中國環投

CHINA ENVIRONMENTAL INVESTMENT

2011 Annual Report

CHINA ENVIRONMENTAL INVESTMENT HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)

Stock code : 260

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Non-Executive Director

Ji Guirong *(Chairman)*

Executive Directors

Ji Hui *(Chief Executive Officer)*
Zang Zheng

Independent Non-Executive Directors

Wang Zhonghua
Zhong Qiang
Xiao Wei

COMPANY SECRETARY

Li Chi Chung

SHARE REGISTRARS

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

AUDITORS

Ernst & Young
Certified Public Accountants

SOLICITORS

Michael Li & Co

PRINCIPAL BANKERS

Chiyu Banking Corporation Limited
The Hongkong and Shanghai Banking Corporation Limited
Bank of China (Hong Kong) Limited

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

WEBSITE

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

STOCK CODE

260

CHAIRMAN'S STATEMENT

2011 was a very eventful year for the Group, not only because the Group's compressed natural gas ("CNG") and liquefied petroleum gas ("LPG") business turned profitable for the first time in its history, but also after years of planning and preparation, the Group was well-positioned to make its next strategic move.

The Group's CNG and LPG business achieved a turnaround in 2011. Sales revenue grew by 27%, surpassing the HK$1 billion mark for the first time. On the other hand, the Group's efforts in controlling costs started to bear fruits, both cost of goods sold and other overhead expenses declined as a percentage of sales which led to improvement in gross profit and a profit attributable to owners of parent of HK$8,482,000 (2010: loss of HK$27,937,000).

In October 2011, the Group entered into an agreement to acquire a 100% stake in Beijing Tianxu Hengyuan Energy-Saving Technology Co., Ltd. (北京天旭恒源節能科技有限公司) ("Tianxu Hengyuan"), an LED Build-Operate-Transfer ("BOT") company, which represents a major step forward to achieve the Group's goal to improve its profitability, enhance shareholder value through selective investments in environmental friendly technology and process that improves energy efficiency and reduces pollution. In November 2011, the Group also entered into an agreement to acquire the remaining 64.58% equity interest of Fidelity Finance Leasing Limited and its wholly-owned subsidiary, Guangdong Zi Yu Tai Finance Leasing Company Limited (廣東資雨泰融資租賃有限公司) ("Guangdong Ziyutai").

Furthermore, the Company has changed its name from Sino Gas Group Limited to China Environmental Investment Holdings Limited effective from 2 February 2012 to signify the Group's new business portfolio and strategy.

The primary appeal of LED street lighting is energy efficiency compared to incandescent bulbs of the same luminance. Research continues to improve the efficiency of newer models. An LED street light with comparable voltage can normally produce the same amount of (or higher) luminance as a traditional light, but requires less than half of the power consumption. Many models of LED street lights on the market today can save more than 60% of energy consumption compared with traditional incandescent bulbs of the same luminance, while the lifetime of LED street lights is usually 10 to 15 years, more than three times of that under the technology currently adopted. Compared with traditional incandescent bulbs, LED street lights have other advantages such as: LEDs can be dimmed when less street lighting is needed, small package size, more accurate color rendering, low maintenance costs, quick turn on and off, RoHS compliance and less attractive to nocturnal insects.

CHAIRMAN'S STATEMENT

LED street lights have been or planned to be installed in many cities around the world: Los Angeles, Dallas, New York City, Toronto, Budapest, Washington D. C., Bristol, to mention just a few. In China, the market potential for LED street light is enormous. Based on some market research, there are currently over 30 million street lights installed throughout China, while the number has been growing at about 15% per year due to China's urbanization. Since 2009 the government in China has been actively encouraging adoption of LED street lights to replace incandescent bulbs, in accordance with the Central Government's goal to reduce the nation's energy consumption in its GDP. According to some industry researches, up to July 2011, 150,000 to 200,000 LED street lights had been installed in cities across China. In other words, only less than 0.7% of the country's existing street lights have been changed to LEDs.

Our analysis of the LED BOT business model, based on existing contracts that Tianxu Hengyuan already entered into with local governments, suggests the investment could enhance the shareholder value significantly provided they are implemented according to plan. In addition, quality of domestically made LED street lights has witnessed significant improvement over the past 5 years, while manufacturing costs have declined sharply. Technology migration and mass productions will further push down LED street lights' costs in the coming years. In other words, our estimated return on investment is expected to have ample room for improvement in the coming years.

A major hurdle that many LED BOT companies in China facing today is source of funding. An LED BOT project requires substantial capital investment at the initial stage. Access to funding, or more precisely lack of access to funding, limits most participants' abilities to fully take advantage of the market potential in the LED BOT business. The Group completed its open offer in February 2012 raising HK$243.6 million, which has further strengthened the Group's capital base facilitating the Group's expansion into the LED BOT business. In addition, the Group's acquisition of a 100% stake in Guangdong Ziyutai will give the Group much better access to funding from domestic commercial banks in China through Guangdong Ziyutai, thus, putting its LED BOT business ahead of the curve in terms of lower funding costs and financing capability as well as enabling the Group to capture the upside potential of the fast growing leasing market in China.

In conclusion, we believe that the conditions are ripe for us to venture into the LED BOT business. This venture is expected to become one of the Group's key growth engines and value drivers in the years to come. For the natural gas business, the Group will continue to look for ways to improve its operating efficiency by enhancing the overall utilization rate of the designed capacity and strengthening cost control effectiveness. With China's accelerating urbanization process and continuous implementation of government policies on clean energy and the environmental protection sector as a whole, we believe both the natural gas business and LED BOT business will have a promising outlook and create value for shareholders in the future.

CHAIRMAN'S STATEMENT

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

Ji Guirong
Chairman

Hong Kong
16 March 2012

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's consolidated revenue has significantly increased by 26.7% to HK$1,024,588,000 for the year ended 31 December 2011 (2010: HK$808,709,000). The consolidated revenue was derived from its business of CNG and LPG vehicle refueling stations in China. The growth in consolidated revenue was the result of the Group's higher sales volume and unit prices in the CNG/LPG business in China.

The Group's gross profit for the year ended 31 December 2011 was HK$209,494,000 (2010: HK$147,328,000), representing a significant increase of 42.2% over that from last year. The main reasons for the improved operating result were: (i) growth in overall CNG/LPG sales volume; (ii) overall increased gross profit margins of CNG/LPG business; and (iii) improved overall capacity utilization level compared to the previous year.

The Group achieved a profit attributable to owners of the parent for the year ended 31 December 2011 amounting to HK$8,482,000 (2010: loss of HK$27,937,000), which is the first time the Group attained net profit since the commencement of natural gas business in 2004. The improvement in profitability was mainly attributed to improved gross profit margins, lower administrative costs as a percentage of sales as well as lower financing costs as a result of the conversion of outstanding convertible notes into common shares during the year.

OPERATIONAL REVIEW

(1) Gas Business

The Group continued to achieve sales growth in CNG and LPG business in the PRC. Sales volume of CNG and LPG amounted to 158,000,000 m^3 and 51,900 tons respectively during the year, representing an increase of 11.1% and 5.4% respectively over the previous year.

Major development of the gas business based on geographical districts is summarized below:

South-western China District: The Group continued its expansion and investments in this district. One of the Group's Chengdu's subsidiaries has completed the establishment of a joint venture with an enterprise under the local municipal government. The joint venture will capitalise on the advantage of such local enterprise's access to land use and make use of the extensive natural resources locally so as to enhance its market penetration. In addition, the Group is building three gas refueling stations and one gas well project has been put in operation.

OPERATIONAL REVIEW (Continued)

(1) Gas Business (Continued)

Inland China District: As affected by local urban planning projects, sales volume in Zhengzhou has slightly decreased and one of the gas stations had to temporarily cease operation and to be relocated.

In Shanxi Taiyuan, the Group is applying to the local government for operating licenses for two newly built CNG refueling stations.

Central China District: A new CNG refueling station has started operation in Anhui. The Anhui subsidiary has recorded satisfactory growth in 2011 and faster growth is expected in 2012.

The Xuzhou subsidiary has achieved steady growth during the year and maintained its market share.

Southern China District: The Guangzhou subsidiary has made effective use of its production capacity and continued to register growth in 2011. Management has identified a few potential sites to build new LPG refueling stations and plans to complete the construction of a new LPG refueling station in Guangzhou in 2012.

Shandong District: The Shandong market is highly competitive and the Shandong subsidiary has adopted various measures to maintain its market share.

North-eastern China District: The North-eastern division has achieved satisfactory sales in 2011. During the year, one of the Group's subsidiaries has formed a joint venture with a local private enterprise, to jointly invest and construct LPG storage facilities so as to enhance its capability in the LPG supply in the local market and improve profit margins. The location of the LPG storage facility has been identified and management is currently finalising the relevant land use documents.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATIONAL REVIEW (Continued)

(2) Vehicle Conversion Kit Business

In the view of fierce competition and lack of room to create significant value in this sector, the Group has terminated its vehicle conversion kit business in 2011.

NEW ACQUISITIONS

(a) LED Street Lighting Business

On 31 October 2011, the Group has entered into an agreement to acquire a 100% stake of Tianxu Hengyuan which is mainly engaging in LED BOT business with various municipal governments in the PRC (the "LED Acquisition"). Tianxu Hengyuan has entered into a LED street lighting BOT service contract with the City Outlook Management Committee of the Local Government of the Fangshan District of Beijing (北京市房山區市政市容管理委員會) for a term of 16 years with service contract value of approximately HK$281.6 million.

Tianxu Hengyuan has ten additional LED BOT projects under negotiation with local government authorities in regions such as Beijing, Hebei province, Liaoning province, Shandong province and Jiangsu province. The estimated maximum total service contract value which Tianxu Hengyuan will generate by 30 June 2012 will amount to approximately HK$7.4 billion.

The Board believes that the LED Acquisition would be a milestone for the Group's business expansion strategy in the environmental protection sector because LED street lightings are more environmental friendly and cost effective. Since the LED street lighting BOT business is relatively new in the PRC, the Group aims to establish its leading position in the niche market.

(b) Finance Leasing Business

On 2 November 2011, the Group has also entered into an agreement to acquire the remaining 64.58% equity interest of Fidelity Finance (the "Finance Leasing Acquisition"). Fidelity Finance, through its wholly-owned subsidiary Guangdong Ziyutai, is principally engaged in (i) providing finance lease services, and consulting services and guarantee thereto; (ii) acquiring assets worldwide for finance leasing; and (iii) managing residual value of assets in a lease in the PRC. The Board considers the acquisition of the finance leasing business will facilitate the Group's capability in fund raising through lease financing for its China operations, in particular, the LED business, and capture the upside potential of the fast growing leasing market in the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OUTLOOK

The measures taken by the Group to reduce the overhead and improve the operating efficiency of its CNG/LPG business have produced encouraging results. 2011 saw the Group attain profitability for the first time since its engagement in the natural gas business in 2004. As being well supported by the regulatory guideline of price reform of natural gas for vehicles issued by PRC's National Development and Reform Commission in June 2010, it is estimated the CNG/LPG price for vehicles will gradually increase to the policy target level of 70% of No.90 gasoline prices in general. With China's accelerating urbanization process, increasing car ownership coupled with the continuous support of government policies to promote clean energy, the prospects of the Group's natural gas business are promising. Despite facing intensifying competition in the market against a backdrop of inflationary pressure on operating costs, the Group remains cautiously optimistic on the outlook of its natural gas business in 2012 and will continue to look for ways to further improve its operating efficiency and for more effective deployment of its resources.

The Board considers that the LED Acquisition represents a major step forward in the Group's expansion strategy in the environmental protection sector in line with the Group's long term development plan. Based on the anticipated development progress of Tianxu Hengyuan, the Board believes that the LED Acquisition will have a positive impact on the Group's earnings in 2012. The Finance Leasing Acquisition is expected to enhance the Group's financing capability through lease financing for its China operations, in particular, the LED business as well as to enhance the Group to capture the upside potential of the fast growing leasing market in China.

The open offer (as described in more details in the Company's prospectus dated 1 February 2012) raising HK$243.6 million has further enhanced the financial position and strengthened the capital base of the Group, thereby facilitating the long-term development of the Group. The Group will continue to identify investment opportunities to broaden its earnings base and enhance its shareholder value.

EVENTS AFTER THE REPORTING DATE

The Group completed the open offer on 22 February 2012.

The Finance Leasing Acquisition and the LED Acquisition was completed on 6 March 2012 and 12 March 2012 respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESOURCES

At 31 December 2011, the Group's total borrowings (including interest-bearing bank and other borrowings and loans from a shareholder) amounted to approximately HK$136.5 million (2010: HK$140.3 million), of which HK$93.3 million (2010: HK$107.2 million) were related to bank and other borrowings at operating subsidiaries level funding the local PRC operations denominated in Renminbi, and therefore the Group's gearing ratio, representing the ratio of Group's total borrowings to equity attributable to owners of the parent of HK$679.1 million (2010: HK$602.8 million) was 20.1% (2010: 23.3%). Cash and bank balances were HK$183.4 million (2010: HK$146.8 million). During the year ended 31 December 2011, the Group was not materially exposed to foreign currency risk.

Convertible bonds with an aggregate nominal value of HK$58.7 million were converted into ordinary shares of the Company in 2011 at maturity, which has further strengthened the Group's capital base.

DIVIDENDS

The Board does not recommend the payment of dividend for the year ended 31 December 2011 (2010: Nil).

STAFF BENEFITS

At 31 December 2011, the Group had a total of 1,315 employees (2010: 1,332). The staff costs for the year amounted to approximately HK$69.8 million (2010: HK$80.6 million). The Group continues to provide remuneration package to employees according to market practices, their experience and performance. Other benefits include contribution of statutory mandatory provident fund for the employees and medical scheme. There was no major change on staff remuneration policies during the year.

