THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt *as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.*

If you have sold or transferred *all your shares in China Resources Logic Limited, you should at once hand this circular together with the accompanying form of proxy to the purchaser or other transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or transferee.*

This circular is for information purposes only and does not constitute an offer or invitation to subscribe for or purchase any securities, nor is it calculated to invite any such offer or invitation.

華潤勵致有限公司
China Resources Logic Limited

(incorporated in Bermuda with limited liability)

(Stock Code: 1193)

(1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION ACQUISITION OF CHINA RESOURCES GAS LIMITED

(2) PROPOSED RIGHTS ISSUE IN THE PROPORTION OF FOUR RIGHTS SHARES FOR EVERY ONE SHARE HELD ON THE RECORD DATE AT HK$3.42 PER RIGHTS SHARE

(3) PROPOSED CHANGE OF NAME OF CHINA RESOURCES LOGIC LIMITED TO CHINA RESOURCES GAS GROUP LIMITED

AND

(4) REFRESHMENT OF GENERAL MANDATES TO ISSUE AND REPURCHASE SHARES

Financial Advisers

Morgan Stanley

Credit Suisse

Independent Financial Adviser to the Company

CIMB

CIMB-GK Securities (HK) Limited

Underwriter to the Rights Issue

Splendid Time Investments Inc.

A letter from the Board of China Resources Logic Limited is set out on pages 8 to 45 of this circular.

A letter from CIMB is set out on pages 56 to 75 of this circular.

A notice convening the First SGM (as defined in this circular) to be held at 49th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong on Monday, 6 October 2008, at 4:15p.m. is set out on pages N-1 to N-4 of this circular. Whether or not you are able to attend the First SGM, please complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the office of the Company's branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, as soon as possible and in any event, not later than 48 hours before the time appointed for the holding of the First SGM or any adjourned meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the First SGM or at any adjourned meeting should you so wish.

19 September 2008

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In this circular, unless the context otherwise requires, the following expressions have the following meanings:

"2008 AGM"	:	the annual general meeting of the Shareholders held on 5 May 2008;
"Acceptance Date"	:	Wednesday, 22 October 2008 (or such other date as the Underwriter may agree with the Company as the date for acceptance and payment of the Rights Shares);
"Acquisition"	:	the acquisition of the CR Gas Shares by CR Logic from China Resources Holdings pursuant to the terms and conditions under the Share Purchase Agreement;
"Administrative Services Agreement"	:	the administrative services agreement, which is a condition precedent to the Acquisition, to be entered into between China Resources Holdings and the Company;
"Allotment Date"	:	the third Business Day after the Underwriter being notified by the Company of the aggregate number of Underwritten Rights Shares which have not been taken up pursuant to the Underwriting Agreement;
"Associates"	:	the meaning ascribed to it in the Listing Rules;
"Board"	:	the board of Directors;
"Business Day"	:	a day (other than a Saturday, a Sunday or a day on which either a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning signal is hoisted in Hong Kong) upon which the Stock Exchange is open for dealings;
"Completion"	:	the completion of the Transactions;
"CR Cement"	:	China Resources Cement Holdings Limited;
"CR Gas"	:	China Resources Gas Limited, a company incorporated in the British Virgin Islands with limited liability, a wholly-owned subsidiary of China Resources Holdings;
"CR Gas Group"	:	CR Gas, its subsidiaries and its jointly-controlled entities;
"CR Gas Shares"	:	four (4) ordinary shares of par value US$1.00 each, being the entire issued share capital of CR Gas;

"CR Logic" or "the Company"	:	China Resources Logic Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange;
"China Resources Holdings"	:	China Resources (Holdings) Company Limited, the substantial and controlling shareholder (as defined in the Listing Rules) of CR Logic holding approximately 68.83% of its issued share capital as at the date of this circular or, where the context requires, the relevant subsidiary or subsidiaries thereof;
"China Resources Holdings Group"	:	China Resources Holdings and its subsidiaries;
"CIMB"	:	CIMB-GK Securities (HK) Limited;
"CNG"	:	compressed natural gas;
"Companies Ordinance"	:	the Companies Ordinance (Cap.32 of the Laws of Hong Kong);
"CRM"	:	China Resources Microelectronics Limited;
"Deed of Non-competition"	:	the deed of non-competition, which is a condition precedent to the completion of the Acquisition, to be entered into between the Company and China Resources Holdings;
"Director(s)"	:	the directors of the Company;
"EAF(s)"	:	application form(s) for excess Rights Shares;
"Enlarged Group"	:	the Group, CR Gas and CR Gas' subsidiaries;
"Excluded Shareholder(s)"	:	the Overseas Shareholder(s) whom the Directors, based on legal advice provided by legal advisers, consider it necessary or expedient not to offer the Rights Shares to such Shareholder(s) on account either of legal restrictions under the laws of relevant place or the requirements of the relevant regulatory body or stock exchange in such place;
"First SGM"	:	the special general meeting of the Company to be convened and held for the Shareholders to consider and approve (among other things), if thought fit, the Transactions contemplated under the Transaction Agreements on Monday, 6 October 2008;
"Group"	:	the Company and its subsidiaries;

"Hong Kong"	:	the Hong Kong Special Administrative Region of the People's Republic of China;
"Independent Board Committee"	:	an independent board committee of the Company constituted to consider the terms of the Share Purchase Agreement and the Rights Issue and to advise and make recommendations to the Independent Shareholders as to how to vote at the First SGM on the ordinary resolutions regarding the Transactions. Mr. Wong Tak Shing, Mr. Luk Chi Cheong and Dr. Yang Chonghe, Howard have been appointed by the Board to serve as members of the Independent Board Committee;
"Independent Shareholders"	:	Shareholders other than the controlling shareholder of the Company, namely China Resources Holdings and its Associates;
"Last Trading Day"	:	Tuesday, 19 August 2008;
"Latest Practicable Date"	:	12 September 2008
"Listing Committee"	:	the listing committee of the board of directors of the Stock Exchange;
"Listing Rules"	:	the Rules Governing the Listing of Securities on the Stock Exchange;
"LPG"	:	liquefied petroleum gas;
"Macau"	:	Macau Special Administrative Region of the People's Republic of China;
"New Repurchase Mandate"	:	subject to the completion of the Transactions, the proposed ordinary resolution to the Shareholders at the Second SGM, as permitted by Rule 10.06(1) of the Listing Rules, to repurchase Shares not exceeding 10% of the Company's issued share capital as enlarged by the completion of the Rights Issue, being 141,441,671 Shares (assuming none of the Share Options is exercised on or before the Record Date);
"Overseas Shareholder(s)"	:	Shareholder(s) with registered addresses (as shown in the register of members of the Company on the Record Date) outside Hong Kong;
"PAL(s)"	:	provisional allotment letter(s) for the Rights Issue;
"PRC"	:	the People's Republic of China, but for the purposes of this circular only, excluding Hong Kong, Macau and Taiwan;

"Proposed Change of Name"	:	subject to the completion of the Transactions, the proposed special resolution to the Shareholders at the Second SGM to change the Company's name from "China Resources Logic Limited" to "China Resources Gas Group Limited" and its Chinese name from "華潤勵致有限公司" to "華潤燃氣控股有限公司" to reflect the completion of the Acquisition and to enable the investors and the Shareholders to have an easy recognition on the Group's future principal business activities;
"Proposed Directors"	:	the three additional directors (comprising one executive director, Mr. Wang Chuandong, and two non-executive directors, Mr. Ma Guoan and Mr. Wei Bin) proposed to be appointed to the Board upon Completion;
"Prospectus"	:	the prospectus to be issued by the Company in relation to the Rights Issue;
"Prospectus Posting Date"	:	Wednesday, 8 October 2008, being the expected date of despatch of the Prospectus;
"Qualifying Shareholder(s)"	:	Shareholder(s), other than the Excluded Shareholder(s), whose name(s) appear(s) on the register of members of the Company as at the close of business on the Record Date;
"Record Date"	:	Monday, 6 October 2008, or such other date for determining the entitlement of the Qualifying Shareholders to the Rights Issue;
"Redland Concrete"	:	Redland Concrete Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company;
"Refreshment of the Issue Mandate"	:	subject to the completion of the Transactions, the proposed ordinary resolution to the Shareholders at the Second SGM and at which no Shareholder shall abstain from voting, as permitted by Rule 13.36(4)(e) of the Listing Rules, to top-up the general mandate from 56,576,668 Shares to 282,883,342 Shares (representing 20% of the Company's issued share capital as enlarged by the completion of the Rights Issue and assuming none of the Share Options is exercised on or before the Record Date);
"Rights Issue"	:	the proposed issue of the Rights Shares by the Company on the basis of four (4) Rights Shares for every one (1) existing Share held on the Record Date at the Subscription Price pursuant to the terms and conditions under the Rights Issue Documents;
"Rights Issue Documents"	:	the Prospectus, the PAL(s) and the EAF(s);

"Rights Share(s)"	:	not less than 1,131,533,368 new Shares (assuming none of the Share Options is exercised on or before the Record Date) and not more than 1,132,381,368 new Shares (assuming all of the Share Options are exercised on or before the Record Date) to be issued by the Company under the Rights Issue;
"Second SGM"	:	the special general meeting of the Company to be convened and held for the Shareholders to consider and approve (among other things), if thought fit, (i) the Proposed Change of Name; (ii) the Refreshment of the Issue Mandate; and (iii) the New Repurchase Mandate on or around Monday, 3 November 2008;
"Set-off Arrangement"	:	the set-off arrangements respectively provided in the Underwriting Agreement (as agreed between the parties to the Underwriting Agreement) and the PAL(s) allowing for the amount of the subscription monies in respect of the Rights Shares taken up by the Underwriter or allotted to and accepted by the Qualifying Shareholders (including China Resources Holdings and its Associates) to be set off against the consideration payable by the Company to China Resources Holdings for the Acquisition and any sums due from the Company to such Qualifying Shareholder under any existing legally valid, binding and enforceable agreement between the Company and such Qualifying Shareholder as determined by the Company, or where the context requires, either one of such arrangements;
"SFO"	:	the Securities and Futures Ordinance (Cap.571 of the Laws of Hong Kong);
"Share Purchase Agreement"	:	the Share Purchase Agreement entered into between the Company and China Resources Holdings dated 21 August 2008 in relation to the Acquisition;
"Share(s)"	:	the ordinary share(s) of HK$0.10 each in the share capital of the Company;
"Shareholder(s)"	:	person(s) whose name(s) appear on the register of members as registered holder(s) of Share(s);
"Share Optionholder(s)"	:	holders of outstanding Share Options;
"Share Option(s)"	:	share option(s) granted under the Share Option Scheme outstanding as at the Latest Practicable Date and which are exercisable on or before the Record Date;

"Share Option Scheme"	:	the share option scheme of the Company adopted on 26 November 2001 and subsequently amended on 21 February 2002;
"Splendid Time"	:	Splendid Time Investments Inc., an investment holding company with its sole investment being its approximately 39.2% equity interest in the Company, a wholly-owned subsidiary of China Resources Holdings;
"Stock Exchange"	:	The Stock Exchange of Hong Kong Limited;
"Subscription Price"	:	HK$3.42 per Rights Share;
"subsidiary"	:	shall have the meaning ascribed to that term in the Listing Rules;
"Transaction Agreements"	:	collectively, the Share Purchase Agreement and the Rights Issue Documents;
"Transactions"	:	collectively, the Acquisition and the Rights Issue;
"Undertaking Letter"	:	the undertaking letter to be provided by China Resources Holdings, Gold Touch Enterprises Inc., Waterside Holdings Limited and Splendid Time to the Company and the Underwriter;
"Underwriter"	:	Splendid Time;
"Underwriting Agreement"	:	the underwriting agreement dated 21 August 2008 entered into between the Company, the Underwriter and China Resources Holdings in relation to the Rights Issue;
"Underwritten Rights Shares"	:	all of the Rights Shares fully underwritten by the Underwriter on the terms and subject to the conditions set out in the Underwriting Agreement;
"US$"	:	United States dollar(s), the lawful currency of the United States of America;
"USA"	:	the United States of America;
"Warranties"	:	the representations and warranties given by the Company in the Underwriting Agreement;
"HK$"	:	Hong Kong dollar(s), the lawful currency of Hong Kong; and
"%"	:	per cent.

All amounts in US$ have been translated in HK$ at a rate of US$1 = HK$7.8 in this circular for illustration purpose only.

In this circular, unless otherwise specified, all references to revenues, profits and other financial information of the CR Gas Group include those of the relevant jointly-controlled entities of the CR Gas Group to the extent that such information has been proportionately consolidated or otherwise reflected in the Accountants' Report set out in Appendix II to this circular. Subject to the above and unless otherwise specified, all information in this circular relating to the CR Gas Group includes information of CR Gas, its subsidiaries and jointly-controlled entities in which CR Gas or its subsidiaries have direct or indirect equity interests, as at the date of this circular, without regard to the ownership level of, or the proportion of interest held by, CR Gas or its subsidiaries in such jointly-controlled entities.

華潤勵致有限公司
China Resources Logic Limited

(incorporated in Bermuda with limited liability)
(Stock Code: 1193)

Executive Directors:
Mr. Zhou Longshan
Mr. Ong Thiam Kin

Non-executive Directors:
Mr. Jiang Wei
Mr. Li Fuzuo
Mr. Du Wenmin

Independent Non-executive Directors:
Mr. Wong Tak Shing
Mr. Luk Chi Cheong
Dr. Yang Chonghe, Howard

Registered Office:
Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

Principal place of business in Hong Kong:
Room 4006
40th Floor, China Resources Building
26 Harbour Road
Wanchai
Hong Kong

19 September 2008

To the Shareholders,

Dear Sir or Madam,

(1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION ACQUISITION OF CHINA RESOURCES GAS LIMITED

(2) PROPOSED RIGHTS ISSUE IN THE PROPORTION OF FOUR RIGHTS SHARES FOR EVERY ONE SHARE HELD ON THE RECORD DATE AT HK$3.42 PER RIGHTS SHARE

(3) PROPOSED CHANGE OF NAME OF CHINA RESOURCES LOGIC LIMITED TO CHINA RESOURCES GAS GROUP LIMITED

AND

(4) REFRESHMENT OF GENERAL MANDATES TO ISSUE AND REPURCHASE SHARES

I. INTRODUCTION

On 21 August 2008, the Board announced its proposed (i) Acquisition, (ii) Rights Issue, (iii) change of name of the Company and (iv) refreshment of general mandates to issue Shares and repurchase Shares.

On 21 August 2008, the Company entered into the Share Purchase Agreement to agree conditionally to acquire the entire issued share capital of CR Gas, a wholly-owned subsidiary of China Resources Holdings. To finance the Acquisition, the Company proposed to issue Rights Shares on the basis of four (4) Rights Shares for every one (1) existing Share held at the close of business on the Record Date.

The CR Gas Group is principally engaged in city gas distribution (including natural and/or petroleum gas) in Chengdu, Fuyang, Huaibei, Linhai, Suzhou and Wuxi of the PRC and operates CNG filling stations in Chengdu, Nanjing and Wuxi of the PRC. The CR Gas Group is also engaged in bottled LPG distribution in Fuyang, Suzhou and Wuxi of the PRC.

II. THE ACQUISITION

A. THE SHARE PURCHASE AGREEMENT

Date

21 August 2008

Parties to the Share Purchase Agreement

(i) CR Logic

(ii) China Resources Holdings

Asset to be acquired

Pursuant to the Share Purchase Agreement, the Company conditionally agreed to acquire, and China Resources Holdings conditionally agreed to sell or procure the sale of the CR Gas Shares.

Consideration

The consideration payable by the Company for the Acquisition is HK$3,814.8 million. The consideration for the Acquisition under the Share Purchase Agreement has been arrived at after arm's length negotiations between China Resources Holdings and the Company after taking into account various relevant factors including the strategic rationale behind the transactions contemplated, the nature of the relevant businesses, the historical financial information, consolidated net asset value, current market valuations and future prospects of the relevant industries including general economic trends and market growth and the prevailing commercial and business conditions in which CR Gas operates.

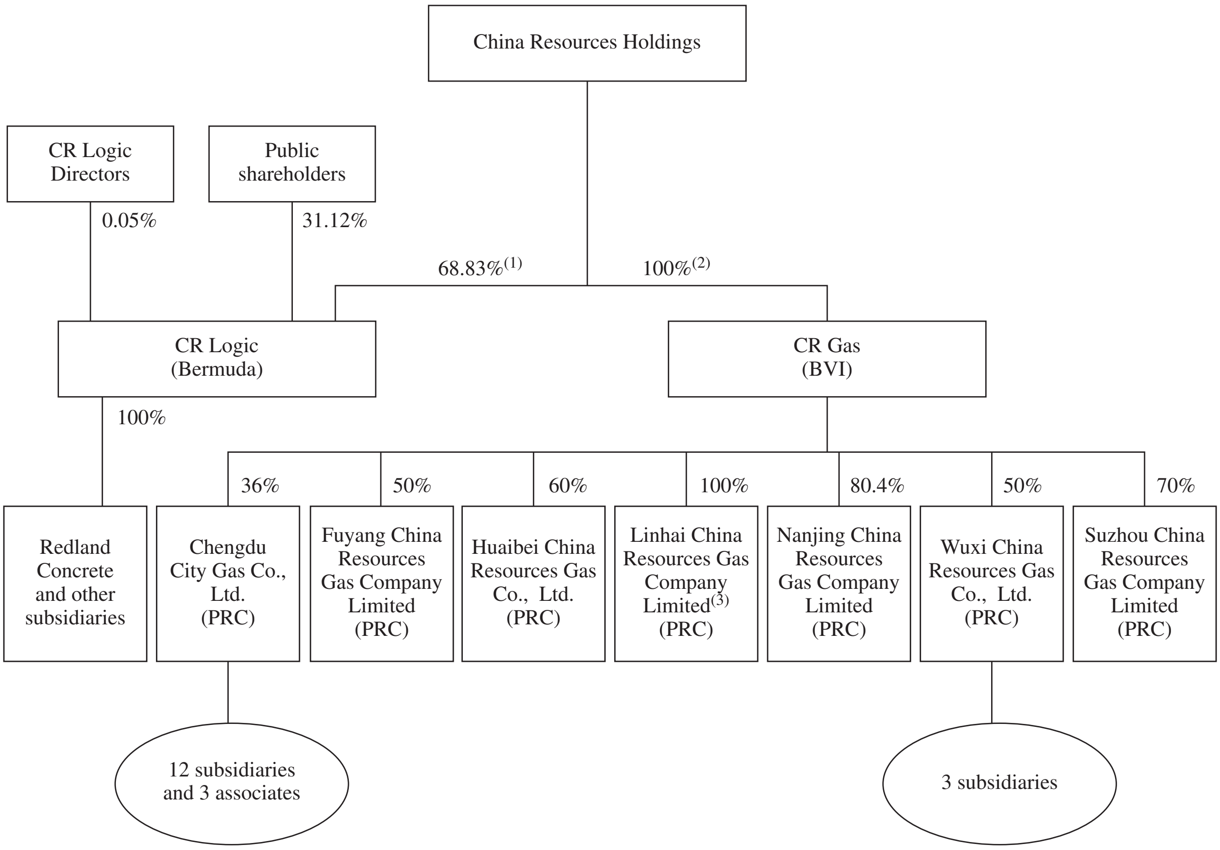
Source of Funding

The consideration of HK$3,814.8 million payable by the Company to China Resources Holdings for the Acquisition shall be satisfied in cash and payable at Completion. The Company is proposing that the consideration be funded by the Rights Issue. The completion of the Acquisition is conditional upon the completion of the Rights Issue. Details of the Rights Issue are set out under the section headed "The Rights Issue" below.

Corporate Structure

The following diagrams set out the corporate structure (i) immediately before the Acquisition and the Rights Issue; and (ii) immediately after the Acquisition and the Rights Issue:

Shareholding Structure before the Acquisition and the Rights Issue

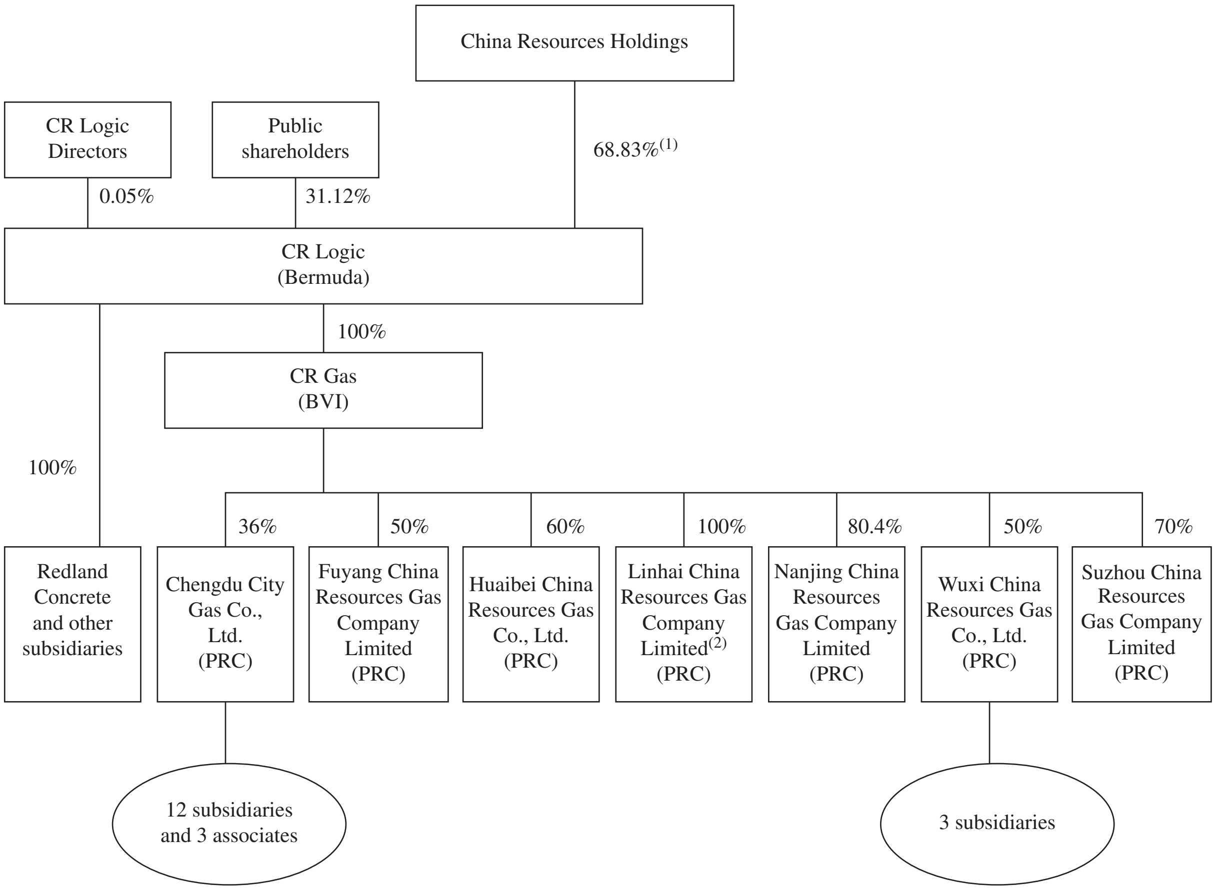


(1) The immediate shareholders of CR Logic are Gold Touch Enterprises Inc (10.51%), Waterside Holdings Limited (18.92%), Splendid Time (39.23%) and China Resources Holdings (0.17%). Gold Touch Enterprises Inc, Waterside Holdings Limited and Splendid Time are wholly owned subsidiaries of China Resources Holdings, and therefore China Resources Holdings own, directly and indirectly, an aggregate of 68.83% in CR Logic.

(2) China Resources Holdings indirectly owns 100% of Powerfaith Enterprises Limited, the sole shareholder of CR Gas.

(3) Held by Kileen Holdings Limited, a Hong Kong incorporated wholly owned subsidiary of CR Gas.

Shareholding Structure after the Acquisition and the Rights Issue



On the assumption that (i) none of the Share Options is exercised on or before the Record Date and (ii) all the Shareholders take up their respective provisional allotments of the Rights Shares in full.

(1) The immediate shareholders of CR Logic are Gold Touch Enterprises Inc (10.51%), Waterside Holdings Limited (18.92%), Splendid Time (39.23%) and China Resources Holdings (0.17%). Gold Touch Enterprises Inc, Waterside Holdings Limited and Splendid Time are wholly owned subsidiaries of China Resources Holdings, and therefore China Resources Holdings own, directly and indirectly, an aggregate of 68.83% in CR Logic.

(2) Held by Kileen Holdings Limited, a Hong Kong incorporated wholly owned subsidiary of CR Gas.

Conditions precedent to completion of the Share Purchase Agreement

Completion of the Acquisition is subject to the satisfaction of, amongst other things, the following conditions precedent:

(i) the approval of the Independent Shareholders in respect of the Acquisition and the Share Purchase Agreement at the First SGM;

(ii) the completion of the Rights Issue;

(iii) the completion of satisfactory due diligence by the Company (which has been completed as at the date of this circular); and

(iv) all necessary consents, approvals and authorisations required as a result of the transactions contemplated in the Share Purchase Agreement.

If any of the conditions set out in the Share Purchase Agreement is not fulfilled (or waived by the Company or China Resources Holdings, as the case may be) on or before 30 April 2009 (or such later date as agreed between the parties), the Share Purchase Agreement and the transactions contemplated thereunder shall be terminated.

Profit Guarantee

Pursuant to the Share Purchase Agreement, China Resources Holdings has guaranteed to the Company that the audited consolidated net profit after taxation attributable to shareholders of CR Gas for the year ending 31 December 2008 prepared in accordance with the accounting principles generally accepted in Hong Kong will not be less than HK$250 million. In the event that such audited consolidated net profit after taxation is less than the guaranteed level or CR Gas has an audited consolidated net loss after taxation for such period, China Resources Holdings will compensate the Company an amount equal to the difference between the guaranteed amount of HK$250 million and the audited consolidated net profit or loss after taxation attributable to shareholders of CR Gas for the year ending 31 December 2008 multiplied by 15.2592 and in any event, the compensation paid by China Resources Holdings to the Company will not exceed the difference between the consideration of the Acquisition and the audited consolidated net asset value of CR Gas as at 30 June 2008. In the event that the Company claims against China Resources Holdings pursuant to the above, a further announcement will be made by the Company. Details of the compensation (if any) will be included in the subsequent annual report of the Company which will also contain opinions from the independent non-executive Directors as to whether China Resources Holdings has fulfilled its obligation under the guarantee.

Proposed Changes in the Board composition of the Company

It is currently intended that, subject to the completion of the Transactions, six of the current directors of the Company (comprising one executive Director, two non-executive Directors and three independent non-executive Directors) would remain on the Board following the completion of the Transactions. It is currently intended that due to internal restructuring, one executive and one non-executive Director of the Company will resign following the completion of the Transactions. The Company currently intends to appoint the Proposed Directors. The Company will make further announcement(s), as required under the Listing Rules, upon the resignation/appointment of any Director. The Group also intends to appoint a senior management team from the CR Gas Group following the completion of the Acquisition. Details of the Proposed Directors and proposed senior management to be appointed are set out in the section headed "General Information" in Appendix V of this circular.

B. REASONS FOR AND BENEFITS OF THE ACQUISITION

On 4 December 2007, the Company announced its acquisition of Redland Concrete. Since then, the global economic and capital market conditions have deteriorated significantly. During the same period, the Company's share performance has also been subject to considerable volatility, despite the relatively stable and healthy business performance of Redland Concrete. In response to the above circumstances, the Company began to explore additional means to further accelerate its business expansion to a more optimal scale in order to promote a healthier capital market performance and to enhance the long term return of the shareholders. While pursuing this growth strategy, the Company is also conscious about the uncertain global economics outlook and hence it has adopted a prudent approach in selectively pursuing acquisition opportunities with stable cash flow and reasonable future growth potential. For the above reasons and with the support of China Resources Holdings, the Company has therefore entered into the Acquisition.

The Acquisition will allow the Company to expand into the city gas distribution business in China, which should provide for stable cash flows and a higher growth potential by capturing the increase in demand for natural gas in China and leveraging China Resources Group's strong presence and brand name in China. Following the completion of the Acquisition, the Company's primary focus will be on the city gas distribution business operated through the CR Gas Group as a platform to expand into the promising natural gas industry in the PRC. The Company will endeavour to become one of the leading city gas distributors in China through further new project development, existing project expansion and acquisition of project companies. The Company currently intends to continue to operate its non-core businesses engaged in the production and sale of ready mixed concrete within Hong Kong through its wholly-owned subsidiary, Redland Concrete.

The natural gas industry in China

The continued economic growth and the rapid industrialisation and urbanisation in China has spiked the demand for energy in China. In order to reduce reliance on polluting energy sources such as coal and crude oil, the PRC government has, in recent years, taken many steps to promote the development and utilisation of less polluting energy sources. Natural gas is considered a cleaner but relatively new conventional energy source compared to coal and crude oil. The PRC government has therefore been supportive of the development of natural gas.

The percentage of energy consumption from natural gas in the PRC is very low compared to international average levels. According to BP Statistical Review of World Energy June 2008, for 2007, natural gas only accounted for 3.25% of China's total primary energy consumption, which is lower than Asia's average consumption of 10.60% and far lower than the international average of 23.76%. The Company therefore believes that there is significant room for further increases in the utilisation of natural gas in China.

Natural gas is typically used for power generation, as a feedstock for manufacturing chemicals and fertilisers, and directly for residential and commercial heating and other industrial purposes. City gas distribution companies distribute natural gas through their pipelines to residential, commercial and industrial end-users. Compared with other developed countries, such as the United States, China's penetration level of natural gas is still low.

To increase natural gas supply, the "West to East Gas Transmission" (西氣東輸) pipelines were constructed with the support of the PRC government to bring natural gas from the Xinjiang Autonomous Region to the coastal regions of the PRC. The PRC government is also planning to construct the second phase of the "West to East Gas Transmission" pipelines and build pipelines from the gas-rich Sichuan province to coastal regions of the PRC.

In addition, the PRC government has promulgated various policies and guidelines to encourage and rationalise the usage of natural gas. For example, in July 2008, the National Development and Reform Commission issued a natural gas usage policy (天然氣利用政策) for this purpose. The policy specifically states that municipal residential and commercial users shall have preferential access to natural gas.

The Company believes that all of the above factors show that the natural gas industry in China offers significant opportunity for future growth.

The CR Gas Group

The CR Gas Group currently operates a portfolio city gas distribution businesses including natural or petroleum gas pipelines, CNG filling stations and bottled LPG distribution. Its natural gas pipeline operations are strategically located in areas of China with rich reserves of natural gas (the Sichuan province) and areas which are economically more developed and densely populated (eastern coastal region). The CR Gas Group is therefore geographically well positioned for further expansion. The Company understands that the operations of the CR Gas Group were not materially affected by the earthquakes in the Sichuan province earlier this year.

Turnover of the CR Gas Group primarily represents income derived from sale and distribution of gas fuel and gas pipeline connection. For the six months ended 30 June 2008, revenue from gas sales and distribution accounted for approximately 84.5% of the CR Gas Group's total revenue and revenue generated from connection fees accounted for the remainder of the Group's total revenue. For the six months ended 30 June 2008, approximately 76.7% of the revenue of the CR Gas Group derived from sale and distribution of piped gas fuel were accounted for by commercial, industrial or other non-residential consumers. The Company considers that the Group would be able to take advantage of the healthy balance between the sources of revenue and the strong non-residential customer base of the CR Gas Group to achieve further growth and profitability.

As part of the China Resources Holdings Group, CR Gas Group has been able to build strong stable relationships with gas providers and applicable regulators of the natural gas industry in the PRC. Furthermore, CR Gas Group's joint venture partners in most of its gas pipeline operations are the local governments that operated the relevant business prior to the cooperation with the CR Gas Group. With the continued support of these joint venture partners and the Company's controlling shareholder, China Resources Holdings, the Company believes that CR Gas Group would be placed in an advantageous position in an industry that is subject to extensive regulations.

The Company believes that the Group benefits from its relationship with its controlling shareholder, China Resources Holdings. China Resources Holdings Group engages in a diversified portfolio of businesses that spreads across the PRC, including other businesses in the utilities sector within the PRC. The "China Resources" brand name is therefore one of the renowned brands in China which commands widespread recognition and trust. This brand name has contributed towards the continued growth of the businesses of both the CR Gas Group and the Group. The Company also believes that the CR Gas Group and the Group would be able to continue to benefit from China Resources Holdings' extensive management and operational expertise in the utilities sector.

Over the past few years the Company has continued to review and evaluate business and investment opportunities with stable cash flow and reasonable future growth potential in order to enhance long-term shareholder return. The Company believes that the CR Gas Group with its unique qualities represents a strong platform for the Group to enter into the natural gas industry in the PRC.

The Directors consider that the terms and conditions of the Acquisition and the Share Purchase Agreement are fair and reasonable, on normal commercial terms and are in the interest of the Company and the Shareholders as a whole.

