire hybrid financial instrument must remain classified as at fair value through profit or loss. The amendment to HK(IFRIC)-Int 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. As the Group does not have such contracts, these amendments are unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. 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. As the Group currently has no customer loyalty award scheme, the interpretation is not applicable to the Group and therefore is unlikely to have any financial impact on the Group.

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

HK(IFRIC)-Int 15 will replace HK Interpretation 3 *Revenue – Pre-completion Contracts for the Sale of Development Properties*. It clarifies when and how an agreement for the construction of real estate should be accounted for as a construction contract in accordance with HKAS 11 *Construction Contracts* or an agreement for the sale of goods or services in accordance with HKAS 18 *Revenue*. As the Group currently is not involved in any construction of real estate, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 16 provides guidance on the accounting for a hedge of a net investment in a foreign operation. This includes clarification that (i) hedge accounting may be applied only to the foreign exchange differences arising between the functional currencies of the foreign operation and the parent entity; (ii) a hedging instrument may be held by entities within a group; and (iii) on disposal of a foreign operation, the cumulative gain or loss relating to both the net investment and the hedging instrument that was determined to be an effective hedge should be reclassified to the income statement as a reclassification adjustment. As the Group currently has no hedge of a net investment in a foreign operation, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 17 standardises practice in the accounting for non-reciprocal distributions of non-cash assets to owners. The Group expects to apply the interpretation from 1 January 2010 prospectively. The interpretation clarifies that (i) a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; (ii) an entity should measure the dividend payable at the fair value of the net assets to be distributed; and (iii) an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. Other consequential amendments were made to HKAS 10 *Events after the Balance Sheet Date* and HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. While the adoption of the interpretation may result in changes in certain accounting policies, the interpretation is unlikely to have any material financial impact on the Group.

HK(IFRIC)-Int 18 clarifies the requirements of HKFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services. The interpretation is issued to provide additional guidance on the accounting for those transfers of assets from customers. The interpretation is unlikely to have any material financial impact on the Group.

In October 2008, the HKICPA issued its first *Improvements to HKFRSs* which sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2009. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group.

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.

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

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

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

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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets other than goodwill (Continued)

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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where 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
Plant and machinery	10% to 20%
Furniture and fixtures	15% to 25%
Motor vehicles	10% to 25%

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

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each balance sheet date.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases

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

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

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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

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

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.

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

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets

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

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets

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

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

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

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

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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

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

Financial liabilities including trade and other payables, amounts due to an associate, jointly-controlled entities, minority shareholders and a shareholder, 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provisions (Continued)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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.

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

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

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

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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payment transactions (Continued)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 dates 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 transactions. Non-monetary items at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries, jointly-controlled entities and associates are currencies other than the Hong Kong dollar. As at the 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 and 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 assumptions 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:

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Judgements (Continued)

Impairment of assets

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

Estimation uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill on the acquisition of subsidiaries at 31 December 2008 was HK$128,269,000 (2007: HK$128,425,000). 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 2008 were HK$368,982,000 (2007: HK$246,623,000) and HK$54,744,000 (2007: HK$73,327,000), respectively. More details are given in note 14 to the financial statements.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The amounts of unrecognised tax losses arising in Hong Kong and in Mainland China were HK$172,936,000 (2007: HK$152,119,000) and HK$30,453,000 (2007: HK$13,107,000) as at 31 December 2008. Further details are given in note 11 to the financial statements.

Impairment of available-for-sale financial assets

The Group classifies certain assets as available-for-sale and recognises movements of their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the income statement. At 31 December 2008, the carrying amount of available-for-sale assets was HK$1,356,000 (2007: HK$5,029,000). 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 2008 were HK$20,644,000 (2007: HK$15,911,000) and HK$26,159,000 (2007: HK$52,022,000) 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.

5. SEGMENT INFORMATION (Continued)

(a) Business segments

The following tables present revenue, loss and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2008 and 2007.

	Operation of gas stations		Trading of gas-related products		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:						
Sales to external customers	**331,856**	148,790	**11,134**	20,734	**342,990**	169,524
Other revenue	**8,246**	2,425	**4,669**	2,044	**12,915**	4,469
Total	**340,102**	151,215	**15,803**	22,778	**355,905**	173,993
Segment results	**(9,835)**	(26,879)	**(5,105)**	(35,877)	**(14,940)**	(62,756)
Interest and rental income and unallocated gains					**4,930**	4,748
Unallocated expenses					**(22,254)**	(31,886)
Finance costs					**(11,183)**	(11,863)
Gain on disposal of a subsidiary	**-**	–	**18,593**	–	**18,593**	–
Gain on disposal of an available-for-sale investment					**5,232**	–
Impairment of interests in associates	**-**	(8,844)	**-**	–	**-**	(8,844)
Impairment of goodwill	**-**	(71,740)	**-**	–	**-**	(71,740)
Share of profits and losses of:						
Jointly-controlled entities	**338**	(1,793)	**-**	–	**338**	(1,793)
Associates	**-**	(103)	**-**	–	**-**	(103)
Loss before tax					**(19,284)**	(184,237)
Tax					**(3,344)**	(1,381)
Loss for the year					**(22,628)**	(185,618)

5. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

	Operation of gas stations		Trading of gas-related products		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Assets and liabilities						
Segment assets	**618,874**	539,468	**47,014**	70,494	**665,888**	609,962
Interests in jointly-controlled entities	**12,286**	10,220	**-**	–	**12,286**	10,220
Unallocated assets					**56,134**	102,052
Total assets					**734,308**	722,234
Segment liabilities	**27,697**	22,159	**17,049**	36,750	**44,746**	58,909
Unallocated liabilities					**197,562**	192,462
Total liabilities					**242,308**	251,371
Other segment information:						
Depreciation	**16,851**	7,714	**1,454**	645	**18,305**	8,359
Corporate and other unallocated amounts					**1,054**	1,019
					19,359	9,378
Capital expenditure	**116,476**	83,013	**21,602**	2,652	**138,078**	85,665
Corporate and other unallocated amounts					**24**	625
					138,102	86,290
Impairment losses/(write-back of impairment) recognised in the income statement in respect of:						
Items of property, plant and equipment	**1,126**	10,061	**-**	171	**1,126**	10,232
Goodwill	**-**	71,740	**-**	–	**-**	71,740
Trade receivables	**191**	10,300	**215**	3,026	**406**	13,326
Deposits and other receivables	**11,350**	9,905	**(2,225)**	10,600	**9,125**	20,505

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 2008 and 2007.