HUMAN RESOURCES

The Group treasures its existing staff. Apart from remunerating and promoting staff according to an established mechanism based on individual performance, experience, professional qualification and prevailing market practices, the Group provides internal training for existing staff and makes further study part of the welfare or incentive system for staff. This aims to encourage staff to embark on life-long study, and to formulate a feasible plan for their career development, which lays a solid foundation for sound and sustainable development of the Group.

PLEDGE OF ASSETS

At 31 December 2011, the Group had pledged certain equipment and motor vehicles for bank borrowings granted.

BIOGRAPHICAL DETAILS OF DIRECTORS

NON-EXECUTIVE DIRECTOR

Mr. Ji Guirong, aged 50, was appointed as an executive director, the chairman of the Board and, the chairman and a member of the remuneration committee of the Company in January 2005 and re-designated as a non-executive director of the Company in April 2007. He resigned as the chairman of the remuneration committee of the Company and was appointed as the chairman and a member of the nomination committee of the Company in March 2012. He is currently the chairman of the Board, the chairman and a member of the nomination committee and a member of the remuneration committee of the Company. Mr. Ji holds a Master's Degree in Engineering Management and a Bachelor's Degree in Engineering and is a Senior Engineer. Mr. Ji is an executive director, a deputy chairman and the chief executive officer of AVIC International Holding (HK) Limited ("AVIC Int'l"), which is listed on the main board of The Stock Exchange of Hong Kong Limited, and a director of AVIC International (HK) Group Limited, Tacko International Limited ("Tacko") and Speed Profit Enterprises Limited ("Speed Profit"), while all are the substantial shareholders of the Company. He is a director of CATIC Helicopter Development (Shenzhen) Limited, the principal subsidiary of AVIC Int'l and certain subsidiaries of AVIC Int'l. Mr. Ji is also a director and the vice chairman of NavInfo Co., Ltd., a company listed on the Shenzhen Stock Exchange.

EXECUTIVE DIRECTORS

Mr. Ji Hui, aged 42, was appointed as an executive director of the Company in May 2005, and he is currently the chief executive officer of the Company. Mr. Ji holds a Master of Science Degree in Environmental Engineering from the University of Southern California, Los Angeles. Mr. Ji has 20 years of experience in equipment, facilities and product sales in the PRC and the USA. He also has research experience in environmental engineering.

Mr. Zang Zheng, aged 61, was appointed as an executive director of the Company in December 2010. Mr. Zang was educated in Northwestern Polytechnical University, the PRC in Aeronautics Material. Mr. Zang is currently a professional senior engineer in the Aviation Industry Corporation of China Group (the "AVIC Group"). He has held various executive positions in the AVIC Group in the past 31 years and has over 31 years of experience in management and investment. Mr. Zang is a vice president of the Group's subsidiary, Beijing Sinogas Company Limited since 2008.

BIOGRAPHICAL DETAILS OF DIRECTORS

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wang Zhonghua, aged 50, was appointed as an independent non-executive director of the Company in January 2005. He is a member of the audit committee and the nomination committee of the Company. Mr. Wang is currently a member as well as an examiner of the Royal Institution of Chartered Surveyors (MRICS). Mr. Wang holds a Bachelor's Degree in Engineering from Lanzhou Jiaotong University. Mr. Wang is a Senior Engineer, Registered Consulting (Investment) Engineer, Supervising Engineer, Pricing Engineer, Tenderer; Mr. Wang is also a senior expert in Shenzhen Construction Bureau, inspectorate expert of Shenzhen Development and Reform Bureau, member of Guangdong Province Senior Engineer (Railway Engineering Specialized) Evaluation Committee, member of Shenzhen Senior Engineer (Construction Management Specialized and Pricing Specialized) Evaluation Committee, and senior member of Shenzhen Pricing Engineers Association. Mr Wang has been working in the engineering field for over 29 years with extensive experience. He has been serving Shenzhen Province Mass Transit Railway Company Limited since 1993.

Mr. Zhong Qiang, aged 44, was appointed as an independent non-executive director of the Company in February 2005. He is a member of the audit committee, the remuneration committee and the nomination committee of the Company. Mr. Zhong graduated from Changsha Railway University. Mr. Zhong is an accountant and has been working in the accounting field for over 21 years with extensive experience. He is currently a director of Shanghai Jun Zheng Ke Mao Company Limited.

Mr. Xiao Wei, aged 49, was appointed as an independent non-executive director of the Company in May 2005. He was appointed as the chairman of the audit committee of the Company in April 2008 and as the chairman of the remuneration committee of the Company in March 2012. Mr. Xiao is the chairman and a member of the audit committee and the remuneration committee of the Company, and a member of the nomination committee of the Company. Mr. Xiao graduated from the Electric Engineering Department of Shanghai Tong Ji University. Mr. Xiao has 27 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 2011.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 18 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 profit for the year ended 31 December 2011 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 32 to 146.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on pages 147 to 148. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

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

SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE BONDS

Details of movements in the Company's share capital, share options and convertible bonds during the year are set out in notes 30, 31 and 29 to the financial statements, respectively.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

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

REPORT OF THE DIRECTORS

DISTRIBUTABLE RESERVES

At 31 December 2011, the Company had no reserves available for distribution in accordance with the provisions of Section 79B of the Hong Kong Companies Ordinance.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 19% of the total sales for the year and sales to the largest customer included therein amounted to 7%. Purchases from the Group's five largest suppliers accounted for less than 55% of the total purchases for the year and purchases from the largest supplier included therein amounted to 20%.

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

DIRECTORS

The directors of the Company during the year were:

Non-executive director:

Ji Guirong

Executive directors:

Ji Hui
Zang Zheng

Independent non-executive directors:

Wang Zhonghua
Zhong Qiang
Xiao Wei

In accordance with article 87 of the Company's articles of association (the "Articles"), Mr. Ji Hui and Mr. 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 director and independent non-executive directors) are subject to reappointment or retirement by rotation in accordance with Articles 86(B), 87 and 88.

DIRECTORS (Continued)

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

DIRECTORS' BIOGRAPHIES

Biographical details of the directors of the Company are set out on pages 11 to 12 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Mr. Ji Hui has a service contract with the Company which commenced on 17 May 2005 and is subject to termination by either party giving not less than two months' written notice. He is subject to reappointment or retirement by rotation in accordance with Articles 86(B), 87 and 88.

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

DIRECTORS' REMUNERATION

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

DIRECTORS' INTERESTS IN CONTRACTS

Save for Mr. Ji Guirong (a director of the Company) who is also a director of AVIC Int'l, AVIC International (HK) Group Limited, Tacko and Speed Profit (all are the substantial shareholders of the Company), no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2011, the interests and short positions of the directors in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Long positions in share options of the Company:

Name of director	Number of options directly beneficially owned
Ji Guirong	34,900,000
Ji Hui	22,000,000
	56,900,000

Save as disclosed above, as at 31 December 2011, none of the directors of the Company had registered an interest or a short position in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME

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

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

Name or category of participant	Number of share options: At 1 January 2011	Granted during the year	Exercised during the year	Expired during the year	Forfeited during the year	At 31 December 2011	Date of grant of share options*	Exercise period of share options	Exercise price of share options HK$ per share**
Directors									
Ji Guirong	4,966,667	-	-	-	-	4,966,667	23-8-07	1-10-07 to 31-1-15	0.35
	4,966,667	-	-	-	-	4,966,667	23-8-07	1-1-08 to 31-1-15	0.35
	4,966,666	-	-	-	-	4,966,666	23-8-07	1-7-08 to 31-1-15	0.35
	20,000,000	-	-	-	-	20,000,000	31-8-10	31-8-10 to 30-8-20	0.341
	34,900,000	-	-	-	-	34,900,000			
Ji Hui	2,000,000	-	-	-	-	2,000,000	3-1-06	1-2-06 to 31-1-15	0.20
	20,000,000	-	-	-	-	20,000,000	31-8-10	31-8-10 to 30-8-20	0.341
	22,000,000	-	-	-	-	22,000,000			
	56,900,000	-	-	-	-	56,900,000			

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (Continued)

Name or category of participant	Number of share options: At 1 January 2011	Granted during the year	Exercised during the year	Expired during the year	Forfeited during the year	At 31 December 2011	Date of grant of share options*	Exercise period of share options	Exercise price of share options HK$ per share**
Consultants									
In aggregate	38,100,000	-	-	-	-	38,100,000	23-8-07	1-10-07 to 31-1-15	0.35
	38,100,000	-	-	-	-	38,100,000	23-8-07	1-1-08 to 31-1-15	0.35
	38,100,000	-	-	-	-	38,100,000	23-8-07	1-7-08 to 31-1-15	0.35
	85,000,000	-	-	-	-	85,000,000	31-8-10	31-8-10 to 30-8-20	0.341
	199,300,000	-	-	-	-	199,300,000			
Other employees									
In aggregate	10,000,000	-	-	-	-	10,000,000	3-1-06	1-2-06 to 31-1-15	0.20
	75,000,000	-	-	-	-	75,000,000	31-8-10	31-8-10 to 30-8-20	0.341
	85,000,000	-	-	-	-	85,000,000			
	341,200,000	-	-	-	-	341,200,000			

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

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

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

Save as disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any of the directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (Continued)

Upon the completion of open offer on 22 February 2012, the exercise prices of outstanding share options have been adjusted from HK$0.35 per share to HK$0.233 per share and from HK$0.341 per share to HK$0.227 per share, and the numbers of outstanding share options have been adjusted from 129,200,000 to 193,800,000 and from 200,000,000 to 300,000,000 for the share options granted on 23 August 2007 and 31 August 2010, respectively. There would be no adjustment made to the exercise price and the number of share options with an exercise price of HK$0.20 (being the par value of the ordinary share of the Company) granted on 3 January 2006.

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

At 31 December 2011, the following interests and short positions of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name	*Notes*	Long/short position	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Billirich Investment Limited ("Billirich")	(a)	Long	Beneficial owner	687,730,000	28.23%
AVIC International Holding (HK) Limited ("AVIC Int'l")	(a)	Long	Interest of a controlled corporation	687,730,000	28.23%
Tacko International Limited	(a)	Long	Interest of a controlled corporation	687,730,000	28.23%
AVIC International (HK) Group Limited	(a)	Long	Interest of a controlled corporation	687,730,000	28.23%
AVIC International Holding Corporation	(a)	Long	Interest of a controlled corporation	687,730,000	28.23%
Aviation Industry Corporation of China ("AVIC")	(a)	Long	Interest of a controlled corporation	687,730,000	28.23%

REPORT OF THE DIRECTORS

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

Name	*Notes*	Long/short position	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Grand Win Overseas Ltd. ("Grand Win")	(b)	Long	Beneficial owner	181,310,000	7.44%
Sun Shining Investment Corp.	(b)	Long	Interest of a controlled corporation	181,310,000	7.44%
Tai Yuen Textile Company Ltd.	(b)	Long	Interest of a controlled corporation	181,310,000	7.44%

Notes:

(a) Billirich is a wholly-owned subsidiary of AVIC Int'l. Tacko International Limited, together with its wholly-owned subsidiary, hold in aggregate approximately 40.49% of the issued capital of AVIC Int'l. Tacko International Limited is a wholly-owned subsidiary of AVIC International (HK) Group Limited, which in turn is a wholly-owned subsidiary of AVIC International Holding Corporation. AVIC International Holding Corporation is a non-wholly-owned subsidiary of AVIC. Accordingly, all these corporations are deemed to be interested in the shares held by Billirich.

(b) Grand Win is a wholly-owned subsidiary of Sun Shining Investment Corp. Tai Yuen Textile Company Ltd. beneficially owns 82.85% equity interest in Sun Shining Investment Corp. and therefore, these corporations are deemed to be interested in the shares held by Grand Win.

Save as disclosed above, as at 31 December 2011, 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 2 November 2011, Sino Gas Finance Limited ("Sino Gas Finance"), a wholly-owned subsidiary of the Company, entered into an agreement with Smartcon Investment Limited ("Smartcon"), a wholly-owned subsidiary of AVIC Int'l, and Dong Yuen Investment Limited ("Dong Yuen"), pursuant to which (i) Smartcon and Dong Yuen agreed to sell and Sino Gas Finance agreed to purchase their 575 shares and 200 shares in the issued share capital of Fidelity Finance Leasing Limited ("Fidelity Finance") respectively; and (ii) Smartcon and Dong Yuen agreed to sell and assign to Sino Gas Finance and Sino Gas Finance agreed to purchase and accept the assignment of the shareholders' loans due and owing to Smartcon and Dong Yuen by Fidelity Finance respectively. Upon completion of the acquisition, Fidelity Finance would become an indirect wholly-owned subsidiary of the Company. The acquisition was completed on 6 March 2012.

On 27 November 2008, Zhuhai Sinogas Transportation Company Limited ("Zhuhai Sinogas"), an indirect 45% owned subsidiary of the Company, entered into an agreement with AVIC I International Leasing Co., Ltd. ("AVIC Leasing") whereby AVIC Leasing agreed to provide to Zhuhai Sinogas a loan facility of RMB8,700,000 which has subsequently been increased to RMB20,000,000 pursuant to memorandum of agreement between the contracting parties on 30 December 2008. The loan facility was used to finance the Group's purchase of vehicles and gas station equipment. The facility bears interest at 7.71% per annum and is repayable in 12 quarterly payments within three years after its drawdown date. AVIC Leasing is a wholly-owned subsidiary of AVIC, a corporation which is deemed to be a substantial shareholder of the Company. Accordingly, the entering into of the agreement constituted a connected transaction under the Listing Rules. As at 31 December 2011, the loan was fully repaid.