C. INFORMATION ON CR GAS

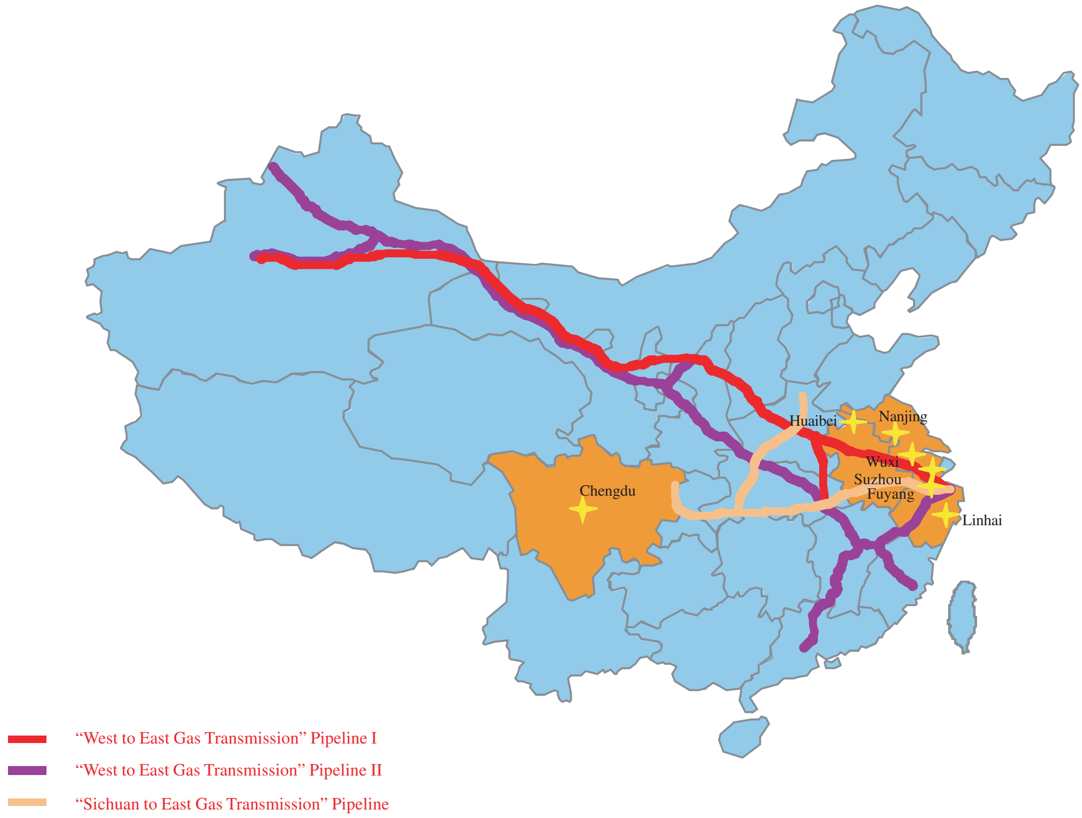
CR Gas, a wholly owned subsidiary of China Resources Holdings, is a holding company. The CR Gas Group is principally engaged in the city gas distribution (including natural and/or petroleum gas) in Chengdu, Fuyang, Huaibei, Linhai, Suzhou and Wuxi of the PRC and operates CNG filling stations in Chengdu, Nanjing and Wuxi of the PRC. The CR Gas Group is also engaged in bottled LPG distribution in Fuyang, Suzhou and Wuxi of the PRC. China Resources Holdings had originally acquired CR Gas as part of its acquisition of China Resources Petrochems Holdings Limited from its subsidiary, China Resources Enterprise, Limited, in November 2006 for a consideration of HK$2,780 million. Other than the piped gas businesses of CR Gas, China Resources Petrochems Holdings Limited was also the holding company of certain chemical distribution, lubricant oil and other petroleum related businesses in the PRC.

The audited consolidated profits before taxation, and extraordinary items of CR Gas in respect of the two financial years ended 31 December 2007 and the six months ended 30 June 2008 prepared in accordance with the accounting principles generally accepted in Hong Kong were approximately HK$114.2 million, HK$189.7 million and HK$162.9 million, respectively.

The audited consolidated profits after taxation and minority interests of CR Gas in respect of the two financial years ended 31 December 2007 and the six months ended 30 June 2008 prepared in accordance with the accounting principles generally accepted in Hong Kong were approximately HK$94.8 million, HK$193.6 million and HK$128.1 million, respectively.

The audited total equity attributable to equity holders of CR Gas as of 30 June 2008 prepared in accordance with the accounting principles generally accepted in Hong Kong was approximately HK$1,439.6 million.

The following map shows, for illustrative purposes only, the locations in which the CR Gas Group has interest in the city gas distribution (including natural and/or petroleum gas):



The following table sets forth the turnover of the CR Gas Group from sales and distribution of gas fuel and fees charged for gas pipeline connection to external customers for the periods indicated:

	Year ended 31 December				Six Months ended 30 June	
	2006		2007		2008	
	HK$ million		*HK$ million*		*HK$ million*	
Sales and distribution of gas fuel						
Non-residential users	538.6	49.3%	869.9	56.6%	558.9	57.8%
Residential users	214.4	19.7%	263.6	17.2%	170.2	17.6%
Bottled LPG	177.6	16.3%	192.9	12.5%	88.2	9.1%
Sub-total	930.6*	85.3%	1,326.4	86.3%	817.3	84.5%
Gas connection						
Non-residential users	20.0	1.8%	55.1	3.6%	34.5	3.6%
Residential users	140.2	12.9%	155.7	10.1%	114.7	11.9%
Sub-total	160.2	14.7%	210.8	13.7%	149.2	15.5%
Total	1,090.8*	100.0%	1,537.2	100.0%	966.5	100.0%

* excludes amounts from turnover of sales and distribution of gas fuel of approximately HK$248.2 million contributed by a previous subsidiary which was disposed on 30 April 2006.

City Gas Distribution in the PRC

City gas distribution operations in the PRC are mainly operated on an exclusive permit basis pursuant to concession agreements entered into with relevant local governments. The relevant local government, through entering into a concession agreement with a gas distribution operator, would grant exclusive right within the concession term and the concession area to construct gas pipelines, to supply gas to the users and charge the users accordingly. Local governments usually, through their own state-owned entities, already own the exclusive rights to operate existing gas pipeline networks. Third party operators who wish to enter into the city gas distribution business would normally form joint ventures with existing state-owned operators for areas where gas pipelines are already in place. Third party operators would also set up new joint ventures with local governments to bid for new gas projects under exclusive rights.

The CR Gas Group currently, through seven primary operating subsidiaries or jointly-controlled entities, engages in city gas distribution in Chengdu, Wuxi, Suzhou, Nanjing, Huaibei, Fuyang, Linhai of the PRC. Six of the primary operating subsidiaries or jointly-controlled entities of the CR Gas Group are joint ventures with the relevant local government. The remaining operating subsidiary is a wholly-owned subsidiary of the CR Gas Group.

Principal Operating Entities of the CR Gas Group

*Chengdu City Gas Co., Ltd. (Sichuan Province) (成都城市燃氣有限責任公司(四川省)) ("**Chengdu Gas**")*

Chengdu Gas was originally established on 16 March 2005. Chengdu Gas is currently a sino-foreign equity joint venture, of which CR Gas directly holds 36% of the equity interest. Chengdu Gas primarily engages in natural gas distribution and operates three CNG filling stations within Chengdu. Chengdu is one of the major cities in the Sichuan Province and has a population of approximately 11 million as of 2007, according to Chengdu Bureau of Statistics. Chengdu Gas has entered into two separate concession agreements for two separate grants of exclusive rights to supply gas within two separate concession areas (being (i) within Waihuan Road of Chengdu, part of which Chengdu Gas transferred to its jointly controlled entity on 16 February 2006; and (ii) the area to the south of Xindu Road, to the east of Main 2nd Road, to the north of South 1st Road and Weicheng Road of Chengdu). These concession agreements were entered into on 20 October 2004 and 30 March 2006 both for a term of 30 years.

Chengdu Gas currently operates approximately 4,901 km of gas pipelines, serving approximately 14,764 non-residential customers and approximately 1.3 million residential customers as at 30 June 2008. The combined daily designed capacity for non-residential customers is approximately 1.2 million cubic metres per day.

The following table sets forth the sales volume of gas by Chengdu Gas for the two years ended 31 December 2007 and the six months ended 30 June 2008:

	Year ended 31 December		**Six Months ended 30 June**
	2006	**2007**	**2008**
	million cubic metres	*million cubic metres*	*million cubic metres*
Natural gas through gas pipelines			
- non-residential customers	372.6	406.7	221.6
- residential customers	367.6	374.0	217.9
Natural gas through CNG filling stations	16.8	20.8	11.1

Chengdu Gas currently purchases natural gas from independent third parties under at least two framework supply agreements to supply a minimum of approximately 210 million cubic metres in aggregate per annum for 2008.

*Wuxi China Resources Gas Co., Limited (Jiangsu Province) (無錫華潤燃氣有限公司(江蘇省)) ("**Wuxi Gas**")*

Wuxi Gas was originally established on 10 August 2005. Wuxi Gas is currently a sino-foreign equity joint venture, of which CR Gas directly holds 50% of the equity interest. Wuxi Gas primarily engages in natural gas, other gas and bottled LPG distribution within Wuxi. Wuxi Gas also operates three CNG gas filling stations. Wuxi is one of the major cities in the Jiangsu Province and has a population of approximately 4.6 million as at 2007, according to Wuxi Bureau of Statistics. Wuxi Gas has on 30 April 2005 entered into a concession agreement for the exclusive right to supply gas for a term of 30 years within the concession area (being the New District, the Long Southern District, the Beitang District, the Lakeside District, the Hometown, the Xishan District and Hui Shan Qu of Wuxi).

Wuxi Gas currently operates approximately 2,267 km of gas pipelines, serving approximately 1,274 non-residential customers and approximately 391,079 residential customers as at 30 June 2008. The combined daily design capacity for non-residential customers is approximately 2.4 million cubic metres per day.

The following table sets forth the sales volume of gas by Wuxi Gas for the two years ended 31 December 2007 and the six months ended 30 June 2008:

	Year ended 31 December		**Six Months ended 30 June**
	2006	**2007**	**2008**
	million cubic metres	*million cubic metres*	*million cubic metres*
Natural and/or other gas through gas pipelines			
- non-residential customers	126.0	209.3	109.6
- residential customers	43.8	40.4	26.6
Bottled LPG	7.6	9.8	4.7
Natural gas through CNG filling stations	3.3	5.7	3.9

*Suzhou China Resources Gas Company Limited (Jiangsu Province) (蘇州華潤燃氣有限公司(江蘇省)) (“**Suzhou Gas**”)*

Suzhou Gas was originally established on 9 October 2003. Suzhou Gas is currently a sino-foreign equity joint venture, of which CR Gas directly holds 70% of the equity interest. Suzhou Gas primarily engages in natural gas distribution within the High-tech Industrial Development Area (“Suzhou High-tech Area”) and bottled LPG distribution within Suzhou. Suzhou High-tech Area is a special administrative zone within Suzhou City, the Jiangsu Province. Suzhou City has a population of approximately 6.2 million as at 2007, according to Suzhou Bureau of Statistics. Suzhou Gas has on 8 October 2007 entered into a concession agreement for the exclusive right to supply gas for a term of 30 years within the concession area (being the 258km^2 High-Tech Area in Suzhou).

Suzhou Gas currently operates approximately 810 km of gas pipelines, serving approximately 328 non-residential customers and approximately 84,752 residential customers as at 30 June 2008. The combined daily design capacity for non-residential customers is approximately 0.6 million cubic metres per day.

The following table sets forth the sales volume of gas by Suzhou Gas for the three years ended 31 December 2007 and the six months ended 30 June 2008:

	Year ended 31 December			Six Months ended 30 June
	2005	**2006**	**2007**	**2008**
	million cubic metres	*million cubic metres*	*million cubic metres*	*million cubic metres*
Natural and/or other gas through gas pipelines				
- non-residential customers	43.0	71.2	104.3	59.7
- residential customers	10.5	10.7	11.8	7.5
Bottled LPG	1.3	1.2	1.1	0.5

Suzhou Gas currently purchases natural gas from at least one independent third party under a framework supply agreement, under which Suzhou Gas is supplied with a minimum quantity of approximately 85 million cubic metres per annum from 2007 to 2023.

*Nanjing China Resources Gas Company Limited (Jiangsu Province) (南京華潤燃氣有限公司(江蘇省)) (“**Nanjing Gas**”)*

Nanjing Gas was established on 5 January 1999. Nanjing Gas is currently a foreign-invested limited liability company, of which CR Gas directly holds 80.4% of the equity interest. Nanjing Gas primarily operates six CNG filling stations within Nanjing. Nanjing is one of the major cities in the Jiangsu Province and has a population of approximately 7.4 million as at 2007, according to Nanjing Bureau of Statistics.

The following table sets forth the sales volume of gas by Nanjing Gas for the three years ended 31 December 2007 and the six months ended 30 June 2008:

	Year ended 31 December			Six Months ended 30 June
	2005	**2006**	**2007**	**2008**
	million cubic metres	*million cubic metres*	*million cubic metres*	*million cubic metres*
Natural gas through CNG filling stations and wholesales	8.0	9.9	32.8	21.2
Bottled LPG*	8.4	7.5	6.6	1.3

* The Bottled LPG business of Nanjing Gas was disposed in March 2008

Nanjing Gas currently purchases natural gas from independent third parties under at least three framework supply agreements to supply a minimum quantity of approximately 45.9 million cubic metres in aggregate per annum for 2008.

*Huaibei China Resources Gas Co., Limited (Anhui Province) (淮北華潤燃氣有限公司(安徽省)) ("**Huaibei Gas**")*

Huaibei Gas was originally established on 15 November 2006. Huaibei Gas is currently a sino-foreign equity joint venture, of which CR Gas directly holds 60% of the equity interest. Huaibei Gas primarily engaged in coal gas distribution within Huaibei. Huaibei is one of the major cities in the Anhui Province and has a population of approximately 2.1 million as of 2007, according to Huaibei Bureau of Statistics.

Huaibei Gas currently operates approximately 323 km of gas pipelines, serving approximately 238 non-residential customers and approximately 82,069 residential customers as at 30 June 2008. The combined daily design capacity for non-residential customers is 14,425 cubic metres per day. Huabei Gas began distributing natural gas and phasing out the distribution of coal gas in July 2008. It is currently expected that the distribution of coal gas will be completely phased out by November 2008. It is currently intended that Huabei Gas will have a combined daily design capacity for non-residential customers of approximately 0.8 million cubic metres of natural gas per day by 2009.

The following table sets forth the sales volume of gas by Huaibei Gas for the two years ended 31 December 2007 and the six months ended 30 June 2008:

	Year ended 31 December		**Six Months ended 30 June**
	2006	**2007**	**2008**
	million cubic metres	*million cubic metres*	*million cubic metres*
coal gas through gas pipelines			
- non-residential customers	0.15*	2.31	1.23
- residential customers	1.37*	18.91	11.11

* 1 month sale volume only

Huaibei Gas currently purchases natural gas from at least one independent third party under a framework supply agreement to supply gas for the period from 2008 to 2010 on a rising scale from a minimum quantity of approximately 8 million cubic metres for the six months ending 31 December 2008 to a minimum quantity of approximately 50 million cubic metres per annum in 2010.

*Fuyang China Resources Gas Company Limited (Zhejiang Province) (富陽華潤燃氣有限公司(浙江省)) ("**Fuyang Gas**")*

Fuyang Gas was originally established on 27 December 2005. Fuyang Gas is currently a sino-foreign equity joint venture, of which CR Gas directly holds 50% of the equity interest. Fuyang

Gas primarily engages in natural and bottled LPG distribution within Fuyang. Fuyang is one of the cities in the Zhejiang Province and has a population of approximately 640,000 as of 2007, according to Fuyang Bureau of Statistics. Fuyang Gas has on 15 December 2005 entered into a concession agreement for the exclusive right to supply gas for a term of 30 years within the concession area (being all subordinating administrative regions, suburbs and towns of Fuyang).

Fuyang Gas currently operates approximately 366 km of gas pipelines, serving approximately 108 non-residential customers and approximately 33,214 residential customers as at 30 June 2008. The combined daily design capacity for non-residential customers is approximately 29,910 cubic metres per day.

The following table sets forth the sales volume of gas by Fuyang Gas for the two years ended 31 December 2007 and the six months ended 30 June 2008:

	Year ended 31 December		Six Months ended 30 June
	2006	**2007**	**2008**
	million cubic metres	*million cubic metres*	*million cubic metres*
Natural gas through gas pipelines			
- non-residential customers	1.7	6.0	3.8
- residential customers	1.3	1.6	1.0
Bottled LPG	3.2	3.2	1.4

Fuyang Gas currently purchases natural gas from at least one independent third party under a framework supply agreement to supply a minimum of approximately 6.6 million cubic metres per annum for the period from 1 July 2008 to 30 June 2009.

*Linhai China Resources Gas Company Limited (Zhejiang Province) (臨海華潤燃氣有限公司(浙江省)) ("**Linhai Gas**")*

Linhai Gas is a wholly-owned foreign-invested enterprise originally established on 2 May 1995 of which the CR Gas currently indirectly holds 100% of the equity interest. Linhai Gas primarily engages in petroleum gas distribution within Linhai. Linhai is one of the major cities in the Zhejiang Province and has a population of approximately 1.1 million as at 2007, according to Linhai Bureau of Statistics. Linhai Gas has entered into two separate concession agreements for two separate grants of exclusive rights to supply petroleum gas within two concession areas (being (i) within the boundaries of the urban planning area of Linhai; and (ii) within the boundaries of the urban planning of the Tiantai county). These concession agreements were entered into on 27 July 2007 and 17 January 2008 both for a term of 30 years.

Linhai Gas currently operates approximately 79 km of gas pipelines, serving approximately 34 non-residential customers and approximately 13,073 residential customers as at 30 June 2008. The combined daily design capacity for non-residential customers is approximately 1,274 cubic metres per day.

The following table sets forth the sales volume of gas by Linhai Gas for the two years ended 31 December 2007 and the six months ended 30 June 2008:

	Year ended 31 December		Six Months ended 30 June
	2006	**2007**	**2008**
	million cubic metres	*million cubic metres*	*million cubic metres*
Petroleum gas through gas pipelines			
- non-residential customers	0.17	0.22	0.14
- residential customers	0.24	0.28	0.15

Linhai Gas currently purchases petroleum gas from at least one independent third party under a framework supply agreement to supply approximately 900 tonnes (approximately 378,000 cubic metres) in the period from 29 June 2008 to 28 December 2008.

Customers

Non-residential customers

Sales of gas to non-residential customers have provided the CR Gas Group with its primary source of turnover. For the three years ended 31 December 2007 and the six months ended 30 June 2008, revenue generated from non-residential customers amounted to approximately HK$174.7 million, HK$538.6 million, HK$869.9 million and HK$558.9 million, respectively, representing approximately 52.2%, 49.3%, 56.6% and 57.8% of the turnover of the CR Gas Group (excluding amounts from turnover of sale and distribution of gas fuel contributed by a previous subsidiary which was disposed on 30 April 2006) for the same period. Non-residential customers of the CR Gas Group include primarily factories, as well as restaurants, hotels, shops and others. Natural gas is used by non-residential customers to primarily operate machinery, provide heating and water heating, as a fuel source for cooking and transportation, and for other purposes.

Residential customers

Sales of gas to residential customers have provided the CR Gas Group with a steady source of turnover. For the three years ended 31 December 2007 and the six months ended 30 June 2008, revenue generated from residential customers amounted to approximately HK$15.6 million, HK$214.4 million, HK$263.6 million and HK$170.2 million, respectively, representing approximately 4.7%, 19.7%, 17.2% and 17.6% of the turnover of the CR Gas Group (excluding amounts from turnover of sale and distribution of gas fuel contributed by a previous subsidiary which was disposed on 30 April 2006) for the same period. Residential customers use natural gas primarily for heating, cooking, water heating and air conditioning.

Pricing

Gas usage charges are based on actual usage on a per cubic metre basis. The gas usage charges per cubic metre vary from city to city within the PRC, and the payment mechanism may vary between different categories of customers. Generally, the CR Gas Group generally offers a credit period from 30 days and up to 90 days to its non-residential customers and its residential customers.

Natural gas and LPG pricing is partially regulated in the PRC. Local pricing bureaus set recommended price ranges for the sale of gas to non-residential customers. Local distribution companies, such as the CR Gas Group, is free to negotiate the price of gas to its non-residential customers within these price ranges. These price ranges also allow for a pass through mechanism to pass through to end users any increase in gas supply prices for the local distribution companies, such as the CR Gas Group. The price of gas to residential customers are fixed by the local pricing bureaus. These fixed prices also allow for a similar price pass through mechanism.

Connection fees are one-time charges for basic access to piped gas, with fees relating to usage assessed separately. Payment terms for connection fees to non-residential customers are subject to negotiations between the CR Gas Group and its non-residential customers. Connection fees chargeable to residential customers are fixed by the local pricing bureaus.

The prices at which suppliers of natural gas supply to the CR Gas Group are regulated by the National Development and Reform Commission of the PRC.

D. FINANCIAL EFFECTS OF THE ACQUISITION ON THE GROUP

Net Assets

As at 30 June 2008, the consolidated net assets of the Group attributable to the Shareholders was approximately HK$338.6 million. As set out in the section headed "Unaudited Pro-forma Financial Information of the Enlarged Group" in Appendix I of this circular, assuming 30 June 2008 is the date of Completion, the unaudited pro-forma combined net assets of the Enlarged Group attributable to the Shareholders will be increased by approximately HK$1.73 billion to approximately HK$2.06 billion.

Net Current Assets

As at 30 June 2008, the consolidated net current assets of the Group attributable to the Shareholders was approximately HK$135.1 million. As set out in the section headed "Unaudited Pro-forma Financial Information of the Enlarged Group" in Appendix I of this circular, assuming 30 June 2008 is the date of Completion, the unaudited pro-forma combined net current assets of the Enlarged Group attributable to the Shareholders will be increased by approximately HK$17.5 million to approximately HK$152.6 million.

Profits

For the year ended 31 December 2007, the consolidated profit before taxation of the Group from continuing operation was approximately HK$130.9 million. As set out in the section headed "Unaudited Pro-forma Financial Information of the Enlarged Group" in Appendix I of this circular, assuming 1 January 2007 is the date of Completion, the unaudited pro-forma combined profit before taxation of the Enlarged Group from continuing operation for the year ended 31 December 2007 will be approximately HK$319.5 million.

For the year ended 31 December 2007, the consolidated profit for the year of the Group from continuing operation was approximately HK$89.8 million. As set out in the section headed "Unaudited Pro-forma Financial Information of the Enlarged Group" in Appendix I of this circular, assuming 1 January 2007 is the date of Completion, the unaudited pro-forma combined profit for the year of the Enlarged Group from continuing operation for the year ended 31 December 2007 will be approximately HK$313.1 million.

Working Capital

Taking into account of the proceeds from the Rights Issue and the financial resources of the Enlarged Group comprising the Group, CR Gas and CR Gas' subsidiaries, including internally generated funds and credit facilities available to the Enlarged Group on completion of acquisition of CR Gas Group, the Directors, after due and careful consideration, are of the opinion that the Enlarged Group will have sufficient working capital for its present requirements, that is for at least the next twelve months from the date of publication of this circular.

Indebtedness

Borrowings

The borrowings of the Enlarged Group as at 31 July 2008 are as follows:

	HK$'000
Unsecured bank and other borrowings	209,345
Amount due to an intermediate holding company of CR Gas	53,700
Bank and other borrowings repayable:	
On demand or within one year	153,054
More than two years, but not exceeding five years	49,366
Over five years	6,925
	209,345
Pledged bank deposit	740

Foreign currency amounts have been translated at the approximate exchange rates prevailing at the close of business on 31 July 2008.

Save as disclosed above, the Enlarged Group did not have any debt securities, any other outstanding loan capital, any other borrowings or indebtedness in the nature of borrowings of the Enlarged Group including bank overdrafts and liabilities under acceptances (other than normal trade bills) or other similar indebtedness, debentures, mortgages, charges, loans acceptance credits, hire purchase commitments, guarantees or other material contingent liabilities at the close of business on 31 July 2008.

E. NATURE OF BUSINESS OF CR LOGIC AND CHINA RESOURCES HOLDINGS

Nature of the business of CR Logic

CR Logic is an investment holding company which holds primarily interests in businesses engaged in the production and sale of ready mixed concrete within Hong Kong. It also engages in the production and sale of mortars and shotcrete. Through the Company's wholly-owned subsidiary, Redland Concrete, the Group has two operating batching plants located at Yuen Long and Yau Tong; a third in Chai Wan is presently leased to an independent third party. The Shares are listed on the Main Board of the Stock Exchange.

The Company currently also operates a semiconductor operation in Tai Po, Hong Kong. The Company has been undergoing discussions with independent third parties for the disposal of this business.

Nature of business of China Resources Holdings

China Resources Holdings is the substantial and controlling shareholder of CR Logic and its principal business is investment holding.

F. CONNECTED TRANSACTIONS

Deed of Non-competition

As a condition precedent to the completion of the Acquisition, the Company and China Resources Holdings will enter into the Deed of Non-competition. No consideration is payable by the Company under the Deed of Non-competition. Apart from the businesses of the CR Gas Group, China Resources Holdings currently does not operate any other businesses which directly or indirectly competes, or may lead to competition, with the businesses of the CR Gas Group. Under the Deed of Non-competition, China Resources Holdings will, amongst other things:

(i) undertake not to engage in any business which directly or indirectly competes, or may lead to competition, with the businesses of the CR Gas Group and future businesses in the PRC gas industry in the PRC of the Group and the CR Gas Group;

(ii) grant an option to the Company to purchase at any time and in the event China Resources Holdings decides or intends to dispose, an option and a first right of refusal to purchase the gas businesses retained by the China Resources Holdings Group, which currently are operated in different regions of the PRC to the business of the CR Gas Group and therefore do not directly or indirectly compete with the businesses of the CR Gas Group, or not taken up by the Company pursuant to paragraph (iii) below; and

(iii) notify the Company about all future gas business opportunities which directly or indirectly compete, or may lead to competition, with the current and future businesses of the Group and the CR Gas Group immediately upon becoming aware of such opportunities and to provide, or procure that such opportunities are first offered, to the Company on terms and conditions no less favourable than those offered to the China Resources Holdings Group.

The Deed of Non-competition will be an exempted connected transaction of the Company under Rule 14A.31(2) of the Listing Rules.

Administrative Services Agreement

As a condition precedent to the completion of the Acquisition, the Company will enter into an Administrative Services Agreement with China Resources Holdings to govern its arrangements with respect to the provision of administrative services by China Resources Gas (Holdings) Limited, a wholly-owned subsidiary of China Resources Holdings, to the Company. China Resources Gas

(Holdings) Limited has been providing and, under the proposed terms of the Administrative Services Agreement, will continue to provide CR Gas with certain administrative services namely legal services, provision of general treasury functions, accounting, internal audit and compliance services, payroll and human resources support services and general office maintenance services.

The charges payable by the Company to China Resources Gas (Holdings) Limited under the Administrative Agreement will be calculated on a cost basis proportionate to the audited or unaudited total assets as at the preceding quarter end date of the CR Gas and China Resources Gas (Holdings) Limited. On the above basis, the Directors consider the fees chargeable to the Company for such services to be determined are fair and equitable.

The sharing of administrative services on a cost basis will be an exempt continuing connected transaction of the Company under Rule 14A.33(2) of the Listing Rules.

III. THE RIGHTS ISSUE

In order to finance the Acquisition, the Company proposes to raise approximately HK$3,869.8 million before expenses by way of the Rights Issue of 1,131,533,368 Rights Shares at the Subscription Price of HK$3.42 per Share on the basis of four (4) Rights Shares for every one (1) existing Share held at the close of business on the Record Date.

The proceeds from the Rights Issue will be applied towards payment of the consideration for the Acquisition and the costs and expenses relating to the Acquisition and the Rights Issue.

A. ISSUE STATISTICS OF THE RIGHTS ISSUE

Basis of the Rights Issue	Four (4) Rights Shares for every one (1) existing Share held on the Record Date by the Qualifying Shareholders
Subscription Price	HK$3.42 per Rights Share
Number of Shares in issue	282,883,342 Shares as at the Latest Practicable Date
Number of outstanding Share Options	212,000 Shares
Number of Rights Shares	Not less than 1,131,533,368 Rights Shares (assuming none of the Share Options is exercised on or before the Record Date); and Not more than 1,132,381,368 Rights Shares (assuming all of the Share Options are exercised on or before the Record Date)
Underwriter	Splendid Time
Underwriting Commission	Nil

The number of Rights Shares which may be issued pursuant to the Rights Issue will be increased in proportion to any additional Shares which may be allotted and issued on or before the Record Date pursuant to the exercise of the Share Options. As at the Latest Practicable Date, the Company has 212,000 outstanding vested Share Options entitling the Share Optionholders to subscribe for 212,000 Shares. None of the Company's directors currently holds any Share Options. The Directors have also confirmed that, pursuant to the Model Code of the Listing Rules, they will not apply for excess Rights Shares under the Rights Issue. Save for the outstanding Share Options, there are no other convertible securities, options or warrants in issue which would otherwise confer any right to subscribe for, convert or exchange into the new Shares as at the Latest Practicable Date.

The nil-paid Rights Shares to be provisionally allotted pursuant to the terms of the Rights Issue represents approximately 400% of the Company's existing issued share capital as at the Latest Practicable Date or approximately 80% of the enlarged issued share capital of the Company immediately after the completion of the Rights Issue, assuming none of the Share Options is exercised on or before the Record Date.

Qualifying Shareholders

The Company will send the Rights Issue Documents to the Qualifying Shareholders and, for information purposes only, the Prospectus to the Excluded Shareholders. To qualify for the Rights Issue, a Shareholder must be registered as a member of the Company as at the close of business on the Record Date and not be an Excluded Shareholder.

In order to be registered as a member of the Company on the Record Date, the Shareholders must lodge any transfers of Shares (with the relevant share certificate(s)) with the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by 4:30 p.m. (Hong Kong time) on Tuesday, 30 September 2008. Holders of the Share Options who wish to participate in the Rights Issue should exercise their Share Options in accordance with and subject to their respective terms and conditions before 4:00 p.m. (Hong Kong time) on the Record Date so as to enable them to be registered as Shareholders on or before the Record Date.

Closure of Register of Members

The Company's register of members will be closed from Thursday, 2 October 2008 to Monday, 6 October 2008, both days inclusive, for the purposes of establishing entitlements to the Rights Issue. No transfer of Shares will be registered during this period.

B. **TERMS OF THE RIGHTS ISSUE**

1. **Subscription Price**

The Subscription Price of HK$3.42 per Rights Share is, subject to the Set-off Arrangement, payable in full when a Qualifying Shareholder accepts the relevant provisional allotments under the Rights Issue or applies for excess Rights Shares or when a transferee of nil-paid Rights Shares subscribes for the Rights Shares.

The Subscription Price represents:

(i) a discount of approximately 14.5% to the closing price of HK$4.00 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a discount of approximately 29.9% to the average closing price of HK$4.88 per Share for the five consecutive trading days up to and including the Last Trading Day;

(iii) a discount of approximately 35.7% to the average closing price of HK$5.32 per Share for the ten consecutive trading days up to and including the Last Trading Day;

(iv) a discount of approximately 3.4% to the theoretical ex-rights price of HK$3.54 per Share based on the closing price of HK$4.00 per Share as quoted on the Stock Exchange on the Last Trading Day;

(v) a premium of approximately 216.7% to the audited net asset value as at 31 December 2007 of HK$1.08 per Share; and

(vi) a premium of approximately 185.0% to the unaudited net asset value as at 30 June 2008 of HK$1.20 per Share.

The Subscription Price was arrived at after arm's length negotiations between the Company and the Underwriter with reference to the prevailing Share prices prior to the Last Trading Day and the current financial position of the Group.

The Company considers that the terms of the Rights Issue, including the Subscription Price, are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

2. **Basis of Provisional Allotments**

Four (4) Rights Share (in nil-paid form) for every one (1) existing Share held by Qualifying Shareholders as at the close of business on the Record Date.

3. **Status of the Rights Shares**

When allotted and fully paid, the Rights Shares will rank pari passu with the then existing Shares in issue in all respects. Holders of such Rights Shares will receive all future dividends and distributions, which may be declared, made or paid after, the date of allotment and issue of the Rights Shares.

4. **Rights of the Excluded Shareholders**

The Rights Issue Documents will not be registered or filed under the applicable securities or equivalent legislation of any jurisdictions other than Hong Kong and Bermuda.

Based on the register of members of the Company as at the Latest Practicable Date, there were 7 Overseas Shareholders.

If, on the Record Date, there are any Overseas Shareholders, the Company will instruct its legal advisers to make enquiry regarding the applicable legal restrictions and regulatory requirements of the relevant jurisdictions outside Hong Kong in connection with extending the Rights Issue to such Overseas Shareholders. The Company will comply with all necessary requirements specified in Rule 13.36(2) of the Listing Rules and will only exclude from the Rights Issue such Overseas Shareholders who the Directors, after making enquiry regarding the legal restrictions under the laws of the relevant jurisdictions and the requirements of the relevant regulatory bodies or stock exchanges in such jurisdictions, consider it necessary or expedient to do so. The basis of exclusion of such Overseas Shareholders from the Rights Issue, if any, will be disclosed in the Prospectus.

The Company will send the Prospectus to the Excluded Shareholders, if any, for their information only.

Arrangements will be made for the Rights Shares which would otherwise have been provisionally allotted to the Excluded Shareholders, if any, to be sold in the open market in their nil-paid form as soon as practicable after dealings in the nil-paid Rights Shares commence, if a premium (net of expenses) can be obtained. The proceeds of such sale, less expenses, will be distributed pro rata to the Excluded Shareholders provided that the Company will retain individual amounts of HK$100 or less for its own benefit. Any unsold Rights Shares to which the Excluded Shareholders would otherwise have been entitled will be made available for applications for excess Rights Shares.

5. **Certificates for the Rights Shares and refund cheques for Rights Issue**

Subject to the fulfilment, or, (where applicable) waiver of the conditions of the Rights Issue, certificates for the fully-paid Rights Shares and refund cheques in respect of wholly or partly unsuccessful applications for excess Rights Shares (if any) are expected to be posted to those entitled thereto by Thursday, 30 October 2008 at their own risk.

6. **Fractional entitlements to the Rights Shares**

Fractional entitlements to Rights Shares will not be provisionally allotted. All fractions of Rights Shares will be aggregated (rounded down to the nearest whole number). All nil-paid Rights Shares arising from such aggregation will be provisionally allotted to a nominee appointed by the Company and, if a premium (net of expenses) can be obtained, will be sold in the market. The net proceeds of such sale will be retained by the Company for its own benefit. Any unsold Rights Shares will be made available for excess application.

