中油潔能

SINOGAS

Sino Gas Group Limited

Annual Report 2006

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Non-Executive Director

Ji Guirong *(Chairman)*

Executive Directors

Lo Chi Ho, William *(Chief Executive Officer)*
Sun Wenhao
Wu Ding
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

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

AUDITORS

Ernst & Young
Certified Public Accountants

SOLICITORS

Sidley Austin
Michael Li & Co

PRINCIPAL BANKERS

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

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

WEBSITE

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

STOCK CODE

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MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's consolidated loss attributable to equity holders for the year ended 31 December 2006 amounted to HK$132.7 million, which represented a slight improvement on the net loss of HK$159.8 million reported in the previous corresponding period. Increase in revenue was mainly attributable to the sales of natural gas which contributed from the newly constructed compressed natural gas ("CNG") refueling stations, as well as the CNG equipment related income for providing solutions to equipment and gas operators.

The Group recorded a gross profit from operating activities of HK$42.5 million for the year, mainly due to the increase in gas stations operated. The reported loss for the year was mainly due to the one-off provision of approximately HK$168.8 million made in relation to the Group's restructuring of its subsidiaries' non-profitable investments acquired in prior periods. This provision does not adversely affect the Group's existing operations and the board of directors of the Company (the "Board") believes this restructuring is an exception and creates a stronger balance sheet for the Group to expand its business further in the People's Republic of China (the "PRC"). Besides, due to the adoption of new accounting standards, an employee share options expense amounted to approximately HK$7.5 million was recorded in administrative expenses during the year.

The Group has focused on the CNG vehicles refueling stations business since January 2005 and its business achievements up-to-date is respectable. After the Group's restructuring and its one-off provision, the Group is in better position to achieve its business roadmap.

OPERATIONAL REVIEW

During the year, the Group has successfully teamed up with Zhengzhou Public Bus Co. Limited and Xuzhou Public Bus Co. Limited by setting up joint ventures with them to secure 20 years bus fuel gas usage contracts.

In addition, the Group has successfully established presence and increased its retail penetrations in various cities in the PRC, including Guangzhou, Changchun, Jinan, Chengdu, and Henan provinces. Although the result for the year 2006 has not yet reflected the full capacity of these new projects, the Board expects these new projects should contribute respectable profit in the near future. Going forward, the Group continues to focus on the vehicles gas consumption market and targets to complete more 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 an increasingly popular energy source 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.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESOURCES

During the year ended 31 December 2006, the financial position of the Group was strengthened by the net proceeds of approximately HK$137 million received from the issuance of 265,000,000 Company's shares in March and August 2006, respectively, and subsequent to the balance sheet date, the Company further raised HK$109.2 million (before issue expenses) by issuing 42,500,000 new shares with consideration of HK$23.4 million, and by issuing convertible bonds with principal amounts of HK$85.8 million to existing shareholders. The proceeds will be used for the expansion of the Group's business.

At 31 December 2006, total borrowings of the Group were approximately HK$84 million, of which HK$50 million were related to bank borrowings at operating subsidiaries level funding the local PRC operations denominated in Renminbi ("RMB"). Shareholders' equity was HK$421.1 million. Accordingly, the gearing ratio of the Group as at 31 December 2006 was 20%.

During the year ended 31 December 2006, 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 2006 (period ended 31 December 2005: Nil).

STAFF BENEFIT

At 31 December 2006, the Group had a total of 689 employees. The total employees' remuneration for the year amounted to approximately HK$22.7 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.

CHARGE ON GROUP ASSETS

At 31 December 2006, 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.

CONTINGENT LIABILITIES AND LITIGATION

At 31 December 2006, the Group granted the corporate guarantees of HK$9 million and HK$100 million to an associate and an independent third party, respectively. The Company also granted the corporate guarantees of HK$26.3 million to certain subsidiaries. In addition, the Company is currently a defendant in lawsuit brought by a third party alleging the Company for the debt amounted to HK$2.1 million under a loan agreement dated 12 October 2004 together with the interest thereon since 12 February 2005. The Company is in the course of defending such litigation and the related liabilities had been accrued for in the financial statements at the balance sheet date.

BIOGRAPHICAL DETAILS OF DIRECTORS

NON-EXECUTIVE DIRECTOR

Mr. Ji Guirong, aged 45, 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 Degree in Engineering Management and a Bachelor Degree in Engineering and is a Senior Engineer. Mr. Ji has over 22 years of experience in engineering, corporate finance, mergers and acquisitions and project investments. Mr. Ji is an executive director, a Deputy Chairman and the Chief Executive Officer of CATIC International Holdings Limited ("CATIC International"), which is a substantial shareholder of the Company. He is a director of CATIC Helicopter Development (Shenzhen) Limited and Far East Aluminium Works Company Limited and the Chairman of Hangzhou Sealand Electric Power Company Limited, all of which are the principal subsidiaries of CATIC International. He is the Deputy Chief Economist of China National Aero-Technology Import & Export Corporation. He is also an independent director of China Spacesat Technology Co. Ltd. and was formerly a director of Jiangxi Hongdu Aviation Industry Co., Ltd., both of which are listed on the Shanghai Stock Exchange, and a director of Tacko International Limited.

EXECUTIVE DIRECTORS

Mr. Lo Chi Ho, William, aged 41, 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 degree in Chemical Engineering and Fuel Technology from Sheffield University, the U.K. Mr. Lo has over 18 years of accounting and corporate finance experience working as senior management in international accounting firms in the U.K. and Hong Kong, multinational consumable goods company, international investment banks and was formerly a director of Skynet (International Group) Holdings Limited, a company listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") . He is also an independent director of China Spacesat Technology Co. Ltd., an A-Share company listed on the Shanghai Stock Exchange and an independent non-executive director of China Motion Telecom International Limited, a company listed on the Main Board of the Stock Exchange.