	Hong Kong		Mainland China		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:						
Sales to external customers	**-**	–	**342,990**	169,524	**342,990**	169,524
Other segment information:						
Segment assets	**54,778**	97,023	**679,530**	625,211	**734,308**	722,234
Capital expenditure	**24**	625	**138,078**	85,665	**138,102**	86,290

6. REVENUE, OTHER INCOME AND GAINS

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

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

	Note	2008 HK$'000	2007 HK$'000
Revenue			
Operation of gas stations		**331,856**	148,790
Trading of gas-related products		**11,134**	20,734
		342,990	169,524
Other income			
Interest income		**1,116**	4,588
Income from the installation of infrastructure for CNG supply		**4,669**	2,044
Government grants received*		**8,246**	2,425
Rental income		**2,084**	–
Others		**1,730**	160
		17,845	9,217
Gains			
Gain on disposal of a subsidiary	34(a)	**18,593**	–
Gain on disposal of an available-for-sale investment		**5,232**	–
		23,825	–
		41,670	9,217

* 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.

7. LOSS BEFORE TAX

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

	Notes	2008 HK$'000	2007 HK$'000
Cost of inventories sold*		**266,845**	138,322
Auditors' remuneration		**1,800**	1,700
Depreciation	14	**19,359**	9,378
Recognition of prepaid land lease payments	15	**2,588**	990
Minimum lease payments under operating leases in respect of land and buildings		**6,463**	5,225
Loss on disposal of items of property, plant and equipment**		**328**	1,939
Employee benefit expense (excluding directors' remuneration (note 9)):			
Wages and salaries and allowances		**31,361**	21,221
Equity-settled share option expense		**3,150**	10,170
Pension scheme contributions		**154**	148
Less: Forfeited contributions		**–**	–
Net pension scheme contributions***		**154**	148
		34,665	31,539
Impairment of items of property, plant and equipment	14	**1,126**	10,232
Impairment of interests in associates	19	**–**	8,844
Impairment of goodwill	16	**–**	71,740
Impairment of trade receivables#	22	**406**	13,326
Impairment of deposits and other receivables#	23	**9,125**	20,505
Impairment/(write-back of impairment) for inventories*		**(2,260)**	5,422
Foreign exchange differences, net		**114**	119

* Cost of sales disclosed on the face of the consolidated income statement represents cost of inventories sold which included wages and salaries of HK$2,684,000 (2007: HK$2,029,000) disclosed under employee benefit expense, depreciation charges of HK$5,977,000 (2007: HK$2,199,000) and write-back of impairment of inventories of HK$2,260,000 (impairment of inventories in 2007: HK$5,422,000) above.

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

7. LOSS BEFORE TAX (Continued)

*** At 31 December 2008, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2007: Nil).

As at 31 December 2008, the directors had performed an impairment testing on the Group's trade receivables, and deposits and other receivables, and considered that certain of them could not be recovered as a result of the deterioration of the financial positions of the relevant counterparties. Accordingly, provision for impairment of trade receivables of HK$406,000 (2007: HK$13,326,000) and of deposits and other receivables of HK$9,125,000 (2007: HK$20,505,000), respectively, were charged to the consolidated income statement during the year.

8. FINANCE COSTS

	2008	2007
	HK$'000	HK$'000
Interest on loans/bonds wholly repayable within five years:		
Bank loans	**3,656**	5,334
Other loans	**63**	14
Convertible bonds	**6,977**	5,728
Interest on bank loans wholly repayable after five years	**477**	766
Interest on a finance lease	**10**	21
	11,183	11,863

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:

	2008	2007
	HK$'000	HK$'000
Fees:		
Executive directors	**39**	72
Non-executive director	**1,521**	36
Independent non-executive directors	**180**	180
	1,740	288
Other emoluments (executive and non-executive directors):		
Salaries, allowances and benefits in kind	**2,338**	1,920
Performance-related bonuses	**2,120**	–
Equity-settled share option expense	**788**	2,543
Pension scheme contributions	**24**	24
	5,270	4,487
	7,010	4,775

In the prior 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.

9. DIRECTORS' REMUNERATION (Continued)

(a) Independent non-executive directors

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

	2008	2007
	HK$'000	HK$'000
Wang Zhonghua	**60**	60
Zhong Qiang	**60**	60
Xiao Wei	**60**	60
	180	180

There were no other emoluments payable to the independent non-executive directors during the year (2007: Nil).

9. DIRECTORS' REMUNERATION (Continued)

(b) Executive directors and a non-executive director

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Performance-related bonuses HK$'000	Equity-settled share option benefits HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2008						
Non-executive director:						
Ji Guirong	1,521	–	1,000	394	–	2,915
Executive directors:						
Lo Chi Ho, William	–	1,618	1,000	394	12	3,024
Sun Wenhao	36	–	–	–	–	36
Ji Hui	–	720	120	–	12	852
Wu Ding	3	–	–	–	–	3
	39	2,338	1,120	394	24	3,915
	1,560	2,338	2,120	788	24	6,830
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
Ji Hui	–	720	–	–	12	732
Wu Ding	36	–	–	–	–	36
	72	1,920	–	1,272	24	3,288
	108	1,920	–	2,543	24	4,595

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 (2007: three) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining two (2007: two) non-director, highest paid employees for the year are as follows:

	2008	2007
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**1,620**	1,340
Equity-settled share option expense	**317**	171
Pension scheme contributions	**60**	67
	1,997	1,578

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

	Number of employees	
	2008	2007
Nil to HK$1,000,000	**1**	2
HK$1,000,001 to HK$1,500,000	**1**	–
	2	2

In the prior 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 (2007: 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.