7. **Application for excess Rights Shares**

Qualifying Shareholders shall be entitled to apply for any unsold entitlements of the Excluded Shareholders, any nil-paid Rights Shares provisionally allotted but not accepted by the Qualifying Shareholders, and any unsold Rights Shares created by aggregating fractions of the Rights Shares.

Applications may be made by completing the EAFs and lodging the same with a separate remittance for the excess Rights Shares being applied for. The Directors will allocate the excess Rights Shares at their discretion on a fair and equitable basis on the following principles:

(i) preference will be given to applications for topping-up odd-lot holdings to whole-lot holdings; and

(ii) subject to availability of excess Rights Shares after allocation under principle (i) above, the excess Rights Shares will be allocated to Qualifying Shareholders who have applied for excess application based on a pro-rata basis to the excess Rights Shares applied by them, with board lots allocation to be made on best effort's basis.

Shareholders with their Shares held by nominee(s) should note that the Board would regard the nominee as a single Shareholder according to the register of members of the Company, and thus, in such case, the aforesaid arrangement in relation to the top-up of odd lots for allocation of excess Rights Shares will not be extended to the beneficial owners individually. Shareholders with their Shares held by a nominee company are advised to consider whether they would like to arrange for the registration of their relevant Shares in the name of the beneficial owner(s) prior to the Record Date.

8. **Set-off Arrangement**

Qualifying Shareholders shall be entitled to set off all or part of the aggregate subscription monies in respect of the Rights Shares against such sums due from the Company to such Qualifying Shareholder under any existing legally valid, binding and enforceable agreement between the Company and such Qualifying Shareholder as determined by the Company.

9. **Application for listing**

Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Rights Shares, in both nil-paid and fully-paid forms. Dealings in the nil-paid and fully-paid Rights Shares will be subject to the payment of stamp duty in Hong Kong.

10. **Conditions of the Rights Issue**

The Rights Issue is conditional, amongst other things, on:

(i) the Underwriting Agreement having become unconditional and the Underwriter not having terminated the Underwriting Agreement in accordance with the terms thereof; and

(ii) the passing of the relevant resolution by the Independent Shareholders at the First SGM approving the Rights Issue on or before the Prospectus Posting Date.

C. UNDERWRITING ARRANGEMENTS

Undertakings from China Resources Holdings

As at the date of this circular, China Resources Holdings is, or is deemed under the SFO to be, interested in 194,710,215 Shares in total, representing approximately 68.83% of the existing issued share capital of the Company. China Resources Holdings and its subsidiaries which have shareholdings in the Company (namely, Gold Touch Enterprises Inc., Waterside Holdings Limited and Splendid Time) will each receive a pro rata entitlement to Rights Shares in its capacity as a Shareholder. Each of China Resources Holdings and the above subsidiaries will undertake to the Company either to take up all of the Rights Shares to be provisionally allotted to it on a pro rata basis in full or to renounce its full entitlement of the Rights Shares in favour of Splendid Time (as appropriate).

The Set-off Arrangement

The parties to the Underwriting Agreement agree that the aggregate amount of the subscription monies in respect of any Rights Shares to be taken up by the Underwriter as the underwriter to the Rights Issue, in case of under-subscription of the Rights Issue, may be set off against the consideration payable by the Company to China Resources Holdings for the Acquisition.

The Directors consider that the Set-off Arrangement is fair and reasonable insofar as the Shareholders are concerned.

Assuming none of the Share Options is exercised on or before the Record Date, the estimated cash proceeds of the Rights Issue following payment of the corresponding part of the consideration for the Acquisition pursuant to the Set-off Arrangement will be not less than HK$55.0 million (assuming all the Underwritten Shares are taken up by the Underwriter pursuant to the Underwriting Agreement), and not more than HK$1,206.2 million (assuming all the Rights Shares are fully subscribed).

Principal terms of the Underwriting Agreement

Date:	21 August 2008
Underwriter:	Splendid Time
Number of the Underwritten Shares:	Not less than 1,131,533,368 Underwritten Rights Shares (assuming none of the Share Options is exercised on or before the Record Date); and Not more than 1,132,381,368 Underwritten Rights Shares (assuming all of the Share Options are exercised on or before the Record Date)

The obligations of the Underwriter in respect of the Underwritten Rights Shares which have not been taken up shall be subject to adjustment in accordance with the provisions of the Underwriting Agreement in relation to Rights Shares procured to be subscribed by the Underwriter in compliance with the terms of the Rights Issue Documents.

Conditions of the Underwriting Agreement

The obligations of the Underwriter under the Underwriting Agreement are conditional upon, among other things:

(i) the Share Purchase Agreement becoming unconditional and has not been terminated;

(ii) delivery of the Undertaking Letter duly executed by each of Gold Touch Enterprises Inc, Waterside Holdings Limited, Splendid Time and China Resources Holdings to the Company and the Underwriter, and each of Gold Touch Enterprises Inc, Waterside Holdings Limited, Splendid Time and China Resources Holdings having honoured its obligations to either take up its proportional entitlements to the Rights Shares or to renounce its full entitlement of the Rights Shares in favour of Splendid Time (as appropriate) pursuant to the Undertaking Letter;

(iii) all necessary approvals, permits, waivers, consents and authorisations having been obtained for the Rights Issue, the provisional allotment and allotment of the Rights Shares;

(iv) the Stock Exchange granting or agreeing to grant (subject to allotment) listing of, and permission to deal in, all the Rights Shares, in their nil-paid and fully-paid forms, by not later than Friday, 10 October 2008 and Friday, 31 October 2008 respectively and such listing not being revoked prior to 4.00 p.m. on the day which is the third Business Day following the Acceptance Date;

(v) the delivery on or before the Prospectus Posting Date of one such signed copy of each of the Rights Issue Documents to the Underwriters and the Stock Exchange;

(vi) the filing and registration on or prior to the Prospectus Posting Date of one such signed copy of each of the Rights Issue Documents (and all other documents required to be attached) with the Registrar of Companies in Hong Kong, complying with the requirements of the Companies Ordinance;

(vii) the filing on or prior to the Prospectus Posting Date of one such signed copy of each of the Rights Issue Documents (and all other documents required to be attached thereto) with the Registrar of Companies in Bermuda, complying with the requirements of the Companies Act 1981 of Bermuda (as amended);

(viii) the posting of the Rights Issue Documents to the Qualifying Shareholders on or before the Prospectus Posting Date; and

(ix) the Underwriting Agreement becoming unconditional and not being terminated by the Underwriter.

If any of the above conditions are not fulfilled or waived on or before the time and date specified therein or, in the absence of such specification, the Allotment Date (or such later time and/or date as the Company and the Underwriter may agree in writing), the Underwriting Agreement shall terminate (save in respect of certain rights or obligations under the Underwriting Agreement) and neither the Company nor the Underwriter shall have any claim against the other parties and the Company shall reimburse the Underwriter all reasonable costs and expenses incurred by it in connection with the Rights Issue.

Termination of the Underwriting Agreement

The Underwriting Agreement contains provisions granting the Underwriter, by notice in writing, the right to terminate the Underwriter's obligations thereunder on the occurrence of certain events. The Underwriter may, in its reasonable discretion, terminate the Underwriting Agreement at any time prior to 4:00 p.m. on the Allotment Date if:

(A) there shall develop, occur, exist or come into effect:

(i) any new law or regulation or any change or prospective change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong, the PRC and the British Virgin Islands or any other place in which any member of the Group conducts or carries on business; or

(ii) any change or prospective change in, or any event or series of events resulting or likely to result in any change in local, national or international financial, political, military, industrial, economic, currency or (whether or not sui generis with any of the foregoing) market conditions; or

(iii) any change or prospective change in the conditions of local, national or international securities markets (including but without limitation, the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange due to exceptional financial circumstances or otherwise); or

(iv) any material change in the business or in the financial or trading position or prospects of the Group; or

(v) any act of God, war, riot, public disorder, any outbreak or escalation of hostilities, declaration of emergency, calamity, crisis, epidemic, terrorism or any event or a series of events beyond the control of the Underwriter; or

(vi) any suspension in the trading of the Shares on the Stock Exchange; or

(vii) any litigation against any member of the Group by a third party; or

(viii) any moratorium on commercial banking activities having been declared by the PRC or Hong Kong authorities,

which, in the reasonable opinion of the Underwriter:

(x) is likely to have a material adverse effect on the Company or the Group or the Rights Issue; or

(y) is likely to have a material adverse effect on the success of the Rights Issue or the level of the Rights Shares taken up; or

(z) is so material as to make it inadvisable or inexpedient for the Company to proceed with the Rights Issue; or

(B) there comes to the notice of the Underwriter:

(i) any matter or event showing any of the representations and warranties or any undertakings of the Company under the Underwriting Agreement to be untrue or misleading or as having been breached in any respect; or

(ii) any change or development involving a prospective change in Hong Kong taxation or exchange control which will or may materially and adversely affect the Group or a material proportion of the existing Shareholders in their capacity as such,

then and in any such case the Underwriter may (but shall not be bound to), upon giving notice to the Company, terminate the Underwriting Agreement with immediate effect.

In the event the Underwriter exercise its rights to terminate the Underwriting Agreement, the obligations of the parties shall cease and be null and void and none of the parties shall, save in respect of any right or liability accrued under the Underwriting Agreement before such termination, have any right against or liability towards the others arising out of or in connection with the Underwriting Agreement.

Pursuant to Rule 14A.31(3)(c) of the Listing Rules, the entering into the Underwriting Agreement by the parties constitutes an exempted connected transaction of the Company and is therefore exempt from the reporting, announcement and independent shareholders approval requirements.

If the Underwriter terminates the Underwriting Agreement, the Rights Issue will not proceed. Further announcement will be made if the Underwriting Agreement is terminated by the Underwriter.

D. REASONS FOR AND BENEFITS OF THE RIGHTS ISSUE

The proceeds of HK$3,869.8 million from the Rights Issue will be applied towards the payment of the consideration for the Acquisition and the costs and expenses relating to the Acquisition and the Rights Issue. As discussed above, the Directors consider the terms and conditions of the Acquisition and the Share Purchase Agreement are in the interests of the Company and the Shareholders as a whole for the reasons stated above. Accordingly, the Directors consider that it is fair and reasonable and in the interest of the Company and the Shareholders as a whole to raise the required financing for the Acquisition by way of the Rights Issue as the exercise provides opportunities for the Shareholders to maintain their stakes in the Company and to enjoy the anticipated benefits from the Acquisition.

E. FUND-RAISING ACTIVITIES OF THE GROUP DURING THE PAST TWELVE MONTHS

The Company has not engaged in or initiated any equity fund raising exercise during the past 12 months immediately before the date of this circular any rights issue exercise prior to such 12-month period.

F. POSSIBLE CHANGE IN THE SHAREHOLDING STRUCTURE OF THE COMPANY AS A RESULT OF THE RIGHTS ISSUE

As at the Latest Practicable Date, there are a total of 282,883,342 Shares in issue and the Company has 212,000 outstanding vested Share Options entitling the Share Optionholders to subscribe for 212,000 Shares. Save for the outstanding Share Options, there are no other convertible securities, options or warrants in issue which would otherwise confer any right to subscribe for, convert or exchange into the new Shares as at the date of this circular.

Set out below is the shareholding structure of the Company as at the date of this circular and the possible shareholding structure immediately after the completion of the Rights Issue:

	As at the date of this circular on the assumption as set out in Note 1		Immediately after completion of the Rights Issue on the assumption as set out in Note 2		Immediately after completion of the rights Issue on the assumption as set out in Note 3	
	Number of Shares	*%*	*Number of Shares*	*%*	*Number of Shares*	*%*
Substantial Shareholders :						
Gold Touch Enterprises Inc. (“**Gold Touch**”)	29,722,960	10.51	148,614,800	10.51	148,614,800	10.51
Waterside Holdings Limited (“**Waterside**”)	53,534,774	18.92	267,673,870	18.92	267,673,870	18.92
Splendid Time	110,968,881	39.23	554,844,405	39.23	907,536,913	64.16
China Resources Holdings*	194,710,215	68.83	973,551,075	68.83	1,326,243,583	93.77
CRC Bluesky Limited (“**CRC Bluesky**”)	194,710,215	68.83	973,551,075	68.83	1,326,243,583	93.77
China Resources Co., Limited (“**CRCL**”)	194,710,215	68.83	973,551,075	68.83	1,326,243,583	93.77
China Resources National Corp. (“**CRN**”)	194,710,215	68.83	973,551,075	68.83	1,326,243,583	93.77
Directors						
Mr. Zhou Longshan	6,000	0.0021	30,000	0.0021	6,000	0.0004
Mr. Li Fuzuo	51,000	0.0180	255,000	0.0180	51,000	0.0036
Mr. Du Wenmin	54,000	0.0191	270,000	0.0191	54,000	0.0038
Mr. Wong Tak Shing	40,000	0.0141	200,000	0.0141	40,000	0.0028
Public Shareholders	88,022,127	31.12	440,110,635	31.12	88,022,127	6.22
Total	282,883,342	100	1,414,416,710	100	1,414,416,710	100

Notes:

* Gold Touch, Waterside and Splendid Time each directly holds 29,722,960 Shares, 53,534,774 Shares and 110,968,881 Shares respectively in the Company. Gold Touch, Waterside and Splendid Time are wholly-owned subsidiaries of China Resources Holdings, which is therefore deemed to interested in 194,226,615 Shares of the Company under Part XV of the SFO. In addition, China Resources Holdings directly holds 483,600 Shares in the Company. China Resources Holdings is a wholly-owned subsidiary of CRC Bluesky. CRC Bluesky is a wholly-owned subsidiary of CRCL which in turn is 99.98% owned by CRN. CRC Bluesky, CRCL and CRN are all therefore deemed to be interested in 194,710,215 Shares of the Company under Part XV of the SFO.

1. Assuming none of the Share Options is exercised on or before the Record Date.

2. Assuming (i) none of the Share Options is exercised on or before the Record Date; (ii) all the Shareholders take up their respective provisional allotments of the Rights Shares in full; and (iii) fractional entitlements are sold in the open market or allotted to public shareholders under excess applications.

3. Assuming (i) none of the Share Options is exercised on or before the Record Date; (ii) none of the Shareholders (save for Gold Touch, Waterside, Splendid Time and China Resources Holdings) takes up any provisional allotments of the Rights Shares; and (iii) all the Underwritten Shares are taken up by the Underwriter pursuant to the Underwriting Agreement.

Restoration of Public Float

As shown under the section headed "Possible change in the shareholding structure of the Company as a result of the Rights Issue" above, immediately upon the completion of the Rights Issue, assuming no Rights Issue Shares is taken up by the Independent Shareholders, the public float of the Company will decrease to approximately 6.22%. In this regard, China Resources Holdings has undertaken to dispose of such number of Underwritten Shares to independent third parties to comply with the public float requirements under the Listing Rules in the event that the percentage of public float resulting from completion of the Rights Issue falls below the required minimum percentage under the Listing Rules in respect of the Company. China Resources Holdings shall take appropriate steps/measures to ensure sufficient public float of the Shares upon completion of the Rights Issue.

G. **EXPECTED TIMETABLE OF THE RIGHTS ISSUE**

The expected timetable for the Rights Issue set out below is for indicative purposes only and it has been prepared on the assumption that all the conditions of the Rights Issue will be fulfilled. The expected timetable is subject to change, and any changes will be announced in a separate announcement by the Company as and when appropriate.

Last day of dealings in Shares on a cum-rights basis	Friday, 26 September 2008
First day of dealings in Shares on an ex-rights basis	Monday, 29 September 2008
Latest time for lodging transfer of Shares in order to qualify for the Rights Issue	4:30 p.m. on Tuesday, 30 September 2008
Register of members of the Company closes (both days inclusive)	Thursday, 2 October 2008 to Monday, 6 October 2008
First SGM	Monday, 6 October 2008
Record Date	Monday, 6 October 2008
Announcement of results of the First SGM	Wednesday, 8 October 2008
Despatch of the Rights Issue Documents	Wednesday, 8 October 2008
Register of members re-opens	Wednesday, 8 October 2008
First day of dealings in nil-paid Rights Shares	Monday, 13 October 2008

Latest time for splitting of nil-paid Rights Shares . . . . 4:30 p.m. on Tuesday, 14 October 2008

Last day of dealings in nil-paid Rights Shares . . . . Friday, 17 October 2008

Latest time for acceptance of and payment for the Rights Shares and for application and payment for the excess Rights Shares *(Note)* . . . . 4:00 p.m. on Wednesday, 22 October 2008

Latest time for the termination of the Underwriting Agreement and for the Rights Issue to become unconditional . . . . 4:00 p.m. on Monday, 27 October 2008

Announcement of results of the Rights Issue . . . . Wednesday, 29 October 2008

Despatch of refund cheques in respect of unsuccessful applications for the excess Rights Shares on or before . . . . Thursday, 30 October 2008

Despatch of certificates for fully-paid Rights Shares on or before . . . . Thursday, 30 October 2008

Commencement of dealings in full-paid Rights Shares . . . . 9:30 a.m. on Monday, 3 November 2008

Second SGM . . . . Monday, 3 November 2008

Note: If there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong on the latest date for acceptance for the offer of Rights Shares at any time between 12:00 noon and 4:00 p.m., the latest acceptance time for the offer of the Rights Shares will be postponed to the next Business Day which does not have either of those warnings in force in Hong Kong at any time between 12:00 noon and 4:00 p.m.

H. WARNING OF THE RISK OF DEALING IN THE SHARES AND THE NIL-PAID RIGHTS SHARES

The Shares will be dealt in on an ex-rights basis from Monday, 29 September 2008. Dealings in the Rights Shares in the nil-paid form will take place from Monday, 13 October 2008 to Friday, 17 October 2008 (both dates inclusive). If the conditions of the Rights Issue are not fulfilled on or before the Allotment Date (or such later time and/or date as the Company and the Underwriter may determine in writing), the Rights Issue will not proceed.

Any persons contemplating dealing in the Shares prior to the date on which all the conditions of the Rights Issue are fulfilled, and/or dealings in the nil-paid Rights Shares, are accordingly subject to the risk that the Rights Issue may not be unconditional or may not proceed.

Any Shareholders or other persons contemplating dealing in the Shares and/or nil-paid Rights Shares are recommended to consult their own professional adviser(s).

I. ADJUSTMENTS TO THE SHARE OPTIONS GRANTED BY THE COMPANY

The Rights Issue will cause adjustments to the subscription price and the number of Shares to be issued under the outstanding Share Options under the terms of the Share Option Scheme. Adjustments to certain terms of the Share Options shall be made pursuant to the Share Option Scheme and in compliance with Rule 17.03(13) of the Listing Rules. Auditors will be engaged by the Company to confirm to the Directors in writing that such adjustments satisfy the requirements under Listing Rule 17.03(13) of the Listing Rules. The Company will inform the Share Optionholders of the Share Options of such adjustments accordingly by written notice to each of the Share Optionholders.

IV. LISTING RULES IMPLICATIONS

The Acquisition constitutes a very substantial acquisition of the Company under the Listing Rules. Since China Resources Holdings is the controlling shareholder of the Company, holding 68.83% of its issued share capital, the Acquisition also constitutes a connected transaction of the Company under the Listing Rules. As such, the Acquisition and the Share Purchase Agreement are subject to the approval of the Independent Shareholders at the First SGM.

The completion of the proposed Rights Issue would increase the issued share capital of the Company by more than 50%. Pursuant to Rule 7.19(6)(a) of the Listing Rules, the Rights Issue is conditional on the approval by the Independent Shareholders in the First SGM on a vote taken by way of poll at the First SGM and on which China Resources Holding, the controlling shareholder of the Company (as defined in the Listing Rules) and its Associates shall abstain from voting in favour.

Further details on the matters to be voted on by the Shareholders at the First SGM are set out in the section headed "FIRST SGM" in this circular.

The Independent Board Committee has been constituted to consider the terms of the Share Purchase Agreement and the Rights Issue and to advise and make recommendation to the Independent Shareholders as to how to vote at the First SGM on the ordinary resolutions regarding the Transactions. Mr. Wong Tak Shing, Mr. Luk Chi Cheong and Dr. Yang Chonghe, Howard have been appointed by the Board to serve as members of the Independent Board Committee. No member of the Independent Board Committee (including Mr. Wong Tak Shing who is currently interested in 40,000 Shares) has any material interest in the Transactions.

Independent financial adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the transactions contemplated in the Share Purchase Agreement and the Rights Issue.

V. CHANGE OF NAME

The Board proposes that, subject to the completion of the Transactions, the Company will change its name from "China Resources Logic Limited" to "China Resources Gas Group Limited" and its Chinese name from "華潤勵致有限公司" to "華潤燃氣控股有限公司" to reflect the completion of the Acquisition and to enable the investors and Shareholders to have an easy recognition on the Group's future principal business activities. The Company proposes to seek the Shareholders' approval at the Second SGM to approve the requisite resolution to change its existing name.

The Proposed Change of Name will be subject to the passing of a special resolution by the Shareholders at the Second SGM and will become effective subject to the approvals (if required) of the Registrar of Companies in Hong Kong and Bermuda.

The Proposed Change of Name will not affect any rights of the Shareholders. All existing share certificates issue bearing the existing name of the Company, will after the change of name becoming effective, continue to be good evidence of title to the Shares and will be valid for trading, settlement and delivery for the same number of shares in the new name of the Company on the Stock Exchange.

A further circular containing further details of, amongst other things, the Proposed Change of Name and a notice convening the Second SGM will be dispatched to the Shareholders in due course.

A further announcement will be made on the change of name becoming effective.

VI. REFRESHMENT OF GENERAL MANDATES TO ISSUE SHARES AND REPURCHASE SHARES

At the 2008 AGM held on 5 May 2008, ordinary resolutions were passed whereby general mandates authorising the Directors, amongst other things, to (i) allot, issue and deal with the Shares of the issued share capital of the Company and to make or grant offers, agreements and options which would or might require the exercise of such powers during or after the end of the relevant period which shall not exceed the aggregate of 20% of the nominal amount of the share capital of the Company in issue as at the date of the 2008 AGM ("**Previous Issue Mandate**") and (ii) repurchase shares of the Company on the Stock Exchange or on any other stock exchange recognised which shall not exceed aggregate of 10% of the nominal amount of the share capital of the Company in issue as at the date of the 2008 AGM ("**Previous Repurchase Mandate**").

Since the 2008 AGM, the Company has not issued or repurchased any Shares under the Previous Issue Mandate or the Previous Repurchase Mandate.

In view of the enlarged issued share capital of the Company as a result of the Rights Issue, subject to the completion of the Transactions, the Directors will seek the approval of the Shareholders at the Second SGM and at which no Shareholder shall abstain from voting, as permitted by Rule 13.36(4)(e) of the Listing Rules, to top-up the general mandate from 56,576,668 Shares to 282,883,342 Shares (representing 20% of the Company's issued share capital as enlarged by the completion of the Rights Issue and assuming none of the Share Options is exercised on or before the Record Date), namely the Refreshment of the Issue Mandate.

Further, that subject to the completion of the Transactions, the Directors will further seek the approval of the Shareholders at the Second SGM, as permitted by Rule 10.06(1) of the Listing Rules, to repurchase Shares not exceeding 10% of the Company's issued share capital as enlarged by the completion of the Rights Issue, being 141,441,671 Shares (assuming none of the Share Options is exercised on or before the Record Date), namely the New Repurchase Mandate.

An explanatory statement containing the particulars required by the Listing Rules to enable the Shareholders to make an informed view on whether to vote for or against the resolution for the grant of the general mandate in relation to the Refreshment of the Issue Mandate and the New Repurchase Mandate to be proposed at the Second SGM will be set out in a further circular of the Company convening the Second SGM in due course.

VII. FIRST SGM

The First SGM will be held on Monday, 6 October 2008 at 4:15 p.m. at 49th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong, during which ordinary resolutions shall be proposed to the shareholders of the Company to approve (i) the Acquisition and (ii) the Rights Issue. China Resources Holdings and its associates will abstain from voting in relation to the resolutions to be proposed to approve the Acquisition and the Rights Issue. The Acquisition and the Rights Issue are therefore subject to the approval by the Independent Shareholders in the First SGM on a vote taken by way of poll.

Right to demand by poll

Pursuant to bye-law-78 of the bye-laws of the Company, at any general meeting, resolutions put to the vote of the meeting shall be decided on a show of hands unless a poll is taken as may from time to time be required under the Listing Rules or any other applicable laws, rules or regulations or unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded:

(a) by the Chairman of the meeting; or

(b) by at least three Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorized representative) or by proxy for the time being entitled to vote at the meeting; or

(c) by any Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorized representative) or by proxy and representing not less than one-tenth of the total voting rights of all the Shareholders having the right to vote at the meeting; or

(d) by a Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorized representative) or by proxy and holding Shares conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the Shares conferring that right.

The completion of the proposed Rights Issue would increase the issued share capital of the Company by more than 50%. Pursuant to Rule 7.19(6)(a) of the Listing Rules, the Rights Issue is conditional on the approval by the Independent Shareholders in the First SGM on a vote taken by way of poll at the First SGM and on which China Resources Holding, the controlling shareholder of the Company and its Associates, shall abstain from voting in favour.

A form of proxy for use by the Shareholders at the First SGM is enclosed. Shareholders are advised to read the notice and to complete the accompanying white form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event, not later than 48 hours before the time appointed for holding the First SGM or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude Shareholders from attending and voting in person at the meeting if they so wish.

VIII.GENERAL

It is currently expected that the Company will dispatch the Rights Issue Documents to each of the Qualifying Shareholders and, for information only, the Prospectus to each of the Excluded Shareholders (if any) on or about Wednesday, 8 October 2008.

As Completion is subject to the fulfillment of the conditions set out in the Share Purchase Agreement and the Underwriting Agreement, any of the Acquisition and the Rights Issue may or may not proceed. Investors should exercise caution when dealing in the Shares. When in doubt, investors are recommended to consult their professional adviser(s).

IX. RECOMMENDATION

The Directors consider that the terms of the Transactions are fair and reasonable, on normal commercial terms and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolutions to be proposed at the First SGM to approve the Transactions.

Your attention is drawn to the recommendation of the Independent Board Committee as set out on pages 54 to 55 to this circular and the letter from CIMB as set out on pages 56 to 75.

Your attention is drawn to the information set out elsewhere in this circular and in the appendices to it.

By order of the Board of
China Resources Logic Limited
Zhou Longshan
Chairman

In considering whether or not to vote in favour of the resolutions at the First SGM, Shareholders should consider all of the information contained in this circular, including the following risk factors. Any of the risks described below could cause the financial performance of the Group and the CR Gas Group to differ significantly from the goals, plans, objectives, intentions and expectations expressed in this circular. If any of the following risk factors and uncertainties actually occurs, the business, financial condition or operating results of the Group and the CR Gas Group could be materially and adversely affected.

Risks relating to the CR Gas Group

The CR Gas Group conducts its business through PRC operating entities and jointly-controlled entities, over which it does not have absolute control

The CR Gas Group currently conducts its business operations through seven operating subsidiaries or jointly-controlled entities established in the PRC, one of which is wholly owned by the CR Gas Group. Although the CR Gas Group has control over the management of all of its subsidiaries and has certain control over the management of its jointly-controlled entities, certain important corporate actions for these subsidiaries and jointly-controlled entities require supermajority or unanimous board or shareholder approval. Such corporate actions generally include, among other things, amending the articles of association, terminating the joint venture or winding up the company, merging, increasing the registered share capital, transferring equity interests or pledging assets. There is no assurance that the CR Gas Group will be able, should it wish to do so, to cause any of the PRC partners of the operating subsidiaries and jointly-controlled entities that it does not wholly own to consent to such actions. In addition, there is a possibility that the PRC partners may have economic or business interests or goals which are inconsistent with those of the CR Gas Group, be unable to or unwilling to fulfil their obligations under the relevant joint venture or shareholders' agreements, or have financial difficulties. Any such events, particularly if they cannot be remedied due to the CR Gas Group's inability to cause the termination of the joint venture or other significant corporate action, may have a material adverse effect on the CR Gas Group's ability to successfully operate its business.

The CR Gas Group may encounter difficulties in expanding its business into other regions

The CR Gas Group plans to expand its business coverage to other regions in the PRC in which it does not currently have operations. There is no assurance that the CR Gas Group will be able to establish operations in these regions as expected or that, when doing so, the CR Gas Group will not encounter unforeseen difficulties, such as unforeseen regulatory difficulties, unexpected delays or areas of increased costs or unfamiliarity with market expectations. Also, the economic development of the regions where the CR Gas Group will establish or have established operations may not be as rapid as it anticipates, which will result in slower growth in revenue and net income of the CR Gas Group. Such unforeseen difficulties could have a material adverse effect on the CR Gas Group's expansion plans.

The CR Gas Group may not be able to obtain funds required for future investment

The CR Gas Group's future growth plans will require, among other things, considerable funds for investment start-up costs as well as cooperation from third party property developers and approvals by, and the cooperation of, government authorities. In order to finance such investment, the CR Gas

Group may need to seek additional funding, including through equity financing or by way of bank borrowings or other debt financing. However, there is no assurance that such additional financing will be available on terms favourable to the CR Gas Group or at all, which could have a material adverse effect on the CR Gas Group's ability to carry out its long-term strategies and meet its other financial obligations.

China Resources Holdings, as the Company's controlling shareholder, can exert influence on CR Gas and could cause CR Gas to make decisions that may not be in the best interests of the Company's shareholders.

China Resources Holdings owns, directly and indirectly, an aggregate of more than 68% of the Company's issued share capital. As the Company's controlling shareholder, and subject to the Company's Articles of Association and applicable laws and regulations, China Resources Holdings will be able to influence the Group's and the CR Gas Group's major policy decisions, including, but not limited to, those relating to the Group and the CR Gas Group's overall strategy and investment, by, among other things:

- Controlling the board of directors of CR Gas and thereby influencing the selection of CR Gas' senior management and CR Gas' major business decisions;

- Approving or disapproving CR Gas' dividend distributions;

- Approving CR Gas' annual budgets; and

- Effecting corporate transactions in compliance with the Listing Rules which may not require the approval of the Company's minority shareholders.

To the extent that China Resources Holdings has interests that conflict with those of the Group, the CR Gas Group and the Company's other shareholders, it may take actions in compliance with the Listing Rules, in its capacity as a shareholder, that favour its own interests, but which are not in the best interests of the Company's other shareholders.

The CR Gas Group may face challenges in attracting and retaining senior management talent and key technical experts.

The CR Gas Group relies on experienced and talented senior managers and highly skilled technical personnel to operate its business. Although the CR Gas Group has not experienced significant difficulties in hiring and retaining experienced senior managers and skilled technical personnel in the past, the Company expects that the CR Gas Group will face increased competition for such employees from other gas companies, driven in part by strong growth in the PRC gas industry.

If the CR Gas Group is unable to attract and retain a sufficient number of such experienced senior managers and skilled employees, its operations may be adversely affected, which could have a material adverse effect on the Group and the CR Gas Group's financial condition and results of operations.

Limited insurance coverage may result in the CR Gas Group being required to cover potential liability claims against it

Most of the CR Gas Group's operating subsidiaries and jointly-controlled entities maintain (i) fire insurance for their properties; (ii) third party liability insurance; (iii) insurance for assets such as storage tanks, filling centres, gas pipelines, real estate and cylinders as well as automobile insurance, freight insurance, machinery insurance, public responsibility insurance and LPG cylinder insurance; and (iv) insurance for employees, such as group insurance for damages and injuries and social insurance for employees purchased from various local Social Insurance Management Councils. Not all of CR Gas Group's operating subsidiaries and jointly-controlled entities maintain such insurance policies, however, and neither the CR Gas Group nor any of its operating subsidiaries or jointly-controlled entities have taken out an insurance policy for losses arising from any interruption in the business of the CR Gas Group or for business losses suffered by third parties causes or allegedly causes by the CR Gas Group or otherwise.

Although the CR Gas Group believes its insurance coverage is reasonable in light of its operational risk, there may be liabilities that its insurance coverage does not protect against. A successful claim made against the CR Gas Group or any of its operating subsidiaries or jointly-controlled entities that is not covered by its insurance policies or is in excess of the insurance coverage provided by such policies could require the CR Gas Group to cover such claim out of its own assets, which could in turn have a material adverse effect on the business of the CR Gas Group.

Holding company risks

CR Gas Group's profits are derived from its Sino-foreign joint ventures, which have been established in the PRC. Profits available for distribution to the shareholders of these joint ventures are conditional upon profits being available for distribution to the CR Gas Group by these joint ventures. Dividends to be declared will be based on the profits of these joint ventures determined pursuant to the generally accepted accounting principles in the PRC or Hong Kong (whichever results in a lower profit calculation). In addition, pursuant to PRC laws and regulations on finance, profits available for distribution shall be determined after allocation to the statutory reserve funs. The ability of the joint ventures to make distributions to the CR Gas Group will be subject to, amongst other things, the profits recorded in accordance with PRC generally accepted accounting principles, cashflow conditions, and expected future capital requirements of the joint ventures.

If the directors of CR gas decides to use retained profits to fund the CR Gas Group's future development, the amount of profits available for distribution will be reduced. There is no guarantee that dividends will be declared by the directors of CR Gas and there is no assurance that the current dividend payout will continue in the future.

Risks relating to the natural gas industry

The CR Gas Group is subject to price controls in certain markets, which limit its flexibility to raise or set prices and pass along cost increases

Fees charged by the CR Gas Group for piped gas tariffs to residential customers and pipeline connections to residential customers in the PRC are fixed by local pricing bureaus. While fees for piped gas tariffs to non-residential customers are subject to price ranges by local pricing bureaus, there is no assurance that local pricing bureaus would increase gas tariffs to take account of any future increases in natural gas prices or that the pricing bureaus will not lower existing tariffs. There is also no assurance that the CR Gas Group will continue to have the right to charge pipeline connection fees in its existing markets at the levels currently enjoyed by the CR Gas Group, or that the CR Gas Group will be able to charge similar connection fees in new markets. In addition, there is no assurance that the relevant local pricing bureaus would increase the fixed pipeline connection fees, should the CR Gas Group's connection costs increase significantly. In the event that the CR Gas Group is unable to increase in gas tariffs or pipeline connection fees, the profits of the CR Gas Group may be materially and adversely affected.