Continuing connected transactions

On 14 March 2005, the Company and Beijing Sinogas Company Limited ("Beijing Sinogas"), an indirect 69.4% owned subsidiary of the Company, entered into a loan facility agreement pursuant to which the Company agreed to provide a facility of up to HK$40,000,000 to Beijing Sinogas. As at 31 December 2011, a facility of HK$30,300,000 was utilised by Beijing Sinogas.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS (Continued)

Continuing connected transactions (Contined)

On 8 January 2009, Beijing Sinogas entered into an agreement with Guangdong Zi Yu Tai Finance Leasing Company Limited ("Guangdong Ziyutai") to obtain from Guangdong Ziyutai a loan facility of up to RMB150,000,000 to finance the Group's purchases of gas station equipment. As at the date of the agreement, Guangdong Ziyutai was owned as to 10.42% by the Company through its wholly-owned subsidiary, 47.91% by AVIC Int'l through its wholly-owned subsidiary and 41.67% by independent third parties. AVIC Int'l is a substantial shareholder of the Company. Accordingly, the entering into of the agreement constitutes a connected transaction under the Listing Rules. As at 31 December 2011, Guangdong Ziyutai was owned as to 35.42% by the Company through its wholly-owned subsidiary, 47.91% by AVIC Int'l through its wholly-owned subsidiary and 16.67% by an independent third party.

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

SUFFICIENCY OF PUBLIC FLOAT

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

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events after the reporting period of the Group are set out in note 41 to the financial statements.

AUDITORS

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

ON BEHALF OF THE BOARD

Ji Hui
Chief Executive Officer

Hong Kong
16 March 2012

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

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

The Company has complied with the relevant provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Listing Rules throughout the year ended 31 December 2011, save and except that the independent non-executive directors of the Company have not been appointed for a specific term, deviating from the code provision A.4.1 of the CG Code. However, the independent non-executive directors of the Company are subject to retirement and re-election at least once every three years in accordance with the Articles.

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 2011, the Board held four meetings which were participated by the directors either in person or through other electronic means of communication. The attendance record of each director is set out below:

Directors	**Attendance**
Non-Executive Director	
Ji Guirong *(Chairman)*	4/4
Executive Directors	
Ji Hui *(Chief Executive Officer)*	4/4
Zang Zheng	4/4
Independent Non-executive Directors	
Wang Zhonghua	4/4
Zhong Qiang	4/4
Xiao Wei	4/4

CORPORATE GOVERNANCE REPORT

A. DIRECTORS (Continued)

Chairman and Chief Executive Officer

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

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

Board Composition

As at 31 December 2011, the Board consisted of six directors including one non-executive director; two executive directors and three independent non-executive directors. The biographical details of the directors are set out on pages 11 to 12 of this annual report.

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

Appointments, re-election and removal

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

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

A. DIRECTORS (Continued)

Appointments, re-election and removal (Continued)

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

Responsibilities of Directors

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

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

Supply of and access to information

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

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

CORPORATE GOVERNANCE REPORT

B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Board has established the remuneration committee of the Company (the "Remuneration Committee") with specific written terms of reference defining its duties and authorities. As at 31 December 2011, the Remuneration Committee comprised three members which included one non-executive director namely Mr. Ji Guirong (resigned as the committee chairman on 16 March 2012) and two independent non-executive directors namely Mr. Zhong Qiang and Mr. Xiao Wei (appointed as the committee chairman on 16 March 2012).

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

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

During the year ended 31 December 2011, the Remuneration Committee held one meeting to discuss remuneration related matters. The attendance record of each committee member is set out below:

Directors	**Attendance**
Non-executive Director	
Ji Guirong *(committee chairman, resigned as the committee chairman on 16 March 2012)*	1/1
Independent Non-executive Directors	
Zhong Qiang	1/1
Xiao Wei *(appointed as the committee chairman on 16 March 2012)*	1/1

C. ACCOUNTABILITY AND AUDIT

Financial Reporting

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

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

The Company has published its annual and interim results, in accordance with the requirements of the Listing Rules and other relevant regulations, in a timely manner within three months and two 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 of the Company (the "Audit Committee") comprised 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.

CORPORATE GOVERNANCE REPORT

C. ACCOUNTABILITY AND AUDIT (Continued)

Audit Committee (Continued)

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 2011. The attendance record of each committee member is set out below:

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

Auditors' Remuneration

For the year ended 31 December 2011, the fee paid/payable to the auditors of the Group, for audit and non-audit services are set out below:

	Amount (HK$'000)
Audit services	2,320
Non-audit services	1,126

D. NOMINATION COMMITTEE

The Board has established the nomination committee of the Company (the "Nomination Committee") on 16 March 2012 with specific written terms of reference defining its duties and authorities. The Nomination Committee comprised four members which included one non-executive director namely Mr. Ji Guirong as the chairman and three independent non-executive directors namely Mr. Wang Zhonghua, Mr. Zhong Qiang and Mr. Xiao Wei.

The primary duties of the Nomination Committee are to review the size, structure and composition of the Board, identify suitably qualified individual for appointment to the Board, assess the independence of independent non-executive directors and to make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors.

As the Nomination Committee has just been formed in March 2012, no meetings have yet been held.

E. 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 included substantial investments, acquisitions and disposals; business and investment plans; financial and project budgeting; dividend policy; annual and interim results and reports; recommendations on appointments or re-election of directors and other substantial operating and financial matters.

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

Board Committees

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

F. COMMUNICATION WITH SHAREHOLDERS

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

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

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

As a channel of further promoting effective communication as well as fulfilling the requirements of the Listing Rules, the Company maintains a website, www.irasia.com/listco/hk/cei/index.htm, 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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Ernst & Young
22/F CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong
Tel: +852 2846 9888
Fax: +852 2868 4432
www.ey.com

安永會計師事務所
香港中環添美道1號
中信大廈22樓
電話: +852 2846 9888
傳真: +852 2868 4432

To the shareholders of China Environmental Investment Holdings Limited
(Formerly known as Sino Gas Group Limited)
(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of China Environmental Investment Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 32 to 146, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

INDEPENDENT AUDITORS' REPORT

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's profit 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
16 March 2012

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000 (Restated)
REVENUE	6	**1,024,588**	808,709
Cost of sales		**(815,094)**	(661,381)
Gross profit		**209,494**	147,328
Other income and gains	6	**12,221**	20,741
Selling and distribution costs		**(76,743)**	(65,955)
Administrative expenses		**(95,894)**	(105,621)
Other operating expenses, net	7	**(4,946)**	(8,673)
Finance costs	8	**(9,632)**	(15,245)
Share of profits and losses of jointly-controlled entities		**1,413**	2,411
Share of profits and losses of associates		**404**	(107)
PROFIT/(LOSS) BEFORE TAX	7	**36,317**	(25,121)
Income tax expense	11	**(17,615)**	(10,631)
PROFIT/(LOSS) FOR THE YEAR		**18,702**	(35,752)
Attributable to:			
Owners of the parent	12	**8,482**	(27,937)
Non-controlling interests		**10,220**	(7,815)
		18,702	(35,752)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic and diluted		**HK0.36 cents**	(HK1.38 cents)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
PROFIT/(LOSS) FOR THE YEAR		**18,702**	(35,752)
OTHER COMPREHENSIVE INCOME			
Available-for-sale investments:			
Change in fair value		**606**	–
Reclassification adjustment for gain included in the consolidated income statement – gain on disposal	6	**(606)**	–
Income tax effect		**–**	–
		–	–
Exchange differences on translation of foreign operations		**10,072**	19,860
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**10,072**	19,860
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**28,774**	(15,892)
Attributable to:			
Owners of the parent	12	**17,640**	(9,982)
Non-controlling interests		**11,134**	(5,910)
		28,774	(15,892)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2011

	Notes	**2011** **HK$'000**	2010 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**390,945**	423,051
Investment property	15	**5,723**	5,834
Prepaid land lease payments	16	**28,183**	40,603
Goodwill	17	**128,462**	128,462
Investments in jointly-controlled entities	19	**40,593**	14,625
Investments in associates	20	**32,781**	33,634
Prepayments and deposits	24	**21,283**	12,950
Due from a non-controlling shareholder	37(b)(i)	**18,000**	17,700
Total non-current assets		**665,970**	676,859
CURRENT ASSETS			
Inventories	22	**4,212**	5,695
Trade and bills receivables	23	**53,009**	15,077
Prepayments, deposits and other receivables	24	**50,893**	38,609
Due from non-controlling shareholders	37(b)(i)	**44,440**	16,883
Due from jointly-controlled entities	37(b)(ii)	**12,582**	2,214
Available-for-sale investments	21	**–**	23,600
Pledged deposit	25	**3,360**	–
Cash and bank balances	25	**183,388**	146,807
Total current assets		**351,884**	248,885
CURRENT LIABILITIES			
Trade and bills payables	26	**37,036**	9,242
Other payables and accruals	27	**45,930**	39,171
Due to non-controlling shareholders	37(b)(i)	**3,032**	1,444
Due to associates	37(b)(ii)	**2,099**	113
Due to a jointly-controlled entity	37(b)(ii)	**428**	461
Loans from a shareholder	37(b)(iii)	**40,974**	–
Tax payable		**20,663**	17,055
Interest-bearing bank and other borrowings	28	**95,493**	109,300
Convertible bonds	29	**–**	57,237
Total current liabilities		**245,655**	234,023
NET CURRENT ASSETS		**106,229**	14,862
TOTAL ASSETS LESS CURRENT LIABILITIES		**772,199**	691,721

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
NON-CURRENT LIABILITIES			
Other payables and accruals	27	–	1,123
Loans from a shareholder	37(b)(iii)	–	30,974
Total non-current liabilities		–	32,097
Net assets		**772,199**	659,624
EQUITY			
Equity attributable to owners of the parent			
Issued capital	30	**487,171**	428,471
Equity component of convertible bonds	29	–	12,872
Reserves	32(a)	**191,926**	161,414
		679,097	602,757
Non-controlling interests		**93,102**	56,867
Total equity		**772,199**	659,624

Ji Hui
Director

Zang Zheng
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2011

		Attributable to owners of the parent											
	Notes	Issued capital HK$'000 (note 30)	Share premium account HK$'000 (note 30)	Share option reserve HK$'000 (note 30)	Equity component of convertible bonds HK$'000 (note 29)	Special capital reserve HK$'000 (note 32(a))	Exchange fluctuation reserve HK$'000	Reserve funds HK$'000 (note 32(a))	Capital redemption reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2010		361,471	770,736	15,642	12,872	828,646	49,737	1,865	3,865	(1,578,527)	466,307	71,627	537,934
Loss for the year		-	-	-	-	-	-	-	-	(27,937)	(27,937)	(7,815)	(35,752)
Other comprehensive income for the year:													
Exchange differences on translation of foreign operations		-	-	-	-	-	17,955	-	-	-	17,955	1,905	19,860
Total comprehensive loss for the year		-	-	-	-	-	17,955	-	-	(27,937)	(9,982)	(5,910)	(15,892)
Issue of shares	30	67,000	59,295	-	-	-	-	-	-	-	126,295	-	126,295
Share issue expenses	30	-	(962)	-	-	-	-	-	-	-	(962)	-	(962)
Equity-settled share option arrangements	30	-	-	21,196	-	-	-	-	-	-	21,196	-	21,196
Transfer of reserve upon forfeiture of share options	30	-	324	(324)	-	-	-	-	-	-	-	-	-
Transfer of reserves for change in the ownership interest of subsidiaries without loss of control		-	-	-	-	-	-	-	-	(97)	(97)	97	-
Dividends paid to non-controlling shareholders		-	-	-	-	-	-	-	-	-	-	(665)	(665)
Acquisition of non-controlling interests	33(b)(iv)	-	-	-	-	-	-	-	-	-	-	(9,000)	(9,000)
Capital contribution from non-controlling shareholders		-	-	-	-	-	-	-	-	-	-	718	718
At 31 December 2010		428,471	829,393*	36,514*	12,872	828,646*	67,692*	1,865*	3,865*	(1,606,561)*	602,757	56,867	659,624

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2011

		Attributable to owners of the parent											
	Notes	Issued capital HK$'000 (note 30)	Share premium account HK$'000 (note 30)	Share option reserve HK$'000 (note 30)	Equity component of convertible bonds HK$'000 (note 29)	Special capital reserve HK$'000 (note 32(a))	Exchange fluctuation reserve HK$'000	Reserve funds HK$'000 (note 32(a))	Capital redemption reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2011		428,471	829,393*	36,514*	12,872	828,646*	67,692*	1,865*	3,865*	(1,606,561)*	602,757	56,867	659,624
Profit for the year													
Other comprehensive income for the year:		-	-	-	-	-	-	-	-	8,482	8,482	10,220	18,702
Exchange differences on translation													
of foreign operations		-	-	-	-	-	9,158	-	-	-	9,158	914	10,072
Total comprehensive income for the year		-	-	-	-	-	9,158	-	-	8,482	17,640	11,134	28,774
Conversion of convertible bonds	30	58,700	-	-	-	-	-	-	-	-	58,700	-	58,700
Transfer of reserve upon													
conversion of convertible bonds	29	-	-	-	(12,872)	-	-	-	-	12,872	-	-	-
Share of reserve funds of an associate		-	-	-	-	-	-	58	-	(58)	-	-	-
Disposal of subsidiaries	33(a)		-	-	-	-	-	-	-	-	-	18	18
Dividends declared/paid to non-controlling													
shareholders		-	-	-	-	-	-	-	-	-	-	(1,917)	(1,917)
Capital contribution from													
non-controlling shareholders		-	-	-	-	-	-	-	-	-	-	27,000	27,000
Appropriation of reserve funds		-	-	-	-	-	-	3,013	-	(3,013)	-	-	-
At 31 December 2011		487,171	829,393*	36,514*	-	828,646*	76,850*	4,936*	3,865*	(1,588,278)*	679,097	93,102	772,199