	2008	2007
	HK$'000	HK$'000
Group:		
Current – Mainland China	**3,344**	1,381

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:

	2008	2007
	HK$'000	HK$'000
Loss before tax	**(19,284)**	(184,237)
Tax at the statutory tax rate	**(2,276)**	(35,744)
Lower/(higher) tax rates for specific provinces	**482**	(264)
Profits and losses attributable to jointly-controlled entities and associates	**(85)**	332
Income not subject to tax	**(18,021)**	(1,211)
Expenses not deductible for tax	**15,419**	29,456
Tax losses not recognised	**7,791**	8,866
Others	**34**	(54)
Tax charge at the Group's effective rate	**3,344**	1,381

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 nil (2007: HK$35,000) and HK$239,000 (2007: HK$11,000), respectively, is included in "Share of profits and losses of associates and jointly-controlled entities" on the face of the consolidated income statement.

11. TAX (Continued)

The Group has tax losses arising in Hong Kong of HK$172,936,000 (2007: HK$152,119,000) and in Mainland China of HK$30,453,000 (2007: HK$13,107,000) 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.

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

At 31 December 2008, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries and jointly-controlled entities established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries and jointly-controlled entities will distribute such earnings in the foreseeable future.

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

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 2008 includes a loss of HK$208,000 (2007: HK$144,298,000) 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$10,536,000 (2007: HK$183,282,000), and the weighted average of 1,795,375,518 (2007: 1,639,415,300) ordinary shares in issue during the year, as adjusted to reflect the rights issue during the year.

Diluted loss per share amounts for the years ended 31 December 2008 and 2007 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.

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 2008							
At 31 December 2007 and 1 January 2008:							
Cost	58,346	875	49,039	20,348	49,818	125,300	303,726
Accumulated depreciation and impairment	(3,288)	(150)	(5,199)	(2,364)	(5,799)	(40,303)	(57,103)
Net carrying amount	55,058	725	43,840	17,984	44,019	84,997	246,623
At 1 January 2008, net of accumulated depreciation and impairment	55,058	725	43,840	17,984	44,019	84,997	246,623
Additions	2,434	–	9,602	2,209	39,577	84,280	138,102
Disposals	–	–	–	(13)	(532)	–	(545)
Transfers	7,576	–	44,432	7,726	–	(59,734)	–
Disposal of a subsidiary *(note 34(a))*	(1,954)	–	(910)	(127)	(297)	(4,207)	(7,495)
Impairment	–	–	–	–	–	(1,126)	(1,126)
Depreciation provided during the year	(3,214)	(294)	(5,198)	(2,222)	(8,431)	–	(19,359)
Exchange realignment	1,771	8	2,405	982	2,340	5,276	12,782
At 31 December 2008, net of accumulated depreciation and impairment	61,671	439	94,171	26,539	76,676	109,486	368,982
At 31 December 2008:							
Cost	67,664	884	104,788	31,109	90,845	109,486	404,776
Accumulated depreciation and impairment	(5,993)	(445)	(10,617)	(4,570)	(14,169)	–	(35,794)
Net carrying amount	61,671	439	94,171	26,539	76,676	109,486	368,982

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group

	Buildings	Leasehold improvements	Plant and machinery	Furniture and fixtures	Motor vehicles	Construction in progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
31 December 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 a subsidiary *(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

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2008				
At 31 December 2007 and 1 January 2008:				
Cost	710	816	1,850	3,376
Accumulated depreciation	(151)	(712)	(1,062)	(1,925)
Net carrying amount	559	104	788	1,451
At 1 January 2008, net of accumulated depreciation	559	104	788	1,451
Additions	–	24	–	24
Depreciation provided during the year	(142)	(45)	(370)	(557)
At 31 December 2008, net of accumulated depreciation	417	83	418	918
At 31 December 2008:				
Cost	710	840	1,850	3,400
Accumulated depreciation	(293)	(757)	(1,432)	(2,482)
Net carrying amount	417	83	418	918

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

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

	2008 HK$'000	2007 HK$'000
At cost, located in:		
Hong Kong	**23,300**	23,300
Mainland China	**44,364**	35,046
	67,664	58,346

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 2008 amounted to HK$67,000 (2007: HK$337,000).

As at 31 December 2008, one of the Group's buildings with net book value of approximately HK$22,222,000 (2007: HK$22,720,000) was pledged to secure a bank loan granted to the Group (note 27(a)(ii)).

As at 31 December 2008, 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 operating losses of certain subsidiaries and the economic downturn. Accordingly, provision for impairment of HK$1,126,000 (2007: HK$10,232,000) was charged to the consolidated income statement during the year.

15. PREPAID LAND LEASE PAYMENTS

		Group	
		2008	2007
	Note	**HK$'000**	HK$'000
Carrying amount at 1 January		**16,860**	12,360
Recognised during the year	7	**(2,588)**	(990)
Addition for the year		**5,545**	4,663
Exchange realignment		**922**	827
Carrying amount at 31 December		**20,739**	16,860
Current portion included in prepayments, deposits and other receivables		**(2,639)**	(1,562)
Non-current portion		**18,100**	15,298

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

16. GOODWILL

Group

	HK$'000
At 1 January 2007:	
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
Cost at 1 January 2008	128,425
Disposal of a subsidiary *(note 34(a))*	(186)
Exchange realignment	30
At 31 December 2008	128,269
At 31 December 2008:	
Cost	200,009
Accumulated impairment	(71,740)
Net carrying amount	128,269

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 20-year period. The discount rate applied to cash flow projections is 13.8% (2007: 18.4%).