Mr. Sun Wenhao, aged 44, was appointed as an executive director of the Company in January 2005. Mr. Sun holds an International Economics Laws Degree from Fudan University Law School, the PRC. Mr. Sun has been working in the legal field for over 12 years with extensive experience. He is currently a practicing solicitor in Shanghai Foreign Economic Law Office.

Mr. Wu Ding, aged 41, was appointed as an executive director of the Company in February 2005. Mr. Wu graduated from Shanxi University of Finance. Mr. Wu has over 18 years of working experience and has been appointed as the Chairman and General Manager of China Resources Shanghai Company Limited since 2002. In 2006, Mr. Wu has been appointed as Deputy General Manager of China Resources Land Limited. He is in charge of project development.

Mr. Ji Hui, aged 37, 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 15 years of experience in equipment, facilities and product sales in the PRC and the U.S.A. He also has research experience in environmental engineering.

BIOGRAPHICAL DETAILS OF DIRECTORS

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wang Zhonghua, aged 45, was appointed as an independent non-executive director of the Company in January 2005. Mr. Wang holds a Bachelor Degree in Engineering from Lanzhou Railway 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, member of Shenzhen Engineering Economics Evaluation Expert Commission and member of Shenzhen Pricing Engineers Association Expert Commission. Mr. Wang has been working in the engineering field for over 21 years with extensive experience. He has been serving Shenzhen Province Mass Transit Railway Company Limited since 1993.

Mr. Zhong Qiang, aged 39, 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 16 years with extensive experience. He is currently a director of Shanghai Jun Zheng Ke Mao Company Limited.

Mr. Xiao Wei, aged 44, 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 22 years of experience in engineering and management.

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the 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 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 21 to 92.

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 93. 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 AND WARRANTS

Details of movements in the Company's share capital, share options and warrants during the year are set out in notes 28 and 29 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 30(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2006, the Company had no reserves available for distribution in accordance with the provisions of Section 79B of the Hong Kong Companies Ordinance.

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 43% of the total sales for the year and sales to the largest customer included therein amounted to 20%. Purchases from the Group's five largest suppliers accounted for less than 68% of the total purchases for the year and purchases from the largest supplier included therein amounted to 23%.

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

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Ji Guirong
Lo Chi Ho, William
Sun Wenhao
Wu Ding
Ji Hui

Independent non-executive directors:

Wang Zhonghua
Zhong Qiang
Xiao Wei

Subsequent to the balance sheet date, on 3 April 2007, Mr. Ji Guirong has been re-designated as a non-executive director of the Company.

In accordance with article 87 of the Company's articles of association, Messrs. Sun Wenhao, Wang Zhonghua and Zhong Qiang 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 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 confirmation of independence from Messrs. Wang Zhonghua, Zhong Qiang and Xiao Wei, and as at the date of this report still considers them to be independent.

DIRECTORS' BIOGRAPHIES

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

REPORT OF THE DIRECTORS

DIRECTORS' SERVICE CONTRACTS

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

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

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

The interests of the directors in the share options of the Company are separately disclosed in note 29 to the financial statements.

Save as disclosed above, as at 31 December 2006, none of the directors of the Company had an interest or a short position in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the 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 in the Rules Governing the Listing Securities on the Stock Exchange (the "Listing Rules").

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' interests and short positions in shares and underlying shares" above and in the share option scheme disclosures in note 29 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

REPORT OF THE DIRECTORS

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

At 31 December 2006, the following interests of 5% or more of the issued share capital, warrants 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:

Long positions:

Name	Notes	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital	Number of warrants held
Billirich Investment Limited	(a)	Beneficial owner	290,500,000	19.99%	–
CATIC (H.K.) Limited	(a)	Interest of controlled corporation	290,500,000	19.99%	–
CATIC International Holdings Limited	(a)	Interest of controlled corporation	290,500,000	19.99%	–
China Aviation Industry Corporation I	(a)	Interest of controlled corporation	290,500,000	19.99%	–
China Aviation Industry Corporation II	(a)	Interest of controlled corporation	290,500,000	19.99%	–
China National Aero–Technology Import & Export Corporation	(a)	Interest of controlled corporation	290,500,000	19.99%	–
Tacko International Limited	(a)	Interest of controlled corporation	290,500,000	19.99%	–
JPMorgan Chase & Co.		Beneficial owner	48,830,000		
		Investment manager	34,160,000		
		Custodian/approved lending agent	60,230,000*		
			143,220,000	9.85%	–
Sun Shining Investment Corp.	(b)	Beneficial owner	92,050,000	6.33%	–
Tai Yuen Textile Company Ltd.	(b)	Interest of controlled corporation	92,050,000	6.33%	–
Bonus World Limited		Beneficial owner	124,500,000	8.57%	55,000,000
Legg Mason, Inc.		Investment manager	113,540,000	7.81%	–
Deutsche Bank Aktiengeselleschaft		Beneficial owner	90,040,000	6.20%	–

* *lending pool*

REPORT OF THE DIRECTORS

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

Notes:

(a) Billirich Investment Limited ("Billirich") is a wholly-owned subsidiary of CATIC International. Tacko International Limited holds approximately 35.70% of the issued share capital of CATIC International, is a wholly-owned subsidiary of CATIC (H.K.) Limited, which in turn is a wholly-owned subsidiary of China National Aero-Technology Import & Export Corporation. China National Aero-Technology Import & Export Corporation is owned as to 50% by China Aviation Industry Corporation I and as to 50% by China Aviation Industry Corporation II. Accordingly, all these corporations are deemed to be interested in the shares held by Billirich.

(b) Tai Yuen Textile Company Ltd. beneficially owns 82.86% equity interest in Sun Shining Investment Corp.("Sun Shining") and is therefore deemed to be interested in the 92,050,000 shares held by Sun Shining.