* These reserve accounts comprise the consolidated reserves of HK$191,926,000 (2010: HK$161,414,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**36,317**	(25,121)
Adjustments for:			
Finance costs	8	**9,632**	15,245
Depreciation on property, plant and equipment	7	**46,536**	37,490
Depreciation on investment property	7	**210**	24
Recognition of prepaid land lease payments	7	**8,106**	3,830
Impairment of items of property, plant and equipment	7	**1,396**	–
Loss/(gain) on disposal of items of property, plant and equipment	7	**2,028**	(9,437)
Interest income	6	**(1,158)**	(645)
Impairment of trade receivables	7	**–**	1,550
Impairment of deposits and other receivables	7	**1,522**	2,061
Impairment of inventories	7	**–**	5,062
Equity-settled share option expense		**–**	21,196
Gain on disposal of an associate	6	**(375)**	–
Gain on disposal of subsidiaries	6	**(4,964)**	(1,667)
Gain on disposal of an available-for-sales investment	6	**–**	(2,166)
Fair value gain, net:			
Available-for-sale investments (transfer from equity)	6	**(606)**	–
Share of profits and losses of jointly-controlled entities		**(1,413)**	(2,411)
Share of profits and losses of associates		**(404)**	107
		96,827	45,118
Decrease/(increase) in inventories		**547**	(1,682)
Increase in trade and bills receivables		**(38,443)**	(4,464)
Increase in prepayments, deposits and other receivables		**(28,478)**	(7,691)
Movement in balances with jointly-controlled entities		**(10,444)**	(57)
Increase/(decrease) in trade and bills payables		**28,092**	(2,987)
Increase/(decrease) in other payables and accruals		**25,862**	(2,308)
Increase in an amount due to an associate		**1,978**	–
Cash generated from operations		**75,941**	25,929
Overseas taxes paid		**(14,295)**	(10,743)
Net cash flows from operating activities		**61,646**	15,186

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	6	**1,158**	645
Purchases of items of property, plant and equipment	14,33(b)(ii)	**(41,348)**	(44,104)
Proceeds from disposal of items of property, plant and equipment		**11,575**	39,686
Deposits paid for acquisition of land and equipment		**(12,093)**	–
Increase in prepaid land lease payments	16	**(6,438)**	(3,684)
Purchase of an available-for-sale investment		**–**	(23,600)
Proceeds from disposal of an available-for-sale investment		**24,606**	3,534
Disposal of subsidiaries	33(a)	**11,893**	11,397
Disposal of an associate		**2,640**	–
Contribution to associates		**–**	(2,514)
Advances of loans to an associate		**–**	(27,797)
Net cash flows used in investing activities		**(8,007)**	(46,437)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	30	**–**	126,295
Share issue expenses	30	**–**	(962)
Interest paid	8	**(9,312)**	(10,405)
Interest paid on convertible bonds	29	**(587)**	(1,174)
Repayment of bank loans		**(91,200)**	(133,409)
Repayment of other loans		**(6,023)**	(19,204)
New bank loans		**81,600**	89,680
Loan from a shareholder		**10,000**	–
Capital contribution from non-controlling shareholders		**27,000**	718
Advance from/(to) non-controlling shareholders, net		**(27,001)**	707
Dividends paid to non-controlling shareholders	33b(iii)	**(623)**	(665)
Net cash flows from/(used in) financing activities		**(16,146)**	51,581
NET INCREASE IN CASH AND CASH EQUIVALENTS		**37,493**	20,330
Cash and cash equivalents at beginning of year		**146,807**	118,944
Effect of foreign exchange rate changes, net		**2,448**	7,533
CASH AND CASH EQUIVALENTS AT END OF YEAR		**186,748**	146,807
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**183,388**	146,807
Pledged deposit		**3,360**	–
Cash and cash equivalents as stated in the statement of cash flows		**186,748**	146,807

STATEMENT OF FINANCIAL POSITION

31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**732**	395
Investments in subsidiaries	18	**541,122**	571,399
Total non-current assets		**541,854**	571,794
CURRENT ASSETS			
Prepayments, deposits and other receivables	24	**1,244**	813
Due from a subsidiary	37(b)(iv)	**267**	267
Cash and bank balances	25	**5,978**	2,352
Total current assets		**7,489**	3,432
CURRENT LIABILITIES			
Other payables and accruals	27	**7,656**	2,364
Loans from a shareholder	37(b)(iii)	**40,974**	–
Interest-bearing bank and other borrowings	28	**2,150**	2,150
Convertible bonds	29	**–**	57,237
Total current liabilities		**50,780**	61,751
NET CURRENT LIABILITIES		**(43,291)**	(58,319)
TOTAL ASSETS LESS CURRENT LIABILITIES		**498,563**	513,475
NON-CURRENT LIABILITIES			
Other payables and accruals	27	**–**	1,123
Loans from a shareholder	37(b)(iii)	**–**	30,974
Total non-current liabilities		**–**	32,097
Net assets		**498,563**	481,378
EQUITY			
Issued capital	30	**487,171**	428,471
Equity component of convertible bonds	29	**–**	12,872
Reserves	32(b)	**11,392**	40,035
Total equity		**498,563**	481,378

Ji Hui
Director

Zang Zheng
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2011

1. CORPORATE INFORMATION

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

During the year, the Group was principally involved in the operation of compressed natural gas ("CNG") and liquefied petroleum gas ("LPG") refueling stations.

2.1 BASIS OF PREPARATION

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

These financial statements have been prepared on a going concern basis notwithstanding the net current liabilities of the Company as at 31 December 2011 as the Company managed to improve the Company's financial position by obtaining new funding of HK$243,586,000 by the completion of the open offer of 1,217,927,513 offer shares at the subscription price of HK$0.20 per share on 22 February 2012 as further detailed in note 41(c) to the financial statements. In view of the foregoing, the directors of the Company considered that the Company and the Group have sufficient working capital to finance their operations and financial obligations as and when they fall due, and accordingly, are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2011. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

NOTES TO FINANCIAL STATEMENTS
31 December 2011

2.1 BASIS OF PREPARATION (Continued)

Basis of consolidation (Continued)

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

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

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

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*
HKAS 24 (Revised)	*Related Party Disclosures*
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

Other than as further explained below regarding the impact of HKAS 24 (Revised), and amendments to HKFRS 3, HKAS 1 and HKAS 27 included in *Improvements to HKFRSs 2010*, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (Continued)

The principal effects of adopting these HKFRSs are as follows:

(a) HKAS 24 (Revised) *Related Party Disclosures*

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are included in note 37 to the consolidated financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (Continued)

(b) *Improvements to HKFRSs 2010* issued in May 2010 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

- HKFRS 3 *Business Combinations*: The amendment clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

  In addition, the amendment limits the scope of measurement choices for non-controlling interest. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

  The amendment also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

- HKAS 1 *Presentation of Financial Statements*: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

- HKAS 27 *Consolidated and Separate Financial Statements*: The amendment clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[4]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*[1]
HKFRS 9	*Financial Instruments*[6]
HKFRS 10	*Consolidated Financial Statements*[4]
HKFRS 11	*Joint Arrangements*[4]
HKFRS 12	*Disclosure of Interests in Other Entities*[4]
HKFRS 13	*Fair Value Measurement*[4]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[3]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[5]
HKAS 19 (2011)	*Employee Benefits*[4]
HKAS 27 (2011)	*Separate Financial Statements*[4]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[4]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[4]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 July 2012
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2014
6 Effective for annual periods beginning on or after 1 January 2015

NOTES TO FINANCIAL STATEMENTS

31 December 2011

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

Further information about those changes that are expected to significantly affect the Group is as follows:

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

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

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2015.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in HK(SIC)-Int 12.

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

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

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

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, and the consequential amendments to HKAS 27 and HKAS 28 from 1 January 2013.

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

Amendments to HKAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from 1 January 2013.

NOTES TO FINANCIAL STATEMENTS
31 December 2011

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

HKAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value. The amendments introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments incorporate the requirement previously in HK(SIC)-Int 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* that deferred tax on non-depreciable assets, measured using the revaluation model in HKAS 16, should always be measured on a sale basis. The Group expects to adopt HKAS 12 Amendments from 1 January 2012.

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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Joint ventures

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

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

Jointly-controlled entities

A joint venture is treated as:

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Jointly-controlled entities (Continued)

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

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

Associates

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill

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

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

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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

Impairment of non-financial assets

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets (Continued)

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

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

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

or

NOTES TO FINANCIAL STATEMENTS

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties (Continued)

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

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

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

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

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

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

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

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset or as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

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

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

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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

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

Investment properties

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

NOTES TO FINANCIAL STATEMENTS

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties (Continued)

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

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

Leases

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as loans and receivables, and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus, transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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

The Group's financial assets include cash and bank balances, pledged deposit, trade and bills receivables, deposits and other receivables, amounts due from non-controlling shareholders and jointly-controlled entities.

Subsequent measurement

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in the income statement. The loss arising from impairment is recognised in the income statement.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Available-for-sale financial investments

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

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the income statement in other income, or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in the income statement. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the income statement as "Other income".

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

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the Group has the ability and intent to hold until the maturity date of the financial asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Available-for-sale financial investments (Continued)

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

Derecognition of financial assets

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

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the assets. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Financial assets carried at amortised cost (Continued)

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statement.

Financial assets carried at cost

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

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Available-for-sale financial investments (Continued)

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

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

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (Continued)

Initial recognition and measurement (Continued)

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

Subsequent measurement

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

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Convertible bonds

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

NOTES TO FINANCIAL STATEMENTS

31 December 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis.

Inventories

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

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

For the purpose of the statement of financial position, cash and bank balances comprise cash on hand and at banks which are not restricted as to use.

Provisions

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

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

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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

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

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

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

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

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

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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

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

Government grants

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

Revenue recognition

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payment transactions

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

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 31 to the financial statements.

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payment transactions (Continued)

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

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

Other employee benefits

Pension schemes and other retirement benefits

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on settlement or translation of monetary items are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

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

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

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

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

NOTES TO FINANCIAL STATEMENTS

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4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Judgements (Continued)

Operating lease commitments – Group as lessor

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

Impairment of assets

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

Estimation uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill on the acquisition of subsidiaries at 31 December 2011 was HK$128,462,000 (2010: HK$128,462,000). Further details on the impairment testing of goodwill on acquisition of subsidiaries are given in note 17 to the financial statements.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Accordingly, provision for impairment of property, plant and equipment of HK$1,396,000 (2010: Nil) were charged to the consolidated income statement during the year. The carrying amounts of the Group's and the Company's property, plant and equipment at 31 December 2011 were HK$390,945,000 (2010: HK$423,051,000) and HK$732,000 (2010: HK$395,000), respectively. The carrying amount of the Group's investment property at 31 December 2011 was HK$5,723,000 (2010: HK$5,834,000). More details are given in notes 14 and 15 to the financial statements.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The amounts of unrecognised tax losses arising in Hong Kong and in Mainland China were HK$146,235,000 (2010: HK$146,235,000) and HK$28,595,000 (2010: HK$23,260,000) as at 31 December 2011. Further details are given in note 11 to the financial statements.

Impairment of trade receivables and prepayments, deposits and other receivables

The Group maintains an allowance for estimated losses arising from the inability of its customers to make the required payments. The Group makes its estimates based on the ageing of its trade and bills receivable balances, customers' creditworthiness, and historical write-off experience. If the financial condition of its customers was to deteriorate so that the actual impairment loss might be higher than expected, the Group would be required to revise the basis of making the allowance, and its future results would be affected.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

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

As at 31 December 2011, the directors had conducted impairment testing on the Group's trade and bills receivables, and deposits and other receivables, and considered the status of recoverability of certain of these balances based on the financial position of the respective counterparties or the collection of some of the receivables which were provided in prior years. Accordingly, provision for impairment of trade receivables of Nil (2010: HK$1,550,000) and provision for impairment of deposits and other receivables of HK$1,522,000 (2010: HK$2,061,000) were charged to the consolidated income statement during the year.

The carrying amounts of the Group's trade and bills receivables and the Group's and the Company's prepayments, deposits and other receivables at 31 December 2011 were HK$53,009,000 (2010: HK$15,077,000), HK$72,176,000 (2010: HK$51,559,000) and HK$1,244,000 (2010: HK$813,000), respectively. Further details are given in notes 23 and 24 to the financial statements.

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

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

5. OPERATING SEGMENT INFORMATION

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. As the Group's major operations and markets are located in Mainland China, no further geographical segment information is provided.

For management purposes, the Group has only one reportable operating segment, which is the operation of CNG and LPG refueling stations.

6. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents sales of CNG and LPG by operation of gas stations during the year.