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.

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

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 in the prior year.

17. INTERESTS IN SUBSIDIARIES

	Company	
	2008	2007
	HK$'000	HK$'000
Unlisted shares, at cost	**99,022**	99,022
Due from subsidiaries	**533,274**	498,624
Loans to a subsidiary	**97,368**	91,968
	729,664	689,614
Impairment#	**(226,683)**	(249,843)
	502,981	439,771

An impairment was recognised for certain unlisted investments in subsidiaries with a carrying amount of HK$226,683,000 (2007: HK$249,843,000) (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$533,274,000 (2007: HK$498,624,000) are unsecured and interest-free and have no fixed terms of repayment. In the opinion of the directors, these balances are considered as quasi-equity loans to the subsidiaries.

17. INTERESTS IN SUBSIDIARIES (Continued)

As at 31 December 2007, the loans advanced to a subsidiary were unsecured, bore interest at 3-month Hong Kong Interbank Offered Rate ("HIBOR") plus 2.5% per annum and were repayable in 2008. During the year, the repayment date of the said loans, together with the unpaid interest payable to the Company, was extended to 2009. 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.

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 Direct %	Indirect %	Principal activities
Sino Gas Group Holdings Limited	British Virgin Islands/Hong Kong	US$1	100	–	Property holding
Jetco Innovations Limited	British Virgin Islands/Hong Kong	US$1	100	–	Investment holding
Global King Investments Limited	British Virgin Islands/Hong Kong	US$32,000	–	69.4	Investment holding
Beijing Sinogas Company Limited#	PRC/ Mainland China	RMB100,000,000	–	69.4	Trading of conversion parts and gas station equipment
Jilin Sinogas Company Limited*^	PRC/ Mainland China	RMB8,000,000	–	35.39	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

17. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
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
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	RMB24,000,000	–	84.7	Operation of gas stations
Sinogas (Xuzhou) Cleanly Fuel Co., Limited#	PRC/ Mainland China	HK$10,000,000	–	100	Operation of gas stations
Sino Cleanly (Pizhou) Environment Protect Energy Sources Co., Limited#	PRC/ Mainland China	HK$10,000,000	–	100	Operation of gas stations
Xuzhou Sinogas Bus Fuel Company Limited^	PRC/ Mainland China	US$1,975,000	–	70	Operation of gas stations
Henan Sinogas Nanhai Energy Sources Company Limited^	PRC/ Mainland China	RMB10,000,000	–	80	Operation of gas stations
Ningxia Jianrong New Energy Limited^	PRC/ Mainland China	RMB11,557,000	–	85	Operation of gas stations
Sinogas Chengdu Company Limited^	PRC/ Mainland China	RMB20,000,000	–	85	Operation of gas stations

17. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
Chengdu Sinogas Company Limited#	PRC/ Mainland China	HK$20,000,000	–	85	Operation of gas stations
Chuang Jie Ran Qi (Chengdu) Company Limited^	PRC/ Mainland China	HK$30,000,000	–	95.5	Operation of gas stations
Xinzheng Sinogas Company Limited^	PRC/ Mainland China	HK$11,203,864	–	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	US$1,013,822	–	100	Operation of gas stations
Sino Gas (Ganzhou) Limited#	PRC/ Mainland China	US$750,000	–	100	Operation of gas stations
Sino Gas (Zhengzhou) Company Limited#	PRC/ Mainland China	HK$10,000,000	–	100	Operation of gas stations
Sino Gas (Shanxi) Limited@#	PRC/ Mainland China	RMB12,000,000	–	100	Operation of gas stations
Anyang Sinogas Company Limited@#	PRC/ Mainland China	HK$10,000,000	–	100	Operation of gas stations
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

17. INTERESTS IN SUBSIDIARIES (Continued)

* These companies are subsidiaries of a non-wholly-owned subsidiary of the Company.

@ These companies were newly formed during the year.

^ These subsidiaries are registered as co-operative joint ventures under the PRC laws and are accounted for as subsidiaries by virtue of the Company's control in the board of directors in these companies.

These subsidiaries are registered as wholly-foreign-owned enterprises under the PRC laws and are accordingly accounted for as subsidiaries by virtue of the Company's control over them.

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

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

Note:

Sino Gas (Zhuhai) Limited ("Sino Gas (Zhuhai)") was a 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.

The board of directors of Sino Gas (Zhuhai) comprised five seats and three representatives were assigned by the Group. 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.

18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2008	2007
	HK$'000	HK$'000
Share of net assets	**12,286**	10,220

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

18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

Particulars of the principal jointly-controlled entities at the balance sheet date, which are held indirectly through wholly-owned subsidiaries of the Company, are as follows:

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

* This jointly-controlled entity was newly formed during the year.

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

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

	2008 HK$'000	2007 HK$'000
Share of jointly-controlled entities' assets and liabilities:		
Current assets	**7,553**	7,347
Non-current assets	**10,482**	2,940
Current liabilities	**(5,749)**	(67)
Net assets	**12,286**	10,220

	2008 HK$'000	2007 HK$'000
Share of jointly-controlled entities' results:		
Revenue	**6,168**	6,335
Other income	**336**	23
	6,504	6,358
Total expenses	**(6,166)**	(8,151)
Profit/(loss) after tax	**338**	(1,793)

19. INTERESTS IN ASSOCIATES

	Group 2008 HK$'000	2007 HK$'000
Share of net assets	**17,151**	17,151
Provision for impairment	**(17,151)**	(17,151)
	–	–
Goodwill on acquisition	**58,764**	58,764
Provision for impairment	**(58,764)**	(58,764)
	–	–
	–	–

The balances with an associate are unsecured, interest-free and have no fixed terms of repayment.