The shareholders' interest in shares and underlying shares disclosed above do not include 77,070,000 shares recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO. These 77,070,000 shares comprise 34,570,000 issued shares beneficially owned by Deephaven Relative Value Equity Trading Ltd. ("Deephaven") as at 31 December 2006 and 42,500,000 new shares issued on 10 January 2007 pursuant to a share subscription agreement with Deephaven on 19 December 2006. Besides, 60,000,000 shares which will be issued upon full conversion of the convertible bonds issued by the Company to Deephaven on 10 January 2007 pursuant to a convertible bond agreement with Deephaven on 19 December 2006 were also excluded.

Save as disclosed above, as at 31 December 2006, 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 10 July 2006, the Company entered into a subscription agreement with Billirich, pursuant to which Billirich agreed to subscribe and the Company agreed to issue and allot an aggregate of 25,000,000 new shares of the Company at the subscription price of HK$0.53 per share. As of that date, Billirich was interested in 265,500,000 shares, representing approximately 20.93% of the issued share capital of the Company. Billirich was a substantial shareholder (as defined under the Listing Rules) of the Company and a connected person (as defined under the Listing Rules) of the Company.

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

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS (Continued)

Connected transactions (Continued)

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

Continuing connected transactions

On 28 February 2005, the Company and Beijing Sinogas entered into a master agreement in relation to the supply of equipment and machinery for the operations of liquefied natural gas and CNG refueling stations in Mainland China. During the year, equipment and machinery of HK$21,615,000 were supplied by the Company to Beijing Sinogas.

On 14 March 2005, the Company and Beijing Sinogas entered into a facility agreement pursuant to which the Company conditionally agreed to provide a facility up to HK$40,000,000 to Beijing Sinogas. As at 31 December 2006, a facility of HK$34,300,000 was utilised by Beijing Sinogas.

On 7 September 2005, the Company provided a guarantee in favour of Hua Xia Bank in respect of the facility of HK$10,000,000 granted by Hua Xia Bank to Beijing Sinogas. As at 31 December 2006, a bank loan of HK$10,000,000 was drawn down by Beijing Sinogas.

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

DISCLOSURES PURSUANT TO RULE 13.20 OF THE LISTING RULES

In accordance with the requirements of Rule 13.20 of the Listing Rules, the following disclosures are included in respect of the guarantees provided by the Group. On 12 September 2006, Beijing Sinogas entered into an agreement with an independent third party pursuant to which Beijing Sinogas agreed to provide a guarantee up to an amount of RMB60 million in respect of a loan to be provided to such party by a bank. Together with the guarantee given by Beijing Sinogas to such party up to RMB40 million in respect of another bank loan advanced to such party on 20 December 2005, the aggregate amount of guarantees provided to such party amounted to RMB100 million as at 31 December 2006, which exceeded 8% of the total assets of the Group.

REPORT OF THE DIRECTORS

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 39 to the financial statements.

AUDITORS

During the year, Deloitte Touche Tohmatsu resigned as auditors of the Company and Ernst &Young were appointed by the directors to fill the casual vacancy so arising. There have been no other changes of auditors in the past three years. A resolution for the reappointment of Ernst & Young as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Ji Guirong
Chairman

Hong Kong
24 April 2007

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

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

The Company has complied with the relevant provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Listing Rules throughout the year ended 31 December 2006.

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 2006, 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**
Executive Directors	
Ji Guirong*	4/4
Lo Chi Ho, William	4/4
Sun Wenhao	4/4
Wu Ding	2/4
Ji Hui	4/4
Independent Non-executive Directors	
Wang Zhonghua	4/4
Zhong Qiang	4/4
Xiao Wei	4/4

* *re-designated as non-executive director on 3 April 2007*

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.

CORPORATE GOVERNANCE REPORT

A. DIRECTORS (Continued)

Board Composition

During the year ended 31 December 2006, the Board consisted of eight directors including five executive directors and three independent non-executive directors. Mr. Ji Guirong, an executive director, has been re-designated as non-executive director on 3 April 2007. 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.

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.

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.

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. During the year ended 31 December 2006, all independent non-executive directors of the Company were appointed for a specific term and subject to retirement by rotation and re-election at each annual general meeting.

There was no change in the composition of the Board during the year ended 31 December 2006.

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.

CORPORATE GOVERNANCE REPORT

A. DIRECTORS (Continued)

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 in 2005 with specific written terms of reference defining its duties and authorities. During the year under review, the Remuneration Committee comprises three members which includes one executive director namely Mr. Ji Guirong (who has then been re-designated as non-executive director on 3 April 2007) 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 performed-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 2005 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 2006, the Remuneration Committee held one meeting to discuss remuneration related matters. The attendance record of each committee member is set out below:

Directors	**Attendance**
Executive Director	
Ji Guirong*	1/1
Independent Non-executive Directors	
Zhong Qiang	1/1
Xiao Wei	1/1

* *re-designated as non-executive director on 3 April 2007*

CORPORATE GOVERNANCE REPORT

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.

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 2006. 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	2/2

CORPORATE GOVERNANCE REPORT

C. ACCOUNTABILITY AND AUDIT (Continued)

Auditors' Remuneration

On 22 January 2007, Ernst & Young have been appointed as auditors of the Group to fill the casual vacancy following the resignation of Deloitte Touche Tohmatsu ("DTT"). DTT had confirmed that there were no circumstances connected with their resignation which they considered should be brought to the attention of the holders of securities of the Company.

For the year ended 31 December 2006, the fee paid/payable to Ernst & Young for audit and non-audit services are set out below:

	Amount (HK$'000)
Audit Services	1,450
Non-audit services	41

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 Committed 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 a high level of accountability and to stay informed of the Group's strategy and goals, shareholders are encourage to attend annual general meeting of the Company to exchange views with the Board at which the Chairman and the chairmen of the Board committees are available to answer questions raised by shareholders.