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

	2011	2010
	HK$'000	HK$'000
		(Restated)
Revenue		
Operation of gas stations	**1,024,588**	808,709

NOTES TO FINANCIAL STATEMENTS

31 December 2011

6. REVENUE, OTHER INCOME AND GAINS (Continued)

	Note	2011 HK$'000	2010 HK$'000 (Restated)
Other income			
Interest income		**1,158**	645
Government grants received*		**1,112**	2,997
Gross rental income		**3,075**	2,534
Trading of petroleum and gas-related products		**799**	607
Others		**132**	688
		6,276	7,471
Gains			
Gain on disposal of items of property, plant and equipment		**–**	9,437
Gain on disposal of an associate		**375**	–
Gain on disposal of subsidiaries	33(a)	**4,964**	1,667
Gain on disposal of an available-for-sale investment		**–**	2,166
Fair value gain, net:			
Available-for-sale investments (transfer from equity on disposal)		**606**	–
		5,945	13,270
		12,221	20,741

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

7. PROFIT/(LOSS) BEFORE TAX

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

	Notes	2011 HK$'000	2010 HK$'000 (Restated)
Cost of inventories sold*		**784,643**	642,304
Auditors' remuneration		**2,761**	2,694
Depreciation on property, plant and equipment	14	**46,536**	37,490
Depreciation on investment property	15	**210**	24
Minimum lease payments under operating leases in respect of land and buildings		**19,154**	14,033
Less: minimum lease payments capitalised		**–**	(746)
Net minimum lease payments under operating leases in respect of land and buildings		**19,154**	13,287
Amortisation of land lease payments	16	**8,106**	3,830
Contingent rent under an operating lease		**243**	–
Loss**/(gain) on disposal of items of property, plant and equipment		**2,028**	(9,437)
Employee benefit expense (excluding directors' remuneration *(note 9)*):			
Wages and salaries and allowances		**66,747**	56,691
Equity-settled share option expense		**–**	16,956
Pension scheme contributions		**117**	101
Less: Forfeited contributions		**–**	(10)
Net pension scheme contributions***		**117**	91
		66,864	73,738
Impairment of items of property, plant and equipment**	14	**1,396**	–
Impairment of trade receivables**	23	**–**	1,550
Impairment of deposits and other receivables**	24	**1,522**	2,061
Impairment of inventories**		**–**	5,062
Foreign exchange differences, net		**(986)**	(291)

NOTES TO FINANCIAL STATEMENTS

31 December 2011

7. PROFIT/(LOSS) BEFORE TAX (Continued)

* Cost of sales disclosed on the face of the consolidated income statement comprises cost of inventories sold, wages and salaries and allowances of HK$6,919,000 (2010: HK$4,902,000) disclosed under employee benefit expense and depreciation charges of HK$23,532,000 (2010: HK$14,175,000) above.

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

*** At 31 December 2011, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2010: HK$10,000).

8. FINANCE COSTS

An analysis of finance costs is as follows:

	2011	2010
	HK$'000	HK$'000
Interest on loans/bonds wholly repayable within five years:		
Bank loans	**6,413**	6,262
Other loans	**2,899**	4,143
Convertible bonds *(note 29)*	**2,050**	7,841
Total interest expense on financial liabilities	**11,362**	18,246
Less: interest capitalised	**(1,730)**	(3,001)
	9,632	15,245

NOTES TO FINANCIAL STATEMENTS

31 December 2011

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:

	2011	2010
	HK$'000	HK$'000
Fees:		
Executive directors	**36**	36
Non-executive director	**1,656**	1,656
Independent non-executive directors	**180**	180
	1,872	1,872
Other emoluments (executive and non-executive directors):		
Salaries, allowances and benefits in kind	**1,079**	720
Equity-settled share option expense	**–**	4,240
Pension scheme contributions	**12**	12
	1,091	4,972
	2,963	6,844

NOTES TO FINANCIAL STATEMENTS

31 December 2011

9. DIRECTORS' REMUNERATION (Continued)

(a) Independent non-executive directors

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

	2011	2010
	HK$'000	HK$'000
Wang Zhonghua	**60**	60
Zhong Qiang	**60**	60
Xiao Wei	**60**	60
	180	180

There were no other emoluments payable to the independent non-executive directors during the year (2010: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2011

9. DIRECTORS' REMUNERATION (Continued)

(b) Executive directors and a non-executive director

	Fees	Salaries, allowances and benefits in kind	Equity-settled share option expense	Pension scheme contributions	Total remuneration
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2011					
Non-executive director:					
Ji Guirong	1,656	–	–	–	1,656
Executive directors:					
Ji Hui	–	1,079	–	12	1,091
Zang Zheng	36	–	–	–	36
	36	1,079	–	12	1,127
	1,692	1,079	–	12	2,783
2010					
Non-executive director:					
Ji Guirong	1,656	–	2,120	–	3,776
Executive directors:					
Ji Hui	–	720	2,120	12	2,852
Sun Wenhao	36	–	–	–	36
Zang Zheng	–	–	–	–	–
	36	720	2,120	12	2,888
	1,692	720	4,240	12	6,664

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

NOTES TO FINANCIAL STATEMENTS

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10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2010: two) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining three (2010: three) non-director, highest paid employees for the year are as follows:

	2011	2010
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**2,037**	2,039
Equity-settled share option expense	**–**	2,649
Pension scheme contributions	**53**	57
	2,090	4,745

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

	Number of employees	
	2011	2010
Nil to HK$1,000,000	**3**	1
HK$1,000,001 to HK$2,000,000	**–**	1
HK$2,000,001 to HK$3,000,000	**–**	1
	3	3

11. INCOME TAX

No Hong Kong profits tax has been provided as the Group did not generate any assessable profits arising in Hong Kong during the year (2010: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2011	2010
	HK$'000	HK$'000
Group:		
Current – Mainland China	**17,615**	10,631

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2011

11. INCOME TAX (Continued)

	2010		
	Hong Kong HK$'000	Mainland China HK$'000	Total HK$'000
Profit/(loss) before tax	(35,044)	9,923	(25,121)
Tax at the statutory tax rates	(5,782)	2,481	(3,301)
Lower tax rates for tax holiday	–	(3,235)	(3,235)
Profits and losses attributable to jointly-controlled entities	–	(740)	(740)
Income not subject to tax	(2,396)	–	(2,396)
Expenses not deductible for tax	8,178	7,914	16,092
Tax losses utilised from previous periods	–	(1,324)	(1,324)
Tax losses not recognised	–	6,392	6,392
Others	–	(857)	(857)
Tax charge at the Group's effective rate	–	10,631	10,631

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

The share of tax attributable to jointly-controlled entities and associates amounting to HK$1,142,000 (2010: HK$967,000) and HK$195,000 (2010: Nil), respectively, is included in "Share of profits and losses of jointly-controlled entities" and "Share of profits and losses of associates" in the consolidated income statement.

The Group has tax losses arising in Hong Kong of HK$146,235,000 (2010: HK$146,235,000) and in Mainland China of HK$28,595,000 (2010: HK$23,260,000) that are available indefinitely and for five years, respectively, for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

11. INCOME TAX (Continued)

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

At 31 December 2011, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries and jointly-controlled entities established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries and jointly-controlled entities will distribute such earnings in the foreseeable future.

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

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

The consolidated profit attributable to owners of the parent for the year ended 31 December 2011 includes a loss of HK$41,515,000 (2010: HK$63,329,000) which has been dealt with in the financial statements of the Company *(note 32(b))*.

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

The calculation of the basic earnings/(loss) per share amount is based on the profit for the year attributable to ordinary equity holders of the parent of HK$8,482,000 (2010: loss of HK$27,937,000), and the weighted average number of ordinary shares of 2,362,912,560 (2010: 2,031,135,848) in issue during the year.

The calculation of the diluted earnings per share for the year ended 31 December 2011 is based on the profit for the year attributable to ordinary equity holders of the parent, as used in the basic earnings per share calculation. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all the dilutive potential ordinary shares into ordinary shares.

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

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

	2011	2010
	HK$'000	HK$'000
Earnings/(loss)		
Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**8,482**	(27,937)

	Number of shares	
	2011	2010
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**2,362,912,560**	2,031,135,848
Effect of dilution – weighted average number of ordinary shares:		
Share options	**2,548,150**	–
	2,365,460,710	2,031,135,848

No adjustment has been made to the basic loss per share amount presented for the year ended 31 December 2010 in respect of a dilution as the convertible bonds and share options outstanding had an anti-dilutive effect on the basic loss per share amount presented.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2011							
At 31 December 2010 and 1 January 2011:							
Cost	98,529	1,155	168,693	38,285	122,133	88,338	517,133
Accumulated depreciation and impairment	(16,775)	(193)	(31,002)	(9,279)	(36,833)	–	(94,082)
Net carrying amount	81,754	962	137,691	29,006	85,300	88,338	423,051
At 1 January 2011, net of accumulated depreciation and impairment	81,754	962	137,691	29,006	85,300	88,338	423,051
Additions	459	872	8,656	1,074	26,462	5,555	43,078
Disposals	(78)	(668)	(720)	(425)	(4,133)	(7,579)	(13,603)
Disposal of subsidiaries *(note 33(a))*	(3,762)	–	(9,743)	(144)	(1,314)	(5,427)	(20,390)
Transfers	11,052	–	33,289	–	–	(44,341)	–
Impairment *(note 7)*	–	–	–	–	–	(1,396)	(1,396)
Depreciation provided during the year	(7,456)	(434)	(16,867)	(2,291)	(19,488)	–	(46,536)
Exchange realignment	1,341	13	2,354	190	1,263	1,580	6,741
At 31 December 2011, net of accumulated depreciation and impairment	83,310	745	154,660	27,410	88,090	36,730	390,945
At 31 December 2011:							
Cost	107,344	1,100	200,445	37,093	134,073	36,730	516,785
Accumulated depreciation and impairment	(24,034)	(355)	(45,785)	(9,683)	(45,983)	–	(125,840)
Net carrying amount	83,310	745	154,660	27,410	88,090	36,730	390,945

NOTES TO FINANCIAL STATEMENTS

31 December 2011

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group

	Land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2010							
At 1 January 2010:							
Cost	116,633	886	141,074	36,588	99,883	92,422	487,486
Accumulated depreciation and impairment	(13,522)	(589)	(17,525)	(5,374)	(23,634)	–	(60,644)
Net carrying amount	103,111	297	123,549	31,214	76,249	92,422	426,842
At 1 January 2010, net of accumulated depreciation and impairment	103,111	297	123,549	31,214	76,249	92,422	426,842
Additions	–	1,155	11,105	892	23,235	29,996	66,383
Disposals	(24,130)	(228)	(11)	(88)	(2,205)	(3,587)	(30,249)
Disposal of a subsidiary *(note 33(a))*	(3,560)	(207)	(5,887)	(50)	(26)	–	(9,730)
Transfers	16,081	27	17,846	44	–	(33,998)	–
Transfer to investment property *(note 15)*	(5,858)	–	–	–	–	–	(5,858)
Depreciation provided during the year	(6,522)	(83)	(12,797)	(3,961)	(14,127)	–	(37,490)
Exchange realignment	2,632	1	3,886	955	2,174	3,505	13,153
At 31 December 2010, net of accumulated depreciation and impairment	81,754	962	137,691	29,006	85,300	88,338	423,051
At 31 December 2010:							
Cost	98,529	1,155	168,693	38,285	122,133	88,338	517,133
Accumulated depreciation and impairment	(16,775)	(193)	(31,002)	(9,279)	(36,833)	–	(94,082)
Net carrying amount	81,754	962	137,691	29,006	85,300	88,338	423,051

NOTES TO FINANCIAL STATEMENTS

31 December 2011

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2011				
At 31 December 2010 and 1 January 2011:				
Cost	228	537	500	1,265
Accumulated depreciation	(34)	(486)	(350)	(870)
Net carrying amount	194	51	150	395
At 1 January 2011, net of accumulated depreciation	194	51	150	395
Additions	–	39	627	666
Disposals	–	–	(92)	(92)
Depreciation provided during the year	(45)	(29)	(163)	(237)
At 31 December 2011, net of accumulated depreciation	149	61	522	732
At 31 December 2011:				
Cost	228	576	627	1,431
Accumulated depreciation	(79)	(515)	(105)	(699)
Net carrying amount	149	61	522	732

NOTES TO FINANCIAL STATEMENTS

31 December 2011

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 2010				
At 1 January 2010:				
Cost	710	737	500	1,947
Accumulated depreciation	(435)	(676)	(250)	(1,361)
Net carrying amount	275	61	250	586
At 1 January 2010, net of accumulated depreciation	275	61	250	586
Additions	228	26	–	254
Disposals	(228)	(5)	–	(233)
Depreciation provided during the year	(81)	(31)	(100)	(212)
At 31 December 2010, net of accumulated depreciation	194	51	150	395
At 31 December 2010:				
Cost	228	537	500	1,265
Accumulated depreciation	(34)	(486)	(350)	(870)
Net carrying amount	194	51	150	395

The Group's land and buildings with a net carrying amount of HK$83,310,000 (2010: $81,754,000) are situated in Mainland China and are held under a medium term lease.

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

As at 31 December 2011, certain of the Group's gas station equipment and motor vehicles with a total net carrying value of approximately HK$19,787,000 (2010: Nil) are pledged to secure certain bank loans granted to the Group *(note 28(a))*.

The directors had conducted impairment testing on the Group's property, plant and equipment, and they considered that the carrying amounts of certain plant and equipment are in excess of their recoverable amounts as a result of the continuing operating losses of certain subsidiaries. Accordingly, a provision for impairment of HK$1,396,000 (2010: Nil) was charged to the consolidated income statement as at 31 December 2011 *(note 7)*.

15. INVESTMENT PROPERTY

Group

	HK$'000
31 December 2011	
At 31 December 2010 and 1 January 2011:	
Cost	6,995
Accumulated depreciation	(1,161)
Net carrying amount	5,834
At 1 January 2011, net of accumulated depreciation	5,834
Depreciation provided during the year	(210)
Exchange realignment	99
At 31 December 2011, net of accumulated depreciation	5,723
At 31 December 2011:	
Cost	7,113
Accumulated depreciation	(1,390)
Net carrying amount	5,723

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15. INVESTMENT PROPERTY (Continued)

Group

	HK$'000
31 December 2010	
At 1 January 2010, net of accumulated depreciation	–
Transfer from owner-occupied property *(note 14)*	5,858
Depreciation provided during the year	(24)
At 31 December 2010, net of accumulated depreciation	5,834
At 31 December 2010:	
Cost	6,995
Accumulated depreciation	(1,161)
Net carrying amount	5,834

The Group's investment property of HK$5,723,000 (2010:HK$5,834,000) is situated in Mainland China and is held under a medium term lease.