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

	HK$'000
At 1 January 2007:	
Cost	58,764
Accumulated impairment	(58,764)
Net carrying amount	–
At 31 December 2007:	
Cost	58,764
Accumulated impairment	(58,764)
Net carrying amount	–
Cost at 1 January 2008, net of accumulated impairment	–
Impairment during the year	–
At 31 December 2008	–
At 31 December 2008:	
Cost	58,764
Accumulated impairment	(58,764)
Net carrying amount	–

19. INTERESTS IN ASSOCIATES (Continued)

Impairment testing of interests in associates and goodwill

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

Due to the continuing non-performance of certain associates, the directors considered that the carrying amounts of the interests in associates exceeded their recoverable amounts, and a provision for impairment of HK$75,915,000 (2007: HK$75,915,000) in aggregate was made by the Group against its interests in those associates, including the related goodwill on acquisition, as at 31 December 2008. During the year ended 31 December 2007, a provision for impairment on the Group's interests in associates of HK$8,844,000 was charged to the consolidated income statement (note 7).

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

19. INTERESTS IN ASSOCIATES (Continued)

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

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.

20. AVAILABLE-FOR-SALE INVESTMENTS

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Overseas unlisted equity investments, at cost	**147,022**	152,300	**145,665**	145,665
Impairment	**(145,666)**	(147,271)	**(145,665)**	(145,665)
	1,356	5,029	**–**	–

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 2008, the Group's and the Company's unlisted equity investments were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair values cannot be measured reliably. The Group does not intend to dispose of them in the near future.

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 a cost of HK$137,858,000 (2007: 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$7,808,000 (2007: HK$9,413,000) as at 31 December 2008 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	
	2008	2007
	HK$'000	HK$'000
Conversion parts and gas station equipment	**7,538**	5,174
CNG and LPG	**3,222**	1,157
Sub-materials	**864**	102
	11,624	6,433

22. TRADE RECEIVABLES

	Group 2008 HK$'000	2007 HK$'000
Trade receivables	**25,855**	31,341
Impairment	**(5,211)**	(15,430)
	20,644	15,911

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 2008 HK$'000	2007 HK$'000
0 to 90 days	**16,660**	15,793
91 to 120 days	**1,494**	59
Over 120 days	**7,701**	15,489
	25,855	31,341

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

	Group 2008 HK$'000	2007 HK$'000
At 1 January	**15,430**	1,876
Impairment losses recognised *(note 7)*	**406**	13,326
Amount written off as uncollectible	**(10,700)**	–
Exchange realignment	**75**	228
	5,211	15,430

22. TRADE RECEIVABLES (Continued)

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$5,211,000 (2007: HK$15,430,000) with a carrying amount of HK$5,211,000 (2007: HK$15,430,000).

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

	Group	
	2008	2007
	HK$'000	HK$'000
Neither past due nor impaired	**18,154**	15,698
Less than 30 days past due	**186**	180
31 to 180 days past due	**2,304**	33
	20,644	15,911

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	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**20,021**	27,111	**284**	597
Deposits and other receivables	**135,255**	173,134	**6,499**	6,499
Impairment	**(129,117)**	(148,223)	**(6,202)**	(6,202)
	26,159	52,022	**581**	894

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.

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

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
At 1 January	**148,223**	119,024	**6,202**	6,202
Impairment losses recognised *(note 7)*	**9,125**	20,505	**–**	–
Disposal of subsidiaries	**(36,092)**	–	**–**	–
Exchange realignment	**7,861**	8,694	**–**	–
	129,117	148,223	**6,202**	6,202

Included in the above provision for impairment of deposits and other receivables of the Group is a provision for individually impaired deposits and other receivables of HK$129,117,000 (2007: HK$148,223,000) with a carrying amount of HK$129,117,000 (2007: HK$148,223,000).

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$53,768,000 (2007: HK$72,717,000). 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.

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	
	2008	2007
	HK$'000	HK$'000
0 to 90 days	**13,199**	10,850
91 to 120 days	**–**	214
Over 120 days	**487**	6,521
	13,686	17,585

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

26. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Deferred income	**8,443**	10,088	**–**	–
Other payables	**22,082**	27,709	**65**	9
Accruals	**4,073**	4,046	**1,877**	1,809
	34,598	41,843	**1,942**	1,818

27. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group	2008			2007		
	Effective interest rate (%)	**Maturity**	**HK$'000**	Effective interest rate (%)	Maturity	HK$'000
Current						
Other loans – unsecured	**-**	**On demand**	**2,150**	–	On demand	2,150
Current portion of other loans – unsecured	**7.71**	**2009**	**3,037**			–
Bank loans – unsecured	**7.5-8.2**	**2009**	**39,550**	5.8 to 11.2	2008	62,060
Current portion of long term bank loans – secured	**Prime-2.8 to HIBOR+2.25**	**2009**	**9,363**	Prime-2.8 to HIBOR+1.75	2008	8,402
			54,100			72,612
Non-current						
Non-current portion of other loans – unsecured	**7.71**	**2010**	**6,795**			–
Bank loans – secured	**Prime-2.8 to HIBOR+2.25**	**2010-2021**	**22,489**	Prime-2.8 to HIBOR+1.75	2009-2021	22,088
			29,284			22,088
			83,384			94,700

Company	2008			2007		
	Effective interest rate (%)	**Maturity**	**HK$'000**	Effective interest rate (%)	Maturity	HK$'000
Current						
Other loans – unsecured	**-**	**On demand**	**2,150**	–	On demand	2,150
Current portion of long term bank loans – secured	**HIBOR+2.25**	**2009**	**7,500**	HIBOR+1.75	2008	7,500
			9,650			9,650
Non-current						
Bank loans – secured			**-**	HIBOR+1.75	2009	7,500
			9,650			17,150