CORPORATE GOVERNANCE REPORT

E. COMMUNICATION WITH SHAREHOLDERS (Continued)

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 new requirements of the Listing Rules, the Company maintains a website, *www.irasia.com/listco/hk/sinogas,* where relevant financial and non-financial information is posted on in a timely basis. The published information will be maintained at the above website for at least five years.

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

INDEPENDENT AUDITORS' REPORT

ERNST & YOUNG

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

We have audited the financial statements of Sino Gas Group Limited set out on pages 21 to 92, which comprise the consolidated and company balance sheets as at 31 December 2006, 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.

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 2006 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
24 April 2007

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2006

	Notes	Year ended 31 December 2006 HK$'000	Period from 1 July 2004 to 31 December 2005 HK$'000
REVENUE	6	**160,838**	170,736
Cost of sales		**(118,348)**	(113,367)
Gross profit		**42,490**	57,369
Other income and gains	6	**44,724**	16,087
Selling and distribution costs		**(8,073)**	(6,021)
Administrative expenses		**(38,841)**	(40,375)
Other operating income/(expenses), net		**(4,443)**	7,771
Finance costs	8	**(3,436)**	(10,545)
Impairment of items of property, plant and equipment	14	**(36,706)**	–
Impairment of deposits and other receivables		**(116,147)**	–
Impairment of available-for-sale investments		**(2,238)**	(139,027)
Impairment of interests in associates	19	**(39,091)**	(27,980)
Impairment of loans to shareholders of an associate		**(14,300)**	–
Share of profits and losses of:			
Jointly-controlled entities		**(251)**	(235)
Associates		**(137)**	(826)
LOSS BEFORE TAX	7	**(176,449)**	(143,782)
Tax	11	**(7,909)**	(3,802)
LOSS FOR THE YEAR/PERIOD		**(184,358)**	(147,584)
Attributable to:			
Equity holders of the parent	12	**(132,748)**	(159,767)
Minority interests		**(51,610)**	12,183
		(184,358)	(147,584)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
– Basic		**(10.51 cents)**	(31.93 cents)

CONSOLIDATED BALANCE SHEET

31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**175,378**	143,142
Prepaid land lease payments	15	**11,692**	3,365
Goodwill	16	**199,372**	100,158
Interests in jointly-controlled entities	18	**9,043**	18,220
Interests in associates	19	**8,365**	46,859
Available-for-sale investments	20	**1,800**	3,319
Deposits paid for acquisition of plant and machinery		**14,226**	51,438
Total non-current assets		**419,876**	366,501
CURRENT ASSETS			
Inventories	21	**12,330**	10,633
Trade receivables	22	**37,471**	16,202
Prepayments, deposits and other receivables		**32,014**	33,645
Loans to shareholders of an associate	37(b)(i)	**–**	14,300
Due from an associate	37(b)(ii)	**–**	3,617
Due from a jointly-controlled entity	37(b)(ii)	**1,678**	–
Due from minority shareholders	37(b)(ii)	**8,077**	–
Loan to a partner of a jointly-controlled entity	37(b)(iii)	**9,000**	2,700
Cash and bank balances	23	**59,547**	32,358
Total current assets		**160,117**	113,455
CURRENT LIABILITIES			
Trade payables	24	**15,182**	9,900
Other payables and accruals	25	**26,661**	46,691
Due to an associate	37(b)(ii)	**82**	–
Due to jointly-controlled entities	37(b)(ii)	**–**	8,762
Due to minority shareholders	37(b)(ii)	**1,402**	1,114
Tax payable		**9,154**	3,556
Interest-bearing bank and other borrowings	26	**52,905**	76,784
Finance lease payables	27	**247**	236
Total current liabilities		**105,633**	147,043
NET CURRENT ASSETS/(LIABILITIES)		**54,484**	(33,588)
TOTAL ASSETS LESS CURRENT LIABILITIES		**474,360**	332,913

CONSOLIDATED BALANCE SHEET

31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	26	**30,495**	–
Finance lease payables	27	**345**	592
Total non-current liabilities		**30,840**	592
Net assets		**443,520**	332,321
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	28	**290,671**	200,971
Reserves		**130,445**	85,055
		421,116	286,026
Minority interests		**22,404**	46,295
Total equity		**443,520**	332,321

Ji Hui
Director

Lo Chi Ho, William
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2006

		Attributable to equity holders of the parent									
	Notes	Issued capital HK$'000 *(note 28)*	Share premium account HK$'000 *(note 28)*	Special capital reserve HK$'000 *(note 30)*	Exchange fluctuation reserve HK$'000	Capital reserve HK$'000	Capital redemption reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 July 2004		62,990	497,496	828,646	2,562	1,647	3,865	(1,095,470)	301,736	26,220	327,956
Released upon disposal of subsidiaries	32	–	–	–	(2,562)	(1,647)	–	–	(4,209)	–	(4,209)
Total income and expense for the period recognised directly in equity		–	–	–	(2,562)	(1,647)	–	–	(4,209)	–	(4,209)
Loss for the period		–	–	–	–	–	–	(159,767)	(159,767)	12,183	(147,584)
Total income and expense for the period		–	–	–	(2,562)	(1,647)	–	(159,767)	(163,976)	12,183	(151,793)
Right issue	28	133,981	–	–	–	–	–	–	133,981	–	133,981
Issue of shares	28	4,000	15,000	–	–	–	–	–	19,000	–	19,000
Share issue expenses	28	–	(6,315)	–	–	–	–	–	(6,315)	–	(6,315)
Issue of warrants	28	–	1,600	–	–	–	–	–	1,600	–	1,600
Acquisition of subsidiaries	31	–	–	–	–	–	–	–	–	2,835	2,835
Disposal of subsidiaries	32	–	–	–	–	–	–	–	–	(141)	(141)
Acquisition of an additional interest in a subsidiary		–	–	–	–	–	–	–	–	1,466	1,466
Capital contribution from minority shareholders		–	–	–	–	–	–	–	–	3,732	3,732
At 31 December 2005		200,971	507,781	828,646	–	–	3,865	(1,255,237)	286,026	46,295	332,321