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

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

16. PREPAID LAND LEASE PAYMENTS

		Group	
		2011	2010
	Notes	**HK$'000**	HK$'000
Carrying amount at 1 January		**44,436**	43,201
Recognised during the year	7	**(8,106)**	(3,830)
Additions for the year		**6,438**	3,684
Disposal of subsidiaries	33a	**(12,605)**	–
Exchange realignment		**705**	1,381
Carrying amount at 31 December		**30,868**	44,436
Current portion included in prepayments, deposits and other receivables		**(2,685)**	(3,833)
Non-current portion		**28,183**	40,603

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

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17. GOODWILL
Group

	HK$'000
At 31 December 2010 and 1 January 2011:	
Cost	200,202
Accumulated impairment	(71,740)
Net carrying amount	128,462
Cost at 1 January 2011 and 31 December 2011, net of accumulated impairment	128,462
At 31 December 2011:	
Cost	200,202
Accumulated impairment	(71,740)
Net carrying amount	128,462

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the gas station operation cash-generating unit for impairment testing.

The recoverable amount of the gas station operation cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a 20-year period. The discount rate applied to cash flow projections is 14.5% (2010: 14.2%).

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

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

17. GOODWILL (Continued)

Impairment testing of goodwill (Continued)

Discount rate – The discount rate used is before tax and reflect specific risks relating to the relevant unit.

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

18. INVESTMENTS IN SUBSIDIARIES

	Company	
	2011	2010
	HK$'000	HK$'000
Unlisted shares, at cost	**99,410**	99,022
Due from subsidiaries	**609,598**	609,707
Loans to a subsidiary	**108,185**	118,885
	817,193	827,614
Impairment on unlisted shares#	**(71,740)**	(71,740)
Impairment on amounts due from subsidiaries#	**(204,331)**	(184,475)
	541,122	571,399

Impairment of HK$71,740,000 (2010: HK$71,740,000) and HK$204,331,000 (2010: HK$184,475,000) were recognised for the unlisted investments in certain subsidiaries with a carrying amount of HK$99,410,000 (2010: HK$99,022,000) (before deducting impairment loss) and amounts due from subsidiaries, respectively, as a result of the continuing non-performance of the businesses of those subsidiaries.

The amounts due from subsidiaries of HK$609,598,000 (2010: HK$609,707,000) are unsecured and interest-free and have no fixed terms of repayment. In the opinion of the directors, these balances are not repayable within one year and are considered as quasi-equity loans to the subsidiaries.

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18. INVESTMENTS IN SUBSIDIARIES (Continued)

As at 31 December 2011, the loans advanced to a subsidiary were unsecured, bore interest at the 3-month Hong Kong Interbank Offered Rate ("HIBOR") plus 2.5% per annum and had no fixed terms of repayment. In the opinion of the directors, the loans are not repayable within one year and are considered as quasi-equity loans to the subsidiaries and therefore the loans were classified as non-current assets and were included in investments in subsidiaries.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
Jetco Innovations Limited	British Virgin Islands/Hong Kong	US$1	100	–	Investment holding
Sino Gas Group Holdings Limited	British Virgin Islands/Hong Kong	US$1	100	–	Investment holding
Anhui Sinogas Company Limited#	PRC/ Mainland China	HK$30,000,000	–	100	Operation of gas stations
Beijing Sinogas Company Limited#	PRC/ Mainland China	RMB100,000,000	–	69.4	Investment holding
Changchun Sinogas Company Limited^	PRC/ Mainland China	RMB20,000,000	–	97.9	Operation of gas stations
Chengdu Cheng Yuan National Gas Company Limited*^	PRC/ Mainland China	RMB5,000,000	–	38.5	Operation of gas stations
Chengdu Sinogas Company Limited^	PRC/ Mainland China	HK$20,000,000	–	70	Operation of gas stations

18. INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
China Full Limited *(note)*	Hong Kong	HK$2	–	50	Investment holding
Chuang Jie Ran Qi (Chengdu) Company Limited^	PRC/ Mainland China	HK$30,000,000	–	91	Operation of gas stations
Global King Investments Limited	British Virgin Islands/Hong Kong	US$32,000	–	69.4	Investment holding
Ganzhou Sinogas LNG Company Limited*	PRC/ Mainland China	RMB10,000,000	–	50	Operation of gas stations
Guangzhou Sinogas Company Limited*	PRC/ Mainland China	RMB20,000,000	–	50	Operation of gas stations
Henan Sinogas Nanhai Energy Sources Company Limited^	PRC/ Mainland China	RMB10,000,000	–	80	Operation of gas stations
Jilin Sinogas Company Limited*^	PRC/ Mainland China	RMB8,000,000	–	35.4	Operation of gas stations
Ningxia Jianrong New Energy Limited^	PRC/ Mainland China	RMB11,557,000	–	85	Leasing of CNG equipment and trailers
Shandong Sinogas Company Limited^	PRC/ Mainland China	RMB40,000,000	–	84.7	Operation of gas stations
Shenzhen Sinogas Investment Company Limited	PRC/ Mainland China	RMB20,000,000	–	69.4	Investment holding

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18. INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
Sino Gas (Zhuhai) Limited*#	PRC/ Mainland China	HK$38,000,000	–	50	Investment holding
Sinogas (Xuzhou) Cleanly Fuel Co., Limited#	PRC/ Mainland China	HK$10,000,000	–	100	Operation of gas stations
Xinzheng Sinogas Company Limited^	PRC/ Mainland China	HK$11,203,864	–	96.9	Operation of gas stations
Xuzhou Sinogas Bus Fuel Company Limited^	PRC/ Mainland China	US$1,975,000	–	70	Operation of gas stations
Zhengzhou Sinogas Company Limited*^	PRC/ Mainland China	RMB29,400,000	–	41.6	Operation of gas stations
Zhuhai Sinogas Transportation Company Limited*^	PRC/ Mainland China	RMB10,000,000	–	45	Transportation of natural gas

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

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

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

18. INVESTMENTS IN SUBSIDIARIES (Continued)

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

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

Note:

China Full Limited is owned as to 50% by the Group and the remaining 50% is owned by Sanlin Resources Limited.

The board of China Full Limited consisted of one sole director who was assigned by the Group. Accordingly, in the opinion of the directors, the Group can exercise a majority control over the financial and operating policies of China Full Limited and accordingly, China Full Limited has been accounted for as a subsidiary of the Group.

19. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2011	2010
	HK$'000	HK$'000
Share of net assets	**34,838**	14,625
Goodwill on acquisition	**5,755**	–
	40,593	14,625

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

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19. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

Particulars of the principal jointly-controlled entities at the end of the reporting period, which are held indirectly through wholly-owned and non-wholly-owned subsidiaries of the Company, are as follows:

Name	Particulars of registered capital held	Place of registration	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Henan Blue Sky Sinopetroleum Clean Energy Science & Technology Co. Limited	RMB20,000,000	PRC	50	50	50	Operation of gas stations
Sinogas Chengdu Company Limited	RMB20,000,000	PRC	83	50	83	Operation of gas stations
Hunan Sinogas Shihua Company Limited	RMB5,000,000	PRC	50	50	50	Not yet commenced business

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

19. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

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

	2011	2010
	HK$'000	HK$'000
Share of the jointly-controlled entities' assets and liabilities:		
Current assets	**24,706**	4,542
Non-current assets	**56,321**	16,524
Current liabilities	**(40,434)**	(6,441)
Net assets	**40,593**	14,625
Share of the jointly-controlled entities' results:		
Revenue	**83,059**	20,644
Other income	**298**	144
	83,357	20,788
Total expenses	**(80,802)**	(17,410)
Tax	**(1,142)**	(967)
Profit after tax	**1,413**	2,411

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20. INVESTMENTS IN ASSOCIATES

	Group	
	2011	2010
	HK$'000	HK$'000
Share of net assets	**8,975**	18,135
Provision for impairment	**(8,844)**	(17,151)
	131	984
Goodwill on acquisition	**33,680**	61,659
Provision for impairment	**(30,785)**	(58,764)
	2,895	2,895
Loans to an associate	**29,755**	29,755
	32,781	33,634

The loans to an associate are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, these loans are not repayable within one year and are considered as a quasi-equity investment in an associate.

The balances due to associates included in the Group's current liabilities are unsecured, interest-free and have no fixed terms of repayment.

Impairment testing of investments in associates and goodwill

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

Due to the continuing non-performance of certain associates, the directors considered that the carrying amounts of the investments in associates exceeded their recoverable amounts, and a provision for impairment of HK$75,915,000 in aggregate was made by the Group against its investments in those associates, including the related goodwill on acquisition, as at 31 December 2007. The directors considered that the investments of HK$8,307,000 and the related goodwill of HK$27,979,000 were fully written off as at 31 December 2011.

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20. INVESTMENTS IN ASSOCIATES (Continued)

Particulars of the principal associates, which are held indirectly through a wholly-owned subsidiary 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
			2011	2010	
Fidelity Finance Leasing Limited	HK$1,200	Hong Kong	**35**	35	Investment holding
Guangdong Zi Yu Tai Finance Leasing Company Limited	Registered capital of US$10,000,000	PRC	**35**	35	Provision of finance leases

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

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

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

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20. INVESTMENTS IN ASSOCIATES (Continued)

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

	2011	2010
	HK$'000	HK$'000
Assets	**115,925**	100,184
Liabilities	**115,554**	94,829
Revenues	**6,096**	4,089
Profit	**1,141**	862

21. AVAILABLE-FOR-SALE INVESTMENTS

	Group		**Company**	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Overseas unlisted equity investments, at cost	**–**	145,666	**–**	145,666
Unlisted debt investment, at fair value	**–**	23,600	**–**	–
Impairment	**–**	(145,666)	**–**	(145,666)
	–	23,600	**–**	–

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

At 31 December 2010, the Group's and the Company's unlisted equity investments were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair values cannot be measured reliably. The Group does not intend to dispose of them in the near future.

21. AVAILABLE-FOR-SALE INVESTMENTS (Continued)

Available-for-sale investments include the Company's investment in the 35% interest in the issued share capital of CMEP Limited ("CMEP") at a cost of HK$137,858,000 acquired from China Media International Group Limited ("CMI") in 2003 which had been fully provided for in 2005. Under the sale and purchase agreement for this investment, CMI had made certain undertakings in favour of the Company, including profit guarantees for CMEP.

However, such undertakings and guarantees were not fulfilled. The Company instigated legal proceedings against CMI in 2004 to claim for, among others, damages for breach of the agreement. A judgement was granted by the court in favour of the Company but was not able to be enforced 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 of HK$137,858,000 was fully impaired as at 31 December 2005 and fully written off as at 31 December 2011.

The remaining impairment losses of HK$7,808,000 as at 31 December 2010 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. The directors considered that the investments of HK$7,808,000 were fully written off as at 31 December 2011.

22. INVENTORIES

	Group	
	2011	2010
	HK$'000	HK$'000
Conversion parts and gas station equipment	**3,039**	3,689
CNG and LPG	**956**	1,284
Sub-materials	**217**	722
	4,212	5,695

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23. TRADE AND BILLS RECEIVABLES

	Group	
	2011	2010
	HK$'000	HK$'000
Trade and bills receivables	**54,641**	16,682
Impairment	**(1,632)**	(1,605)
	53,009	15,077

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally 90 to 120 days, extending up to 180 days for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade and bills receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade and bills receivables are non-interest-bearing. The Group does not hold any collateral or other credit enhancements over these balances.

An aged analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date, is as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
0 to 90 days	**51,936**	15,006
91 to 120 days	**364**	71
Over 120 days	**2,341**	1,605
	54,641	16,682

23. TRADE AND BILLS RECEIVABLES (Continued)

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

	Group	
	2011	2010
	HK$'000	HK$'000
At 1 January	**1,605**	196
Impairment losses recognised *(note 7)*	**–**	1,550
Exchange realignment	**27**	(141)
	1,632	1,605

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade and bills receivables of HK$1,632,000 (2010: HK$1,605,000) with carrying amounts before provision of HK$1,632,000 (2010: HK$1,605,000) as at 31 December 2011.

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

	Group	
	2011	2010
	HK$'000	HK$'000
Neither past due nor impaired	**51,936**	15,006
Less than 30 days past due	**364**	71
31 to 180 days past due	**709**	–
	53,009	15,077

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23. TRADE AND BILLS RECEIVABLES (Continued)

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

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

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		**Company**	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**38,506**	33,634	**488**	328
Deposits and other receivables	**167,475**	148,003	**6,958**	6,687
Impairment	**(133,805)**	(130,078)	**(6,202)**	(6,202)
	72,176	51,559	**1,244**	813
Non-current portion included in prepayments, deposits and other receivables	**(21,283)**	(12,950)	**–**	–
	50,893	38,609	**1,244**	813

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

Included in the Group's deposits and other receivables is an amount due from Beijing Tianxu Hengyuan Energy-Saving Technology Co., Ltd. ("Tianxu Hengyuan") of HK$3,600,000 (2010: Nil), a company under a restructuring plan to be acquired by Tongda Information Technology Limited in a conditional acquisition by the Group after the reporting period *(note 41(a))*, which is repayable within three months and bears at 6% per annum.

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (Continued)

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

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
At 1 January	**130,078**	123,608	**6,202**	6,202
Impairment losses recognised *(note 7)*	**1,522**	2,061	**–**	–
Exchange realignment	**2,205**	4,409	**–**	–
	133,805	130,078	**6,202**	6,202

Included in the above provision for impairment of deposits and other receivables of the Group is a provision for individually impaired deposits and other receivables of HK$133,805,000 (2010: HK$130,078,000) with an aggregate carrying amount of HK$133,805,000 (2010: HK$130,078,000).