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

	Group 2008 HK$'000	Group 2007 HK$'000	Company 2008 HK$'000	Company 2007 HK$'000
Analysed into:				
Bank loans repayable:				
Within one year or on demand	**48,914**	70,462	**7,500**	7,500
In the second year	**1,912**	8,442	**–**	7,500
In the third to fifth years, inclusive	**6,040**	2,998	**–**	–
Over five years	**14,537**	10,648	**–**	–
	71,403	92,550	**7,500**	15,000
Other borrowings repayable:				
Within one year or on demand	**5,186**	2,150	**2,150**	2,150
In the second year	**6,795**	–	**–**	–
	11,981	2,150	**2,150**	2,150
	83,384	94,700	**9,650**	17,150

Notes:

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

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

(ii) pledge of the Group's building in Hong Kong with a carrying value of HK$22,222,000 (2007: HK$22,720,000) (note 14); and

(iii) corporate guarantees totalling HK$65,860,000 (2007: HK$43,060,000) executed by the Company.

(b) Except for the unsecured bank loans of HK$39,550,000 (2007: HK$62,060,000) and other loans of HK$9,831,000 (2007: Nil) which are denominated in RMB, all other borrowings are in Hong Kong dollars.

(c) Except for the Group's other loan of HK$9,831,000 which is interest-bearing at 7.71% per annum and repayable by 12 quarterly instalments commencing from 1 March 2009, all other loans of the Group and the Company are unsecured, interest-free and repayable on demand.

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

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

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 anytime after issue of the convertible bonds. Any convertible bonds not converted will be redeemed at par in two years after the date of issuance or will be further extended as agreed between the bondholders and the Company. The 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 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 anytime after issuance of the convertible bonds and from time to time in an amount of not less than HK$1,000,000 on each conversion, except when the principal outstanding amount of the convertible bonds is less than HK$1,000,000, the entire principal outstanding amount of the convertible bonds may be converted. Moreover, if the market price of the Company's shares met certain predetermined mandatory conversion prices, the Company shall have the right to require the conversion of certain portion of the outstanding principal amount under each convertible bond and all interest accrued thereon into the shares at the respective mandatory conversion prices.

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

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

	Group and Company	
	2008	2007
	HK$'000	HK$'000
Nominal value of convertible bonds issued	**85,800**	85,800
Equity component	**(10,164)**	(10,164)
Liability component at the issuance date	**75,636**	75,636
Interest expense	**12,705**	5,728
Interest paid	**(2,574)**	(858)
Liability component at 31 December	**85,767**	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 four months as at 31 December 2008.

At 31 December 2008, 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	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Group and Company				
Amounts payable:				
Within one year	**89**	267	**88**	257
In the second year	**–**	89	**–**	88
In the third to fifth years, inclusive	**–**	–	**–**	–
Total minimum finance lease payments	**89**	356	**88**	345
Future finance charges	**(1)**	(11)	**–**	–
Total net finance lease payables	**88**	345	**88**	345
Portion classified as current liabilities	**(88)**	(257)		
Non-current portion	**–**	88		

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

30. SHARE CAPITAL

Shares

	2008	2007
	HK$'000	HK$'000
Authorised:		
10,000,000,000 (2007: 10,000,000,000) ordinary shares of HK$0.2 each	**2,000,000**	2,000,000
Issued and fully paid:		
1,807,355,000 (2007: 1,751,855,000) ordinary shares of HK$0.2 each	**361,471**	350,371

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

(a) 55,500,000 shares of HK$0.20 each were issued for cash at a subscription price of HK$0.20 per share pursuant to the exercise of 55,500,000 warrants for a total cash consideration, before expenses, of HK$11,100,000.

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 capital HK$'000	Share premium account HK$'000	Share option reserve HK$'000	Total HK$'000
At 1 January 2007	1,453,355,000	290,671	674,944	3,008	968,623
Issue of shares and share options	284,500,000	56,900	81,076	8,819	146,795
Issue of shares upon exercise of share options	14,000,000	2,800	5,996	(2,586)	6,210
Equity-settled share option arrangements *(note 31)*	–	–	–	12,713	12,713
Transfer of reserve upon expiry of share options	–	–	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 and 1 January 2008	1,751,855,000	350,371	766,939	15,501	1,132,811
Issue of shares upon exercise of warrants *(a)*	55,500,000	11,100	–	–	11,100
Equity-settled share option arrangements *(note 31)*	–	–	–	3,938	3,938
Transfer of reserve upon forfeiture of share options	–	–	294	(294)	–
	55,500,000	11,100	294	3,644	15,038
At 31 December 2008	1,807,355,000	361,471	767,233	19,145	1,147,849

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 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 warrants. All warrants were exercised for 55,500,000 shares of the Company during the year.

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 certain vesting periods and ends on a date which is not later than 10 years from the date of offer of the share options or the expiry date of the Scheme, if earlier.

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

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

31. SHARE OPTION SCHEME (Continued)

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

	2008 Weighted average exercise price HK$ per share	**2008** Number of share options '000	2007 Weighted average exercise price HK$ per share	2007 Number of share options '000
At 1 January	**0.32**	**187,000**	0.20	41,000
Granted during the year	**–**	**–**	0.35	149,000
Exercised during the year	**–**	**–**	0.20	(3,000)
Forfeited during the year	**0.20**	**(4,000)**	–	–
At 31 December	**0.32**	**183,000**	0.32	187,000

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

2008

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

31. SHARE OPTION SCHEME (Continued)

2007

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

* 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 ended 31 December 2007 was HK$16,651,000, of which the Group has recognised share option expenses of HK$3,938,000 and HK$12,713,000 during the years ended 31 December 2008 and 2007, respectively.