The CR Gas Group is dependent on its LPG and natural gas suppliers

LPG and natural gas are the principal raw materials purchased by the CR Gas Group. The CR Gas Group currently purchases natural gas and LPG from a number of independent suppliers in the PRC under purchase agreements ranging from six months to 16 years. The CR Gas Group obtains its natural gas via pipelines. In the event of unforeseen disruptions to these natural gas pipeline supplies, whether due to commercial reasons, technical difficulties or unforeseen events such as natural disasters, war or terrorism, the CR Gas Group may be unable to obtain an immediately available supply of natural gas for its piped gas customers. There is no assurance that the CR Gas Group will be able to purchase and obtain LPG and natural gas from its suppliers as scheduled or on similar terms or terms acceptable to the CR Gas Group in the future. As a result, the CR Gas Group's business operations may be materially and adversely affected.

There is a risk of industry-related accidents that could expose the CR Gas Group to liability

Due to the nature of its business, the CR Gas Group often handles highly flammable and explosive materials. There is a significant risk that industry-related accidents will occur in the course of the CR Gas Group's business. The CR Gas Group has implemented safety precautions and maintenance procedures throughout its businesses. To date, the CR Gas Group has not experienced any serious industry-related accidents. There is no assurance, however, that accidents will not occur during future operations or that CR Gas Group's precautions and procedures will provide adequate protection or that its product liability insurance policies will protect it from claims for damages or restitution. Any significant accident, whether or not the relevant operating company of the CR Gas Group is found to be at fault, may expose the CR Gas Group to lawsuits and liability for which it may not have adequate insurance coverage and could have a negative effect on its reputation and customer relationships.

Unexpected business interruptions could adversely affect the CR Gas Group's business

The CR Gas Group's operations are vulnerable to interruption by fire, power failure and power shortages, hardware and software failure, floods, computer viruses and other events beyond the CR Gas Group's control. The CR Gas Group does not carry business interruption insurance to compensate it for losses that may occur as a result of these kinds of events, and any such losses or damages incurred by the CR Gas Group could disrupt its business operations.

The CR Gas Group's business may be adversely affected by present or future environmental laws

The CR Gas Group's business is subject to certain PRC laws and regulations relating to the production, storage, transportation and sale of LPG and natural gas, as well as environmental and safety matters. The discharge of LPG, natural gas or other pollutants into the environment may give rise to liabilities that may require the CR Gas Group to incur costs to remedy such discharge. In addition, although the CR Gas Group believes it is currently in compliance with all applicable environmental laws, there is no assurance that any environmental laws adopted in the future will not materially increase the cost to the CR Gas Group of conducting its business. No assurance can be given that current or future PRC environmental laws will not restrict the CR Gas Group's ability to operate its business or expose it to unanticipated liabilities or other compliance costs.

The CR Gas Group faces competition from providers of incumbent and alternative energy sources

Substitutes for the CR Gas Group's LPG and piped gas products are readily available in the PRC, and new substitutes may be developed. Coal, petroleum, electricity and atomic energy are the most common substitutes for LPG and piped gas as a source of energy. In addition to being particularly abundant in the PRC, coal is available at low cost and it is believed to be favoured by certain government interests; thus, it is commonly used as fuel in many parts of the PRC. The CR Gas Group believes that, when choosing an energy source, consumers consider factors such as cost, reliability, convenience and safety. Although the CR Gas Group believes that LPG and piped gas have become increasingly attractive to energy users as alternatives to coal, there can be no assurance that other alternative energy sources or alternative uses of existing energy sources will not become available. There is also no assurance that existing fuel users will shift from their current fuel sources to LPG or piped gas, or that they will not shift from LPG or piped gas to alternative fuel sources. If significant numbers of fuel users fail to adopt fuel products supplied by the CR Gas Group as anticipated by the CR Gas Group's marketing plans, or significant numbers of fuel users switch from the CR Gas Group's fuel products, the CR Gas Group's business and future prospects could be materially and adversely affected.

RISKS RELATING TO THE PRC

There are uncertainties in the interpretation and enforcement of PRC laws and regulations including "Industry Catalogue for Foreign Investment"

The PRC legal system is a civil law system. Unlike the common law system, the civil law system is based on written statutes in which decided legal cases may have little precedential value. Since 1979, the PRC government has begun to promulgate a comprehensive system of laws and has introduced many new laws and regulations to provide general guidance on economic and business practices in the PRC and to regulate foreign investment. For instance, the PRC government has enacted laws categorising specific industries as sectors which are encouraged, restricted (including the operation of gas pipeline networks in large cities) or prohibited for foreign investment. There are uncertainties that three projects operated by the CR Gas Group approved by local PRC competent approving authorities may not be fully compliant with such national laws. Breach of such laws may lead to administrative penalties and in the worst case scenario the revocation by PRC competent authorities of business licences granted to the invested entity. Progress has been made in the promulgation of laws and regulations dealing with economic matters such as corporate organisation and governance, foreign investment, commerce, taxation and trade. The promulgation of new changes to existing laws and the abrogation of local regulations by national laws could have a negative impact on the business and prospects of the CR Gas Group and its operations. In addition, as these laws, regulations and legal requirements are relatively recent, there are a number of laws or regulations that are incomplete or do not fully regulate the industry, or certain laws or regulations are unclear or conflict with each other. Their interpretation and enforcement may involve significant uncertainty. The interpretation of PRC laws may be subject to policy changes that reflect domestic political changes. As the PRC legal system develops, the interpretation of existing laws, promulgation of new laws, changes to existing laws and the pre-emption of local regulations by national laws may have a material adverse effect on the CR Gas Group' ability to operate its business and its corporate structure, which may in turn have an adverse effect on the investments, business, financial condition and results of operations and prospects of the CR Gas Group.

Changes in PRC government regulations may limit the CR Gas Group's activities and adversely affect its business operations

The operations of the CR Gas Group, like those of other PRC oil and gas companies, are subject to extensive regulation by the PRC government. In the PRC, gas companies operating piped gas supply businesses or LPG businesses in urban areas are under the supervision of a number of government ministries and departments, including the Ministry of Construction, the Ministry of Labour and Social Security and the Ministry of Public Security. The CR Gas Group must currently comply with the relevant requirements of certain regulations including, but not limited to, the City Fuel Gas Administration Regulations, the Tentative Regulations in relation to the Supervision and Administration of the Safety of Petroleum and Natural Gas Pipelines and the Regulations of the Safety of City Fuel Gas Administration. In addition, the CR Gas Group must comply with the relevant requirements and policies of local authorities where the CR Gas Group's projects are situated.

Central governmental authorities, such as the State Development and Reform Commission, the Ministry of Construction, the Ministry of Land and Resources, the Ministry of Commerce and the State

Bureau of Taxation and the local price bureaus, exercise extensive control over various aspects of the PRC's oil and gas industry. These controls affect aspects of the CR Gas Group's operations such as the pricing of its main products, industry-specific taxes and fees, business qualifications, capital investments and environmental and safety standards. As a result, the CR Gas Group may face significant constraints on its ability to implement its business strategies, to develop or expand its business operations or to maximize its profitability.

Substantially all of the CR Gas Group's turnover is denominated in Renminbi, which may be subject to exchange rate volatility

Substantially all of the CR Gas Group's turnover is denominated in Renminbi. The exchange rates between the Renminbi and the Hong Kong dollar, the U.S. dollar and other foreign currencies is affected by, amongst other things, changes in the PRC's political and economic conditions. On 21 July 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is pegged against a basket of currencies, determined by the People's Bank of China, against which it can rise or fall by as much as 0.5% each day. This change in policy has resulted in the value of the Renminbi appreciating against the U.S. dollar by approximately 21.2% between 21 July 2005 and 21 July 2008.

There remains significant international pressure on the PRC government to adopt a more flexible currency policy, which could result in a further and more significant appreciation of the Renminbi against the U.S. dollar, the Hong Kong dollar or other foreign currency. As the Company will rely on dividends paid to it by its operating subsidiaries and jointly-controlled entities , including the CR Gas Group after the Completion, any significant revaluation of the Renminbi may have a material adverse effect on the value of dividends payable in a foreign currency term. Results of operations and the financial condition of the Group, including the CR Gas Group after the Completion, may also be affected by changes in the value of certain currencies other than Renminbi in which the Group's obligations are denominated. In particular, a devaluation of the Renminbi is likely to increase the portion of the Group and the CR Gas Group's cash flow required to satisfy its foreign currency-denominated obligations.

Adverse changes in the PRC's economic, political, social conditions and government policies could have a material effect on the overall economic growth of the PRC, which could adversely affect the results of operations and financial condition of the Group, including the CR Gas Group after the Completion

The economy of the PRC differs from the economies of most developed countries in many respects including structure, level of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources.

The PRC economy has been transitioning from a planned economy into a more market oriented economy. For the past two decades, the PRC government has implemented economic reform measures emphasising utilisation of market forces in the development of the PRC economy. Although the

Company believes that these reforms will have a positive effect on the Group and the CR Gas Group's overall and long-term development, it cannot predict whether changes in the PRC's political, economic and social conditions, laws, regulations and policies will have any material adverse effect on the Enlarged Group's current or future business, results of operations or financial condition.

Changes in favourable taxation treatment could reduce the CR Gas Group's net profits

According to the current rules and regulations of the PRC on taxation, establishment of manufacturing Sino-foreign joint ventures or establishment of manufacturing wholly foreign owned enterprises with an operational period of over 10 years may, after obtaining approval from the relevant PRC taxation authorities, be exempt from income tax for the first two years after becoming profitable and will also be provided with a 50.0% reduction in such enterprise's income tax for the following three years. If such enterprise is not profitable before 1 January 2008, the preferential treatment on enterprise income tax will apply from 1 January 2008. Most of the CR Gas Group's PRC operating subsidiaries and jointly-controlled entities are currently in the tax relief period, have not become profitable or are subject to reduced tax rates pursuant to such regulations. For several of the CR Gas Group's operating subsidiaries and jointly-controlled entities , the tax relief period has expired. There can be no assurance that the current taxation allowances (including sales tax refunds) will not be changed in the future. In the event of any such change, the CR Gas Group's net profits may be materially and adversely affected.

華潤勵致有限公司
China Resources Logic Limited

(incorporated in Bermuda with limited liability)
(Stock Code: 1193)

Independent Board Committee:
Mr. Wong Tak Shing
Mr. Luk Chi Cheong
Dr. Yang Chonghe, Howard

19 September 2008

To the Independent Shareholders

Dear Sir or Madam

(1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION ACQUISITION OF CHINA RESOURCES GAS LIMITED

AND

(2) PROPOSED RIGHTS ISSUE IN THE PROPORTION OF FOUR RIGHTS SHARES FOR EVERY ONE SHARE HELD ON THE RECORD DATE AT HK$3.42 PER RIGHTS SHARE

We refer to the circular (the "Circular") dated 19 September 2008 issued by the Company to its Shareholders of which this letter forms part. Terms defined in the Circular shall have the same meanings when used in this letter, unless the context otherwise requires.

On 21 August 2008, the Board announced its proposed (i) Acquisition, (ii) Rights Issue, (iii) change of name of the Company and (iv) refreshment of general mandates to issue Shares and repurchase Shares.

The Independent Board Committee was formed on 5 August 2008, to make a recommendation to the Independent Shareholders as to whether, in its view, the terms of (i) the Share Purchase Agreement, (ii) the Rights Issue and (iii) the Underwriting Agreement are fair and reasonable and whether (i) the Share Purchase Agreement, (ii) the Rights Issue and (iii) the Underwriting Agreement are in the interest of the Company and its Shareholders. CIMB has been appointed as independent financial adviser to advise the Independent Board Committee and Independent Shareholders on the fairness and reasonableness of the terms of (i) the Share Purchase Agreement, (ii) the Rights Issue and (iii) the Underwriting Agreement.

The terms and reasons for (i) the Share Purchase Agreement, (ii) the Rights Issue and (iii) the Underwriting Agreement are described in the letter from the Board as set out in the Circular.

We also draw your attention to the letter from CIMB in the Circular containing the advice of CIMB in respect of (i) the Share Purchase Agreement, (ii) the Rights Issue and (iii) the Underwriting Agreement.

As your Independent Board Committee, we have discussed with the management of the Company the reasons for entering into (i) the Share Purchase Agreement, (ii) the Rights Issue and (iii) the Underwriting Agreement and the basis upon which their terms have been determined. We have also considered the key factors taken into account by CIMB in arriving at its opinion regarding the terms of (i) the Share Purchase Agreement, (ii) the Rights Issue and (iii) the Underwriting Agreement as set out in the letter from CIMB as set out in the Circular, which we urge you to read carefully.

The Independent Board Committee, after taking into account, amongst other things, the advice of CIMB, the independent financial adviser to the Company, consider that the terms of (i) the Share Purchase Agreement, (ii) the Rights Issue and (iii) the Underwriting Agreement to be in the best interest of the Company and to be fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolutions in relation to (i) the Share Purchase Agreement, (ii) the Rights Issue and (iii) the Underwriting Agreement as set out in the notice of the First SGM at the end of the Circular.

Yours faithfully
For and on behalf of the
Independent Board Committee
Mr. Wong Tak Shing
Mr. Luk Chi Cheong
Dr. Yang Chonghe, Howard
Independent Non-Executive Directors

CIMB-GK Securities (HK) Limited

25/F., Central Tower
28 Queen's Road Central
Hong Kong

19 September 2008

To the Independent Board Committee and
the Independent Shareholders of China Resources Logic Limited

Dear Sirs,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION FOR THE ACQUISITION OF CHINA RESOURCES GAS LIMITED; AND RIGHTS ISSUE IN THE PROPORTION OF FOUR RIGHTS SHARES FOR EVERY ONE SHARE HELD

We refer to our engagement as the independent financial adviser to the Independent Board Committee and the Independent Shareholders of CR Logic in relation to the Share Purchase Agreement and the Rights Issue, details of which are contained in a circular (the "Circular") to the Shareholders dated 19 September 2008, of which this letter forms part. Expressions used in this letter have the same meanings as defined in the Circular unless the context otherwise requires.

An Independent Board Committee comprising Messrs. Wong Tak Shing, Luk Chi Cheong, and Yang Chonghe, Howard, being all the independent non-executive Directors of CR Logic, has been formed to advise the Independent Shareholders of CR Logic in relation to the Share Purchase Agreement and the Rights Issue. Any vote of the Independent Shareholders at the First SGM shall be taken by poll. China Resources Holdings and its associates will abstain from voting in relation to the resolutions to be proposed to approve the Transactions.

In formulating our recommendation, we have relied on the information and facts contained or referred to in the Circular as well as the representations made or provided by the Directors and senior management of CR Logic. The directors of CR Logic have declared in a responsibility statement set out in the Appendix V to the Circular that they collectively and individually accept full responsibility for the accuracy of the information contained and representations made in the Circular. We have also assumed that the information and the representations made by the Directors as contained or referred to in the Circular were true and accurate at the time they were made and continue to be so at the date of the despatch of the Circular. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and senior management of CR Logic. We have also been advised by the Directors and believe that no material facts have been omitted from the Circular.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have not, however, conducted an independent verification of the information nor have we conducted any form of in-depth investigation into the businesses and affairs or the prospects of CR Logic or CR Gas Group or any of their respective subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

I. THE ACQUISITION

In arriving at our opinion on the Share Purchase Agreement, we have considered the following principal factors and reasons:

(A) Background and rationale

1. *Rationale for the Acquisition*

CR Logic is an investment holding company which holds primarily interests in businesses engaged in the production and sale of ready mixed concrete in Hong Kong.

Over the past few years, the Company has been continuing to review and evaluate different business and investment opportunities with stable cash flow and reasonable future growth potentials in order to enhance long-term shareholders' return. CR Logic was previously engaged in the compressor business and the semiconductor business. Due to keen competition, excess production capacity in the industry and rising raw material costs, the profitability of the compressor business decreased and the compressor business was disposed of by the Group in August 2007.

In line with its stated business strategy, we noted that in July 2006, the Group increased its interest in its semiconductor business by effecting a general offer for all the issued shares in CSMC Technologies Corporation ("CSMC"), presently known as China Resources Microelectronic Limited, which owns and operates one of the largest open semiconductor foundries in the PRC. Then in December 2007, CR Logic and CSMC jointly announced that their respective semiconductor businesses were amalgamated under CSMC ("March Disposal") and subsequently in March 2008, CR Logic effected a distribution in specie of its shareholding interests in CSMC to its Shareholders ("Distribution in Specie") (together the "March Transaction"). Since completion of the March Transaction, CR Logic ceased its semiconductor business. Details of the March Transaction were disclosed in CR Logic's circular to its Shareholders dated 16 January 2008.

Concurrent to the March Disposal, the Group acquired the entire interest of Redland Concrete, which is principally engaged in the production and sale of ready mixed concrete in Hong Kong in March 2008. The concrete business remains the Group's principal business since March 2008. In August 2008, the Company decided to further diversify its business and entered into the Acquisition.

The Directors consider that the Acquisition would allow the Company to transform itself from focusing on the building materials sector in Hong Kong, which is generally cyclical in nature and largely dependent on infrastructure projects available in Hong Kong, into a less cyclical city gas distribution business in China, which should provide for stable cash flows and a higher growth potential by capturing the increase in demand for natural gas in China and leveraging China Resources Group's strong presence and brand name in China. The Company believes that the CR Gas Group with its unique qualities represents a strong platform for the Group to enter into the natural gas industry in the PRC.

2. ***CR Gas Group***

The CR Gas Group is principally engaged in the city gas distribution (including natural and/or petroleum gas) in Chengdu, Fuyang, Huaibei, Linhai, Suzhou and Wuxi of the PRC and operates CNG filling stations in Chengdu, Nanjing and Wuxi of the PRC. The CR Gas Group is also engaged in bottled LPG distribution in Fuyang, Suzhou and Wuxi of the PRC. China Resources Holdings had originally acquired CR Gas as part of its acquisition of China Resources Petrochems Holdings Limited from its subsidiary, China Resources Enterprise, Limited, in November 2006 for a consideration of HK$2,780 million. Other than the piped gas businesses of CR Gas, China Resources Petrochems Holdings Limited was also the holding company of certain chemical distribution, lubricant oil and other petroleum related businesses in the PRC.

As advised by the Company, the CR Gas Group's natural gas pipeline operations are strategically located in areas of China with rich reserves of natural gas (the Sichuan province) and areas which are economically more developed and densely populated (eastern coastal region). The CR Gas Group is therefore geographically well positioned for further expansion. The Company understands that the operations of the CR Gas Group was not materially affected by the earthquakes in the Sichuan province earlier this year.

As advised by the Company, as part of the China Resources Holdings Group, CR Gas Group has been able to build strong stable relationships with gas providers and applicable regulators of the natural gas industry in the PRC. Furthermore, CR Gas Group's joint venture partners in most of its gas pipeline operations are the local governments that operated the relevant business prior to the cooperation with the CR Gas Group. With the continued support of these joint venture partners and the Company's controlling shareholder, China Resources Holdings, the Company believes that CR Gas Group would be placed in an advantageous position in an industry that is subject to extensive regulations.

China Resources Holdings Group engages in a diversified portfolio of businesses that spreads across the PRC, including businesses in other utilities sector within the PRC. The "China Resources" brand name is therefore one of the renowned brands in China which commands widespread recognition and trust. This brand name has contributed towards the continued growth of the businesses of both the CR Gas Group and the Group. The Company also believes that the CR Gas Group and the Group would be able to continue to benefit from China Resources Holdings' extensive management and operational expertise in the utilities sector.

3. ***Industry overview of the natural gas industry***

Natural gas is typically used for power generation, as a feedstock for manufacturing chemicals and fertilisers, and directly for residential and commercial heating and other industrial purposes. City gas distribution companies distribute natural gas through their pipelines to residential, commercial and industrial end-users. Compared with other developed countries, such as the United States, China's penetration level of natural gas is still low.

The continued economic growth and the rapid industrialisation and urbanisation in China has spiked the demand for energy in China. In order to reduce reliance on polluting energy sources such as coal and crude oil, the PRC government has, in recent years, taken many steps to promote the development and utilisation of less polluting energy sources. Natural gas is considered a cleaner but relatively new conventional energy source compared to coal and crude oil. The PRC government has therefore been supportive of the development of natural gas.

The percentage of energy consumption from natural gas in the PRC is very low compared to international average levels. We note that according to BP Statistical Review of World Energy June 2008, for 2007, natural gas only accounted for 3.25% of China's total primary energy consumption, which is lower than Asia's average consumption of 10.60% and far lower than the international average of 23.76%.

Under the PRC's 11th Five-year Plan (2006-10), the Energy Development Plan forecasts that the proportion of natural gas in total primary energy consumption will increase by 2.5% within five years, and up to 5.3% by 2010. The Company therefore believes that there is significant room for further increases in the utilisation of natural gas in China.

The Western remote interior, such as Sichuan, Xinjiang, Qinghai and Shanxi, are the main gas producing provinces of the PRC. Generally, the gas is consumed locally as geographic conditions limit the transport of gas over great distances. As the primary economic growth regions in PRC are centred in the Yangtze River Delta (Shanghai) and Pearl River Delta (Guangdong) regions, in order to increase natural gas supply to this costal regions, the first "West to East Gas Transmission" pipelines was initiated in 2001 with the support of the PRC government to bring natural gas from the Xinjiang Autonomous Region to the coastal regions of the PRC. In addition, The PRC government is also planning to construct the second phase of the "West to East Gas Transmission" pipelines and build pipelines from the gas-rich Sichuan province to coastal regions of the PRC.

In addition, the PRC government has promulgated various policies and guidelines to encourage and rationalise the usage of natural gas. For example, in July 2008, the National Development and Reform Commission issued a natural gas usage policy (天然氣利用政策) for this purpose. The policy specifically states that municipal residential and commercial users shall have preferential access to natural gas.

4. ***Financial performance of the CR Gas Group***

The key financial information relating to the CR Gas Group for the two years ended 31 December 2007 and the six months ended 30 June 2008 as extracted from the the accountants' report of the CR Gas Group prepared in accordance with the accounting principles generally accepted in Hong Kong as set out in Appendix II to the Circular and the section headed management discussion and analysis as set out in Appendix III of the Circular are as follows:-

	Year ended 31 December				Six Months ended 30 June			
	2006		**2007**		**2007**		**2008**	
	HK$ million (audited)		*HK$ million (audited)*		*HK$ million (unaudited)*		*HK$ million (audited)*	
Sales and distribution of gas fuel								
Non-residential users	538.6	49.3%	869.9	56.6%	384.3	55.6%	558.9	57.8%
Residential users	214.4	19.7%	263.6	17.2%	133.7	19.3%	170.2	17.6%
Bottled LPG	177.6	16.3%	192.9	12.5%	89.8	13.0%	88.2	9.1%
Sub-total	930.6*	85.3%	1,326.4	86.3%	607.8	87.9%	817.3	84.5%
Gas connection								
Non-residential users	20.0	1.8%	55.1	3.6%	15.9	2.3%	34.5	3.6%
Residential users	140.2	12.9%	155.7	10.1%	68.0	9.8%	114.7	11.9%
Sub-total	160.2	14.7%	210.8	13.7%	83.9	12.1%	149.2	15.5%
Total	1,090.8*	100.0%	1,537.2	100.0%	691.7	100.0%	966.5	100.0%

Note: Excludes amounts from turnover of sale and distribution of gas fuel of approximately HK$248.2 million contributed by a previous subsidiary which has been subsequently disposed.

Turnover of the CR Gas Group primarily represents income derived from sale and distribution of gas fuel and gas pipeline connection.

For FY 2007, the turnover of the CR Gas Group increased by approximately 40.9% as compared to FY2006, due to increase in both the sale and distribution of gas fuel and connection fees, primarily due to increase of average sale price for gas and increase of residential customers in locations invested by CR Gas Group. For both FY 2007 and FY 2006, the sale and distribution of gas fuel contributed to approximately 86.3% and 85.3% of the total turnover of the CR Gas Group for that year, respectively. Over 65.6% of the revenue of the CR Gas Group derived from sale and distribution of gas fuel were accounted for by commercial, industrial or other non-residential consumers in FY2007. The Company considers that the Group would be able to take advantage of the healthy balance between the sources of revenue and the strong non-residential customer base of the CR Gas Group to achieve further growth and profitability.

For the six months ended 30 June 2008, the turnover of the CR Gas Group increased by approximately 39.7% as compared to the corresponding period last year, due to increase in both the sale and distribution of gas fuel and connection fees, primarily due to increase of average sale price for gas and increase of residential customers in locations invested by CR Gas Group. For the six months ended 30 June 2008, the sale and distribution of gas fuel contributed to approximately 84.5% of the total turnover of the CR Gas Group for that period.

The total equity attributable to equity holders of the CR Gas Group amounted to approximately HK$1,439.6 million as at 30 June 2008.

Refer also to the sub-section headed "Financial information on CR Gas Group" and the accountants' report of the CR Gas Group set out in Appendix II to the Circular for further details.

Views

Having taken account of the above factors, in particular the Company's continuing efforts over the past few years to identify suitable business and investment opportunities with stable cash flow and reasonable future growth potentials; the strategic rationale of the Directors to transform the Group from focusing on the building materials sector in Hong Kong into city gas distribution business in the PRC and the financial performance and the future prospects of the CR Gas Group, we concur with the Directors that the Acquisition provides a good business opportunity to participate in gas distribution business in China which has growth potential. Given that the consideration for the Acquisition is fair and reasonable as elaborated below, consider that the Acquisition is in the interests of the Company and the Independent Shareholders as a whole.

(B) **The consideration**

The consideration payable by the Company for the Acquisition ("Consideration") is HK$3,814.8 million. The consideration for the Acquisition has been arrived at after arm's length negotiations between China Resources Holdings and the Company after taking into account various relevant factors including the strategic rationale behind the transactions contemplated, the nature of the relevant businesses, the historical audited financial information, consolidated net asset value, current market valuations and future prospects of the relevant industries including general economic trends and market growth, the prevailing commercial and business conditions in which CR Gas operates.

We further note that pursuant to the Share Purchase Agreement, China Resources Holdings has guaranteed to the Company that the audited consolidated net profit after taxation attributable to shareholders of CR Gas for the year ending 31 December 2008 prepared in accordance with the accounting principles generally accepted in Hong Kong will not be less than HK$250 million ("Guaranteed Profit"). In the event that such audited consolidated net profit after taxation is less than the guaranteed level or CR Gas has an audited consolidated net loss after taxation for such period, China Resources Holdings will compensate the Company an amount equal to the difference between the guaranteed amount of HK$250 million and the audited consolidated net profit or loss after taxation attributable to shareholders of CR Gas for the year ending 31 December 2008 multiplied by 15.2592 and in any event, the compensation paid by China Resources Holdings to the Company will not exceed the difference between the consideration of the Acquisition and the audited consolidated net asset value of CR Gas as at 30 June 2008.

Market Comparables

In assessing the fairness of the Consideration, we have, to our best knowledge, identified 5 other companies listed on the Main Board of the Stock Exchange whose principal business is similar to CR Gas (the "Listed Comparables") and with market capitalization over HK$1,000 million. The following table sets out the comparison between the Consideration with those of the Listed Comparables.

Name of the Listed Comparables	**Market capitalization HK$ in million** *(Note 1)*	**Price-to-earnings ("PER") for the year ended 31 December 2007 ("2007 PER") (times)** *(Note 2)*	**PER for the year ending 31 December 2008 ("2008 PER") (times)** *(Note 3)*	**Price- to- net asset value ("PBR") (times)** *(Note 5)*
Hong Kong & China Gas Co. Ltd. (3)	117,581	12.68	26.53	3.89
Beijing Enterprises Holdings Ltd. (392)	33,742	17.65	18.61	1.23
Xinao Gas Holdings Ltd. (2688)	13,127	22.36	18.56	2.81
China Gas Holdings Ltd. (384)	6,000	48.26 *(Note 4)*	16.98 *(Note 4)*	1.82
Town Gas China (1083)	5,873	18.24	18.75	1.06
Average		23.84	19.89	2.16
The Acquisition:		19.70 *(Note 6)*	15.26 *(Note 7)*	2.65 *(Note 8)*

Source: Bloomberg

Notes:

1. Calculated based on the closing price of the shares of the Listed Comparables as of the last trading day before issue of the announcement in relation to the Acquisition ("Last Trading Day").

2. Calculated based on the closing price of the shares of the Listed Comparables as of the Last Trading Day and data as extracted from Bloomberg.

3. Represents the prospective 2008 PER of the Listed Comparables (based on market consensus) as quoted on Bloomberg on the Last Trading Day as available.

4. As the financial year for China Gas Holdings Ltd. ended on 31March, the PERs stated in the above table are based on earnings for the year ended on that date.

5. Calculated based on the closing price of the shares of the Listed Comparables as of the Last Trading Day and data as extracted from Bloomberg.

6. Calculated based on the Consideration and the net profit of the CR Gas Group for the year ended 31 December 2007 of approximately HK$193.6 million.

7. Calculated based on the Consideration and the Guaranteed Profit of HK$250 million.

8. Calculated based on the Consideration and net asset value of the CR Gas Group of approximately HK$1,439.6 million as at 30 June 2008.

As noted from the table above, the 2007 PER as implied under the Consideration is comparable and lower than the average of the Listed Comparables. Given that China Resources Holdings has guaranteed to the Company that the audited consolidated net profit after taxation attributable to shareholders of CR Gas for the year ending 31 December 2008 will not be less than HK$250 million, we have also compared the 2008 PER (calculated based on the Consideration and the Guaranteed Profit) with the 2008 PER of the Listed Comparables (as quoted on Bloomberg) and noted that the 2008 PER as implied under the Consideration is also lower than the average of the Listed Comparables. The PBR as implied under the Consideration is also comparable to the Listed Comparables.

Comparable Transactions

As additional reference, in assessing the fairness of the Consideration, we have also, to our best knowledge, identified 5 transactions ("Comparable Transactions") in relation to natural gas business in the past one year from the Last Trading Date.

Announcement Date	Purchaser	Vendor	NAV of acquisition target	Consideration	Asset to be acquired	PER	PBR
			(HK$' million)	*(HK$' million)*		*(times)*	*(times)*
29 April 2008	Zhengzhou Gas Co Ltd	Coal Gas Project Preparatory Office	97.0	135.0	Pipeline network, specialized pressure regulating stations, counters and boxes, office supplies, machinery equipment and vehicles	39.27	1.40
26 March 2008	China Gas Holdings Ltd	Zhejiang Hua Chen, Shenzhen Chun Shun, Wenzhou Li Tian and Dong Tou Xin Cheng,	312.0	350.0	53% equity interest of Zhejiang Zhonyou Hua Dian Energy Co Ltd., engaging in LPG import business	21.00	2.12
6 March 2008	Zhengzhou Gas Co Ltd	Pingdingshan SASAC	184.0	33.0	27% equity interest in Pingdingshan Gas	12.04	0.67
11 December 2007	Town Gas China	Shenzhen Huafu Energy Investment Limited Liability Company	103.0	363.0	100% equity interest of Tianneg Gas	16.77	3.52
22 October 2007	China Gas Holdings Ltd	Harbin State Owned Committee	515.3	498.0	48% equity interest in Harbin Chongqing Gas	N/A	2.01
Average						22.27	1.94
Minimum						12.04	0.67
Maximum						39.27	3.52
The Acquisition:					2007 PER	19.70	
					2008 PER	15.26	2.65

As noted from the table above, both the 2007 PER and the 2008 PER as implied under the Consideration is comparable and lower than the average of the Comparable Transactions. The PBR as implied under the Consideration is within the range of the PBRs of the Comparable Transactions.

Opinion

Having taken into account the aforesaid, we consider the Consideration to be fair and reasonable so far as the Company and the Independent Shareholders are concerned.

(C) **Non-competition undertaking**

We note that as a condition precedent to the completion of the Acquisition, the Company and China Resources Holdings will enter into the Deed of Non-competition, as China Resources Holdings has, in addition to CR Gas, retained certain other gas assets. Although these gas assets will not be in competition with CR Gas business as they are in different regions of the PRC, the undertaking will give an additional assurance to CR Logic that China Resources Holdings will not compete with CR Gas; will give a first right to CR Gas to acquire its remaining gas assets and will refer all future gas business opportunities to CR Gas. Therefore, we consider the Deed of Non-competition is in the interest of CR Logic and its Shareholders as a whole.

(D) **Possible financial effects of the Acquisition**

Earnings

Upon Completion, the results of the CR Gas Group will be consolidated by the Group.

Net asset value

As noted from the unaudited pro forma consolidated balance sheet of the Enlarged Group set out in Appendix I to the Circular which assumes that the Transactions had been completed on 30 June 2008, the unaudited pro forma consolidated net asset value of the Enlarged Group immediately upon Completion would have amounted to approximately HK$2,064.6 million as compared to the consolidated net asset value of the Group as at 30 June 2008 of approximately HK$338.6 million, representing an increase of approximately 509.7%.

Gearing

The Group did not have any bank borrowing as at 30 June 2008. Based on the unaudited pro forma consolidated balance sheet of the Enlarged Group set out in Appendix I to the Circular, upon Completion, the gearing ratio (total bank and other borrowings divided by total equity) of the Enlarged Group would have increased to approximately 10.1%.

Working capital

The Consideration will be satisfied by cash payment to be funded by way of the Rights Issue. We also note from the Circular that after taking into account of the proceeds from the Rights Issue and the financial resources of the Enlarged Group comprising the Group and CR Gas Group, including internally generated funds and credit facilities available to the Enlarged Group on completion of acquisition of CR Gas Group, the Directors consider that the Enlarged Group will have sufficient working capital for its present requirements for the next twelve months from the date of this Circular. We therefore consider that the Acquisition will not have an immediate material adverse impact to the working capital position of the Group.