25. CASH AND BANK BALANCES AND PLEDGED DEPOSIT

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at banks and on hand	**183,388**	146,807	**5,978**	2,352
Time deposit	**3,360**	–	**–**	–
	186,748	146,807	**5,978**	2,352
Less:				
Pledged time deposit for bills payable *(note 26)*	**(3,360)**	–	**–**	–
Cash and cash equivalents	**183,388**	146,807	**5,978**	2,352

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25. CASH AND BANK BALANCES AND PLEDGED DEPOSIT (Continued)

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$177,368,000 (2010: HK$144,410,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

26. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
0 to 90 days	**35,383**	5,563
91 to 120 days	**–**	14
Over 120 days	**1,653**	3,665
	37,036	9,242

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

The Group's bills payable had an average maturity period of 30 days and was interest-free. Bills payable was secured by time deposit of HK$3,360,000 (2010: Nil) *(note 25)*. Bills payable was denominated in RMB.

27. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Deferred income	**7,702**	5,657	**–**	–
Other payables	**30,392**	30,375	**2,292**	1,123
Accruals	**7,836**	4,262	**5,364**	2,364
	45,930	40,294	**7,656**	3,487
Non-current portion included in other payables and accruals	**–**	(1,123)	**–**	(1,123)
	45,930	39,171	**7,656**	2,364

The other payables are non-interest-bearing and have an average repayment terms of three months.

Included in the other payables and accruals is an interest payable of HK$2,292,000 (2010: HK$1,123,000) due to a shareholder, which is unsecured, interest-free and is repayable in year 2012.

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28. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group	2011			2010		
	Effective interest rate (%)	Maturity	HK$'000	Effective interest rate (%)	Maturity	HK$'000
Current						
Other loans – unsecured	-	On demand	2,150	–	On demand	2,150
Current portion of other loans – unsecured	6.9 to 8.15	2012	11,743	6.9 to 7.71	2011	17,470
Bank loans – unsecured	5.31 to 6.94	2012	75,600	5.0 to 6.7	2011	89,680
Bank loans – secured	8.83	2012	6,000	–	–	–
			95,493			109,300

Company	2011			2010		
	Effective interest rate (%)	Maturity	HK$'000	Effective interest rate (%)	Maturity	HK$'000
Current						
Other loans – unsecured	-	On demand	2,150	–	On demand	2,150

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

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Analysed into:				
Bank loans repayable:				
Within one year or on demand	**81,600**	89,680	**–**	–
Other borrowings repayable:				
Within one year or on demand	**13,893**	19,620	**2,150**	2,150

Notes:

(a) Certain of the bank loans are secured by pledges of the Group's gas station equipment and motor vehicles with a carrying value of HK$19,787,000 (2010: Nil) *(note 14)*.

(b) Except for the bank loans of HK$81,600,000 (2010: HK$89,680,000) and other loans of HK$11,743,000 (2010: HK$17,470,000) which are denominated in RMB, all borrowings are in Hong Kong dollars.

(c) Except for the other loans of HK$11,743,000 (2010: HK$17,470,000) which bear interest at rates ranging from 6.9% to 8.15% (2010: 6.9% to 7.71%) per annum and are repayable on 15 November 2012, all other loans of the Group and the Company are unsecured, interest-free and repayable within one year.

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

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

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29. CONVERTIBLE BONDS

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

Pursuant to the convertible bond agreements, the conversion price of these convertible bonds can be adjusted from time to time when there is (i) share consolidation or share split; (ii) issue of new shares by the Company; (iii) capital distribution made by the Company; (iv) offer of new class of shares or grant of any options or warrants by the Company to the existing shareholders.

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

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

29. CONVERTIBLE BONDS (Continued)

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

	Group and Company	
	2011	2010
	HK$'000	HK$'000
Nominal value		
At 1 January	**58,700**	58,700
Conversion during the year	**(58,700)**	–
At 31 December	**–**	58,700
Liability component		
At 1 January	**57,237**	50,570
Conversion during the year	**(58,700)**	–
Interest expense *(note 8)*	**2,050**	7,841
Interest paid	**(587)**	(1,174)
At 31 December	**–**	57,237
Equity component		
At 1 January	**12,872**	12,872
Conversion during the year	**(12,872)**	–
At 31 December	**–**	12,872

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30. SHARE CAPITAL

Shares

	2011	2010
	HK$'000	HK$'000
Authorised:		
10,000,000,000 (2010: 10,000,000,000) ordinary shares of HK$0.20 each	**2,000,000**	2,000,000
Issued and fully paid:		
2,435,855,026 (2010: 2,142,355,026) ordinary shares of HK$0.20 each	**487,171**	428,471

During the year, 293,500,000 ordinary shares of HK$0.20 each were issued upon conversion of the convertible bonds at a conversion price of HK$0.20 per share.

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

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30. SHARE CAPITAL (Continued)

Shares (Continued)

A summary of the transactions during the year in the Company's issued ordinary share capital is as follows:

	Number of shares in issue	Issued capital HK$'000	Share premium account HK$'000	Share option reserve HK$'000	Total HK$'000
At 1 January 2010	1,807,355,026	361,471	770,736	15,642	1,147,849
Issue of shares	335,000,000	67,000	59,295	–	126,295
Equity-settled share option arrangements *(note 31)*	–	–	–	21,196	21,196
Transfer of reserve upon forfeiture of share options	–	–	324	(324)	–
Share issue expenses	–	–	(962)	–	(962)
At 31 December 2010 and 1 January 2011	2,142,355,026	428,471	829,393	36,514	1,294,378
Conversion of convertible bonds	293,500,000	58,700	–	–	58,700
At 31 December 2011	2,435,855,026	487,171	829,393	36,514	1,353,078

Share options

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

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31. SHARE OPTION SCHEME

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

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

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

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after certain vesting periods and ends on a date which is not later than 10 years from the date of offer of the share options or the expiry date of the Scheme, if earlier.

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31. SHARE OPTION SCHEME (Continued)

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

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

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

	2011		2010	
	Weighted average exercise price HK$ per share	**Number of options '000**	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	**0.34**	**341,200**	0.34	144,100
Forfeited during the year	**–**	**–**	0.35	(2,900)
Issued during the year	**–**	**–**	0.34	200,000
At 31 December	**0.34**	**341,200**	0.34	341,200

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31. SHARE OPTION SCHEME (Continued)

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

2011 and 2010

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

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

The fair value of the share options granted during 2010 was HK$21,196,000 (HK$0.11 each), of which the Group recognised a share option expense of HK$21,196,000 during the year ended 31 December 2010. No share options were granted during the year ended 31 December 2011.

31. SHARE OPTION SCHEME (Continued)

The fair value of equity-settled share options granted during 2010 was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2010
Historical volatility (%)	63.85
Risk-free interest rate (%)	1.95
Expected exercise multiple	1.50
Expected life of options (year)	10.0
Share price at grant date (HK$ per share)	0.33

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

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

Subsequent to the end of the reporting period, the exercise prices of outstanding share options have been adjusted from HK$0.35 per share to HK$0.233 per share and from HK$0.341 per share to HK$0.227 per share, and the numbers of outstanding share options have been adjusted from 129,200,000 to 193,800,000 and from 200,000,000 to 300,000,000 for the share options granted on 23 August 2007 and 31 August 2010, respectively. There would be no adjustment made to the exercise price and the number of share options with an exercise price of HK$0.20 (being the par value of the ordinary share of the Company) granted on 3 January 2006.

At the date of approval of these financial statements, the Company had 505,800,000 share options outstanding under the Scheme, which represented approximately 13.8% of the Company's shares in issue as at that date.

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32. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 36 to 37 of the financial statements.

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

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

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32. RESERVES (Continued)

(b) Company

	Notes	Share premium account HK$'000	Share option reserve HK$'000	Equity component of convertible bonds HK$'000	Special capital reserve HK$'000	Capital redemption reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2010		770,736	15,642	12,872	828,646	3,865	(1,595,054)	36,707
Total comprehensive loss for the year		–	–	–	–	–	(63,329)	(63,329)
Issue of shares	30	59,295	–	–	–	–	–	59,295
Share issue expenses	30	(962)	–	–	–	–	–	(962)
Equity-settled share option arrangements	31	–	21,196	–	–	–	–	21,196
Transfer of reserve upon forfeiture of share options	30	324	(324)	–	–	–	–	–
At 31 December 2010 and 1 January 2011		829,393*	36,514*	12,872	828,646*	3,865*	(1,658,383)*	52,907
Total comprehensive loss for the year		–	–	–	–	–	(41,515)	(41,515)
Transfer of reserve upon conversion of convertible bonds	29	–	–	(12,872)	–	–	12,872	–
At 31 December 2011		829,393*	36,514*	–	828,646*	3,865*	(1,687,026)*	11,392

* These reserve accounts comprise the reserves of HK$11,392,000 (2010: HK$40,035,000) in the statement of financial position of the Company.

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33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Disposal of subsidiaries

	Notes	2011 HK$'000	2010 HK$'000
Net assets disposed of:			
Property, plant and equipment	14	**14,963**	9,730
Construction in progress	14	**5,427**	–
Prepaid land lease payments	16	**12,605**	–
Prepayments, deposits and other receivables		**17,687**	–
Inventories		**1,025**	–
Trade receivables		**632**	–
Cash and bank balances		**5,504**	3
Trade payables		**(550)**	–
Other payables and accruals		**(20,884)**	–
Non-controlling interests		**18**	–
		36,427	9,733
Gain on disposal of subsidiaries	6	**4,964**	1,667
		41,391	11,400
Satisfied by:			
Investment in a jointly-controlled entity		**23,994**	–
Cash consideration		**17,397**	11,400
		41,391	11,400

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

(a) Disposal of subsidiaries (Continued)

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

	2011	2010
	HK$'000	HK$'000
Cash consideration	**17,397**	11,400
Cash and bank balances disposed of	**(5,504)**	(3)
Net inflow of cash and cash equivalents included in cash flows from investing activities	**11,893**	11,397

(b) Major non-cash transactions

(i) During the year ended 31 December 2010, deposits for acquisition of property, plant and equipment of HK$19,278,000 were reclassified as items of property, plant and equipment upon the receipt of the relevant property, plant and equipment by the Group.

(ii) During the year, interest expenses of HK$1,730,000 (2010: HK$3,001,000) have been capitalised into items of property, plant and equipment *(note 8)*.

(iii) During the year, dividend of HK$1,294,000 (2010: Nil) was declared but not paid to a non-controlling shareholder.

(iv) During the year ended 31 December 2010, HK$9,000,000 of the loan to a non-controlling shareholder was used by the non-controlling shareholder to purchase an equity interest of a subsidiary.

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34. CONTINGENT LIABILITIES AND LITIGATION

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Corporate guarantees given to banks in connection with facilities granted to subsidiaries	**–**	–	**–**	41,300

As at 31 December 2010, the corporate guarantees granted to subsidiaries of HK$41,300,000 by the Company were utilised to the extent of approximately HK$41,300,000 *(note 37(c))*.

In addition to the pending litigation set out in note 21 above, the Company is currently a defendant in a lawsuit brought by a third party alleging the Company for a debt amounting to HK$2,150,000 under a loan agreement dated 12 October 2004 together with the interest thereon since 12 February 2005. The Company is in the course of defending such litigation, and the related liabilities were accrued for in the financial statements at the end of the reporting period.

NOTES TO FINANCIAL STATEMENTS
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35. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

At 31 December 2011, the Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Within one year	**1,485**	2,246
In the second to fifth years, inclusive	**4,583**	5,282
After five years	**14,023**	15,322
	20,091	22,850

(b) As lessee

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

At 31 December 2011, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Within one year	**14,078**	14,568
In the second to fifth years, inclusive	**32,896**	38,268
After five years	**46,763**	52,730
	93,737	105,566

At 31 December 2011, the Company did not have any lease commitments.

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36. COMMITMENTS

In addition to the operating lease commitments detailed in note 35 above, the Group had capital commitments in respect of the acquisition of items of property, plant and equipment of HK$21,899,000 (2010: HK$57,388,000) contracted but not provided for in the financial statements as at the end of the reporting period.

At 31 December 2011, the Company did not have any commitments.

37. RELATED PARTY TRANSACTIONS

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

		Group	
		2011	2010
	Notes	**HK$'000**	HK$'000
Sales of gas to non-controlling shareholders	(i)	**119,739**	135,803
Sales of gas to a jointly-controlled entity	(i)	**25,443**	–
Purchases of gas from a jointly-controlled entity	(ii)	**6,392**	–
Provision of transportation service to a jointly-controlled entity	(iii)	**4,525**	–
Interest expenses to a shareholder	(iv)	**1,169**	1,132
Sales of gas station equipment to a jointly-controlled entity	(v)	**3,432**	–

37. RELATED PARTY TRANSACTIONS (Continued)

(a) (Continued)

Notes:

(i) The sales of gas to non-controlling shareholders and a jointly-controlled entity were made at prices mutually agreed between the parties, which approximated market rates.

(ii) The purchases of gas from a jointly-controlled entity were made at prices mutually agreed between the parties, which approximated market rates.

(iii) The provision of transportation service to a jointly-controlled entity was made at prices mutually agreed between the parties, which approximated market rates.

(iv) The interest expenses paid to a shareholder were charged at rates ranging from 3.50% to 3.65% per annum.

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

(b) Other transactions and outstanding balances with related parties

(i) The balances with non-controlling shareholders are unsecured, non-interest-bearing and except for a balance of HK$18,000,000 (2010: HK$17,700,000) which is not expected to be repaid within 12 months from the end of the reporting period, have no fixed terms of repayment.

(ii) Details of the balances with jointly-controlled entities and associates as at the end of the reporting period are disclosed in notes 19 and 20 to the financial statements, respectively.