The fair value of equity-settled share options granted during the year ended 31 December 2007 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:

Dividend yield (%)	0
Expected volatility (%)	64.43
Historical volatility (%)	64.43
Risk-free interest rate (%)	3.97-3.98
Expected life of option (year)	1-2
Weighted average share price (HK$)	0.33

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.

31. SHARE OPTION SCHEME (Continued)

At the balance sheet date, the Company had 183,000,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 183,000,000 additional ordinary shares of the Company and additional share capital of HK$36,600,000 and share premium of HK$22,350,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 183,000,000 share options outstanding under the Scheme, which represent approximately 10.13% of the Company's shares in issue as at that date.

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 27 to 28 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.

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 2007		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 share options	30	81,076	8,819	–	–	–	–	89,895
Share issue expenses	30	(1,530)	–	–	–	–	–	(1,530)
Equity-settled share option arrangements	31	–	12,713	–	–	–	–	12,713
Issue of share upon exercise of share options	30	5,996	(2,586)	–	–	–	–	3,410
Transfer of reserve upon exercise of share options	30	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
Equity-settled share option arrangements	31	–	3,938	–	–	–	–	3,938
Transfer of reserve upon forfeiture of share options	30	294	(294)	–	–	–	–	–
Loss for the year		–	–	–	–	–	(208)	(208)
At 31 December 2008		767,233*	19,145*	10,164	828,646*	3,865*	(1,570,944)*	58,109

* These reserve accounts comprise the reserves of HK$47,945,000 (2007: HK$44,215,000) in the balance sheet of the Company.

33. BUSINESS COMBINATION

A result of the amendments on the articles of association of Sino Gas (Zhuhai) during the year ended 31 December 2007 which conferred the Group with a right to exercise a dominant control over the financial and operating policies of Sino Gas (Zhuhai), Sino Gas (Zhuhai) has therefore been accounted for as a subsidiary of the Group since the year ended 31 December 2007. The carrying amounts of the identified assets and liabilities of Sino Gas (Zhuhai), which approximated to their respective fair value, as at the date of reclassification from interest in a jointly-controlled entity to interest in a subsidiary were as follows:

	Note	**Fair value recognised on acquisition** 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
Satisfied 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 acquisition of a subsidiary is as follows:

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

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Disposal of subsidiaries

	Notes	2008 HK$'000	2007 HK$'000
Net assets disposed of:			
Property, plant and equipment	14	**7,495**	4,176
Available-for-sale investments		**3,920**	–
Deposits paid for acquisition of plant and equipment		**–**	348
Inventories		**129**	18
Trade receivables		**1,525**	–
Prepayments, deposits and other receivables		**1,103**	3,531
Cash and bank balances		**1,015**	1,266
Trade payables		**(4,124)**	(105)
Other payables and accruals		**(37,008)**	(140)
Taxation		**(82)**	–
Minority interests		**7,808**	(889)
		(18,219)	8,205
Goodwill disposed of	16	**186**	–
Gain on disposal of a subsidiary	6	**18,593**	–
		560	8,205
Satisfied by cash		**560**	8,205

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

	2008 HK$'000	2007 HK$'000
Cash consideration	**560**	8,205
Cash and bank balances disposed of	**(1,015)**	(1,266)
Net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries	**(455)**	6,939

(b) Major non-cash transaction

During the year, deposits for acquisition of property, plant and equipment of HK$22,982,000 was reclassified as property, plant and equipment upon the receipt of the relevant property, plant and equipment by the Group.

35. CONTINGENT LIABILITIES AND LITIGATIONS

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

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Corporate guarantees given to banks in connection with facilities granted to subsidiaries	**–**	–	**65,860**	43,060

As at 31 December 2008, the corporate guarantees granted to subsidiaries of HK$65,860,000 (2007: HK$43,060,000) by the Company were utilised to the extent of approximately HK$65,860,000 (2007: HK$43,060,000).

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.

36. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

At 31 December 2008, the Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Within one year	**4,365**	–
In the second to fifth years, inclusive	**5,531**	–
After five years	**16,156**	–
	26,052	–

36. OPERATING LEASE ARRANGEMENTS (Continued)

(b) As lessee

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

At 31 December 2008, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Within one year	**9,709**	5,080
In the second to fifth years, inclusive	**38,857**	17,441
After five years	**63,767**	26,541
	112,333	49,062

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$80,460,000 (2007: HK$100,123,000) contracted but not provided for in the financial statements as at 31 December 2008.

38. RELATED PARTY TRANSACTIONS

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

		Group	
		2008	2007
	Notes	**HK$'000**	HK$'000
Associate:			
Sale of products	(i)	**–**	23
Rental income	(ii)	**1,915**	–
Interest income	(iii)	**327**	–
Jointly-controlled entity:			
Purchases of products	(iv)	**1,383**	–
Minority shareholders:			
Sale of products	(i)	**35,090**	25,733
Interest income	(iii)	**40**	135
Shareholder:			
Interest expenses	(v)	**63**	–
A partner of a jointly-controlled entity:			
Interest income	(iii)	**–**	135

38. RELATED PARTY TRANSACTIONS (Continued)

(a) (Continued)

Notes:

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

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

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

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

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

(b) Outstanding balances with related parties

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

(ii) The loan to a minority shareholder is unsecured, non-interest-bearing (2007: interest-bearing at 3% per annum) and repayable within two years (2007: one year).

(iii) The loan from a shareholder is unsecured, bears interest at 3.65% per annum and is repayable within one year.