II. THE RIGHTS ISSUE

PRINCIPAL FACTORS AND REASONS CONSIDERED

In assessing the fairness and reasonableness of the Rights Issue, we have taken into account the following principal factors and reasons:

(A) Background and rationale

Rationale and use of proceed

The proceeds of HK$3,869.8 million from the Rights Issue will be applied towards the payment of the consideration for the Acquisition and the costs and expenses relating to the Acquisition and the Rights Issue. The Acquisition and the Rights Issue are conditional upon each other. As elaborated above, we consider that Acquisition is in the interests of the Company and the Independent Shareholders as a whole.

Fund raising alternatives

As advised by the Directors, the Company has considered other forms of fund raising activities such as bank loans and bonds. But in view of the current challenging banking environment and cost consideration, the Company has considered that the Right Issue is the most appropriate forms of fund raising activities for its business development needs and in the best interest of the Company. The Directors consider that the Rights Issue would enable the Company to strengthen its capital base and improve its working capital position. The Rights Issue which is effected on a pro-rata basis will also offer all the Qualifying Shareholders an equal opportunity to participate in the enlargement of the capital base of the Company and enable the Qualifying Shareholders to maintain their proportionate interest in the Company and to continue to participate in the future development of the Group.

Recent fund raising activities

We noted that The Company has not engaged in or initiated any equity fund raising exercise during the past 12 months immediately before the date of the announcement for the Rights Issue ("Announcement") or any rights issue exercise prior to such 12-month period.

Views

Having considered the above, in particular that the proceeds of the Rights Issue will be applied towards the payment of the consideration for the Acquisition, we concur with the views of the Directors that it is in the interest of the Company and the Shareholder as a whole to effect the Rights Issue.

(B) **Subscription Price**

The Subscription Price of HK$3.42 per Rights Share is, subject to the Set-off Arrangement, payable in full when a Qualifying Shareholder accepts the relevant provisional allotments under the Rights Issue or applies for excess Rights Shares or when a transferee of nil-paid Rights Shares subscribes for the Rights Shares.

The Subscription Price represents:

(i) a discount of approximately 14.5% to the closing price of HK$4.00 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a discount of approximately 29.9% to the average closing price of HK$4.88 per Share for the five consecutive trading days up to and including the Last Trading Day;

(iii) a discount of approximately 35.7% to the average closing price of HK$5.32 per Share for the ten consecutive trading days up to and including the Last Trading Day;

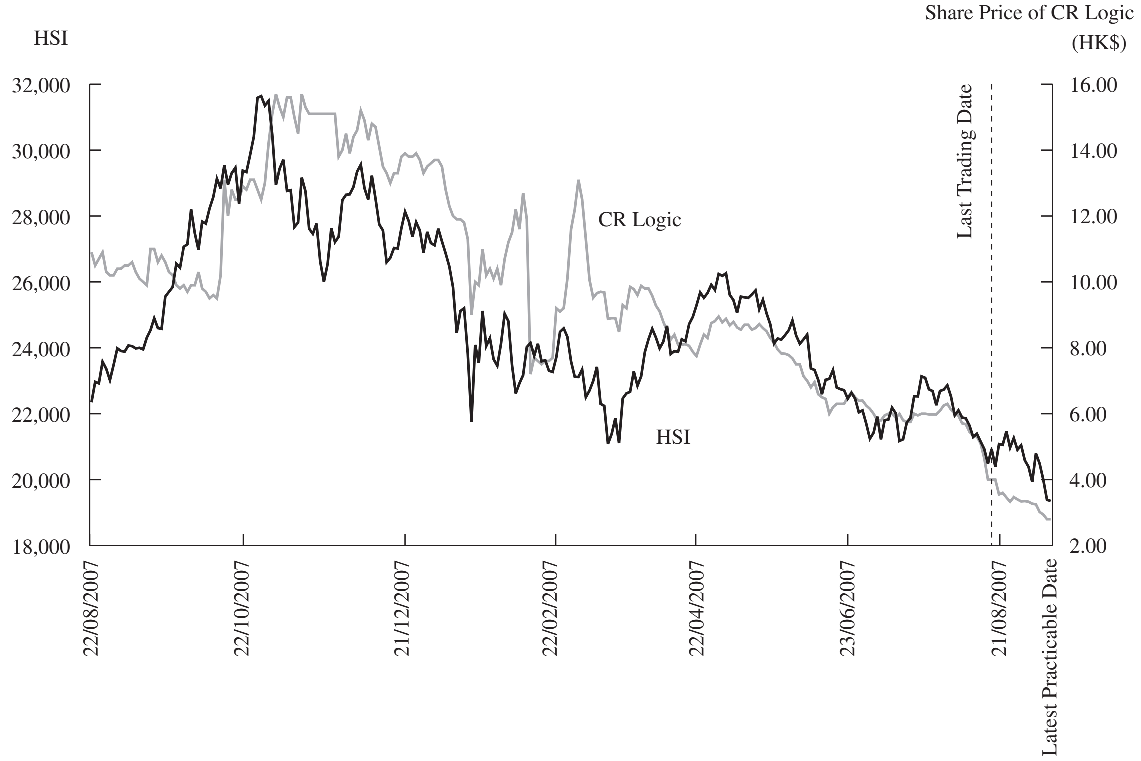
(iv) a discount of approximately 3.4% to the theoretical ex-rights price of HK$3.54 per Share based on the closing price of HK$4.00 per Share as quoted on the Stock Exchange on the Last Trading Day; and

(v) a premium of approximately 216.7% to the audited net asset value as at 31 December 2007 of HK$1.08 per Share.

The Subscription Price was arrived at after arm's length negotiations between the Company and the Underwriter with reference to the prevailing Share prices prior to the Last Trading Day and the current financial position of the Group.

Share price performance

The following chart illustrates the closing prices of the Shares (as adjusted for the Distribution in Specie and share consolidation effected on 7 March 2008) and Hang Seng Index ("HSI") in the last twelve months (the "Twelve-month Period") preceding to the date of the Announcement and up to and including the Latest Practicable Date (the "Review Period").



Source: Stock Exchange Website

Throughout the Twelve-month Period, the price trend of the Shares was principally in line with the trend of the HSI. The highest and lowest closing prices of the Shares as quoted on the Stock Exchange were HK$15.7 per Share recorded on 14 November 2007 and HK$4.00 per Share recorded on the Last Trading Date respectively. During the period between 15 February 2008 and 3 March 2008, the Company published four announcements on 15 February 2008, 26 February 2008, 29 February 2008 and 3 March 2008, respectively, in relation to the unusual price and trading volume movement in the Shares. We noted from these announcements that apart from the March Transaction, the Directors were not aware of any other matter which may be contributable to such price movements in the Shares.

The share price of the Company decreased significantly since early April 2008. We further noted that for the ten consecutive trading days up to and including the Last Trading Day, the Share price decreased by 33.33% from HK$6.00 on 5 August 2008 to HK$4.00 on the Last Trading Day as compared to approximately 6.68% drop in HSI during the same period. The Directors are not aware of any reason for such decrease in Share prices.

Following the release of the Announcement, the Share price has dropped by approximately 30.00% from HK$4.00 on the Last Trading Date to HK$2.80 on the Latest Practicable Date.

Trading Volume

The following table sets out the trading volume of the Shares during the Review Period:

	Total trading volume for the month/ period	Average daily trading volume for the month/ period *(Note 1)*	Percentage of average daily trading volume to total number of Shares in issue as at the Latest Practicable Date	Percentage of average daily trading volume to total number of Shares held by public Shareholders as at the Latest Practicable Date *(Note 2)*
2007				
August	109,678,194	4,768,617	1.69%	5.42%
September	51,436,000	2,707,158	0.96%	3.08%
October	144,866,000	6,898,381	2.44%	7.84%
November	183,017,606	8,318,982	2.94%	9.45%
December	65,141,000	3,428,474	1.21%	3.90%
2008				
January	43,929,600	1,996,800	0.71%	2.27%
February	423,141,638	22,270,613	7.87%	25.30%
March	176,051,700	9,265,879	3.28%	10.53%
April	4,621,500	220,071	0.08%	0.25%
May	3,260,635	163,032	0.06%	0.19%
June	1,891,333	94,567	0.03%	0.11%
July	5,839,000	265,409	0.09%	0.30%
August (up to the Last Trading Date)	1,400,800	116,733	0.04%	0.13%
From the Last Trading Date to the Latest Practicable Date	3,622,410	241,494	0.09	0.27

Source: Bloomberg

Notes:

1. Average daily trading volume is calculated by dividing the total trading volume for the month/period by the number of trading days during the month/period which exclude any trading day on which trading of the Shares on the Stock Exchange was suspended for the whole trading day.

2. Based on 88,022,127 Shares held by public Shareholders as at the Latest Practicable Date.

As illustrated in the table above, the average daily trading volume of the Shares in each month during the Twelve-month Period ranged from 94,567 Shares to approximately 22 million Shares, representing approximately 0.03% and approximately 7.87% respectively of the total number of Shares in issue as at the Latest Practicable Date and approximately 0.11% and 25.3% respectively of the total number of Shares held by public Shareholders as at the Latest Practicable Date. We also noted that the total trading volume and the average daily trading volume of the Shares increased substantially in February 2008 as a result of the March Transaction.

Following the release of the Announcement, the average daily trading volume of the Shares increased from 116,733 Shares in August up to the Last Trading Date to 241,494 Shares for the Review Period.

Rights issue comparables

In assessing the fairness of the Subscription Price, we have, to the best of our knowledge, reviewed and compared the Subscription Price with the subscription prices of the rights issues and open offers (the "Rights Issue Comparables") announced by other companies listed on the Stock Exchange since 1 January 2008 up to the date of the Announcement. Our review is summarized as follows:

Date	Code	Name	(Discount) / Premium of subscription price to closing price on the Last Trading Day %	(Discount) / Premium of subscription price to the 5-days Average Closing Price %	((Discount) / Premium of subscription price to the 10-days Average Closing Price %	(Discount) / Premium of subscription price to theoretical ex-entitlement price %
9-Jan-08	129	Asia Standard Int'l Group Ltd	-35.7	-35	-34.1	-27.1
11-Jan-08	131	Cheuk Nang (Hldgs) Ltd	-17.28	-16.02	-15.78	-15.41
18-Jan-08	310	Prosperity Investment Hldgs Ltd	-45.95	-51.08	-51.08	-36.18
5-Feb-08	51	Harbour Centre Development Limited	-21	-21	-20	-15
7-Mar-08	571	eSun Holdgs Ltd	-29.18	-32.6	-34.03	-21.63
8-Apr-08	650	Shun Cheong Hldgs Ltd	-64.03	-64.08	-63.9	-41.59

Date	Code	Name	(Discount) / Premium of subscription price to closing price on the Last Trading Day %	(Discount) / Premium of subscription price to the 5-days Average Closing Price %	((Discount) / Premium of subscription price to the 10-days Average Closing Price %	(Discount) / Premium of subscription price to theoretical ex-entitlement price %
23-Apr-08	850	China Oil Resources Hldgs Ltd	-40.62	-41.46	-41.82	-31.32
24-Apr-08	370	China Best Group Hldgs Ltd	-36.97	-37.50	-37.50	-27.88
29-Apr-08	1172	Midas Int'l Hldgs Ltd	-37.5	-36.39	-38.42	-28.57
2-May-08	403	Starlite Hldgs Ltd	-32.69	-34.70	-31.97	-28.26
17-May-08	655	Hong Kong Chinese Ltd	-32	-24.2	-24.2	-22.5
17-May-08	226	Lippo Ltd	-28	-22.9	-24.2	-21
20-May-08	1189	Wing On Travel (Hldgs) Ltd	-71.8	-71.7	-71.3	-33.8
30-May-08	1205	Citic Resources Hldgs Ltd	-27.77	-25.51	-25.6	-25.06
3-Jun-08	2324	Sino Katalytics Inv.	-27.54	-25.15	-26.36	-20.21
6-Jun-08	199	ITC Prop. Group Ltd	-62.8	-59.7	-61.1	-29.6
13-Jun-08	136	Mascotte Hldgs Ltd	-52.38	-60	-65.91	-42.31
17-Jun-08	61	Green Global Resources Ltd	-30.30	-41.00	-43.50	-18.20
20-Jun-08	24	Burwill Hldgs Ltd	-55.00	-59.00	-61.00	-30.00
18-Jul-08	231	Dynamic Global Hldgs Ltd	-22.08	-25.00	-28.40	-12.41
22-Jul-08	499	Hycomm Wireless Ltd	-22.08	-25.00	-28.40	-12.41

Date	Code	Name	(Discount) / Premium of subscription price to closing price on the Last Trading Day %	(Discount) / Premium of subscription price to the 5-days Average Closing Price %	((Discount) / Premium of subscription price to the 10-days Average Closing Price %	(Discount) / Premium of subscription price to theoretical ex-entitlement price %
1-Aug-08	620	UDL Holdings Ltd	-10.26	-12.94	-14.84	-5.41
7-Aug-08	530	Fortuna Int'l Hldgs Ltd	-86.21	-86.84	-86.84	-51.22
8-Aug-08	342	NewOcean Energy Hldgs Ltd	-31.82	-36.58	-37.5	-18.92
20-Aug-08	905	APEX Capital Ltd	-61.40	-61.40	-61.40	-41.00
		Average	-39.29	-40.27	-41.17	-26.28
		Max	-10.26	-12.94	-14.84	-5.41
		Min	-86.21	-86.84	-86.84	-51.22
The Rights Issue			-14.5	-29.9	-35.7	-3.3

Source: www.hkex.com.hk and the respective circular containing details of the Rights Issue Comparables.

We note that the discount of the Subscription Price to the closing Share price on the Last Trading Day is lower than the average of the Rights Issue Comparables; and the discount of the Subscription Price to the theoretical ex-rights price is at the lower end of the Rights Issue Comparables. However, as explained in the above section headed "Share price performance", the Share price had dropped substantially with no particular reason prior to the Announcement. Therefore, we consider that it is also relevant in our analysis to compare the discounts of the Subscription Price to the average closing price for the 5 consecutive trading days prior to and including the Last Trading Day ("5-days Average Closing Price") and the 10 consecutive trading days prior to and including the Last Trading Day ("10-days Average Closing Price") to those of the Rights Issue Comparables. We note that the discounts of the Subscription Price to the 5-days Average Closing Price and the 10-days Average Closing Price are comparable to the average discounts of the Rights Issue Comparables in this regards.

As an additional reference, we have, to the best of our knowledge, tried to identify rights issue or open offer effected by PRC utility companies listed on the Main Board of the Stock Exchange. However, we note that no utility company had completed a rights issue or an open offer in 2008. We then reviewed the information of all rights issues and open offers completed by companies listed on the Main Board of the Stock Exchange in 2007 and note that only one PRC utility company had announced and completed an open offer ("Utility Open Offer") with fund raising size of approximately HK$703.5 million, details of which are set out as follows:

Date	Code	Name	(Discount) / Premium of subscription price to closing price on the Last Trading Day	(Discount) / Premium of subscription price to the 5-days Average Closing Price	((Discount) / Premium of subscription price to the 10-days Average Closing Price	(Discount) / Premium of subscription price to theoretical ex-entitlement price
			%	%	%	%
11-May-07	1083	Town Gas China	-5.2	-3.7	-3.7	-4.8

We note that the Utility Open Offer was underwritten by an independent underwriter. The discounts of the Subscription Price to the closing price on the Last Trading Day; the 5-days Average Closing Price; and the 10-days Average Closing Price are higher than the discounts of the Utility Open Offer to the respective closing share prices; and the respective discount of the subscription prices to the theoretical ex-rights prices under the Rights Issue and the Utility Open Offer is comparable.

Views

In our analysis, we have reviewed and compared the Subscription Price to the theoretical ex-rights price and various closing Share prices under the Rights Issue to the Rights Issue Comparables and the Utility Open Offer. Although the discounts of the Subscription Price to the closing Share price on the Last Trading Date and the theoretical ex-rights price are lower than the average discounts of the Rights Issue Comparables, which is due to the drop in Share price prior to the Announcement with no particular reason, all other analysis and comparisons suggest that the terms of the Rights Issue are comparable to the Rights Issue Comparables. In addition, the respective discounts of the Subscription Price to various closing share prices are higher than the Utility Open Offer. Therefore, we consider the Subscription Price to be fair and reasonable so far as the Company and the Independent Shareholders are concerned.

(C) **Effect on shareholding interests of the Shareholders**

For those Shareholders who take up their entitlements in full under the Rights Issue, their shareholding interests in the Company will remain unchanged after the Rights Issue.

For those Shareholders who do not exercise their rights to subscribe for the Rights Shares in full and assuming none of Share Option is exercised on or before the Record Date, depending on the extent that they take up their entitlements, their shareholding interests will be diluted. Assuming none of the public Shareholders takes up any provisional allotments of the Rights Shares, the shareholding interest of the public Shareholders will be diluted from 31.12% to 6.22%. However, it should be noted that such Shareholders will have the opportunity to realise their nil-paid rights to subscribe for the Rights Shares (the "Nil-Paid Rights") on the market during the dealings of Nil-Paid Rights on the Stock Exchange, subject to the then prevailing market conditions.

Having considered the Group's intention to transform the Company's business focus to city gas distribution business in China, which the Directors consider to have good prospects and growth potentials, we concur with the view of the Directors that the Rights Issue would enable the Company to improve its overall financial position and to capitalize for future business development. Having considered the above analyses, we consider that the shareholding dilution effect arising from the Rights Issue is acceptable.

(D) **Financial effects of the Rights Issue**

Net asset value

Based on the unaudited pro forma consolidated balance sheet of the Enlarged Group set out in Appendix I to the Circular which assumes that the Transactions had been completed on 30 June 2008, the consolidated net asset value ("NAV") of the Group as at 30 June 2008 was approximately HK$338.6 million, representing approximately HK$1.20 per Share (based on the Shares in issue as at the Latest Practicable Date). Upon Completion, the unaudited pro forma adjusted consolidated NVA of the Group will increase to approximately HK$2,064.6 million, representing approximately HK$1.46 per Share (based on 282,883,342 Shares in issue as at the Latest Practicable Date and 1,131,533,368 Rights Shares being issued upon Completion).

Gearing ratio and working capital

Pursuant to the Underwriting Agreement, the parties to the Underwriting Agreement agree that the aggregate amount of the subscription monies in respect of any Rights Shares to be taken up by the Underwriter as the underwriter to the Rights Issue, in case of under-subscription of the Rights Issue, may be set off against the consideration payable by the Company to China Resources Holdings for the Acquisition.

Assuming none of the Share Options is exercised on or before the Record Date, the estimated cash proceeds of the Rights Issue following payment of the corresponding part of the consideration for the Acquisition pursuant to the Set-off Arrangement will be not less than HK$55.0 million (assuming all the Underwritten Shares are taken up by the Underwriter pursuant to the Underwriting Agreement), and not more than HK$1,206.2 million (assuming all the Rights Shares are fully subscribed).

As advised by the Company, the estimated cash proceeds will be used as general working capital. Given the above, we consider that the Rights Issue would not have an adverse impact on the working capital position of the Group.

RECOMMENDATION

Since the Group has not been engaged in the PRC city gas distribution business in the past, the PRC city gas distribution business is not in the ordinary and usual course of business of the Group. However, having considered the principal factors and reasons referred to the above, we consider that the Share Purchase Agreement and the Rights Issue are in the interests of CR Logic and the Shareholders as a whole and the terms thereof are of normal commercial terms and fair and reasonable so far as CR Logic and the Independent Shareholders are concerned. Accordingly, we advise the Independent Shareholders and the Independent Board Committee of CR Logic to recommend the Independent Shareholders of CR Logic to vote in favour of the ordinary resolutions to be proposed at the special general meeting of CR Logic to approve the Share Purchase Agreement and the Rights Issue.

Yours faithfully,
For and on behalf of
CIMB-GK Securities (HK) Limited

Alex Lau
Director
Head of Corporate Finance

Mabel Lam
Senior Vice President

The following is a text of a report, prepared for the purpose of inclusion in this circular, received from the reporting accountant, Deloitte Touche Tohmatsu, in respect of the pro forma financial information of the Enlarged Group.

Deloitte.
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ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF CHINA RESOURCES LOGIC LIMITED

We report on the unaudited pro forma financial information of China Resources Logic Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") and China Resources Gas Limited ("CR Gas") and its subsidiaries (the "CR Gas Group") (the "Enlarged Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the very substantial acquisition of the entire issued share capital of CR Gas by the Company might have affected the financial information presented, for inclusion in Appendix I of the circular dated 19 September 2008 (the "Circular"). The basis of preparation of the unaudited pro forma financial information is set out on page I-3 to the Circular.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of:

- the financial position of the Enlarged Group as at 30 June 2008 or any future date; or

- the results and cash flows of the Enlarged Group for the year ended 31 December 2007 or any future period.

Opinion

In our opinion:

a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

b) such basis is consistent with the accounting policies of the Group; and

c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
19 September 2008

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The accompanying unaudited pro forma financial information of the Enlarged Group has been prepared giving effect to the proposed acquisition of the CR Gas Group from China Resources (Holdings) Company Limited ("China Resources Holdings") (the "Acquisition") and the proposed rights issue (the "Rights Issue").

The unaudited pro forma financial information on the Enlarged Group has been prepared by the directors in accordance with rule 4.29 of the Listing Rules to illustrate the effects of the Acquisition and Rights Issue as if such transactions had been completed on 30 June 2008 in the case of the pro forma balance sheet of the Enlarged Group and 1 January 2007 in the case of the pro forma income statement and cash flow statement of the Enlarged Group.

The unaudited pro forma balance sheet of the Enlarged Group is prepared by the directors based upon (i) the unaudited consolidated balance sheet of the Group as at 30 June 2008, which has been extracted from interim report of the Company for the six months ended 30 June 2008 as set out in Appendix IV to the Circular; and (ii) the consolidated balance sheet of CR Gas Group as at 30 June 2008, which has been extracted from the accountants' report on CR Gas Group for the three years ended 31 December 2007 and six months ended 30 June 2008 as set out in Appendix II to the Circular, after making pro forma adjustments relating to the Acquisition and Rights Issue that are (i) directly attributable to the transaction; and (ii) factually supportable, as if the Acquisition and Right Issues have been completed on 30 June 2008.

The unaudited pro forma income statement and cash flow statement of the Enlarged Group are prepared by the directors based upon (i) the audited consolidated income statement and cash flow statement of the Group for the year ended 31 December 2007, which have been extracted from annual report of the Company for the year ended 31 December 2007 as set out in Appendix IV to the Circular; and (ii) the consolidated income statement and cash flow statement of the CR Gas Group for the year ended 31 December 2007 which have been extracted from the accountants' report on the CR Gas Group for the three years ended 31 December 2007 and six months ended 30 June 2008 as set out in Appendix II to the Circular, after making pro forma adjustments relating to the Acquisition and Rights Issue that are (i) directly attributable to the transaction; and (ii) factually supportable, as if the Acquisition and Rights Issue have been completed on 1 January 2007.

The unaudited pro forma financial information of the Enlarged Group is prepared by the directors to provide information of the Group upon completion of the Acquisition and Rights Issue. As it is prepared for illustration purpose only, it does not purport to give a true picture of the financial position, results and cash flows of the Group following completion of the Acquisition and Rights Issue.

I. Unaudited pro forma income statement of the Enlarged Group for the year ended 31 December 2007

	The Group	Pro forma adjustments: CR Gas Group	Pro forma adjustments: Other adjustments	Pro forma adjusted total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
		Note 1	*Note 2*	
Turnover				
Continuing operation	3,016,902	1,537,244	—	4,554,146
Discontinued operation	1,247,230	—	—	1,247,230
	4,264,132	1,537,244	—	5,801,376
Cost of sales	(3,267,584)	(1,106,122)	—	(4,373,706)
Gross profit	996,548	431,122	—	1,427,670
Other income	111,239	39,775	(748)	150,266
Selling and distribution expenses	(156,336)	(109,024)	—	(265,360)
General and administrative expenses	(359,175)	(165,588)	(386)	(525,149)
Other expenses	(233,239)	—	—	(233,239)
Finance costs	(104,367)	(9,001)	—	(113,368)
Share of results of associates	—	2,445	—	2,445
Gain on disposal of discontinued operation	61,864	—	—	61,864
Loss on closure of a production plant	(69,868)	—	—	(69,868)
Profit before taxation				
Continuing operation	130,912	189,729	(1,134)	319,507
Discontinued operation	115,754	—	—	115,754
	246,666	189,729	(1,134)	435,261
Taxation				
Continuing operation	(41,102)	34,728	—	(6,374)
Discontinued operation	(6,696)	—	—	(6,696)
	(47,798)	34,728	—	(13,070)
Profit for the year				
Continuing operation	89,810	224,457	(1,134)	313,133
Discontinued operation	109,058	—	—	109,058
	198,868	224,457	(1,134)	422,191
Attributable to:				
Equity holders of the Company				
Continuing operation	60,411	193,632	(1,134)	252,909
Discontinued operation	91,950	—	—	91,950
	152,361	193,632	(1,134)	344,859
Minority interests	46,507	30,825	—	77,332
	198,868	224,457	(1,134)	422,191

II. Unaudited pro forma balance sheet of the Enlarged Group at 30 June 2008

	The Group	Pro forma adjustments: CR Gas Group	Pro forma adjustments: Notes	Pro forma adjustments: Other adjustments	Pro forma adjusted total
	HK$'000	*HK$'000*	*Notes*	*HK$'000*	*HK$'000*
		Note 3			
Non-current assets					
Property, plant and equipment	195,815	1,243,004			1,438,819
Prepaid lease payments	—	104,369		—	104,369
Investment properties	17,986	15,109	*2*	(3,012)	30,083
Interests in associates	46	10,084		—	10,130
Available-for-sale investments	14,330	8,312		—	22,642
Goodwill	—	18,470		—	18,470
Exclusive operating rights	—	648,824		—	648,824
Deferred tax assets	5,031	—		—	5,031
	233,208	2,048,172		(3,012)	2,278,368
Current assets					
Inventories	1,958	90,284		—	92,242
Debtors, deposits and prepayments	68,153	242,848		—	311,001
Prepaid lease payments	—	5,027		—	5,027
Amounts due from customers for contract work	—	83,542		—	83,542
Amounts due from group companies	—	229		—	229
Pledged bank deposits	740	—		—	740
Bank balances and cash	85,996	827,861	*3,5*	55,044	968,901
	156,847	1,249,791		55,044	1,461,682
Assets classified as held for sale	52,969	—		—	52,969
	209,816	1,249,791		55,044	1,514,651
Current liabilities					
Creditors and accrued charges	60,437	842,434		—	902,871
Amounts due to customers for contract work	—	299,397		—	299,397
Amount due to a group company	—	56,334		—	56,334
Bank and other borrowings - amount due within one year	—	84,798		—	84,798
Taxation payable	14,296	4,377		—	18,673
	74,733	1,287,340		—	1,362,073
Net current assets (liabilities)	135,083	(37,549)		55,044	152,578
Total assets less current liabilities	368,291	2,010,623		52,032	2,430,946

	The Group	Pro forma adjustments			Pro forma adjusted total
		CR Gas Group		Other adjustments	
	HK$'000	*HK$'000*	*Notes*	*HK$'000*	*HK$'000*
		Note 3			
Capital and reserves					
Share capital	28,288	—	*4,5*	113,153	141,441
Share premium and reserves	310,313	1,439,618	*2,3,4,5*	(61,121)	1,688,810
Equity attributable to equity holders of the Company	338,601	1,439,618		52,032	1,830,251
Minority interests	—	234,359		—	234,359
Total equity	338,601	1,673,977		52,032	2,064,610
Non-current liabilities					
Bank and other borrowings - amount due after one year	—	124,453		—	124,453
Other long-term liabilities	—	66,419		—	66,419
Deferred tax liabilities	29,690	145,774		—	175,464
	29,690	336,646		—	366,336
	368,291	2,010,623		52,032	2,430,946

III. Unaudited pro forma cash flow statement of the Enlarged Group for the year ended 31 December 2007

		Pro forma adjustments			
	The Group	**CR Gas Group**	*Notes*	**Other adjustments**	**Pro forma adjusted total**
	HK$'000	*HK$'000*		*HK$'000*	*HK$'000*
		Note 6			
OPERATING ACTIVITIES					
Profit before taxation	246,666	189,729	2	(1,134)	435,261
Adjustments for:					
Finance costs	104,367	9,001		—	113,368
Interest income	(10,717)	(17,387)		—	(28,104)
Government grants recognised	(10,520)	—		—	(10,520)
Share of results of associates	—	(2,445)		—	(2,445)
Depreciation of property, plant and equipment	437,444	65,575		—	503,019
Depreciation of investment properties	—	—	2	386	386
Impairment loss on property, plant and equipment recognised	13,654	—		—	13,654
Amortisation of technical know-how	5,915	—		—	5,915
Amortisation of exclusive operating rights	—	24,756		—	24,756
Release from prepaid lease payments	4,522	3,286		—	7,808
Write down of inventories to net realisable value	83,677	—		—	83,677
Impairment loss on debtors recognised	5,660	775		—	6,435
Impairment loss on other receivables recognised	10,990	—		—	10,990
Write-off of property, plant and equipment	—	10,981		—	10,981
Share-based payment expense	7,863	—		—	7,863
(Gain) loss on disposal of property, plant and equipment	(8,311)	5,678		—	(2,633)
Gain on disposal of available-for-sale investments	(3,586)	—		—	(3,586)
Gain on disposal of prepaid lease payments	—	(10,697)		—	(10,697)
Gain on fair value changes of investment properties	—	(748)	2	748	—
Gain on disposal of discontinued operation	(61,864)	—		—	(61,864)
Write back of provisions	(25,858)	—		—	(25,858)
Operating cash flows before movements in working capital	799,902	278,504		—	1,078,406
Increase in inventories	(183,937)	(18,711)		—	(202,648)
Increase in debtors, deposits and prepayments	(711,255)	(13,324)		—	(724,579)
Decrease in amounts due from customers for contract work	—	2,948		—	2,948

		Pro forma adjustments			
	The Group	CR Gas Group	Notes	Other adjustments	Pro forma adjusted total
	HK$'000	*HK$'000* *Note 6*		*HK$'000*	*HK$'000*
Increase in amounts due from minority shareholders	(7,330)	—		—	(7,330)
Increase in creditors and accrued charges	581,975	238,586		—	820,561
Increase in amounts due to customers for contract work	—	44,426		—	44,426
Increase in amount due to minority shareholders	25,975	—		—	25,975
Utilisation of provisions	(10,066)	—		—	(10,066)
Decrease in long-term payables	(9,087)	—		—	(9,087)
Cash generated from operations	486,177	532,429		—	1,018,606
Profits tax paid	(39,948)	(21,645)		—	(61,593)
Net cash generated from operating activities	446,229	510,784		—	957,013
INVESTING ACTIVITIES					
Payments and deposits for acquisition of property, plant and equipment	(938,885)	(170,961)		—	(1,109,846)
Purchase of technical know-how	(595)	—		—	(595)
Payments for exclusive operating rights	—	(4,759)		—	(4,759)
Additions of prepaid lease payments	(91)	(4,552)		—	(4,643)
Disposal of subsidiaries	1,004,155	—		—	1,004,155
Proceeds on disposal of property, plant and equipment	22,617	7,848		—	30,465
Proceeds from disposal of prepaid lease payments	—	16,211		—	16,211
Proceeds on disposal of available-for-sale investments	3,842	—		—	3,842
Government grants received	69,484	—		—	69,484
Interest received	10,717	17,387		—	28,104
Dividends received from associates	—	1,090		—	1,090
Decrease in pledged bank deposits	1,612	—		—	1,612
Advances to fellow subsidiaries	—	(1,649)		—	(1,649)
Net cash from (used in) investing activities	172,856	(139,385)		—	33,471
FINANCING ACTIVITIES					
Repayment of bank and other borrowings	(3,245,069)	(83,614)		—	(3,328,683)
Repayment of advances from immediate holding company	—	(195,787)		—	(195,787)
Dividends paid	(55,608)	—		—	(55,608)
Dividends paid to minority shareholders of subsidiaries	(29,856)	(14,663)		—	(44,519)
Interest paid	(100,181)	(7,697)		—	(107,878)

	The Group	Pro forma adjustments: CR Gas Group	Notes	Pro forma adjustments: Other adjustments	Pro forma adjusted total
	HK$'000	*HK$'000*		*HK$'000*	*HK$'000*
		Note 6			
New bank and other borrowings raised	3,091,956	45,172		—	3,137,128
Issue of rights shares	—	—	5	3,869,844	3,869,844
Advance from fellow subsidiaries	—	1,678		—	1,678
Exercise of share options	31,980	—		—	31,980
Deemed distribution in relation to the acquisition of CR Gas Group	—	—	3	(3,814,800)	(3,814,800)
Net cash used in financing activities	(306,778)	(254,911)		55,044	(506,645)
NET INCREASE IN CASH AND CASH EQUIVALENTS	312,307	116,488		55,044	483,839
CASH AND CASH EQUIVALENTS AT 1ST JANUARY	521,250	675,797		—	1,197,047
Effect on foreign exchange rate changes	34,351	39,554		—	73,905
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER, representing bank balances and cash	867,908	831,839		55,044	1,754,791

Notes to the unaudited pro forma financial information

1. Adjustment to combine the results of the CR Gas Group for the year ended 31 December 2007, in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combinations" ("AG5") as the Group and CR Gas Group are ultimately controlled by the same party before and after the Acquisition, on the assumption that the Acquisition had been completed on 1 January 2007.

2. Adjustments to reverse the gain on fair value changes in investment properties of CR Gas Group amounting to HK$748,000 and to provide depreciation charges of HK$386,000 as it is the Group's policy to measure investment properties using the cost model. The accumulated gain on fair value changes in investment properties net of accumulated depreciation as at 30 June 2008 amounted to HK$3,012,000.

3. Adjustment to combine the assets and liabilities of the CR Gas Group, in accordance with AG5 on the assumption that the Acquisition had been completed on 30 June 2008. The cash consideration for the Acquisition of HK$3,814,800,000 would be treated as a deemed distribution to China Resources Holdings.