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2006

		Attributable to equity holders of the parent										
	Notes	Issued capital HK$'000 *(note 28)*	Share premium account HK$'000 *(note 28)*	Share option reserve HK$'000 *(note 30)*	Special capital reserve HK$'000 *(note 30)*	Exchange fluctuation reserve HK$'000	Reserve fund HK$'000 *(note 30(a))*	Capital redemption reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2006		200,971	507,781	–	828,646	–	–	3,865	(1,255,237)	286,026	46,295	332,321
Exchange realignment and total income and expenses for the year recognised directly in equity		–	–	–	–	7,967	–	–	–	7,967	2,649	10,616
Loss for the year		–	–	–	–	–	–	–	(132,748)	(132,748)	(51,610)	(184,358)
Total income and expense for the year		–	–	–	–	7,967	–	–	(132,748)	(124,781)	(48,961)	(173,742)
Issue of shares for acquisition of a subsidiary	28(a)	24,900	52,290	–	–	–	–	–	–	77,190	–	77,190
Issue of warrants for acquisition of a subsidiary	28(a)	–	26,408	–	–	–	–	–	–	26,408	–	26,408
Issue of shares	28(b)	53,000	86,450	–	–	–	–	–	–	139,450	–	139,450
Share issue expenses	28	–	(2,448)	–	–	–	–	–	–	(2,448)	–	(2,448)
Equity-settled share option arrangements	29	–	–	7,471	–	–	–	–	–	7,471	–	7,471
Issue of shares upon exercise of options	28(c)	11,800	–	–	–	–	–	–	–	11,800	–	11,800
Transfer of reserve upon exercise of options	28(c),29	–	4,463	(4,463)	–	–	–	–	–	–	–	–
Transfer of profit to capital reserve		–	–	–	–	–	1,865	–	(1,865)	–	–	–
Disposal of a subsidiary	32	–	–	–	–	–	–	–	–	–	(2,697)	(2,697)
Acquisition of an additional interest in a subsidiary		–	–	–	–	–	–	–	–	–	(576)	(576)
Capital contribution from minority shareholders		–	–	–	–	–	–	–	–	–	28,343	28,343
At 31 December 2006		290,671	674,944*	3,008*	828,646*	7,967*	1,865*	3,865*	(1,389,850)*	421,116	22,404	443,520

* These reserve accounts comprise the consolidated reserves of HK$130,445,000 (2005: HK$85,055,000) in the consolidated balance sheet.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2006

	Notes	Year ended 31 December 2006 HK$'000	Period from 1 July 2004 to 31 December 2005 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(176,449)**	(143,782)
Adjustments for:			
Finance costs	8	**3,436**	10,545
Depreciation	7	**3,827**	4,001
Recognition of prepaid land lease payments	7	**558**	10
Loss on disposal of items of property, plant and equipment	7	**2,615**	3,038
Interest income	6	**(1,602)**	(1,288)
Impairment/(reversal of impairment) of trade receivables	7	**1,828**	(10,809)
Impairment of deposits and other receivables		**116,147**	–
Impairment of items of property, plant and equipment		**36,706**	–
Impairment of available-for-sale investments		**2,238**	139,027
Impairment of interests in associates		**39,091**	27,980
Impairment of loans to shareholders of an associate		**14,300**	–
Equity-settled employee share option expense	29	**7,471**	–
Gain on disposal of subsidiaries	6	**(39,638)**	(2,917)
Gain on disposal of an associate	6	**–**	(1,446)
Gain on disposal of an available-for-sale investment	6	**–**	(6,123)
Share of profits and losses of associates		**137**	826
Share of profits and losses of jointly-controlled entities		**251**	235
		10,916	19,297
Decrease in available-for-sale investments		**–**	11,268
Decrease/(increase) in inventories		**(1,041)**	7,281
Decrease/(increase) in trade receivables		**(22,124)**	4,218
Decrease/(increase) in prepayments, deposits and other receivables		**(52,877)**	16,430
Decrease/(increase) in an amount due from an associate		**3,840**	(3,617)
Increase in an amount due from a jointly-controlled entity		**(1,678)**	–
Increase/(decrease) in trade payables		**6,271**	(15,935)
Decrease in other payables and accruals		**(14,758)**	(4,529)
Increase/(decrease) in an amount due to an associate		**82**	(2,069)
Increase/(decrease) in amounts due to jointly-controlled entities		**(9,302)**	8,762
Cash generated from/(used in) operations		**(80,671)**	41,106
Overseas taxes paid		**(2,530)**	(468)
Net cash inflow/(outflow) from operating activities		**(83,201)**	40,638