(iii) The loans from a shareholder are unsecured, bear interest at rates ranging from 3.50% to 3.65% (2010: 3.65%) per annum and are repayable in year 2012 (2010: year 2012).

(iv) The amount due from a subsidiary is unsecured, non-interest-bearing and has no fixed terms of repayment.

(v) During the year, a substantial shareholder converted the convertible bond into 137,500,000 ordinary shares of the Company at the conversion price of HK$0.20 per share at the maturity date of the convertible bond.

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37. RELATED PARTY TRANSACTIONS (Continued)

(c) During the year ended 31 December 2010, corporate guarantees aggregating HK$41,300,000 were executed by the Company in favour of banks regarding certain bank loans of the Company's subsidiaries *(note 34)*.

(d) Compensation of key management personnel of the Group

	2011	2010
	HK$'000	HK$'000
Short term employee benefits	**2,832**	2,592
Post-employment benefits	**12**	12
Equity-settled share option expense	**–**	4,240
Total compensation paid to key management personnel	**2,844**	6,844

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

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

38. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2011

Financial assets

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

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Trade and bills payables	37,036
Financial liabilities included in other payables and accruals	38,228
Due to non-controlling shareholders	3,032
Due to associates	2,099
Due to a jointly-controlled entity	428
Loans from a shareholder	40,974
Interest-bearing bank and other borrowings	95,493
	217,290

NOTES TO FINANCIAL STATEMENTS

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38. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

2010 **Group**

Financial assets

	Loans and receivables	Available-for-sale financial assets	Total
	HK$'000	HK$'000	HK$'000
Trade and bills receivables	15,077	–	15,077
Financial assets included in prepayments, deposits and other receivables	17,925	–	17,925
Due from non-controlling shareholders	34,583	–	34,583
Due from a jointly-controlled entity	2,214	–	2,214
Available-for-sale investments	–	23,600	23,600
Cash and bank balances	146,807	–	146,807
	216,606	23,600	240,206

Financial liabilities

	Financial liabilities at amortised cost
	HK$'000
Trade payables	9,242
Financial liabilities included in other payables and accruals	30,375
Due to non-controlling shareholders	1,444
Due to an associate	113
Due to a jointly-controlled entity	461
Loans from a shareholder	30,974
Interest-bearing bank and other borrowings	109,300
Convertible bonds	57,237
	239,146

38. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Company

Financial assets

	2011	2010
	Loans and receivables HK$'000	Loans and receivables HK$'000
Financial assets included in prepayments, deposits and other receivables	**756**	485
Due from a subsidiary	**267**	267
Cash and bank balances	**5,978**	2,352
	7,001	3,104

Financial liabilities

	2011	2010
	Financial liabilities at amortised cost HK$'000	Financial liabilities at amortised cost HK$'000
Financial liabilities included in other payables and accruals	**7,656**	1,123
Loans from a shareholder	**40,974**	30,974
Interest-bearing bank and other borrowings	**2,150**	2,150
Convertible bonds	**–**	57,237
	50,780	91,484

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39. FAIR VALUE AND FAIR VALUE HIERARCHY

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

Group

	Carrying amounts		Fair values	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets				
Trade and bills receivables	**53,009**	15,077	**53,009**	15,077
Financial assets included in prepayments, deposits and other receivables	**33,670**	17,925	**33,670**	17,925
Due from non-controlling shareholders	**62,440**	34,583	**62,440**	34,583
Due from jointly-controlled entities	**12,582**	2,214	**12,582**	2,214
Available-for-sale investments	**–**	23,600	**–**	23,600
Pledged deposit	**3,360**	–	**3,360**	–
Cash and bank balances	**183,388**	146,807	**183,388**	146,807
	348,449	240,206	**348,449**	240,206

39. FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

Group

	Carrying amounts		Fair values	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial liabilities				
Trade and bills payables	**37,036**	9,242	**37,036**	9,242
Financial liabilities included in other payables and accruals	**38,228**	30,375	**38,228**	30,375
Due to non-controlling shareholders	**3,032**	1,444	**3,032**	1,444
Due to associates	**2,099**	113	**2,099**	113
Due to a jointly-controlled entity	**428**	461	**428**	461
Loans from a shareholder	**40,974**	30,974	**40,974**	30,974
Interest-bearing bank and other borrowings	**95,493**	109,300	**95,493**	109,300
Convertible bonds	**-**	57,237	**-**	57,237
	217,290	239,146	**217,290**	239,146

Company

	Carrying amounts		Fair values	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets				
Financial assets included in prepayments, deposits and other receivables	**756**	485	**756**	485
Due from a subsidiary	**267**	267	**267**	267
Cash and bank balances	**5,978**	2,352	**5,978**	2,352
	7,001	3,104	**7,001**	3,104

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39. FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

Company

	Carrying amounts		Fair values	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial liabilities				
Financial liabilities included in other payables and accruals	**7,656**	1,123	**7,656**	1,123
Loans from a shareholder	**40,974**	30,974	**40,974**	30,974
Interest-bearing bank and other borrowings	**2,150**	2,150	**2,150**	2,150
Convertible bonds	**–**	57,237	**–**	57,237
	50,780	91,484	**50,780**	91,484

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

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

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

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

39. FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

Fair value hierarchy

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

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

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

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

Asset measured at fair value:

Group

As at 31 December 2010

	Level 1 HK$'000	**Level 2** HK$'000	**Level 3** HK$'000	**Total** HK$'000
Available-for-sale investments	–	–	23,600	23,600

The Group did not have any financial assets measured at fair value as at 31 December 2011.

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39. FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

The movements in fair value measurement in Level 3 during the year are as follows:

	2011	2010
	HK$'000	HK$'000
Available-for-sale investments – unlisted:		
At 1 January	**23,600**	–
Purchase during the year	**–**	23,600
Disposal during the year	**(23,600)**	–
At 31 December	**–**	23,600

The Company did not have any financial assets measured at fair value as at 31 December 2011 and 2010.

The Group and the Company did not have any financial liabilities measured at fair value as at 31 December 2011 and 2010.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk

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

The Group has no debt obligations with floating interest rates for the year ended 31 December 2011.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit/(loss) before tax (through the impact on floating rate borrowings) and the Group's and the Company's equity for the year ended 31 December 2010.

	Group			Company	
	Increase/ (decrease)	Increase/ (decrease) in profit/(loss) before tax	Increase/ (decrease) in equity*	Increase/ (decrease)	Increase/ (decrease) in equity*
	%	HK$'000	HK$'000	%	HK$'000
2010					
Hong Kong dollar	+1	64	–	+1	–
Hong Kong dollar	–1	(64)	–	–1	–

* Excluding retained profits

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40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk

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

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

Credit risk

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

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

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

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables, and other receivables are disclosed in notes 23 and 24 to the financial statements.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

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

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

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group

	2011				
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Trade and bills payables	–	35,383	1,653	–	37,036
Accruals and other payables	–	7,836	30,392	–	38,228
Due to non-controlling shareholders	3,032	–	–	–	3,032
Due to associates	2,099	–	–	–	2,099
Due to a jointly-controlled entity	428	–	–	–	428
Loans from a shareholder	40,974	–	–	–	40,974
Interest-bearing bank and other borrowings	2,150	–	93,343	–	95,493
	48,683	43,219	125,388	–	217,290

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40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

Group

	2010				
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Trade payables	–	5,563	3,679	–	9,242
Other payables	–	–	29,252	1,123	30,375
Due to non-controlling shareholders	1,444	–	–	–	1,444
Due to an associate	113	–	–	–	113
Due to a jointly-controlled entity	461	–	–	–	461
Loans from a shareholder	–	–	–	30,974	30,974
Interest-bearing bank and other borrowings	2,150	47,200	59,950	–	109,300
Convertible bonds	–	30,507	26,730	–	57,237
	4,168	83,270	119,611	32,097	239,146

The maturity profile of the Company's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Company

	2011				
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Other payables	–	–	7,656	–	7,656
Loans from a shareholder	–	–	40,974	–	40,974
Interest-bearing bank and other borrowings	2,150	–	–	–	2,150
	2,150	–	48,630	–	50,780

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

Company

	2010				
	On demand	**Less than 3 months**	**3 to less than 12 months**	**1 to 5 years**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Other payables	–	–	–	1,123	1,123
Loans from a shareholder	–	–	–	30,974	30,974
Interest-bearing bank and other borrowings	2,150	–	–	–	2,150
Convertible bonds	–	30,507	26,730	–	57,237
	2,150	30,507	26,730	32,097	91,484

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2011 and 2010.

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40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

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

Group

	2011	2010
	HK$'000	HK$'000
Interest-bearing bank and other borrowings	**95,493**	109,300
Trade and bills payables	**37,036**	9,242
Other payables and accruals *(note 27)*	**38,228**	34,637
Due to non-controlling shareholders	**3,032**	1,444
Due to associates	**2,099**	113
Due to a jointly-controlled entity	**428**	461
Loans from a shareholder	**40,974**	30,974
Less: Cash and bank balances	**(183,388)**	(146,807)
Less: Pledged deposit	**(3,360)**	–
Net debt	**30,542**	39,364
Convertible bonds – the liability component	**–**	57,237
Equity attributable to owners of the parent	**679,097**	602,757
Adjusted capital	**679,097**	659,994
Adjusted capital and net debt	**709,639**	699,358
Gearing ratio	**4.3%**	5.6%

41. EVENTS AFTER THE REPORTING PERIOD

(a) On 31 October 2011, the Group has entered into a conditional sale and purchase agreement (supplemented by a supplemental agreement on 8 November 2011) with TCC Capital Corp., City Light Trading Limited, Cyber Smart Capital Investment Group Limited and Grandest International Limited for a conditional acquisition of Tongda Information Technology Limited ("Tongda BVI"), a company incorporated in the British Virgin Islands, and its subsidiaries, which is conditional upon Tongda BVI having completed the acquisition of the 100% equity interest in Tianxu Hengyuan, a company engaged in LED Build-Operate-Transfer ("BOT") projects in Mainland China. The acquisition was completed on 12 March 2012 and further payment obligations may be required for the Group as described in the circular of the Company dated 16 December 2011.

(b) On 2 November 2011, Sino Gas Finance Limited ("Sino Gas Finance"), a wholly-owned subsidiary of the Company, entered into an agreement with Smartcon Investment Limited ("Smartcon"), a wholly-owned subsidiary of AVIC Int'l, and Dong Yuen Investment Limited ("Dong Yuen"), pursuant to which (i) Smartcon and Dong Yuen agreed to sell and Sino Gas Finance agreed to purchase their 575 shares and 200 shares in the issued share capital of Fidelity Finance Leasing Limited ("Fidelity Finance") respectively; and (ii) Smartcon and Dong Yuen agreed to sell and assign to Sino Gas Finance and Sino Gas Finance agreed to purchase and accept the assignment of the shareholders' loans due and owing to Smartcon and Dong Yuen by Fidelity Finance respectively. Upon completion of the acquisition, Fidelity Finance would become a wholly-owned subsidiary of the Company. The acquisition was completed on 6 March 2012.

(c) On 22 February 2012, the Company announced the completion of an open offer of 1,217,927,513 offer shares on the basis of one offer share for every two shares in issue of the Company at the subscription price of HK$0.20 per share. Upon the completion, the number of ordinary shares of the Company has been increased to 3,653,782,539 and the issued share capital of the Company has been increased to HK$730,757,000.

Upon the completion of the open offer, the exercise prices of outstanding share options have been adjusted from HK$0.35 per share to HK$0.233 per share and from HK$0.341 per share to HK$0.227 per share, and the numbers of outstanding share options have been adjusted from 129,200,000 to 193,800,000 and from 200,000,000 to 300,000,000 for the share options granted on 23 August 2007 and 31 August 2010, respectively. There would be no adjustment made to the exercise price and the number of share options with an exercise price of HK$0.20 (being the par value of the ordinary share of the Company) granted on 3 January 2006.

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42. COMPARATIVE AMOUNTS

During the year, the directors of the Company performed a detailed review of the revenue structure of the Group and considered that it is no longer appropriate to continue to classify the trading of petroleum 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. These reclassifications have no effect on the previously reported loss for the prior year.

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 16 March 2012.

FIVE YEAR FINANCIAL SUMMARY

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

	Year ended 31 December 2011 HK$'000	Year ended 31 December 2010 HK$'000 (Restated)	Year ended 31 December 2009 HK$'000	Year ended 31 December 2008 HK$'000 (Restated)	Year ended 31 December 2007 HK$'000
RESULTS					
Revenue	**1,024,588**	808,709	614,325	331,856	169,524
PROFIT/(LOSS) BEFORE TAX	**36,317**	(25,121)	31,034	(19,284)	(184,237)
Income tax expense	**(17,615)**	(10,631)	(13,945)	(3,344)	(1,381)
Profit/(loss) for the year	**18,702**	(35,752)	17,089	(22,628)	(185,618)
Attributable to:					
Owners of the parent	**8,482**	(27,937)	(5,023)	(10,536)	(183,282)
Non-controlling interests	**10,220**	(7,815)	22,112	(12,092)	(2,336)
	18,702	(35,752)	17,089	(22,628)	(185,618)

FIVE YEAR FINANCIAL SUMMARY

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December 2011 HK$'000	As at 31 December 2010 HK$'000	As at 31 December 2009 HK$'000	As at 31 December 2008 HK$'000	As at 31 December 2007 HK$'000
Total assets	**1,017,854**	925,744	858,566	734,308	722,234
Total liabilities	**(245,655)**	(266,120)	(320,632)	(242,308)	(251,371)
Non-controlling interests	**(93,102)**	(56,867)	(71,627)	(36,802)	(40,390)
	679,097	602,757	466,307	455,198	430,473