4. Adjustment to account for the special reserve of HK$2,375,182,000, representing the difference between cash consideration paid for the Acquisition of HK$3,814,800,000 and the share capital and reserves of CR Gas Group of HK$1,439,618,000, arising from the Acquisition in accordance with AG5.

5. Adjustment to account for the Rights Issue of 1,131,533,368 rights shares at a subscription price of HK$3.42 per share on the basis of four rights shares for every existing share held. Total proceeds from Rights Issue is approximately HK$3,869,844,000, representing share capital of HK$113,153,000 and share premium of HK$3,756,691,000.

6. Adjustment to combine the cash flows of the CR Gas group for the year ended 31 December 2007, in accordance with AG5 on the assumption that the Acquisition had been completed on 1 January 2007.

7. On 5 March 2008, the Group acquired 100% equity interests in Redland Concrete Limited ("Redland Concrete") and disposed of all of its entire equity interests in China Resources Microelectronics Limited by way of a distribution in specie, with details set out in the circular issued by the Company on 16 January 2008. The results and cash flows of Redland Concrete and its subsidiaries were not combined in the pro forma income statement and pro forma cash flow statement of the Enlarged Group for the year ended 31 December 2007 as the acquisition of Redland Concrete was not directly attributable to the transaction.

8. The reorganisation and other expenses attributable to the Acquisition and Rights Issue have not been accounted for in the preparation of the unaudited pro forma financial information as such expenses cannot be accurately estimated at this stage.

The following is the text of a report, prepared for the purpose of inclusion in this circular, received from the reporting accountant, Deloitte Touche Tohmatsu, in respect of the financial information of CR Gas Group.

Deloitte.
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19 September 2008

The Directors
China Resources Logic Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") relating to China Resources Gas Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended 31 December 2005, 2006 and 2007 and for the six months ended 30 June 2008 (the "Relevant Periods"), for the inclusion in the circular of China Resources Logic Limited dated 19 September 2008 (the "Circular") in connection with a very substantial acquisition of the entire issued share capital of the Company by China Resources Logic Limited.

The Company was incorporated on 9 November 2005 in the British Virgin Islands as an exempted company with limited liability. The Company has become the holding company of the Group in December 2005.

Particulars of the Company's subsidiaries, jointly controlled entities and associates, all of which are directly or indirectly held by the Company are as follows:

	Place and date of establishment/ incorporation	Registered capital/ issued and fully paid shares	Attributable equity interest of the Group 31 December 2005	2006	2007	30 June 2008	Principal activities
Subsidiaries							
南京華潤燃氣有限公司[1]*	People's Republic of China ("PRC") 5 January 1999	RMB50,000,000	51%	80.4%	80.4%	80.4%	Sales of liquefied gas
蘇州華潤燃氣有限公司[1]*	PRC 9 October 2003	USD15,000,000	70%	70%	70%	70%	Sales of liquefied gas and connection of gas pipelines

	Place and date of establishment/ incorporation	Registered capital/ issued and fully paid shares	Attributable equity interest of the Group 31 December 2005	2006	2007	30 June 2008	Principal activities
富陽華潤燃氣有限公司 [1]*	PRC 27 December 2005	USD20,000,000	50%	50%	50%	50%	Sales of liquefied gas and connection of gas pipelines
臨海華潤燃氣有限公司 [2]	PRC 2 May 1995	USD1,000,000	100%	100%	100%	100%	Sales of liquefied gas and connection of gas pipelines
淮北華潤燃氣有限公司 [1]* (Huaibei China Resources Gas Co., Ltd.)	PRC 15 November 2006	USD10,000,000	N/A	60%	60%	60%	Sales of liquefied gas and connection of gas pipelines
Kileen Holdings Limited * 祺力控股有限公司 ("Kileen")	Hong Kong 22 January 2008	HK$1	N/A	N/A	N/A	100%	Investment holding
China Resources Gas Company Limited *	Hong Kong 25 November 1998	HK$10,000,000	100%	N/A	N/A	N/A	Sales of liquefied petroleum gas
Gas Carrier 881 Co., Ltd. Inc.* ("Gas Carrier")	Republic of Panama 4 April 1989	US$10,000	100%	N/A	N/A	N/A	Ship owning and charter hiring
Run Hai Shipping S.A. * ("Run Hai")	Republic of Panama 1 August 1994	US$10,000	100%	N/A	N/A	N/A	Ship owning and charter hiring
Jointly controlled entities							
成都城市燃氣有限責任公司 [1]* (Chengdu City Gas Co., Ltd.)	PRC 16 March 2005	RMB800,000,000	36%	36%	36%	36%	Sales of liquefied gas and connection of gas pipelines
成都市大豐煤氣有限責任公司 [3#]	PRC 23 May 1995	RMB2,540,000	21.6%	21.6%	21.6%	21.6%	Sales of natural gas and connection of gas pipelines
成都市三河天然氣有限責任公司 [3#]	PRC 7 April 1994	RMB5,100,000	36%	36%	36%	36%	Sales of town gas and connection of gas pipelines

	Place and date of establishment/ incorporation	Registered capital/ issued and fully paid shares	Attributable equity interest of the Group				Principal activities
			31 December			30 June	
			2005	2006	2007	2008	
成都市新繁煤氣有限責任公司 3#	PRC 7 October 1998	RMB2,540,000	21.6%	21.6%	21.6%	21.6%	Sales of natural gas and connection of gas pipelines
郫縣威達煤氣有限責任公司 3#	PRC 23 May 1996	RMB2,540,000	18.36%	18.36%	18.36%	18.36%	Sales of liquefied gas
郫縣唐昌煤氣有限責任公司 3#	PRC 18 November 1996	RMB2,540,000	18.36%	18.36%	18.36%	18.36%	Sales of natural gas and liquefied gas
成都城市燃氣設計研究院有限公司 3#	PRC 23 November 2001	RMB5,000,000	30.6%	30.6%	30.6%	30.6%	Exploration and design of liquefied gas technology
成都燃氣發展實業有限公司 3#	PRC 22 December 1993	RMB9,900,000	14.55%	14.55%	14.55%	14.55%	Sales of liquefied gas
成都公集實業有限責任公司 3#	PRC 16 September 1999	RMB5,000,000	16.2%	16.2%	16.2%	16.2%	Sales of liquefied gas
成都城市燃氣計量檢定測試有限責任公司 3#	PRC 5 December 2006	RMB1,000,000	N/A	36%	36%	36%	Inspection and testing of gas measurement instruments
成都新創燃氣有限責任公司 3#	PRC 25 April 2006	RMB2,600,000	N/A	36%	36%	36%	Sales of town gas and connection of gas pipelines
成都千嘉科技有限公司 3#	PRC 30 October 2001	RMB10,000,000	15.12%	15.12%	15.12%	15.12%	Research and development of liquefied gas technology
成都城市燃氣客戶服務有限公司 3#	PRC 27 September 2007	RMB2,000,000	N/A	N/A	36%	36%	Sales and maintenance of liquefied gas appliances

	Place and date of establishment/ incorporation	Registered capital/ issued and fully paid shares	Attributable equity interest of the Group 31 December 2005	2006	2007	30 June 2008	Principal activities
無錫華潤燃氣有限公司[1]*	PRC 10 August 2005	USD29,980,000	50%	50%	50%	50%	Sales of liquefied gas and connection of gas pipelines
無錫華潤燃氣安裝工程有限公司 [3+]	PRC 1 February 1999	RMB20,000,000	50%	50%	50%	50%	Connection of gas pipelines
無錫華潤燃氣工程設計有限公司 [3+]	PRC 7 August 1998	RMB1,500,000	50%	50%	50%	50%	Design and connection of gas pipelines
無錫華潤車用氣有限公司 [3+]	PRC 7 January 2005	RMB10,000,000	40%	40%	40%	40%	Sales of liquefied gas
Associates							
四川聯發天然氣有限責任公司 [3#]	PRC 27 December 2002	RMB10,000,000	17.64%	17.64%	17.64%	17.64%	Sales of liquefied gas
成都榮和天然氣有限責任公司 [3#]	PRC 9 August 2005	RMB3,000,000	17.64%	17.64%	17.64%	17.64%	Sales of liquefied gas
成都世紀源通燃氣有限責任公司 [3#]	PRC 23 November 2006	RMB10,000,000	10.8%	16.2%	16.2%	16.2%	Sales of natural gas and connection of gas pipelines

1. These companies were established in the PRC in the form of sino-foreign equity joint venture enterprise.
2. These companies were established in the PRC in the form of wholly foreign-owned enterprise.
3. These companies were established in the PRC in the form of equity joint enterprise.

* Directly held by the Company.

\# Directly or indirectly held by 成都城市燃氣有限責任公司, the Group's jointly controlled entity.

\+ Directly or indirectly held by 無錫華潤燃氣有限公司, the Group's jointly controlled entity.

All of the above subsidiaries, jointly controlled entities and associates are limited liability companies established in their respective place of establishment/incorporation and adopt 31 December as the financial year end date.

We have acted as auditor of the Company since the date of incorporation. No statutory audited financial statements have been prepared for the Company, Gas Carrier and Run Hai, as these companies were incorporated in jurisdictions where there were no statutory audit requirement. In addition, no statutory audited financial statements of Kileen have been prepared as Kileen was newly incorporated since 22 January 2008. For the purpose of this report, we have reviewed all the relevant transactions of the Company, Gas Carrier, Run Hai and Kileen, and carried out such procedures as we considered necessary for inclusion in the Financial Information.

The statutory financial statements of the following subsidiaries, jointly controlled entities and associates for the Relevant Periods, or since their respective dates of establishment, where this is a shorter period, were prepared in accordance with relevant accounting principles and financial regulations applicable to their respective jurisdictions and were audited by the following certified public accountants registered in that jurisdiction:

Name	Financial period	Name of auditors
南京華潤燃氣有限公司	For the three years ended 31 December 2007	江蘇蘇港會計師事務所有限公司
蘇州華潤燃氣有限公司	For the three years ended 31 December 2007	蘇州中惠會計師事務所有限公司
富陽華潤燃氣有限公司	For the period from 27 December 2005 (date of establishment) to 31 December 2005	杭州富春會計師事務所有限公司
	For the two years ended 31 December 2007	杭州富春會計師事務所有限公司
臨海華潤燃氣有限公司	For the three years ended 31 December 2007	台州中天會計師事務所有限公司
淮北華潤燃氣有限公司	For the period from 15 November 2006 (date of establishment) to 31 December 2006	淮北華亞會計師事務所有限公司
	For the year ended 31 December 2007	淮北華亞會計師事務所有限公司
China Resources Gas Company Limited	For the year ended 31 December 2005	Deloitte Touche Tohmatsu
成都城市然氣有限公司	For the year ended 31 December 2005	四川中砝會計師事務所有限公司
	For the two years ended 31 December 2007	四川正信會計師事務所有限公司
成都市大豐煤氣有限責任公司	For the year ended 31 December 2005	四川中砝會計師事務所有限公司
	For the two years ended 31 December 2007	四川正信會計師事務所有限公司

Name	Financial period	Name of auditors
成都市三河天然氣有限責任公司	For the year ended 31 December 2005	四川中砝會計師事務所有限公司
	For the two years ended 31 December 2007	四川正信會計師事務所有限公司
成都市新繁煤氣有限責任公司	For the year ended 31 December 2005	四川中砝會計師事務所有限公司
	For the two years ended 31 December 2007	四川正信會計師事務所有限公司
郫縣威達煤氣有限責任公司	For the year ended 31 December 2005	四川中砝會計師事務所有限公司
	For the two years ended 31 December 2007	四川正信會計師事務所有限公司
郫縣唐昌煤氣有限責任公司	For the year ended 31 December 2005	四川中砝會計師事務所有限公司
	For the two years ended 31 December 2007	四川正信會計師事務所有限公司
成都城市燃氣設計研究院有限公司	For the year ended 31 December 2005	四川中砝會計師事務所有限公司
	For the two years ended 31 December 2007	四川正信會計師事務所有限公司
成都燃氣發展實業有限公司	For the year ended 31 December 2005	四川中砝會計師事務所有限公司
	For the two years ended 31 December 2007	四川正信會計師事務所有限公司
成都公集實業有限責任公司	For the year ended 31 December 2005	四川中砝會計師事務所有限公司
	For the two years ended 31 December 2007	四川正信會計師事務所有限公司
成都城市燃氣計量檢定測試有限責任公司	For the period from 5 December 2006 (date of establishment) to 31 December 2006	四川正信會計師事務所有限公司
	For the year ended 31 December 2007	四川正信會計師事務所有限公司

Name	Financial period	Name of auditors
成都新創燃氣有限責任公司	For the period from 25 April 2006 (date of establishment) to 31 December 2006	四川正信會計師事務所有限公司
	For the year ended 31 December 2007	四川正信會計師事務所有限公司
成都千嘉科技有限公司	For the year ended 31 December 2005	四川中砝會計師事務所有限公司
	For the two years ended 31 December 2007	四川正信會計師事務所有限公司
成都城市燃氣客戶服務有限公司	For the period from 27 September 2007 (date of establishment) to 31 December 2007	四川正信會計師事務所有限公司
無錫華潤燃氣有限公司	For the period from 10 August 2005 (date of establishment) to 31 December 2007	無錫東華會計師事務所有限責任公司
無錫華潤燃氣安裝工程有限公司	For the three years ended 31 December 2007	無錫東華會計師事務所有限責任公司
無錫華潤燃氣工程設計有限公司	For the three years ended 31 December 2007	無錫東華會計師事務所有限責任公司
無錫華潤車用氣有限公司	For the period from 7 January 2005 (date of establishment) to 31 December 2005	無錫東華會計師事務所有限責任公司
	For the two years ended 31 December 2007	無錫東華會計師事務所有限責任公司
四川聯發天然氣有限責任公司	For the year ended 31 December 2005	四川中砝會計師事務所有限公司
	For the two years ended 31 December 2007	四川正信會計師事務所有限公司

Name	Financial period	Name of auditors
成都榮和天然氣有限責任公司	For the period from 9 August 2005 (date of establishment) to 31 December 2005	四川中砝會計師事務所有限公司
	For the two years ended 31 December 2007	四川正信會計師事務所有限公司
成都世紀源通燃氣有限責任公司	For the period from 23 November 2006 (date of establishment) to 31 December 2006	四川正信會計師事務所有限公司
	For the year ended 31 December 2007	四川正信會計師事務所有限公司

For the purpose of this report, the directors of the Company have prepared the consolidated financial statements of the Group for the three years ended 31 December 2007 and the consolidated management accounts of the Group for the six months ended 30 June 2008 in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") (the "Underlying Financial Statements") and we have performed an independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information set out in this report has been prepared from the Underlying Financial Statements on the basis set out in note 2 of Section A, after making such adjustments as we consider appropriate for the purpose of preparing our report for inclusion in the Circular.

The directors of the Company are responsible for preparing the Underlying Financial Statements and also the contents of the Circular in which this report is included. It is our responsibilities to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of presentation set out in note 2 to the Financial Information, the Financial Information together with the notes thereon, for the purpose of this report, gives a true and fair view of the state of affairs of the Group and the Company as at 31 December 2005, 2006 and 2007 and 30 June 2008 and of the consolidated results and cash flows of the Group for the Relevant Periods.

The comparative consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity of the Group for the six months ended 30 June 2007 together with the notes thereon have been extracted from the Group's consolidated financial information for the same period (the "30 June 2007 Financial Information") which were prepared by the directors of the Company solely for the purpose of this report. We conducted our review in accordance with the Hong Kong Standards on Review Engagement 2410 "Review of Interim Financial

Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the 30 June 2007 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information, which conform with HKFRSs.

A. FINANCIAL INFORMATION

I. CONSOLIDATED INCOME STATEMENTS

		Year ended 31 December			Six months ended 30 June	
	Notes	**2005**	**2006**	**2007**	**2007**	**2008**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (*unaudited*)	*HK$'000*
Turnover	8	985,761	1,339,017	1,537,244	691,733	966,474
Cost of sales		(872,622)	(1,035,185)	(1,106,122)	(498,388)	(688,278)
Gross profit		113,139	303,832	431,122	193,345	278,196
Other income		60,269	37,378	39,775	24,881	31,305
Selling and distribution expenses		(46,631)	(94,080)	(109,024)	(48,421)	(52,930)
General and administrative expenses		(22,752)	(119,365)	(165,588)	(78,233)	(88,501)
Finance costs	9	(2,532)	(11,191)	(9,001)	(5,108)	(6,745)
Loss on disposal of subsidiaries		—	(4,185)	—	—	—
Discount on acquisition of a jointly controlled entity	38	5,587	—	—	—	—
Share of results of associates		—	1,786	2,445	1,185	1,586
Profit before taxation	10	107,080	114,175	189,729	87,649	162,911
Taxation (charge) credit	12	(6,066)	(3,128)	34,728	38,110	(15,818)
Profit for the year/period		101,014	111,047	224,457	125,759	147,093
Attributable to:						
Equity holders of the Company		87,974	94,776	193,632	113,654	128,070
Minority interests		13,040	16,271	30,825	12,105	19,023
		101,014	111,047	224,457	125,759	147,093
Dividends	13	71,000	—	1,500,000	—	—
Earnings per share (HK$'000)	14	43,987	38,386	64,544	37,885	42,690

II. CONSOLIDATED BALANCE SHEETS

	Notes	At 31 December 2005 HK$'000	2006 HK$'000	2007 HK$'000	At 30 June 2008 HK$'000
Non-current assets					
Investment properties	15	8,458	11,997	13,605	15,109
Property, plant and equipment	16	791,361	954,117	1,109,545	1,243,004
Prepaid lease payments	17	93,782	97,225	99,720	104,369
Goodwill	18	18,158	18,284	18,383	18,470
Exclusive operating rights	19	678,464	664,220	652,368	648,824
Available-for-sale investments	20	7,446	7,280	7,802	8,312
Interests in associates	23	3,755	6,090	7,939	10,084
		1,601,424	1,759,213	1,909,362	2,048,172
Current assets					
Inventories	24	44,619	48,458	70,629	90,284
Trade and other receivables	25	167,065	136,445	158,736	242,848
Amounts due from customers for contract work	26	68,064	66,317	68,104	83,542
Prepaid lease payments	17	3,666	3,834	4,162	5,027
Amount due from immediate holding company	27	15,114	67,663	—	—
Amounts due from fellow subsidiaries	28	55,060	138	1,797	229
Bank balances and cash	29	302,897	675,797	831,839	827,861
		656,485	998,652	1,135,267	1,249,791
Current liabilities					
Trade and other payables	30	(325,817)	(442,610)	(712,646)	(842,434)
Amounts due to customers for contract work	26	(167,794)	(160,976)	(236,896)	(299,397)
Amount due to immediate holding company	27	—	—	(1,231,719)	(56,334)
Amounts due to fellow subsidiaries	28	(33,434)	(84)	(1,768)	—
Bank and other borrowings - amount due within one year	31	(49,457)	(6,867)	(61,933)	(84,798)
Taxation payable		(4,706)	(3,232)	(1,731)	(4,377)
		(581,208)	(613,769)	(2,246,693)	(1,287,340)
Net current assets (liabilities)		75,277	384,883	(1,111,426)	(37,549)
Total assets less current liabilities		1,676,701	2,144,096	797,936	2,010,623
Non-current liabilities					
Bank and other borrowings - amount due after one year	31	(221,399)	(217,218)	(136,914)	(124,453)
Other long term liabilities	32	(51,173)	(56,868)	(62,385)	(66,419)
Deferred tax liabilities	33	(209,605)	(202,664)	(148,206)	(145,774)
		(482,177)	(476,750)	(347,505)	(336,646)
		1,194,524	1,667,346	450,431	1,673,977
Capital and reserves					
Share capital	34	—	—	—	—
Reserves		1,126,984	1,499,207	252,243	1,439,618
Equity attributable to equity holders of the Company		1,126,984	1,499,207	252,243	1,439,618
Minority interests		67,540	168,139	198,188	234,359
		1,194,524	1,667,346	450,431	1,673,977

III. BALANCE SHEET OF THE COMPANY

		At 31 December			At 30 June
	Notes	**2005**	**2006**	**2007**	**2008**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets					
Investments in subsidiaries	21	194,129	259,691	259,691	221,250
Investments in jointly controlled entities	22	836,760	836,760	836,760	836,760
		1,030,889	1,096,451	1,096,451	1,058,010
Current assets					
Other receivables		—	14,341	534	533
Amount due from immediate holding company	27	15,114	64,177	—	—
Amount due from a fellow subsidiary	28	—	3,485	—	38,499
Amounts due from subsidiaries	21	10,091	38,436	6,774	6,205
Bank balances and cash	29	—	181,762	196,434	35,152
		25,205	302,201	203,742	80,389
Current liabilities					
Other payables		(8,650)	(4,003)	(3,829)	—
Amount due to a subsidiary	21	(47,444)	—	—	—
Amount due to immediate holding company	27	—	—	(1,231,719)	(53,700)
Amount due to a fellow subsidiary	28	—	(84)	—	—
		(56,094)	(4,087)	(1,235,548)	(53,700)
Net current (liabilities) assets		(30,889)	298,114	(1,031,806)	26,689
Total assets less current liabilities		1,000,000	1,394,565	64,645	1,084,699
Capital and reserves					
Share capital	34	—	—	—	—
Reserves	35	1,000,000	1,394,565	64,645	1,084,699
		1,000,000	1,394,565	64,645	1,084,699

IV. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Equity attributable to equity holders of the Company							
	Share capital HK$'000	**Share premium** HK$'000	**General reserves** HK$'000 (note)	**Exchange reserve** HK$'000	**Accumulated profits** HK$'000	**Total** HK$'000	**Minority interests** HK$'000	**Total equity** HK$'000
At 1 January 2005	10,156	—	—	(349)	107,523	117,330	50,511	167,841
Exchange differences on translation of foreign operations	—	—	—	2,836	—	2,836	1,215	4,051
Profit for the year	—	—	—	—	87,974	87,974	13,040	101,014
Total recognised income for the year	—	—	—	2,836	87,974	90,810	14,255	105,065
Elimination arising from group reorganisation	(10,156)	—	—	—	—	(10,156)	—	(10,156)
Shares issued at premium	—	1,000,000	—	—	—	1,000,000	—	1,000,000
Acquisition of jointly controlled entities	—	—	—	—	—	—	7,098	7,098
Dividends paid to minority shareholders of subsidiaries	—	—	—	—	—	—	(4,324)	(4,324)
Dividends paid	—	—	—	—	(71,000)	(71,000)	—	(71,000)
Transfer	—	—	13,998	—	(13,998)	—	—	—
At 31 December 2005	—	1,000,000	13,998	2,487	110,499	1,126,984	67,540	1,194,524
Exchange differences on translation of foreign operations	—	—	—	27,263	—	27,263	5,073	32,336
Share of changes in reserve of associates	—	—	—	184	—	184	—	184
Total income directly recognised in equity	—	—	—	27,447	—	27,447	5,073	32,520
Profit for the year	—	—	—	—	94,776	94,776	16,271	111,047
Total recognised income for the year	—	—	—	27,447	94,776	122,223	21,344	143,567
Shares issued at premium	—	250,000	—	—	—	250,000	—	250,000
Dividends paid to minority shareholders of subsidiaries	—	—	—	—	—	—	(15,430)	(15,430)
Transfer	—	—	8,401	—	(8,401)	—	—	—
Contributions from minority shareholders of subsidiaries	—	—	—	—	—	—	94,685	94,685
At 31 December 2006	—	1,250,000	22,399	29,934	196,874	1,499,207	168,139	1,667,346

	Equity attributable to equity holders of the Company							
	Share capital	Share premium	General reserves	Exchange reserve	Accumulated profits	Total	Minority interests	Total equity
	HK$'000	*HK$'000*	*HK$'000* *(note)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Exchange differences on translation of foreign operations	—	—	—	58,910	—	58,910	13,887	72,797
Share of changes in reserve of associates	—	—	—	494	—	494	—	494
Total income directly recognised in equity	—	—	—	59,404	—	59,404	13,887	73,291
Profit for the year	—	—	—	—	193,632	193,632	30,825	224,457
Total recognised income for the year	—	—	—	59,404	193,632	253,036	44,712	297,748
Dividend paid	—	(1,200,000)	—	—	(300,000)	(1,500,000)	—	(1,500,000)
Transfer	—	—	24,228	—	(24,228)	—	—	—
Dividends paid to minority shareholders of subsidiaries	—	—	—	—	—	—	(14,663)	(14,663)
At 31 December 2007	—	50,000	46,627	89,338	66,278	252,243	198,188	450,431
Exchange differences on translation of foreign operations	—	—	—	58,746	—	58,746	17,148	75,894
Share of changes in reserve of associates	—	—	—	559	—	559	—	559
Total income directly recognised in equity	—	—	—	59,305	—	59,305	17,148	76,453
Profit for the period	—	—	—	—	128,070	128,070	19,023	147,093
Total recognised income for the period	—	—	—	59,305	128,070	187,375	36,171	223,546
Share issued at premium	—	1,000,000	—	—	—	1,000,000	—	1,000,000
At 30 June 2008	—	1,050,000	46,627	148,643	194,348	1,439,618	234,359	1,673,977
Unaudited								
At 1 January 2007	—	1,250,000	22,399	29,934	196,874	1,499,207	168,139	1,667,346
Exchange differences on translation of foreign operations	—	—	—	24,059	—	24,059	5,907	29,966
Share of changes in reserve of associates	—	—	—	150	—	150	—	150
Total income directly recognised in equity	—	—	—	24,209	—	24,209	5,907	30,116
Profit for the period	—	—	—	—	113,654	113,654	12,105	125,759
Total recognised income for the period	—	—	—	24,209	113,654	137,863	18,012	155,875
Dividends paid to minority shareholders of subsidiaries	—	—	—	—	—	—	(1,192)	(1,192)
At 30 June 2007	—	1,250,000	22,399	54,143	310,528	1,637,070	184,959	1,822,029

Note: General reserves represent the Enterprise Expansion Fund and General Reserve Fund set aside by certain subsidiaries in accordance with the relevant laws and regulations of the PRC. They are not available for distribution.

V. **CONSOLIDATED CASH FLOW STATEMENTS**

	Year ended 31 December			Six months ended 30 June	
	2005	**2006**	**2007**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*	*HK$'000*
Cash flows from operating activities					
Profit before taxation	107,080	114,175	189,729	87,649	162,911
Adjustments for:					
Interest income	(449)	(8,683)	(17,387)	(6,982)	(4,632)
Interest expense	2,532	11,191	9,001	5,108	6,745
Amortisation of exclusive operating rights	1,519	23,400	24,756	11,778	11,271
Amortisation of prepaid lease payments	3,778	3,990	3,286	1,153	1,871
Depreciation of property, plant and equipment	18,539	69,589	65,575	28,559	33,881
Discount on acquisition of a jointly controlled entity	(5,587)	—	—	—	—
Dividend income from available-for-sale investments	—	(2,186)	—	—	(3,975)
(Gain) loss on disposal of property, plant and equipment	(75)	1,139	5,678	393	3,928
Gain on disposal of prepaid lease payments	—	—	(10,697)	(10,697)	—
Gain on fair value changes of investment properties	—	(560)	(748)	(384)	(614)
Impairment losses recognised on trade receivables	437	105	775	376	77
Write-off of property, plant and equipment	—	—	10,981	—	—
Loss on disposal of subsidiaries	—	4,185	—	—	—
Share of results of associates	—	(1,786)	(2,445)	(1,185)	(1,586)
Operating cash flows before movements in working capital	127,774	214,559	278,504	115,768	209,877
Increase in inventories	(9,695)	(18,770)	(18,711)	(7,448)	(14,725)
(Increase) decrease in trade and other receivables	(12,262)	11,154	(13,324)	(30,919)	(73,109)
(Increase) decrease in amounts due from customers for contract work	(8,022)	4,156	2,948	(2,550)	(10,684)
Increase in trade and other payables	11,442	196,657	238,586	141,437	78,996
Increase (decrease) in amounts due to customers for contract work	16,007	(9,318)	44,426	(15,434)	45,966
Cash from operations	125,244	398,438	532,429	200,854	236,321
Hong Kong Profits Tax paid	(6,564)	(6,183)	—	—	—
PRC Enterprise Income Tax paid	—	(2,940)	(21,645)	(12,693)	(15,888)
Net cash from operating activities	118,680	389,315	510,784	188,161	220,433

	Notes	Year ended 31 December 2005 HK$'000	2006 HK$'000	2007 HK$'000	Six months ended 30 June 2007 HK$'000 (unaudited)	2008 HK$'000
Cash flows from investing activities						
Interest received		449	8,683	17,387	6,982	4,632
Dividend received from available-for-sale investments		—	2,186	—	—	3,975
Dividends received from associates		—	688	1,090	1,071	—
Acquisition of a subsidiary	37	(29,383)	—	—	—	—
Acquisition of jointly controlled entities	38	205,103	—	—	—	—
Additions of prepaid lease payments		—	(3,009)	(4,552)	—	(632)
Payments for exclusive operating rights		—	(6,498)	(4,759)	—	—
Disposals of subsidiaries	39	—	79,989	—	—	—
Investment in an associate		—	(1,053)	—	—	—
Advances to immediate holding company		(15,114)	(52,549)	—	—	—
(Advances to) repayment of advances to fellow subsidiaries		(3,235)	(4,875)	(1,649)	(48,174)	1,693
Proceeds from disposal of available-for-sale investments		—	425	—	—	—
Proceeds from disposal of property, plant and equipment		197	339	7,848	17,045	5,655
Proceeds from disposal of prepaid lease payments		—	—	16,211	16,211	—
Purchase of investment properties		—	(2,667)	—	—	—
Purchase of property, plant and equipment		(46,884)	(290,396)	(170,961)	(64,532)	(103,639)
Net cash from (used in) investing activities		111,133	(268,737)	(139,385)	(71,397)	(88,316)
Cash flows from financing activities						
Dividends paid		(71,000)	—	—	—	—
Dividends paid to minority shareholders of subsidiaries		(4,324)	(15,430)	(14,663)	(1,192)	—
Interest paid		(2,370)	(10,047)	(7,697)	(4,465)	(6,017)
Contributions from minority shareholders of subsidiaries		—	94,685	—	—	—
Proceeds from issue of new shares		153,084	250,000	—	—	—
(Repayment of) advance from fellow subsidiaries		(66,393)	(33,350)	1,678	102	(1,891)
Repayment of advances from immediate holding company		—	—	(195,787)	(176,855)	(175,385)
Repayment of bank and other borrowings		—	(40,653)	(83,614)	(37,990)	(41,678)
New bank and other borrowings raised		20,370	1,025	45,172	35,779	38,202
Net cash from (used in) financing activities		29,367	246,230	(254,911)	(184,621)	(186,769)
Net increase (decrease) in cash and cash equivalents		259,180	366,808	116,488	(67,857)	(54,652)
Effect on foreign exchange rate changes		15,930	6,092	39,554	19,108	50,674
Cash and cash equivalents at beginning of the year/period		27,787	302,897	675,797	675,797	831,839
Cash and cash equivalents at end of the year/period, representing bank balances and cash		302,897	675,797	831,839	627,048	827,861

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL

The Company was incorporated on 9 November 2005 in the British Virgin Islands as a limited liability company and acts as investment holding company. The directors of the Company regard the immediate holding company and the ultimate holding company as at 31 December 2005, 31 December 2006, 31 December 2007 and 30 June 2008 to be China Resources Gas (Holdings) Limited, a company established in Hong Kong, and China Resources National Corporation, a company established in the PRC, respectively. The address of the registered office of the Company is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands. The principal place of business of the Company is 19/F., China Resources Building, 26 Harbour Road, Wanchai, Hong Kong.

The functional currency of the Group is Renminbi ("RMB") while the Financial Information are presented in Hong Kong dollars ("HK$"), which the management of the Company considered is more beneficial for the users of the Financial Information.

2. BASIS OF PREPARATION OF THE FINANCIAL INFORMATION

Under a group reorganisation (the "Group Reorganisation") to rationalise the structure of the Group, the Company became the holding company of the Group in December 2005. The principal steps of the Group Reorganisation included the consideration paid to a fellow subsidiary to acquire the subsidiaries forming the Group as disclosed in note 43(i).

As a result of the Group Reorganisation, the Group is ultimately controlled by the same party both before and after the Group Reorganisation, and that control is not transitory. The Group is regarded as a continuing entity and accordingly, the consolidated income statements and the consolidated cash flow statements for the year ended 31 December 2005 include the results and cash flows of the companies now comprising the Group which have been prepared by applying the principles of merger accounting, as if the current group structure upon the completion of the Group Reorganisation had been in existence throughout the year ended 31 December 2005, or since their respective dates of incorporation/establishment where this is a shorter period.

The Group had net current liabilities of HK$1,111,426,000 and HK$37,549,000 at 31 December 2007 and 30 June 2008. The Financial Information have been prepared on a going concern basis because the intermediate holding company has agreed to provide adequate funds to enable the Group to meet in full its financial obligations as they fall due for the foreseeable future.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS")

The Group has adopted all of the new and revised standards and interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for the Group's financial period beginning on or prior to 1 January 2008 in the preparation of its Financial Information throughout the Relevant Periods.

At the date of this report, the HKICPA has issued the following standards, amendment and interpretations that are not yet effective in respect of the Relevant Periods. The Group has not early applied the following standards, amendment and interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of financial statements [1]
HKAS 23 (Revised)	Borrowing costs [1]
HKAS 27 (Revised)	Consolidated and separate financial statements [2]
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation [1]
HKFRS 2	Vesting conditions and cancellations [1]
HKFRS 3 (Revised)	Business combinations [2]
HKFRS 8	Operating segments [1]
HK(IFRIC) - INT 13	Customer loyalty programmes [3]
HK(IFRIC) - INT 15	Agreements for construction of real estate[1]
HK(IFRIC) - INT 16	Hedges of a net investment in a foreign operation[4]

[1] Effective for annual periods beginning on or after 1 January 2009.
[2] Effective for annual periods beginning on or after 1 July 2009.
[3] Effective for annual periods beginning on or after 1 July 2008.
[4] Effective for annual periods beginning on or after 1 October 2008

The adoption of HKFRS 3 (revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared under the historical cost basis except for certain financial instruments and investment properties which are measured at fair values and in accordance with accounting policies set out below which conform with HKFRSs issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance. The principal accounting policies adopted are as follows:

Basis of consolidation

The Financial Information incorporates the financial information of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the Relevant Periods are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial information of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Merger accounting for common control combination

The Financial Information incorporates the financial information items of the combining entities in which the common control combination occurs as if they had been combined from the date when the combining entities first came under the control of the controlling party.