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2006

	Notes	Year ended 31 December 2006 HK$'000	Period from 1 July 2004 to 31 December 2005 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**1,602**	1,288
Purchases of items of property, plant and equipment	14	**(71,475)**	(92,614)
Deposits paid for acquisition of plant and machinery		**(14,226)**	(30,714)
Increase in prepaid land lease payments	15	**(11,384)**	(3,022)
Proceeds from disposal of items of property, plant and equipment		**–**	2,624
Acquisition of subsidiaries	31	**76**	(11,490)
Acquisition of an additional interest in a subsidiary		**(873)**	–
Acquisition of jointly-controlled entities		**–**	(18,300)
Purchases of available-for-sale investments		**(600)**	(1,412)
Disposal of subsidiaries	32	**6,998**	8,017
Disposal of an associate		**–**	14,130
Disposal of an available-for-sale investment		**–**	6,123
Loans to shareholders of an associate		**–**	(11,000)
Loan to a partner of a jointly-controlled entity		**(6,300)**	(2,700)
Net cash outflow from investing activities		**(96,182)**	(139,070)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid	8	**(2,859)**	(6,118)
Interest element of finance lease rental payments	8	**(31)**	(126)
Proceeds from issue of shares	28(b)	**139,450**	152,981
Proceeds from issue of shares upon exercise of share options	28(c)	**11,800**	–
Proceeds from issue of warrants	28	**–**	1,600
Share issue expenses	28	**(2,448)**	(6,315)
Repayment of a loan from an associate		**–**	(14,130)
Capital element of finance lease rental payments		**(236)**	(1,527)
Repayment of bank loans		**(40,060)**	(106,489)
New bank loans		**81,310**	74,684
Capital contribution from minority shareholders		**28,343**	3,732
Advance from/(to) minority shareholders, net		**(9,827)**	1,114
Net cash inflow from financing activities		**205,442**	99,406
NET INCREASE IN CASH AND CASH EQUIVALENTS		**26,059**	974
Cash and cash equivalents at beginning of year/period		**32,358**	31,384
Effect of foreign exchange rate changes, net		**1,130**	–
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		**59,547**	32,358
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**59,547**	32,358

BALANCE SHEET

31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**1,346**	945
Interests in subsidiaries	17	**352,400**	185,148
Available-for-sale investments	20	**–**	776
Total non-current assets		**353,746**	186,869
CURRENT ASSETS			
Prepayments, deposits and other receivables		**2,656**	8,439
Loans to shareholders of an associate	37(b)(i)	**–**	14,300
Loan to a subsidiary	17	**–**	35,967
Cash and bank balances	23	**39,341**	11,202
Total current assets		**41,997**	69,908
CURRENT LIABILITIES			
Other payables and accruals	25	**3,305**	6,748
Interest-bearing bank and other borrowings	26	**2,150**	2,150
Finance lease payables	27	**247**	236
Total current liabilities		**5,702**	9,134
NET CURRENT ASSETS		**36,295**	60,774
TOTAL ASSETS LESS CURRENT LIABILITIES		**390,041**	247,643
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	26	**15,000**	–
Finance lease payables	27	**345**	592
Total non-current liabilities		**15,345**	592
Net assets		**374,696**	247,051
EQUITY			
Issued capital	28	**290,671**	200,971
Reserves	30(b)	**84,025**	46,080
Total equity		**374,696**	247,051

Ji Hui
Director

Lo Chi Ho, William
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2006

1. CORPORATE INFORMATION

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

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

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

(ii) trading of gas related products; and

(iii) securities trading and investment holding.

2.1 BASIS OF PREPARATION

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

Basis of presentation

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

Basis of consolidation

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

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

The principal changes in accounting policies are as follows:

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

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

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

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

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

Amendment for financial guarantee contracts

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

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

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Joint ventures

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

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

A joint venture is treated as:

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

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

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

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

Jointly-controlled entities

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

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

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Associates

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

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

Goodwill

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

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

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

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

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

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

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

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

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

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

Impairment of non-financial assets other than goodwill

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

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

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill and certain financial assets is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

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

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

(b) the party is an associate;

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

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

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

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

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

Property, plant and equipment and depreciation

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

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

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

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

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

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

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

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

Leases

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

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

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

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets

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

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

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

Loans and receivables

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

Available-for-sale financial assets

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

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

Fair value

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets

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

Assets carried at amortised cost

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

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

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

Assets carried at cost

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

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

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

Financial liabilities including trade and other payables, an amount due to an associate, amounts due to jointly-controlled entities, amounts due to minority shareholders and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial guarantee contracts

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

Derecognition of financial liabilities

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

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

Inventories

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

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Provisions

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

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax

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

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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

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

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

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

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

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

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

NOTES TO FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

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

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

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

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

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

Employee benefits

Share-based payment transactions

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the Black-Scholes-Merton model, further details of which are given in note 29 to the financial statements. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits (Continued)

Share-based payment transactions (Continued)

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

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

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

Pension schemes and other retirement benefits

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits (Continued)

Pension schemes and other retirement benefits (Continued)

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

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

Borrowing costs

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

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transaction. Non-monetary items at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

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

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequent recurring cash flows of the overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

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4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

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

Impairment of assets

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

Estimation uncertainty

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

Impairment of goodwill

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

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The amount of unrecognised tax losses at 31 December 2006 in Hong Kong was HK$142,831,000 (2005: HK$125,627,000) and in Mainland China was HK$6,905,000 (2005: HK$7,038,000). Further details are contained in note 11 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Impairment of assets

(a) Impairment of property, plant and equipment

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

(b) Impairment of available-for-sale financial assets

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

(c) Impairment of trade receivables and prepayments, deposits and other receivables

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

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

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

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5. SEGMENT INFORMATION

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

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

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

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

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

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

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5. SEGMENT INFORMATION (Continued)

(a) Business segments

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

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

NOTES TO FINANCIAL STATEMENTS

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5. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

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

5. SEGMENT INFORMATION (Continued)

(b) Geographical segments

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

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

NOTES TO FINANCIAL STATEMENTS

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6. REVENUE, OTHER INCOME AND GAINS

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

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

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

NOTES TO FINANCIAL STATEMENTS

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7. LOSS BEFORE TAX

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

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8. FINANCE COSTS

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

9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

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

9. DIRECTORS' REMUNERATION (Continued)

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

(a) Independent non-executive directors

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

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

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

(b) Executive directors

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

9. DIRECTORS' REMUNERATION (Continued)

(b) Executive directors (Continued)

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

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

10. FIVE HIGHEST PAID EMPLOYEES

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

10. FIVE HIGHEST PAID EMPLOYEES (Continued)

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

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

During the year, share options were granted to these three non-director, highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 29 to the financial statements. The fair value of such options, which has been recognised to the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director, highest paid employees' remuneration disclosures.