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

38. RELATED PARTY TRANSACTIONS (Continued)

(c) Compensation of key management personnel of the Group

	2008 HK$'000	2007 HK$'000
Short term employee benefits	**6,198**	2,208
Post-employment benefits	**24**	24
Equity-settled share option expense	**788**	2,543
Total compensation paid to key management personnel	**7,010**	4,775

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

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

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:

2008 **Group**

Financial assets

	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Available-for-sale investments	–	1,356	1,356
Trade receivables	20,644	–	20,644
Financial assets included in prepayments, deposits and other receivables	6,138	–	6,138
Due from minority shareholders	7,295	–	7,295
Cash and bank balances	75,349	–	75,349
	109,426	1,356	110,782

Financial liabilities

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

39. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

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

39. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Company

Financial assets

	2008 Loans and receivables HK$'000	2007 Loans and receivables HK$'000
Financial assets included in prepayments, deposits and other receivables	**297**	297
Cash and bank balances	**21,521**	62,453
	21,818	62,750

Financial liabilities

	2008 Financial liabilities at amortised cost HK$'000	2007 Financial liabilities at amortised cost HK$'000
Financial liabilities included in other payables and accruals	**65**	9
Loan from a shareholder	**8,974**	–
Interest-bearing bank and other borrowings	**9,650**	17,150
Convertible bonds	**85,767**	80,506
Finance lease payables	**88**	345
	104,544	98,010

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk

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

The 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) %	Increase/ (decrease) in loss before tax HK$'000	Increase/ (decrease) in equity* HK$'000	Increase/ (decrease) %	Increase/ (decrease) in equity* HK$'000
2008					
Hong Kong dollar	+1%	298	–	+1%	–
Hong Kong dollar	–1%	(298)	–	–1%	–
2007					
Hong Kong dollar	+1%	313	–	+1%	–
Hong Kong dollar	–1%	(313)	–	–1%	–

* Excluding retained earnings

Foreign currency risk

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

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

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk

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

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

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

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

Liquidity risk

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

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

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

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

Group

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

	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
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
Interest-bearing bank and other borrowings	2,150	39,325	31,137	7,500	14,588	94,700
Convertible bonds	–	–	–	80,506	–	80,506
Finance lease payables	–	63	194	88	–	345
	7,750	56,768	59,245	88,094	14,588	226,445

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

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

	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

Capital management

The primary objectives 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 shareholders' 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 for managing capital during the years ended 31 December 2008 and 2007.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

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

Group

	2008 **HK$'000**	2007 HK$'000
Interest-bearing bank and other borrowings	**83,384**	94,700
Finance lease payables	**88**	345
Trade payables	**13,686**	17,585
Other payables and accruals *(note 26)*	**26,155**	31,755
Due to an associate	**537**	–
Due to a jointly-controlled entity	**1,042**	2,782
Due to minority shareholders	**1,096**	2,818
Loan from a shareholder	**8,974**	–
Less: Cash and bank balances	**(75,349)**	(135,232)
Net debt	**59,613**	14,753
Convertible bonds – the liability component	**85,767**	80,506
Equity attributable to equity holders of the parent	**455,198**	430,473
Adjusted capital	**540,965**	510,979
Adjusted capital and net debt	**600,578**	525,732
Gearing ratio	**10%**	3%

41. POST BALANCE SHEET EVENTS

(a) In January 2009, Beijing Sinogas, a 69.4% owned subsidiary of the Company, entered into a finance lease agreement with Guangdong Zi Yu Tai Finance Leasing Company Limited ("ZYT") to obtain from ZYT a facility of maximum amount of RMB150,000,000 (equivalent to HK$169,500,000) to finance the Group's purchases of gas station equipment. At the date of approval of these financial statements, RMB30,000,000 (equivalent to HK$33,900,000) was drawn down by Beijing Sinogas.

(b) In January 2009, the Company entered into a loan agreement with a shareholder to obtain a loan of HK$22,000,000 from the shareholder.

(c) In January to March 2009, the Company redeemed convertible bonds with an aggregate principal amount of HK$85,800,000 upon maturity.

(d) In February to March 2009, the Company entered into convertible bond agreements with certain existing shareholders and an independent third party, pursuant to which the Company can issue convertible bonds with an aggregate principal amount of HK$88,700,000 to these parties. Assuming full conversion of the aforesaid convertible bonds at the conversion price of HK$0.2 per share, the convertible bonds can be converted into 443,500,000 ordinary shares of the Company. The convertible bonds are interest-bearing at 2% per annum and the interest expenses are payable semi-annually in arrears. The redemption prices of these convertible bonds are ranged from 105% to 106% of their principal amounts. At the date of approval of these financial statements, convertible bonds with an aggregate principal amount of HK$58,700,000 were issued to the existing shareholders.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 April 2009.

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 2008 HK$'000	Year ended 31 December 2007 HK$'000	Year ended 31 December 2006 HK$'000	Eighteen months ended 31 December 2005 HK$'000	Year ended 30 June 2004 HK$'000
RESULTS					
Revenue	**342,990**	169,524	160,838	170,736	157,227
LOSS BEFORE TAX	**(19,284)**	(184,237)	(176,449)	(143,782)	(5,795)
Tax	**(3,344)**	(1,381)	(7,909)	(3,802)	(111)
Loss for the year/period	**(22,628)**	(185,618)	(184,358)	(147,584)	(5,906)
Attributable to:					
Equity holders of the parent	**(10,536)**	(183,282)	(132,748)	(159,767)	(7,028)
Minority interests	**(12,092)**	(2,336)	(51,610)	12,183	1,122
	(22,628)	(185,618)	(184,358)	(147,584)	(5,906)
ASSETS, LIABILITIES AND MINORITY INTERESTS					
Total assets	**734,308**	722,234	579,993	479,956	502,434
Total liabilities	**(242,308)**	(251,371)	(136,473)	(147,635)	(179,325)
Minority interests	**(36,802)**	(40,390)	(22,404)	(46,295)	(25,637)
	455,198	430,473	421,116	286,026	297,472