The net assets of the combining entities are combined using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the results of each of the combining entities from the earliest date presented or since the date when the combining entities first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

Goodwill

Goodwill arising on acquisitions prior to 1 January 2005

Goodwill arising on an acquisition of net assets and operations of another entity or a jointly controlled entity for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant acquiree at the date of acquisition.

For previously capitalised goodwill arising on acquisitions of net assets and operations of another entity or a jointly controlled entity after 1 January 2001, the Group has discontinued amortisation from 1 January 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash-generating unit to which the goodwill relates may be impaired (see the accounting policy below).

Goodwill arising on acquisitions on or after 1 January 2005

Goodwill arising on an acquisition of a business or a jointly controlled entity (which is accounted for using proportionate consolidation) for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business or jointly controlled entity at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business or a jointly controlled entity is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial period. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit or a jointly controlled entity, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in the Financial Information using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Joint ventures

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The Company's interests in jointly controlled entities are stated at cost, as reduced by any distributions and identified impairment loss. The results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

Jointly controlled entities are accounted for using proportionate consolidation

The Group recognises its interests in jointly controlled entities using proportionate consolidation. The Group's share of each of the assets, liabilities, income and expenses of the jointly controlled entities are combined with the Group's similar line items, line by line, in the Financial Information.

Any goodwill arising on the acquisition of the Group's interest in a jointly controlled entity is accounted for in accordance with the Group's accounting policy for goodwill arising on the acquisition of a business or a jointly controlled entity (see above).

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

When a group entity transacts with a jointly controlled entity of the Group, profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Income from connection of gas pipelines is recognised when the outcome of a gas connection contract can be estimated reliably and the stage of completion at the balance sheet date can be measured reliably. Revenue from gas connection contracts is recognised on the percentage of completion method, measured by reference to the value of work carried out during the year/period. When the outcome of a gas connection contract cannot be estimated reliably, revenue is recognised only to the extent of contract cost incurred that is probable to be recoverable.

Revenue from gas supply is recognised when gas is used by customers.

Sales of goods are recognised when goods are delivered and title has been passed.

Service income is recognised when services are rendered to customers.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write-off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year/period in which the item is derecognised.

Leasehold land and buildings under development for future owner-occupied purpose

When the leasehold land and buildings are in the course of development for production or for administrative purposes, the leasehold land component is classified as a prepaid lease payment and amortised over a straight-line basis over the lease term. During the construction period, the amortisation charge provided for the leasehold land is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year/period in which the item is derecognised.

Construction contracts

When the outcome of a construction contract can be estimated reliably and the stage of contract completion at the balance sheet date can be measured reliably, contract costs are charged to the consolidated income statement by reference to the stage of completion of the contract activity at the balance sheet date on the same basis as contract revenue is recognised.

When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred. When it is probable that total contracts costs will exceed contract revenue, the expected loss is recognised as an expense immediately.

Intangible assets

Intangible assets refer to the exclusive operating rights for city pipeline network.

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses.

Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the two categories, including loans and receivables, and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount of the asset on initial recognition.

Income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from group companies, and bank balances and cash), are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss ("FVTPL"), loans and receivables or held-to-maturity investments.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables and loan receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period up to 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities other than those at FVTPL.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount of the liabilities on initial recognition.

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities including trade and other payables, amounts due to group companies, bank and other borrowings and other long term liabilities are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases.

Foreign currencies

In preparing the financial information of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the Financial Information, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the exchange reserve.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the year/period in which they are incurred.

Retirement benefit costs

Payments to defined contribution retirement benefit plans/state-managed retirement benefit schemes/the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and joint controlled entities, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year/period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, management has made various estimates based on past experience, expectations of future and other information. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustments to the carrying amounts of assets and liabilities within the next financial period, are discussed below.

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account the estimated residual value. The Group assesses annually the residual value and the useful life of the property, plant and equipment and if the expectation differs from the original estimates, such differences from the original estimates will impact the depreciation charges in the year/period in which the estimates change.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2005, 2006 and 2007 and 30 June 2008, the carrying amounts of goodwill are HK$18,158,000, HK$18,284,000, HK$18,383,000 and HK$18,470,000, respectively. Details of the recoverable amount calculation are disclosed in note 18.

Estimated impairment of exclusive operating rights

At the balance sheet date, management reconsidered the recoverability of its exclusive operating rights arising from acquisition of businesses/assets, in which the carrying amounts at 31 December 2005, 2006 and 2007 and 30 June 2008 are HK$678,464,000, HK$664,220,000, HK$652,368,000 and HK$648,824,000 respectively. Recoverability analysis has been carried out by the management annually and details of the recoverable amount calculation are disclosed in note 19. Any change in the business environment may lead to the change of expected future cashflows in the future. If the future recoverable amounts falls below the carrying amounts, additional impairment loss of exclusive operating rights is required.

Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2005, 2006 and 2007 and 30 June 2008, the carrying amounts of trade receivables are HK$45,907,000, HK$35,973,000, HK$67,805,000 and HK$98,661,000, respectively.

6. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged during the Relevant Periods.

The capital structure of the Group consists of debt, which includes bank and other borrowings disclosed in note 31, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves and accumulated profits.

The directors of the Company review the capital structure on a semi-annual basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

7. FINANCIAL INSTRUMENTS

Categories of financial instruments

THE GROUP

	At 31 December			At 30 June
	2005	**2006**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets				
Loans and receivables (including cash and cash equivalents)				
- trade and other receivables	104,995	83,765	114,363	185,441
- amount due from immediate holding company	15,114	67,663	—	—
- amounts due from fellow subsidiaries	55,060	138	1,797	229
- bank balances and cash	302,897	675,797	831,839	827,861
	478,066	827,363	947,999	1,013,531
Available-for-sale investments	7,446	7,280	7,802	8,312
Financial liabilities				
At amortised cost				
- trade and other payables	(264,443)	(184,538)	(173,333)	(193,570)
- amounts due to fellow subsidiaries	(33,434)	(84)	(1,768)	—
- amount due to immediate holding company	—	—	(1,231,719)	(56,334)
- bank and other borrowings	(270,856)	(224,085)	(198,847)	(209,251)
- other long term liabilities	(51,173)	(56,868)	(62,385)	(66,419)
	(619,906)	(465,575)	(1,668,052)	(525,574)

THE COMPANY

	At 31 December			At 30 June
	2005	**2006**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets				
Loans and receivables (including cash and cash equivalents)				
- other receivables	—	14,341	534	533
- amount due from immediate holding company	15,114	64,177	—	—
- amount due from a fellow subsidiary	—	3,485	—	38,499
- amounts due from subsidiaries	10,091	38,436	6,774	6,205
- bank balances and cash	—	181,762	196,434	35,152
	25,205	302,201	203,742	80,389
Financial liabilities				
At amortised cost				
- other payables	(8,650)	(4,003)	(3,829)	—
- amount due to a fellow subsidiary	—	(84)	—	—
- amount due to a subsidiary	(47,444)	—	—	—
- amount due to immediate holding company	—	—	(1,231,719)	(53,700)
	(56,094)	(4,087)	(1,235,548)	(53,700)

Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, trade and other receivables, amounts due from (to) group companies, bank balances and cash, trade and other payables, bank and other borrowings and other long term liabilities. The Company's major financial instruments include other receivables, amounts due from (to) group companies, bank balances and cash and other payables. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Currency risk

The Group and the Company did not have any foreign currency sales and purchases during the Relevant Periods which expose the Group and the Company to foreign currency risk.

The carrying amounts of the Group's and the Company's foreign currency denominated monetary assets and monetary liabilities at the reporting dates are as follows:

THE GROUP

	At 31 December			At 30 June
	2005	2006	2007	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Assets				
United State Dollars ("USD")	—	195,101	11,878	11,936
Liabilities				
EURO	(20,061)	(21,965)	(23,145)	(23,927)

THE COMPANY

	At 31 December			At 30 June
	2005	2006	2007	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Assets				
USD	—	181,762	1,970	1,973

The management continuously monitors the foreign exchange exposure and will consider hedging foreign currency risk should the need arise.

Sensitivity analysis

The Group and the Company mainly expose to currency of USD and EURO.

The following table details the Group's and the Company's sensitivity to a 5% increase and decrease in RMB against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% change in foreign currency rates. The sensitivity analysis includes bank balances and bank and other borrowings. A positive number below indicates an increase in profit for the year/ period where RMB strengthen 5% against the relevant currency. For a 5% weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit for the year/period and the balances below would be negative.

THE GROUP

	At 31 December			At 30 June
	2005	**2006**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
5% strengthening of RMB				
Increase (decrease) in profit for the year/period	1,003	(8,657)	563	600
5% weakening of RMB				
(Decrease) increase in profit for the year/period	(1,003)	8,657	(563)	(600)

THE COMPANY

	At 31 December			At 30 June
	2005	**2006**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
5% strengthening of RMB				
Decrease in profit for the year/period	—	(9,088)	(99)	(99)
5% weakening of RMB				
Increase in profit for the year/period	—	9,088	99	99

Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to floating-rate bank and other borrowings (see note 31 for details of these borrowings). The management continuously monitors interest rate fluctuation and will consider further hedging interest rate risk should the need arise.

The Group is also exposed to fair value interest rate risk in relation to fixed-rate bank and other borrowings (see note 31 for details of these borrowings). The management monitors interest rate exposure and will consider repay the fixed-rate borrowings when significant interest rate exposure is anticipated.

The Group's and the Company's bank balances have exposure to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank balances. The directors of the Company consider the Group's and the Company's exposure of the short-term bank deposits to interest rate risk is not significant as interest bearing bank balances are within short maturity period.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for interest bearing bank balances and bank and other borrowings at the balance sheet date and the stipulated changes taking place at the beginning of the year/period and held constant throughout the year/period to floating rates.

THE GROUP

If interest rates on bank balances carried at variable rates and bank and other borrowings had been 50 basis points higher/lower and all other variables were held constant, the profit for the year ended 31 December 2005 would increase/decrease by approximately HK$814,000 (year ended 31 December 2006: increase/decrease by approximately HK$2,641,000; year ended 31 December 2007: increase/decrease by approximately HK$2,833,000; six months ended 30 June 2008: increase/decrease by approximately HK$2,292,000). This is mainly attributable to the Group's exposure to interest rates on its bank balances with variable rates and floating-rate bank and other borrowings.

THE COMPANY

If interest rates on bank balances carried at variable rates had been 50 basis points higher/lower and all other variables were held constant, the profit for the year ended 31 December 2006 would increase/decrease by approximately HK$909,000 (year ended 31 December 2007: increase/decrease by approximately HK$982,000; six months ended 30 June 2008: increase/decrease by approximately HK$176,000). This is mainly attributable to the Company's exposure to interest rates on its bank balances with variable rates.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at each balance sheet date in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the directors of the Company continuously monitor exposure to ensure that follow-up actions and/or corrective actions are taken promptly to lower exposure or even to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

At 31 December 2005, 2006 and 2007 and 30 June 2008, the Group has concentration of credit risk in relation to the receivables from group companies amounting to HK$70,174,000, HK$67,801,000, HK$1,797,000 and HK$229,000 respectively. In addition, the Company also has concentration of credit risk in relation to the receivables from group companies amounting to HK$25,205,000, HK$106,098,000, HK$6,774,000 and HK$44,704,000 at 31 December 2005, 2006 and 2007 and 30 June 2008, respectively. In order to minimise the credit risk, the management of the Company has reviewed the recoverable amount of each receivables from its group companies at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's and the Company's credit risk is significantly reduced.

The Group's and the Company's credit risk on liquid funds is limited because majority of the counterparties are banks with high credit ratings assigned by international credit-rating agencies and state owned banks with good reputation.

Liquidity risk

In the management of the liquidity risk, the Group and the Company monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's and the Company's operations and mitigate the effects of fluctuations in cash flows. The management also monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The Group had net current liabilities of HK$1,111,426,000 and HK$37,549,000 at 31 December 2007 and 30 June 2008 and the Company also had net current liabilities of HK$30,889,000 and HK$1,031,806,000 at 31 December 2005 and 31 December 2007 respectively. The directors of the Company consider that it is appropriate to prepare the Financial Information on a going concern basis because the intermediate holding company has agreed to provide adequate funds to enable the Group and the Company to meet in full its financial obligations as they fall due for the foreseeable future.

The following table details the Group's and the Company's remaining contractual maturity for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay. The table includes both interest and principal cash flows.

Liquidity and interest risk tables

		THE GROUP					
	Weighted average effective interest rate	**On demand**	**Less than 1 year**	**Over 1 year but not more than 5 years**	**Over 5 years**	**Total undiscounted cash flows**	**Carrying amount**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 December 2005							
Non-derivative financial liabilities							
Trade and other payables	N/A	148,425	116,018	—	—	264,443	264,443
Amounts due to fellow subsidiaries	N/A	33,434	—	—	—	33,434	33,434
Bank and other borrowings							
- fixed-rate borrowings	4.2%	—	46,697	215,163	20,812	282,672	250,795
- floating-rate borrowings	3.5%	—	2,996	13,861	8,933	25,790	20,061
Other long term liabilities	3.9%	—	2,446	8,229	85,189	95,864	51,173
		181,859	168,157	237,253	114,934	702,203	619,906
As at 31 December 2006							
Non-derivative financial liabilities							
Trade and other payables	N/A	122,466	62,072	—	—	184,538	184,538
Amounts due to fellow subsidiaries	N/A	84	—	—	—	84	84
Bank and other borrowings							
- fixed-rate borrowings	5.0%	—	3,367	195,717	18,089	217,173	202,120
- floating-rate borrowings	4.5%	—	3,836	17,904	1,332	23,072	21,965
Other long term liabilities	3.9%	—	2,098	9,155	89,003	100,256	56,868
		122,550	71,373	222,776	108,424	525,123	465,575

	THE GROUP						
	Weighted average effective interest rate	**On demand**	**Less than 1 year**	**Over 1 year but not more than 5 years**	**Over 5 years**	**Total undiscounted cash flows**	**Carrying amount**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 December 2007							
Non-derivative financial liabilities							
Trade and other payables	N/A	107,292	66,041	—	—	173,333	173,333
Amounts due to fellow subsidiaries	N/A	1,768	—	—	—	1,768	1,768
Amount due to immediate holding company	N/A	1,231,719	—	—	—	1,231,719	1,231,719
Bank and other borrowings							
- fixed-rate borrowings	5.1%	—	42,676	117,088	8,565	168,329	154,346
- floating-rate borrowings	4.9%	—	26,785	23,213	—	49,998	44,501
Other long term liabilities	3.9%	—	3,078	9,920	93,277	106,275	62,385
		1,340,779	138,580	150,221	101,842	1,731,422	1,668,052
As at 30 June 2008							
Non-derivative financial liabilities							
Trade and other payables	N/A	114,854	78,716	—	—	193,570	193,570
Amount due to immediate holding company	N/A	56,334	—	—	—	56,334	56,334
Bank and other borrowings							
- fixed-rate borrowings	5.92%	—	52,632	113,422	9,106	175,160	156,884
- floating-rate borrowings	2.18%	—	36,264	18,628	—	54,892	52,367
Other long term liabilities	3.95%	—	3,023	10,778	100,748	114,549	66,419
		171,188	170,635	142,828	109,854	594,505	525,574

	Weighted average effective interest rate	THE COMPANY On demand and total undiscounted cash flows	Carrying amount
		HK$'000	*HK$'000*
As at 31 December 2005			
Non-derivative financial liabilities			
Other payables	N/A	8,650	8,650
Amount due to a subsidiary		47,444	47,444
		56,094	56,094
As at 31 December 2006			
Non-derivative financial liabilities			
Other payables	N/A	4,003	4,003
Amount due to a fellow subsidiary	N/A	84	84
		4,087	4,087
As at 31 December 2007			
Non-derivative financial liabilities			
Other payables	N/A	3,829	3,829
Amount due to immediate holding company	N/A	1,231,719	1,231,719
		1,235,548	1,235,548
As at 30 June 2008			
Non-derivative financial liability			
Amount due to immediate holding company	N/A	53,700	53,700

Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

8. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purpose, the Group currently organises its operations into two business segments, mainly sale and distribution of gas fuel and related products, and gas connection. These divisions are the basis on which the Group reports its primary segment information. The principal activities of business segments are as follows:

Sale and distribution of gas fuel and related products	—	Sale of liquefied petroleum gas ("LPG") and natural gas for residential, commercial and industrial use
Gas connection	—	Connection of gas pipelines

The Group's operation by business segment is as follows:

For the year ended 31 December 2005

	Sale and distribution of gas fuel and related products *HK$'000*	Gas connection *HK$'000*	Consolidated *HK$'000*
TURNOVER			
External sales	933,807	51,954	985,761
RESULTS			
Segment results	38,010	26,346	64,356
Finance costs			(2,532)
Discount on acquisition of a jointly controlled entity	5,587	—	5,587
Unallocated corporate income			51,988
Unallocated corporate expenses			(12,319)
Profit before taxation			107,080
Taxation charge			(6,066)
Profit for the year			101,014
At 31 December 2005			
ASSETS			
Segment assets	1,681,509	68,064	1,749,573
Interests in associates	3,755	—	3,755
Unallocated corporate assets			504,581
			2,257,909
LIABILITIES			
Segment liabilities	160,880	332,731	493,611
Unallocated corporate liabilities			569,774
			1,063,385

Other information for the year ended 31 December 2005

	Sale and distribution of gas fuel and related products	Gas connection	Unallocated	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amortisation of				
- prepaid lease payments	—	—	3,778	3,778
- exclusive operating rights	1,519	—	—	1,519
Capital additions	1,262,818	—	69,447	1,332,265
Depreciation of property, plant and equipment	18,539	—	—	18,539
Impairment loss on trade receivables	437	—	—	437
Additions to goodwill	15,997	—	—	15,997

For the year ended 31 December 2006

	Sale and distribution of gas fuel and related products	Gas connection	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
TURNOVER			
External sales	1,178,829	160,188	1,339,017
RESULTS			
Segment results	55,614	48,659	104,273
Finance costs			(11,191)
Loss on disposal of subsidiaries	(4,185)	—	(4,185)
Unallocated corporate income			35,698
Unallocated corporate expenses			(12,206)
Share of results of associates	1,786	—	1,786
Profit before taxation			114,175
Taxation charge			(3,128)
Profit for the year			111,047
At 31 December 2006			
ASSETS			
Segment assets	1,803,240	66,317	1,869,557
Interests in associates	6,090	—	6,090
Unallocated corporate assets			882,218
			2,757,865
LIABILITIES			
Segment liabilities	154,359	449,227	603,586
Unallocated corporate liabilities			486,933
			1,090,519

Other information for the year ended 31 December 2006

	Sale and distribution of gas fuel and related products	**Gas connection**	**Unallocated**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amortisation of				
- prepaid lease payments	—	—	3,990	3,990
- exclusive operating rights	23,400	—	—	23,400
Capital additions	502,985	—	5,676	508,661
Depreciation of property, plant and equipment	69,589	—	—	69,589
Impairment loss on trade receivables	105	—	—	105
Loss on disposal of property, plant and equipment	1,139	—	—	1,139

For the year ended 31 December 2007

	Sale and distribution of gas fuel and related products	**Gas connection**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*
TURNOVER			
External sales	1,326,406	210,838	1,537,244
RESULTS			
Segment results	98,805	77,961	176,766
Finance costs			(9,001)
Unallocated corporate income			29,066
Unallocated corporate expenses			(9,547)
Share of results of associates	2,445	—	2,445
Profit before taxation			189,729
Taxation credit			34,728
Profit for the year			224,457
At 31 December 2007			
ASSETS			
Segment assets	1,991,278	68,104	2,059,382
Interests in associates	7,939	—	7,939
Unallocated corporate assets			977,308
			3,044,629
LIABILITIES			
Segment liabilities	167,321	782,221	949,542
Unallocated corporate liabilities			1,644,656
			2,594,198

Other information for the year ended 31 December 2007

	Sale and distribution of gas fuel and related products	Gas connection	Unallocated	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amortisation of				
- prepaid lease payments	—	—	3,286	3,286
- exclusive operating rights	24,756	—	—	24,756
Capital additions	284,114	—	5,300	289,414
Depreciation of property, plant and equipment	65,575	—	—	65,575
Impairment loss on trade receivables	775	—	—	775
Loss on disposal of property, plant and equipment	5,678	—	—	5,678
Write-off of property, plant and equipment	10,981	—	—	10,981

For the six months ended 30 June 2008

	Sale and distribution of gas fuel and related products	Gas connection	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
TURNOVER			
External sales	817,303	149,171	966,474
RESULTS			
Segment results	89,374	70,448	159,822
Finance costs			(6,745)
Unallocated corporate income			13,585
Unallocated corporate expenses			(5,337)
Share of results of associates	1,586	—	1,586
Profit before taxation			162,911
Taxation charge			(15,818)
Profit for the period			147,093
At 30 June 2008			
ASSETS			
Segment assets	2,224,960	83,542	2,308,502
Interests in associates	10,084	—	10,084
Unallocated corporate assets			979,377
			3,297,963
LIABILITIES			
Segment liabilities	173,587	968,244	1,141,831
Unallocated corporate liabilities			482,155
			1,623,986

Other information for the six months ended 30 June 2008

	Sale and distribution of gas fuel and related products	**Gas connection**	**Unallocated**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amortisation of				
- prepaid lease payments	—	—	1,871	1,871
- exclusive operating rights	11,271	—	—	11,271
Capital additions	139,698	—	1,246	140,944
Depreciation of property, plant and equipment	33,881	—	—	33,881
Impairment loss on trade receivables	77	—	—	77
Loss on disposal of property, plant and equipment	3,928	—	—	3,928

For the six months ended 30 June 2007 (unaudited)

	Sale and distribution of gas fuel and related products	**Gas connection**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*
TURNOVER			
External sales	607,829	83,904	691,733
RESULTS			
Segment results	51,839	29,186	81,025
Finance costs			(5,108)
Unallocated corporate income			15,945
Unallocated corporate expenses			(5,398)
Share of results of associates	1,185	—	1,185
Profit before taxation			87,649
Taxation credit			38,110
Profit for the period			125,759

Other information for the six months ended 30 June 2007 (unaudited)

	Sale and distribution of gas fuel and related products	**Gas connection**	**Unallocated**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amortisation of				
- prepaid lease payments	—	—	1,153	1,153
- exclusive operating rights	11,778	—	—	11,778
Capital additions	64,532	—	—	64,532
Depreciation of property, plant and equipment	28,559	—	—	28,559
Impairment loss on trade receivables	376	—	—	376
Loss on disposal of property, plant and equipment	393	—	—	393

Geographical segments

No geographical segment analysis is shown as the Group's operating businesses are solely carried out in the PRC and the assets are solely located in the PRC.

9. FINANCE COSTS

	Year ended 31 December			**Six months ended 30 June**	
	2005	**2006**	**2007**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Interest on bank and other borrowings wholly repayable within five years	2,185	9,347	7,237	4,198	5,627
Interest on bank and other borrowings not wholly repayable within five years	185	700	460	267	390
Imputed interest on other long term liabilities	162	1,144	1,304	643	728
	2,532	11,191	9,001	5,108	6,745

10. PROFIT BEFORE TAXATION

	Year ended 31 December			Six months ended 30 June	
	2005	**2006**	**2007**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Profit before taxation has been arrived at after charging:					
Directors' emoluments					
Fees	—	—	—	—	—
Other emoluments	—	—	—	—	—
	—	—	—	—	—
Other staff costs	20,067	64,297	99,971	40,525	55,332
Retirement benefit costs	1,050	5,561	8,006	2,179	4,922
Total staff costs	21,117	69,858	107,977	42,704	60,254
Amortisation of					
- prepaid lease payments	3,778	3,990	3,286	1,153	1,871
- exclusive operating rights	1,519	23,400	24,756	11,778	11,271
	5,297	27,390	28,042	12,931	13,142
Auditor's remuneration	243	618	622	334	358
Depreciation of property, plant and equipment	18,539	69,589	65,575	28,559	33,881
Loss on disposal of property, plant and equipment	—	1,139	5,678	393	3,928
Write-off of property, plant and equipment	—	—	10,981	—	—
Operating lease expenses on land and buildings	1,490	2,775	3,003	1,534	2,813
Impairment loss on trade receivables	437	105	775	376	77
and after crediting:					
Dividend income from available-for-sale investments	—	2,186	—	—	3,975
Gain on disposal of property, plant and equipment	75	—	—	—	—
Gain on disposal of prepaid lease payments	—	—	10,697	10,697	—
Gain on fair value changes of investment properties	—	560	748	384	614
Design income for gas pipelines	—	—	—	—	10,668
Rental income (net of negligible outgoing)	119	2,368	2,062	1,088	925
Interest income	449	8,683	17,387	6,982	4,632
Storage and transportation income (net of related expenses)	50,474	21,222	—	—	—

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The five highest paid individuals included solely for employees of the Group during the Relevant Periods. The details of the emoluments paid to the five highest paid individuals for the Relevant Periods were as follows:

	Year ended 31 December			Six months ended 30 June	
	2005	**2006**	**2007**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (*unaudited*)	*HK$'000*
Basic salaries and allowances	1,436	1,750	2,293	1,122	1,243
Retirement benefit scheme contribution	76	29	115	67	143
	1,512	1,779	2,408	1,189	1,386

Their emoluments were within HK$1,000,000 for each of the Relevant Periods:

During the Relevant Periods, no emoluments has been paid by the Group to any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during the Relevant Periods.

12. TAXATION

	Year ended 31 December			Six months ended 30 June	
	2005	**2006**	**2007**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (*unaudited*)	*HK$'000*
Current taxation					
Hong Kong Profits Tax	6,054	2,053	—	—	—
PRC Enterprise Income Tax	—	6,894	19,778	13,353	17,936
Underprovision in prior years/periods	—	956	—	—	320
	—	7,850	19,778	13,353	18,256
	6,054	9,903	19,778	13,353	18,256
Deferred taxation (note 33)					
Charge (credit) for the year/period	12	(6,775)	(5,375)	(2,332)	(2,438)
Attributable to a change in tax rate	—	—	(49,131)	(49,131)	—
	12	(6,775)	(54,506)	(51,463)	(2,438)
Taxation charge (credit) for the year/period	6,066	3,128	(34,728)	(38,110)	15,818

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profits for the years ended 31 December 2005 and 2006. No provision for Hong Kong Profits Tax had been made for the year ended 31 December 2007 and for the six months ended 30 June 2007 and 2008 as the Group had no assessable profit for these years/periods.

The PRC Enterprise Income Tax has been provided for based on the estimated assessable profits in accordance with the relevant tax laws applicable to the subsidiaries in the PRC for the Relevant Periods.

On 16 March 2007, the Enterprise Income Tax Law (the "new EIT Law") was passed at the Fifth session of the Tenth National People's Congress of the PRC, the income tax rate for both domestic and foreign-investment enterprise will be unified at 25% effective from 1 January 2008. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised.

According to a joint circular of the Ministry of Finance and State Administration of Taxation, Cai Shui 2008 No. 1, only the profits earned by foreign-investment enterprise prior to 1 January 2008, when distributed to foreign investors, can be grandfathered and exempted from withholding tax. Whereas, dividend distributed out of the profits generated thereafter, shall be subject to the Enterprise Income Tax at 5% or 10% and withheld by the PRC entities, pursuant to Articles 3 and 27 of the EIT Law and Article 91 of its Detailed Implementation Rules. No deferred tax liability on the undistributed profits earned during the six months ended 30 June 2008 has been accrued as the directors of the Company expect that no dividends will be distributed by the Company's subsidiaries to the Company in next few years.

Taxation for the Relevant Periods can be reconciled to the profit before taxation as follows:

	Year ended 31 December			Six months ended 30 June	
	2005	**2006**	**2007**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*	*HK$'000*
Profit before taxation	107,080	114,175	189,729	87,649	162,911
Taxation charge at the applicable income tax rate (note a)	35,337	37,678	62,611	28,925	40,728
Tax effect of expenses not deductible for tax purpose	70	2,503	2,813	1,610	1,279
Tax effect of income not taxable for tax purpose	(150)	(3,646)	(9,730)	(6,120)	(1,403)
Tax effect of income that is exempted from PRC Enterprise Income Tax in determining taxable profit (note b)	(23,974)	(32,187)	(42,359)	(14,101)	(24,863)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(5,217)	(2,107)	—	—	—
Tax effect of share of results of associates	—	589	807	391	397
Tax effect of tax losses not recognised	—	1,254	261	316	—
Decrease in opening deferred tax liabilities resulting from a decrease in applicable tax rate	—	—	(49,131)	(49,131)	—
Underprovision of taxation in prior years/periods	—	(956)	—	—	(320)
Taxation charge (credit) for the year/period	6,066	3,128	(34,728)	(38,110)	15,818

Notes:

(a) The applicable income tax rate represents PRC Enterprise Income Tax rate of 33% for the three years ended 31 December 2007, and for the six months ended 30 June 2007, and 25% for the six months ended 30 June 2008, of which the Group's operations are substantially based.

(b) Pursuant to relevant laws and regulations in the PRC, certain subsidiaries of the Company in the PRC are exempted from PRC Enterprise Income Tax for two years starting from the first profit-making year in which profits exceed any carried forward tax losses followed by a 50% reduction in the income tax rate in the following three years.

13. DIVIDENDS

The following are the dividend paid during the Relevant Periods:

	Year ended 31 December			Six months ended 30 June	
	2005	**2006**	**2007**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Interim dividend paid for the year ended 31 December 2005 (note 1)	71,000	—	—	—	—
Interim dividend paid for the year ended 31 December 2007 (note 2)	—	—	1,500,000	—	—
	71,000	—	1,500,000	—	—

Note 1: Amount represents the dividends paid by certain subsidiaries of the Group prior to the Group Reorganisation.

Note 2: Amount represents the interim dividend paid by the Company during the year ended 31 December 2007.

14. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the consolidated profit attributable to the equity holders of the Company for each of the years/periods in the Relevant Periods and the weighted average number/number of 2, 3 and 3 ordinary shares in issue for the year ended 31 December 2005, 2006 and 2007, respectively, and 3 and 4 ordinary shares in issue for the six months ended 30 June 2007 and 2008, respectively.

No diluted earnings per share are presented for the Relevant Periods as there were no dilutive potential ordinary shares in issue.

15. INVESTMENT PROPERTIES

	THE GROUP
	HK$'000
FAIR VALUE	
At 1 January 2005	—
Acquired on acquisition of jointly controlled entities	8,458
At 31 December 2005	8,458
Exchange realignment	312
Additions	2,667
Gain on fair value changes for the year	560
At 31 December 2006	11,997
Exchange realignment	860
Gain on fair value changes for the year	748
At 31 December 2007	13,605
Exchange realignment	890
Gain on fair value changes for the period	614
At 30 June 2008	15,109

The fair values of the Group's investment properties at 31 December 2005, 2006 and 2007 and 30 June 2008 have been arrived at on the basis of a valuation carried out on that date by DTZ Debenham Tie Leung Limited, independent qualified professional valuers not connected with the Group. DTZ Debenham Tie Leung Limited are members of the Institute of Valuers, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation was arrived at by reference to market evidence of transaction prices of similar properties.

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using fair value model and are classified and accounted for as investment properties.