11. TAX

No Hong Kong profits tax has been provided as the Group did not generate any assessable profits arising in Hong Kong during the year (period ended 31 December 2005: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the country in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

11. TAX (Continued)

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

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

Certain subsidiaries of the Group in Mainland China were eligible for exemption from corporate income tax ("CIT") for the two or three years starting from the first year in which assessable profits were generated, and a 50% exemption from CIT for the following three years.

The share of tax attributable to associates and jointly-controlled entities amounting to nil (period ended 31 December 2005: HK$195,000) and nil (period ended 31 December 2005: Nil), respectively, is included in "Share of profits and losses of jointly-controlled entities and associates" on the face of the consolidated income statement.

The Group has tax losses arising in Hong Kong of HK$142,831,000 (2005: HK$125,627,000) and in Mainland China of HK$6,905,000 (2005: HK$7,038,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

NOTES TO FINANCIAL STATEMENTS

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12. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

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

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

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

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

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14. PROPERTY, PLANT AND EQUIPMENT

Group

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

NOTES TO FINANCIAL STATEMENTS

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2006				
At 1 January 2006:				
Cost	826	2,689	1,350	4,865
Accumulated depreciation	(825)	(2,622)	(473)	(3,920)
Net carrying amount	1	67	877	945
At 1 January 2006, net of accumulated depreciation	1	67	877	945
Additions	630	98	–	728
Disposals	(1)	(1)	–	(2)
Depreciation provided during the year	(10)	(45)	(270)	(325)
At 31 December 2006, net of accumulated depreciation	620	119	607	1,346
At 31 December 2006:				
Cost	630	771	1,350	2,751
Accumulated depreciation	(10)	(652)	(743)	(1,405)
Net carrying amount	620	119	607	1,346

NOTES TO FINANCIAL STATEMENTS

31 December 2006

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2005				
At 1 July 2004:				
Cost	826	2,671	2,700	6,197
Accumulated depreciation	(710)	(2,561)	(135)	(3,406)
Net carrying amount	116	110	2,565	2,791
At 1 July 2004, net of accumulated depreciation	116	110	2,565	2,791
Additions	–	18	–	18
Disposals	–	–	(945)	(945)
Depreciation provided during the period	(115)	(61)	(743)	(919)
At 31 December 2005 and at 1 January 2006, net of accumulated depreciation	1	67	877	945
At 31 December 2005:				
Cost	826	2,689	1,350	4,865
Accumulated depreciation	(825)	(2,622)	(473)	(3,920)
Net carrying amount	1	67	877	945

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

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

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

15. PREPAID LAND LEASE PAYMENTS

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

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

16. GOODWILL

Group

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

Impairment testing of goodwill

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

17. INTERESTS IN SUBSIDIARIES

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

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

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

Particulars of the principal subsidiaries at the balance sheet date are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
			%	%	
Jetco Innovations Limited**	British Virgin Islands/ Hong Kong	US$1	100	–	Investment holding
Global King Investments Limited	British Virgin Islands/ Hong Kong	US$32,000	–	69.4	Investment holding
Beijing Sinogas Company Limited#	PRC/ Mainland China	RMB100,000,000	–	69.4	Trading of conversion parts and gas station equipment

NOTES TO FINANCIAL STATEMENTS

31 December 2006

17. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries at the balance sheet date are as follows: (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
Jilin Sinogas Company Limited*^	PRC/ Mainland China	RMB8,000,000	–	35.39	Trading of conversion parts and gas station equipment and operation of gas stations
Qingdao Sinogas Company Limited^	PRC/ Mainland China	RMB10,000,000	–	65.93	Trading of conversion parts and gas station equipment and operation of gas stations
Xinjiang Sinogas Company Limited*^	PRC/ Mainland China	RMB500,000	–	41.64	Trading of conversion parts and gas station equipment
Guangzhou Sinogas Company Limited^	PRC/ Mainland China	RMB10,000,000	–	62.46	Operation of gas stations
Zhengzhou Sinogas Company Limited*^	PRC/ Mainland China	RMB29,400,000	–	41.64	Operation of gas stations
Wuxi CNPC Limited^	PRC/ Mainland China	RMB12,900,000	–	69.4	Trading of conversion parts and gas station equipment and operation of gas stations
Anhui Sinogas Company Limited#	PRC/ Mainland China	HK$20,000,000	–	100	Operation of gas stations
Changchun Sinogas Company Limited^	PRC/ Mainland China	RMB20,000,000	–	93	Operation of gas stations
Maanshan Sinogas Company Limited#**	PRC/ Mainland China	HK$20,000,000	–	100	Operation of gas stations
Shandong Sinogas Company Limited^**	PRC/ Mainland China	RMB20,000,000	–	84.7	Operation of gas stations

NOTES TO FINANCIAL STATEMENTS

31 December 2006

17. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries at the balance sheet date are as follows: (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
			%	%	
Sinogas (Xuzhou) Cleanly Fuel Co., Limited#**	PRC/ Mainland China	HK$8,500,000	–	85	Operation of gas stations
Sino Cleanly (Pizhou) Environment Protect Energy Sources Co., Limited#**	PRC/ Mainland China	HK$8,500,000	–	85	Operation of gas stations
Xuzhou Sinogas Bus Fuel Company Limited^**	PRC/ Mainland China	US$600,000	–	70	Operation of gas stations
Henan Sinogas Nanhai Energy Sources Company, Limited^**	PRC/ Mainland China	RMB10,000,000	–	80	Operation of gas stations
Ningxia Jianrong New Energy Limited^**	PRC/ Mainland China	RMB11,557,000	–	85	Operation of gas stations
Sinogas Chengdu Company Limited^**	PRC/ Mainland China	RMB16,814,922	–	85	Operation of gas stations
Sino Gas Group Holdings Limited**	British Virgin Islands/ Hong Kong	US$1	100	–	Property holding

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

17. INTERESTS IN SUBSIDIARIES (Continued)

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

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

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

18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

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

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

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

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

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

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

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31 December 2006

18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

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

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

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

19. INTERESTS IN ASSOCIATES

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

NOTES TO FINANCIAL STATEMENTS

19. INTERESTS IN ASSOCIATES (Continued)

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

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

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

Impairment testing of interests in associates and goodwill

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

19. INTERESTS IN ASSOCIATES (Continued)

Impairment testing of interests in associates and goodwill (Continued)

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

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

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

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

Particulars of the principal associates, which are held indirectly through wholly-owned subsidiaries of the Company, are as follows:

Name	Particulars of issued shares/registered share capital held	Place of incorporation/ registration	Percentage of ownership interest attributable to the Group	Principal activities
Tone Communication Limited*	Ordinary shares of US$1 each	British Virgin Islands	30	Investment holding
Trend Technology Limited*	Ordinary shares of US$1 each	British Virgin Islands	21.6	Investment holding
Trend (Ezhou) Technology Limited*	Registered capital of RMB23,721,276	PRC	21.6	Development and manufacture of bio-agricultural pesticide products
Solution Technology Limited*	Ordinary shares of US$1 each	British Virgin Islands	49	Investment holding
Yinchuan Sinogas Company Limited*	RMB20,476,817	PRC	34.3	Operation of gas stations

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

19. INTERESTS IN ASSOCIATES (Continued)

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

The financial statements of the above associates are coterminous with those of the Group. All the above associates have been accounted for using the equity method in these financial statements.

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

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

20. AVAILABLE-FOR-SALE INVESTMENTS

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

20. AVAILABLE-FOR-SALE INVESTMENTS (Continued)

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

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

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

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

21. INVENTORIES

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

22. TRADE RECEIVABLES

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

22. TRADE RECEIVABLES (Continued)

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

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

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

23. CASH AND BANK BALANCES

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

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

24. TRADE PAYABLES

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

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

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

25. OTHER PAYABLES AND ACCRUALS

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

NOTES TO FINANCIAL STATEMENTS

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26. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

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

Company

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

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

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

Notes:

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

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

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

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

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

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

Other interest rate information of the bank loans:

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

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

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

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

27. FINANCE LEASE PAYABLES

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

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

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

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

28. SHARE CAPITAL

Shares

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

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

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

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

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

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

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28. SHARE CAPITAL (Continued)

Shares (Continued)

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

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

Share options

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

Warrants

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

NOTES TO FINANCIAL STATEMENTS

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28. SHARE CAPITAL (Continued)

Warrants (Continued)

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

29. SHARE OPTIONS

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

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

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

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

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

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

29. SHARE OPTIONS (Continued)

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

29. SHARE OPTIONS (Continued)

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

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

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

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

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

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

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

30. RESERVES

(a) Group

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

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

NOTES TO FINANCIAL STATEMENTS

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30. RESERVES (Continued)

(b) Company

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

31. BUSINESS COMBINATION

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

31. BUSINESS COMBINATION (Continued)

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

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32. DISPOSAL OF SUBSIDIARIES

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transactions

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

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

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

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

34. CONTINGENT LIABILITIES AND LITIGATIONS

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

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

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

NOTES TO FINANCIAL STATEMENTS

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34. CONTINGENT LIABILITIES AND LITIGATIONS (Continued)

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

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

35. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

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

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

(b) As lessee

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

36. COMMITMENTS

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

37. RELATED PARTY TRANSACTIONS

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

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

Notes:

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

37. RELATED PARTY TRANSACTIONS (Continued)

(b) Outstanding balances with related parties:

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

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

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

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

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

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

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

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

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2006

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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

Cash flow interest rate risk

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

Foreign currency risk

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

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

Credit risk

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

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

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

Liquidity risk

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

39. POST BALANCE SHEET EVENTS

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

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

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

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

40. COMPARATIVE AMOUNTS

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

41. APPROVAL OF THE FINANCIAL STATEMENTS

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

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 2006 HK$'000	Eighteen months ended 31 December 2005 HK$'000	Year ended 30 June 2004 HK$'000	Year ended 30 June 2003 HK$'000	Fifteen months ended 30 June 2002 HK$'000
RESULTS					
Revenue	**160,838**	170,736	157,227	206,193	193,795
LOSS BEFORE TAX	**(176,449)**	(143,782)	(5,795)	(24,769)	(67,407)
Tax	**(7,909)**	(3,802)	(111)	(2,143)	911
Loss for the year/period	**(184,358)**	(147,584)	(5,906)	(26,912)	(66,496)
Attributable to:					
Equity holders of the parent	**(132,748)**	(159,767)	(7,028)	(20,326)	(54,911)
Minority interests	**(51,610)**	12,183	1,122	(6,586)	(11,585)
	(184,358)	(147,584)	(5,906)	(26,912)	(66,496)
ASSETS, LIABILITIES AND MINORITY INTERESTS					
Total assets	**579,993**	479,956	502,434	254,534	264,650
Total liabilities	**(136,473)**	(147,635)	(179,325)	(1,207)	(38,250)
Minority interests	**(22,404)**	(46,295)	(25,637)	–	(14,389)
	421,116	286,026	297,472	253,327	212,011