All of the Group's investment properties are situated in the PRC with medium terms of leases.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings held for own use	Plant and machineries	Furniture and fixtures	Leasehold improvements	Motor vehicles	Construction in progress	Gas pipelines	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
THE GROUP								
Cost								
At 1 January 2005	9,474	210,170	962	—	4,720	59,279	20,653	305,258
Exchange realignment	219	508	21	—	112	1,222	1,315	3,397
Acquired on acquisition of a subsidiary	2,448	2,201	23	—	232	390	18,499	23,793
Acquired on acquisition of jointly controlled entities	69,384	40,041	6,158	1,306	7,377	105,067	299,168	528,501
Additions	—	2,307	244	—	2,371	41,962	—	46,884
Transfer	—	1,402	—	—	278	(35,703)	34,023	—
Disposals	—	(314)	(54)	—	(53)	—	—	(421)
At 31 December 2005	81,525	256,315	7,354	1,306	15,037	172,217	373,658	907,412
Exchange realignment	3,019	3,573	307	125	932	6,968	17,774	32,698
Additions	10,775	16,128	3,060	4,395	14,537	241,501	—	290,396
Transfer	1,961	5,214	368	—	—	(213,634)	206,091	—
Disposed on disposals of subsidiaries	—	(190,139)	(204)	—	(1,393)	—	—	(191,736)
Disposals	(1,870)	(852)	(96)	—	(1,387)	—	—	(4,205)
At 31 December 2006	95,410	90,239	10,789	5,826	27,726	207,052	597,523	1,034,565
Exchange realignment	9,844	8,547	964	386	2,594	18,950	41,962	83,247
Additions	4,006	5,766	2,416	634	4,032	154,107	—	170,961
Transfer	5,909	20,615	211	235	7,053	(142,417)	108,394	—
Disposals	(2,916)	(20,819)	(570)	(4,539)	(3,159)	—	—	(32,003)
Write-off	—	—	—	—	—	—	(25,231)	(25,231)
At 31 December 2007	112,253	104,348	13,810	2,542	38,246	237,692	722,648	1,231,539
Exchange realignment	7,500	8,426	864	88	3,019	16,343	46,876	83,116
Additions	16,437	15,182	—	800	9,853	61,367	—	103,639
Transfer	—	—	—	—	—	(36,059)	36,059	—
Disposals	—	(6,726)	(9,340)	—	(1,897)	—	—	(17,963)
At 30 June 2008	136,190	121,230	5,334	3,430	49,221	279,343	805,583	1,400,331

	Buildings held for own use	Plant and machineries	Furniture and fixtures	Leasehold improve-ments	Motor vehicles	Construction in progress	Gas pipelines	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
THE GROUP								
Accumulated depreciation								
At 1 January 2005	386	94,194	221	—	1,015	—	1,754	97,570
Exchange realignment	14	121	4	—	22	—	80	241
Charge for the year	421	13,139	183	—	1,570	—	3,226	18,539
Eliminated on disposals	—	(248)	(50)	—	(1)	—	—	(299)
At 31 December 2005	821	107,206	358	—	2,606	—	5,060	116,051
Exchange realignment	57	1,540	25	—	339	—	322	2,283
Charge for the year	3,937	27,111	2,188	815	3,270	—	32,268	69,589
Eliminated on disposals of subsidiaries	—	(103,865)	(123)	—	(759)	—	—	(104,747)
Eliminated on disposals	(882)	(670)	(63)	—	(1,113)	—	—	(2,728)
At 31 December 2006	3,933	31,322	2,385	815	4,343	—	37,650	80,448
Exchange realignment	640	3,875	471	40	739	—	2,933	8,698
Charge for the year	4,191	8,096	3,103	471	3,659	—	46,055	65,575
Eliminated on disposals	(1,247)	(14,432)	(497)	(456)	(1,845)	—	—	(18,477)
Eliminated on write-off	—	—	—	—	—	—	(14,250)	(14,250)
At 31 December 2007	7,517	28,861	5,462	870	6,896	—	72,388	121,994
Exchange realignment	978	3,406	393	33	767	—	4,255	9,832
Charge for the period	2,870	10,785	1,520	536	1,540	—	16,630	33,881
Eliminated on disposals	—	(4,604)	(2,663)	—	(1,113)	—	—	(8,380)
At 30 June 2008	11,365	38,448	4,712	1,439	8,090	—	93,273	157,327
Carrying values								
At 30 June 2008	124,825	82,782	622	1,991	41,131	279,343	712,310	1,243,004
At 31 December 2007	104,736	75,487	8,348	1,672	31,350	237,692	650,260	1,109,545
At 31 December 2006	91,477	58,917	8,404	5,011	23,383	207,052	559,873	954,117
At 31 December 2005	80,704	149,109	6,996	1,306	12,431	172,217	368,598	791,361

The above items of property, plant and equipment are depreciated on a straight-line basis at the following useful lives.

Buildings for own use	Over the shorter of the unexpired terms of leases or fifty years, whichever is shorter
Plant and machineries	5 to 20 years
Furniture and fixtures	3 to 20 years
Leasehold improvements	3 to 20 years
Motor vehicles	5 to 10 years
Gas pipelines	20 to 30 years

The buildings are held under medium terms of leases and are situated in the PRC.

17. PREPAID LEASE PAYMENTS

THE GROUP

	At 31 December			At 30 June
	2005	**2006**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Balance at beginning of the year/period	37,308	97,448	101,059	103,882
Exchange realignment	2,929	4,592	7,071	6,753
Acquired on acquisition of a subsidiary	1,707	—	—	—
Acquired on acquisition of jointly controlled entities	59,282	—	—	—
Additions	—	3,009	4,552	632
Disposals	—	—	(5,514)	—
Amortisation charge for the year/period	(3,778)	(3,990)	(3,286)	(1,871)
Balance at end of the year/period	97,448	101,059	103,882	109,396

	At 31 December			At 30 June
	2005	**2006**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Analysis for reporting purpose:				
Non-current portion	93,782	97,225	99,720	104,369
Current portion	3,666	3,834	4,162	5,027
	97,448	101,059	103,882	109,396

Prepaid lease payments represent payments for medium-term land use rights situated in the PRC.

18. GOODWILL

	THE GROUP
	HK$'000
At 1 January 2005	2,161
Addition on acquisition of a subsidiary	11,622
Addition on acquisition of jointly controlled entities	4,375
At 31 December 2005	18,158
Exchange realignment	126
At 31 December 2006	18,284
Exchange realignment	99
At 31 December 2007	18,383
Exchange realignment	87
At 30 June 2008	18,470

The Group tests for impairment of goodwill annually and in the Relevant Periods in which the acquisition takes place, or more frequently if there are indications that goodwill might be impaired. Particulars regarding impairment testing on goodwill are as follow.

The recoverable amounts of the cash generating units ("CGUs") are determined based on value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Group prepares cash flows forecasts derived from the most recent financial budgets approved by senior management for the next five years, which is the general development period for sales of liquefied gas and gas connection businesses and extrapolates cash flows for the following five years based on the estimated growth rate of 5%. The rates used to discount the forecast cash flows for the CGUs are 9.7%. In the opinion of the directors, no material impairment loss of goodwill is identified as at 31 December 2005, 2006 and 2007 and 30 June 2008.

19. EXCLUSIVE OPERATING RIGHTS

	THE GROUP
	HK$'000
Cost	
At 1 January 2005	50,443
Exchange realignment	1,741
Acquired on acquisition of jointly controlled entities	629,617
At 31 December 2005	681,801
Exchange realignment	2,832
Additions	6,498
At 31 December 2006	691,131
Exchange realignment	8,778
Additions	4,759
At 31 December 2007	704,668
Exchange realignment	8,526
At 30 June 2008	713,194
Accumulated amortisation	
At 1 January 2005	1,753
Exchange realignment	65
Charge for the year	1,519
At 31 December 2005	3,337
Exchange realignment	174
Charge for the year	23,400
At 31 December 2006	26,911
Exchange realignment	633
Charge for the year	24,756
At 31 December 2007	52,300
Exchange realignment	799
Charge for the period	11,271
At 30 June 2008	64,370
Carrying values	
At 30 June 2008	648,824
At 31 December 2007	652,368
At 31 December 2006	664,220
At 31 December 2005	678,464

The exclusive operating rights for city pipeline network are amortised over 30 years on a straight line basis.

The Group tests for impairment of exclusive operating rights annually. The recoverable amounts of the CGUs are determined based on value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Group prepares cash flows forecasts derived from the most recent financial budgets approved by senior management for the next five years, which is the general development period for sales of liquefied gas and gas connection businesses and extrapolates cash flows for the following five years based on the estimated growth rate of 5%. The rates used to discount the forecast cash flows for the CGUs are 9.7%. In the opinion of the directors, no material impairment loss of exclusive operating rights is identified as at 31 December 2005, 2006 and 2007 and 30 June 2008.

20. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprises:

THE GROUP

	At 31 December			At 30 June
	2005	**2006**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Unlisted equity investments in the PRC, at cost	7,446	7,280	7,802	8,312

The available-for-sale investments mainly represent investments in equity investments in the PRC and are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that the fair value of the investments cannot be measured reliably.

21. INVESTMENTS IN SUBSIDIARIES

THE COMPANY

	At 31 December			At 30 June
	2005	**2006**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Unlisted investments, at cost	194,129	259,691	259,691	221,250

Amount due from (to) subsidiaries are unsecured, interest-free and repayable on demand.

22. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

THE COMPANY

	At 31 December			At 30 June
	2005	**2006**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Unlisted investments, at cost	836,760	836,760	836,760	836,760

Details of the Group's and the Company's jointly controlled entities at respective balance sheet dates are as follows:

Name of entity	Place of establishment	Principal place of business	Attributable equity interest of the Group and the Company: 31 December 2005	2006	2007	30 June 2008	Principal activities
成都城市燃氣有限責任公司	PRC	PRC	36%	36%	36%	36%	Sales of liquefied gas and connection of gas pipelines
無錫華潤燃氣有限公司	PRC	PRC	50%	50%	50%	50%	Sales of liquefied gas and connection of gas pipelines

Jointly controlled entities are accounted for using the proportionate consolidation (line-by-line reporting format).

The summarised financial information in respect of the Group's investments in jointly controlled entities which are accounted for using proportionate consolidation with the line-by-line reporting format is set out below:

	At 31 December			At 30 June
	2005	2006	2007	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets	1,229,618	1,338,895	1,409,986	1,483,975
Current assets	384,057	435,989	599,295	793,676
Current liabilities	(294,167)	(429,152)	(739,099)	(914,988)
Non-current liabilities	(477,161)	(460,698)	(326,537)	(313,371)
Net assets	842,347	885,034	943,645	1,049,292
Income	N/A	639,980	974,279	579,816
Expenses	N/A	(578,201)	(823,841)	(491,192)

Note: No contribution to the Group's income and expenses were made by the jointly controlled entities during the year ended 2005 as the acquisition of jointly controlled entities was completed in December 2005.

23. INTERESTS IN ASSOCIATES

THE GROUP

	At 31 December			At 30 June
	2005	2006	2007	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Unlisted shares, at cost	3,755	4,808	4,808	4,808
Share of post-acquisition profits, net of dividend received	—	1,098	2,453	4,039
Share of exchange reserve	—	184	678	1,237
	3,755	6,090	7,939	10,084

The Group had interests in the following associates at respective balance sheet dates.

Name of entities	Place of establishment	Principal place of business	Attributable equity interest of the Group 31 December 2005	2006	2007	30 June 2008	Principal activities
四川聯發天然氣有限責任公司*	PRC	PRC	17.64%	17.64%	17.64%	17.64%	Sales of liquefied gas
成都榮和天然氣有限責任公司*	PRC	PRC	17.64%	17.64%	17.64%	17.64%	Sales of liquefied gas
成都世紀源通燃氣有限責任公司*	PRC	PRC	10.8%	16.2%	16.2%	16.2%	Sales of natural gas and connection of gas pipelines

* These companies are the associates of the Group's jointly controlled entity, 成都城市燃氣有限責任公司.

The summarised financial information in respect of the Group's associates is set out below:

	At 31 December 2005	2006	2007	At 30 June 2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets	10,338	14,350	22,785	24,803
Current assets	33,938	50,041	64,873	76,986
Current liabilities	(15,186)	(28,925)	(44,683)	(52,653)
Net assets	29,090	35,466	42,975	49,136
Income	—	79,116	101,291	68,703
Expenses	—	(68,739)	(87,783)	(60,552)
Profit for the year/period	—	10,377	13,508	8,151
Group's share of results of associates for the year/period	—	1,786	2,445	1,586

24. INVENTORIES

THE GROUP

	At 31 December			At 30 June
	2005	**2006**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Construction materials	23,659	46,654	67,774	86,886
Finished goods	20,960	1,804	2,855	3,398
	44,619	48,458	70,629	90,284

25. TRADE AND OTHER RECEIVABLES

THE GROUP

	At 31 December			At 30 June
	2005	**2006**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables	45,907	35,973	67,805	98,661
Other receivables	121,158	100,472	90,931	144,187
	167,065	136,445	158,736	242,848

The Group has a policy of allowing credit periods up to 90 days to its customers. The following is an aged analysis of trade receivables at the respective balance sheet dates:

	At 31 December			At 30 June
	2005	**2006**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
0 to 90 days	38,553	34,170	62,183	61,442
91 to 180 days	7,006	104	2,638	19,673
181 to 360 days	348	1,006	2,228	12,883
Over 360 days	—	693	756	4,663
	45,907	35,973	67,805	98,661

Aging of trade receivables which are past due but not yet impaired

	At 31 December			At 30 June
	2005	2006	2007	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Past due 1 to 90 days	7,006	104	2,638	19,673
Past due 91 to 180 days	348	1,006	2,228	12,883
Past due 181 to 360 days	—	693	756	4,663
Total	7,354	1,803	5,622	37,219

The Group does not hold any collateral over these balances that are past due. The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Movement in the allowance for doubtful debts:

	At 31 December			At 30 June
	2005	2006	2007	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Balance at beginning of the year/period	—	437	542	1,317
Impairment losses recognised on receivables	437	105	775	77
Balance at end of the year/period	437	542	1,317	1,394

In determining the recoverability of the trade receivables, the Group considers any change in the credit quality of the trade receivables from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further allowance required in excess of the current amount allowance for doubtful debts.

26. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

THE GROUP

	At 31 December			At 30 June
	2005	2006	2007	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Contract costs incurred plus profits recognised	102,096	99,476	102,156	125,313
Less: Progress billings	(201,826)	(194,135)	(270,948)	(341,168)
	(99,730)	(94,659)	(168,792)	(215,855)
Analysis for reporting purposes as:				
Amounts due from customers for contract work	68,064	66,317	68,104	83,542
Amounts due to customers for contract work	(167,794)	(160,976)	(236,896)	(299,397)
	(99,730)	(94,659)	(168,792)	(215,855)

27. AMOUNT DUE FROM (TO) IMMEDIATE HOLDING COMPANY

THE GROUP AND THE COMPANY

The amount is unsecured, interest-free and repayable on demand.

28. AMOUNTS DUE FROM (TO) FELLOW SUBSIDIARIES

THE GROUP AND THE COMPANY

The amounts are unsecured, interest-free and repayable on demand.

29. BANK BALANCES AND CASH

Bank balances and cash comprises cash held by the Group and the Company, and short-term bank deposits with maturity within three months from initial inception.

THE GROUP

	At 31 December			At 30 June
	2005	**2006**	**2007**	**2008**
	%	%	%	%
Range of interest rates of the bank deposits				
- Hong Kong	0.21 - 4.37	3.71 - 4.68	3.36 - 5.45	1.73 - 3.61
- PRC	1.71	1.80	1.98 - 3.33	3.33

THE COMPANY

	At 31 December			At 30 June
	2005	**2006**	**2007**	**2008**
	%	%	%	%
Range of interest rates of the bank deposits				
- Hong Kong	N/A	3.71 - 4.68	3.36 - 5.45	1.73 - 3.61

Included in bank balances and cash are the following amounts denominated in currencies other than the functional currency of the entities to which it relates.

THE GROUP

	At 31 December			At 30 June
	2005	**2006**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
USD	—	195,101	11,878	11,936

THE COMPANY

	At 31 December			At 30 June
	2005	2006	2007	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
USD	—	181,762	1,970	1,973

30. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at the respective balance sheet dates:

THE GROUP

	At 31 December			At 30 June
	2005	2006	2007	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
0 to 90 days	113,816	47,893	47,636	42,065
91 to 180 days	66	3,173	3,760	13,924
181 to 360 days	2,136	5,624	9,030	14,117
Over 360 days	—	5,382	5,615	8,610
	116,018	62,072	66,041	78,716

31. BANK AND OTHER BORROWINGS

The Group's bank and other borrowings are repayable as follows:

THE GROUP

	At 31 December			At 30 June
	2005	2006	2007	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	49,457	6,867	61,933	84,798
After one year but within two years	5,612	31,419	72,227	8,692
In the second to fifth years inclusive	194,623	168,986	56,510	108,930
After five years	21,164	16,813	8,177	6,831
	221,399	217,218	136,914	124,453
	270,856	224,085	198,847	209,251

Details of the terms of the Group's bank and other borrowings are set out below:

	Effective interest rate per annum	Carrying amount			
		At 31 December			At 30 June
		2005	2006	2007	2008
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Fixed-rate borrowings:					
Unsecured RMB bank loans	5.050% - 6.700%	180,755	174,370	128,136	130,824
Unsecured RMB other borrowings	1.980%	30,884	27,750	26,210	26,060
Trust receipt loans in HK$	4.870%	39,156	—	—	—
Total fixed-rate borrowings		250,795	202,120	154,346	156,884
Floating-rate borrowing:					
Unsecured RMB bank loans at the People's Bank of China Base Rate	5.387%	—	—	21,356	28,440
Unsecured EURO other borrowings at 0.3% over the People's Bank of China Base Rate	3.746%	20,061	21,965	23,145	23,927
Total floating rate borrowings		20,061	21,965	44,501	52,367
Total borrowings		270,856	224,085	198,847	209,251

The Group's bank and other borrowings that are denominated in currencies other than the functional currencies of the entities to which they relate:

	At 31 December			At 30 June
	2005	2006	2007	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
EURO	20,061	21,965	23,145	23,927

32. OTHER LONG TERM LIABILITIES

THE GROUP

Included in other long term liabilities is an amount of HK$39,913,000, HK$47,532,000, HK$54,375,000 and HK$58,623,000 as at 31 December 2005, 2006 and 2007 and 30 June 2008 respectively, representing non-current portion of payables for acquisition of exclusive operating rights for city pipeline network.

The current portion of payables for acquisition of exclusive operating rights for city pipeline network amounting to HK$1,442,000, HK$1,794,000, HK$2,830,000 and HK$3,299,000 as at 31 December 2005, 2006 and 2007 and 30 June 2008, respectively, were included in trade and other payables at respective balance sheet dates.

The payables for acquisition of exclusive operating rights for city pipeline network are repayable as follows:

	At 31 December			At 30 June
	2005	2006	2007	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	1,442	1,794	2,830	3,299
After one year but within two years	428	600	749	825
In the second to fifth years inclusive	2,128	2,085	2,899	3,192
After five years	37,357	44,847	50,727	54,606
	39,913	47,532	54,375	58,623
	41,355	49,326	57,205	61,922

33. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities recognised and movements thereon during the Relevant Periods:

THE GROUP

	Accelerated tax depreciation	Exclusive operating rights	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2005	416	369	785
Acquired on acquisition of jointly controlled entities	1,034	207,774	208,808
Charge for the year (note 12)	12	—	12
At 31 December 2005	1,462	208,143	209,605
Exchange realignment	173	—	173
Eliminated on disposals of subsidiaries	(339)	—	(339)
Credit for the year (note 12)	(308)	(6,467)	(6,775)
At 31 December 2006	988	201,676	202,664
Exchange realignment	48	—	48
Credit for the year (note 12)	(719)	(4,656)	(5,375)
Effect of change in tax rate	(240)	(48,891)	(49,131)
At 31 December 2007	77	148,129	148,206
Exchange realignment	6	—	6
Credit for the period (note 12)	—	(2,438)	(2,438)
At 30 June 2008	83	145,691	145,774

At 30 June 2008, the Group had unused tax losses of approximately HK$4,590,000 (31 December 2007: HK$4,590,000, 31 December 2006: HK$3,800,000, 31 December 2005: nil) available for offset against future profits. No deferred tax asset has been recognised during the Relevant Periods due to the unpredictability of future profit streams.

34. SHARE CAPITAL

THE COMPANY

	At 31 December			At 30 June
	2005	**2006**	**2007**	**2008**
Authorised				
Ordinary shares of US$1 each	US$50,000	US$50,000	US$50,000	US$50,000
Issued and fully paid				
Ordinary shares of US$1 each	US$2	US$3	US$3	US$4
Shown in the Financial Information	HK$16	HK$23	HK$23	HK$31

The Company was incorporated on 9 November 2005 with an authorised share capital of US$50,000. During the year ended 31 December 2005, two ordinary shares of US$1 each were issued at HK$1,000,000,008 to the Company's immediate holding company. Part of the consideration was settled by the Company's immediate holding company through (i) payment for acquisition of certain subsidiaries including China Resources Gas Company Limited, Gas Carrier 881 Co., Ltd. Inc. and Run Hai Shipping S.A. from a fellow subsidiary at a consideration of HK$10,156,000 and (ii) payment for acquisition of jointly controlled entities to independent third parties at a consideration of HK$836,759,772 on behalf of the Company. The remaining consideration of HK$153,084,236 was settled by cash by the Company's immediate holding company.

During the year ended 31 December 2006, one additional ordinary share of US$1 each was issued to the Company's immediate holding company at HK$250,000,000 and the amount was settled by cash to provide additional capital to the Company.

During the six months ended 30 June 2008, one additional ordinary share of US$1 each was issued to the Company's immediate holding company at HK$1,000,000,000 and the amount was settled through current account with the Company's immediate holding company.

THE GROUP

The balance of share capital of the Group at 1 January 2005 represented the aggregate paid-in share capital of the subsidiaries including Resources Gas Company Limited, Gas Carrier 881 Co., Ltd. Inc. and Run Hai Shipping S.A. which were eliminated during the year ended 31 December 2005 as a result of the Group Reorganisation.

35. RESERVES

THE COMPANY

	Share premium	Accumulated profits	Total
	HK$'000	*HK$'000*	*HK$'000*
Shares issued at premium at date of incorporation	1,000,000	—	1,000,000
At 31 December 2005	1,000,000	—	1,000,000
Profit for the year	—	144,565	144,565
Share issued at premium	250,000	—	250,000
At 31 December 2006	1,250,000	144,565	1,394,565
Profit for the year	—	170,080	170,080
Dividend paid	(1,200,000)	(300,000)	(1,500,000)
At 31 December 2007	50,000	14,645	64,645
Profit for the period	—	20,054	20,054
Share issued at premium	1,000,000	—	1,000,000
At 30 June 2008	1,050,000	34,699	1,084,699

36. RETIREMENT BENEFITS SCHEME

The Group operates defined contribution retirement schemes which are available to its employees in Hong Kong. The assets of the scheme are held separately in independently administered funds. The amount of contributions is based on a specified percentage of the basic salaries of employees and is charged to the combined profit and loss account. Any forfeited contributions in respect of unvested benefits of staff leavers will be used to reduce the Group's contributions. There was no significant amount of unutilised forfeited contributions at the balance sheet date.

With the introduction of the Mandatory Provident Fund Scheme (the "MPF Scheme") in Hong Kong in 2000, all employees who were members of the Group's defined contribution retirement schemes were given a choice either to remain in the Group's defined contribution retirement scheme or to join the MPF Scheme. All new employees must join the MPF Scheme.

The employees of the Group in the PRC are members of government-managed retirement benefit schemes operated by the respective local government in the PRC. The Group is required to contribute a specified percentage of payroll cost to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to these schemes is to make the specified contributions.

37. ACQUISITION OF A SUBSIDIARY

During the year ended 31 December 2005, the Group acquired 100% of the registered capital of 臨海華潤燃氣有限公司, which is engaged in sales of liquefied gas and connection of gas pipelines, for a cash consideration of HK$38,440,000. This transaction has been accounted for using the purchase method of accounting and the fair value of assets and liabilities in the transaction is set out as follows:

	Acquiree's carrying amount after combination and fair value
	HK$'000
Net assets acquired on acquisition of a subsidiary:	
Property, plant and equipment	23,793
Prepaid lease payments	1,707
Inventories	1,462
Trade and other receivables	27,525
Bank balances and cash	408
Trade and other payables	(25,108)
Bank and other borrowings	(2,969)
	26,818
Goodwill on acquisition	11,622
	38,440
Total consideration satisfied by:	
Bank balances and cash	29,791
Balance of consideration payable included in the Group's trade and other payables at 31 December 2005	8,649
	38,440
Analysis of net outflow of cash and cash equivalents in respect of acquisition of a subsidiary:	
Cash consideration	(29,791)
Bank balances and cash acquired	408
	(29,383)

The carrying amount of the net assets of the acquiree was approximate to its fair value at the date of acquisition.

臨海華潤燃氣有限公司 contributed insignificant profit and turnover to the Group for the period between the date of acquisition and 31 December 2005.

38. ACQUISITION OF JOINTLY CONTROLLED ENTITIES

In December 2005, the Group acquired 36% of the registered capital of 成都城市燃氣有限責任公司 and 50% of the registered capital of 無錫華潤燃氣有限公司, which are engaged in sales of liquefied gas and connection of gas pipelines. The total consideration paid in these separate transactions amounted to HK$836,760,000. These transactions have been accounted for using the purchase method of accounting and the Group's share of the fair value of assets and liabilities of the jointly controlled entities acquired in the transactions is set out as follows:

	Group's share of acquiree's carrying amounts before combination	**Fair value adjustments**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*
Group's share of the net assets of jointly controlled entities acquired:			
Property, plant and equipment	528,501	—	528,501
Goodwill	4,375	—	4,375
Prepaid lease payments	59,282	—	59,282
Exclusive operating rights	—	629,617	629,617
Investment properties	8,458	—	8,458
Available-for-sale investments	7,446	—	7,446
Interests in associates	3,755	—	3,755
Inventories	18,081	—	18,081
Amounts due from customers for contract work	40,873	—	40,873
Trade and other receivables	84,088	—	84,088
Bank balances and cash	205,103	—	205,103
Trade and other payables	(210,292)	—	(210,292)
Amounts due to customers for contract work	(65,283)	—	(65,283)
Bank and other borrowings	(228,731)	—	(228,731)
Other long term liabilities	(27,020)	—	(27,020)
Deferred tax liabilities	(1,034)	(207,774)	(208,808)
Minority interests	(7,098)	—	(7,098)
	420,504	421,843	842,347
Discount on acquisition of a jointly controlled entity			(5,587)
			836,760
Total consideration satisfied with current account with immediate holding company			836,760
Analysis of net inflow of cash and cash equivalents in respect of acquisition of jointly controlled entities:			
Bank balances and cash acquired			205,103

No contribution to the Group's turnover and profit were made by the Group's jointly controlled entities during the year ended 31 December 2005 as the acquisition of jointly controlled entities was completed in December 2005.

39. DISPOSALS OF SUBSIDIARIES

During the year ended 31 December 2006, the Group disposed of entire issued share capital of certain subsidiaries which engaged in the distribution of LPG in Hong Kong and also engaged in provision of storage and charter hiring service.

Net assets of the subsidiaries disposed of are as follows:

	HK$'000
Net assets disposed of:	
Property, plant and equipment	86,989
Inventories	14,931
Trade and other receivables	19,361
Amounts due from fellow subsidiaries	59,797
Bank balances and cash	19,906
Trade and other payables	(76,883)
Bank and other borrowings	(17,260)
Taxation payable	(2,422)
Deferred tax liabilities	(339)
	104,080
Loss on disposal of subsidiaries	(4,185)
	99,895
Satisfied by:	
Cash	99,895
Analysis of net inflow of cash and cash equivalents in respect of the disposals of subsidiaries:	
Cash consideration	99,895
Bank balances and cash disposal of	(19,906)
	79,989

The profit of the disposed subsidiaries for the year ended 31 December 2005 and for the period from 1 January 2006 to date of disposal amounted to HK$44,886,000 and HK$15,263,000, respectively.

The disposed subsidiaries also contributed HK$39,249,000 (2005: HK$44,604,000) to the Group's net operating cash flows, received HK$129,000 (2005: paid HK$2,145,000) in respect of investing activities and paid HK$21,896,000 (2005: HK$42,744,000) in respect of financing activities for the period from 1 January 2006 to date of disposal.

40. OPERATING LEASE COMMITMENT

At the balance sheet dates, the Group had outstanding commitments in respect of land and buildings under non-cancellable operating leases with fixed and pre-determined lease payments which fall due as follows:

As lessee

	At 31 December			At 30 June
	2005	**2006**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	2,109	1,897	3,616	2,353
In the second to fifth year inclusive	4,232	4,742	6,056	3,540
After five years	—	2,320	1,840	113
	6,341	8,959	11,512	6,006

Operating lease payments represent rental payable by the Group for certain of its properties. Leases are negotiated for lease terms principally ranged from one to seven years.

At the balance sheet dates, the Group had contracted with tenants, in respect of the premises leased to the tenants, for periods up to six years at fixed pre-determined amounts, for the following future minimum lease payments:

As lessor

	At 31 December			At 30 June
	2005	**2006**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	677	811	1,844	1,534
In the second to fifth year inclusive	1,060	2,209	1,892	1,874
After five years	—	—	493	351
	1,737	3,020	4,229	3,759

No contingent rent was arranged for the above operating lease arrangements during the Relevant Periods.

The Company does not have any lease commitment at the balance sheet dates.

41. PLEDGE OF ASSETS

At the balance sheet date, the Group pledged certain of its assets as securities for bank borrowings granted to the Group as follows:

	At 31 December			At 30 June
	2005	**2006**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Carrying amount of:				
Prepaid lease payments	3,749	1,726	—	—
Buildings for own use	2,318	2,324	—	—
	6,067	4,050	—	—

The Company has no pledge of assets at the balance sheet dates.

42. RELATED PARTY TRANSACTIONS

The Group entered into the following related party transactions during the Relevant Periods.

THE GROUP

	Year ended 31 December			Six months ended 30 June	
	2005	**2006**	**2007**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*	*HK$'000*
Dividends paid by certain subsidiaries of the Group to the former holding companies	71,000	—	—	—	—
Dividend paid to immediate holding company	—	—	1,500,000	—	—
Dividends received from associates	—	688	1,090	1,071	—
Godown service paid for provision of certain services at oil depot to fellow subsidiaries of the Group	10,164	3,356	—	—	—
Sales of goods to fellow subsidiaries of the Group	494,698	190,545	2,821	698	—
Purchases of petroleum from fellow subsidiaries of the Group	5,136	1,588	—	—	—
Management fee paid to fellow subsidiaries of the Group	2,731	1,814	—	—	—
Service fee paid for provision of staff to a fellow subsidiary of the Group	8,907	1,042	—	—	—
Secondment fee paid to a fellow subsidiary of the Group	—	100	490	490	—
Rental expense paid to fellow subsidiaries of the Group	—	149	30	30	—

In addition, during the year ended 31 December 2005, as a result of the Group Reorganisation, the Company signed deed of assignment with a fellow subsidiary to acquire the beneficiary interests in China Resources Gas Company Limited, Gas Carrier 881 Co., Ltd. Inc. and Run Hai Shipping S.A. at a consideration of HK$10,156,000 and the Company was then became a beneficial owner of these companies.

Compensation of key management personnel

The remuneration of directors and other members of key management during the Relevant Periods were as follows:

	Year ended 31 December			Six months ended 30 June	
	2005	**2006**	**2007**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*	*HK$'000*
Short-term benefits	1,913	6,789	9,938	3,427	4,077
Post-employment benefits	102	248	265	133	143
	2,015	7,037	10,203	3,560	4,220

43. MAJOR NON-CASH TRANSACTIONS

(i) During the year ended 31 December 2005, two ordinary shares of the Company were issued at HK$1,000,000,008 to the Company's immediate holding company. Part of the consideration was settled by the payment of the acquisition of subsidiaries and jointly controlled entities of HK$10,156,000 and HK$836,759,772, respectively, by the Company's immediate holding company on behalf of the Company.

(ii) During the year ended 31 December 2007, interim dividend of HK$1,500,000,000 was declared by the Company and the amount was settled through current account with the Company's immediate holding company.

(iii) During the six months ended 30 June 2008, one additional ordinary share of US$1 each was issued to the Company's immediate holding company at HK$1,000,000,000 and the amount was settled through current account with the Company's immediate holding company.

B. ULTIMATE HOLDING COMPANY AND IMMEDIATE HOLDING COMPANY

At 30 June 2008, the directors of the Company regard the Company's ultimate holding company and immediate holding company was China Resources National Corporation, a company established in the PRC, and China Resources Gas (Holdings) Limited, a company incorporated in the British Virgin Islands, respectively.

C. DIRECTORS' EMOLUMENTS

No emoluments has been paid or is payable to the Company's directors by the Company or any of its subsidiaries during the Relevant Periods.

D. SUBSEQUENT EVENTS

Subsequent to 30 June 2008, Powerfaith Enterprises Limited, a wholly owned subsidiary of China Resources Gas (Holdings) Limited, became the Company's immediate holding company.

E. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies of the Group subsequent to 30 June 2008.

Yours faithfully,

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

The following discussion should be read in conjunction with CR Gas' audited consolidated financial statements for the years ended 31 December 2005, 2006 and 2007 and for the six months ended 30 June 2008, and the unaudited consolidated financial statements of CR Gas for the six months ended 30 June 2007 including the notes thereto, included in Appendix II of this Circular. CR Gas' consolidated financial statements were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by Hong Kong Institute of Certified Public Accountants ("HKICPA").

Significant accounting policies

The audited consolidated financial information for the CR Gas Group has been prepared under the historical cost basis except for certain financial instruments and investment properties which are measured at fair values and in accordance with accounting policies set out below which conform with HKFRSs issued by the HKICPA. In addition, the audited consolidated financial information for the CR Gas Group includes applicable disclosures required by Listing Rules and by the Hong Kong Companies Ordinance. The principal accounting policies adopted are as follows:

Basis of consolidation

The audited consolidated financial information for the CR Gas Group incorporates the financial information of CR Gas and entities controlled by CR Gas (its subsidiaries). Control is achieved where CR Gas has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during each of the three years ended 31 December 2005, 2006 and 2007 and for the six months ended 30 June 2008 (the "**Relevant Periods**") are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial information of subsidiaries to bring their accounting policies into line with those used by other members of the CR Gas Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of subsidiaries are presented separately from the CR Gas Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the CR Gas Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the CR Gas Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the CR Gas Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the CR Gas Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Merger accounting for common control combination

The audited consolidated financial information of CR Gas Group incorporates the financial information items of the combining entities in which the common control combination occurs as if they had been combined from the date when the combining entities first came under the control of the controlling party.

The net assets of the combining entities are combined using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the results of each of the combining entities from the earliest date presented or since the date when the combining entities first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

Goodwill

Goodwill arising on acquisitions prior to 1 January 2005

Goodwill arising on an acquisition of net assets and operations of another entity or a jointly controlled entity for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the CR Gas Group's interest in the fair value of the identifiable assets and liabilities of the relevant acquiree at the date of acquisition.

For previously capitalised goodwill arising on acquisitions of net assets and operations of another entity or a jointly controlled entity after 1 January 2001, the CR Gas Group has discontinued amortisation from 1 January 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash-generating unit to which the goodwill relates may be impaired (see the accounting policy below).

Goodwill arising on acquisitions on or after 1 January 2005

Goodwill arising on an acquisition of a business or a jointly controlled entity (which is accounted for using proportionate consolidation) for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the CR Gas Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business or jointly controlled entity at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business or a jointly controlled entity is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial period. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit or a jointly controlled entity, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Investments in subsidiaries

Investments in subsidiaries are included in CR Gas' balance sheet at cost less any identified impairment loss.

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in the audited consolidated financial information for CR Gas Group using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the CR Gas Group's share of the net assets of the associates, less any identified impairment loss. When the CR Gas Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the CR Gas Group's net investment in the associate), the CR Gas Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the CR Gas Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the CR Gas Group, profits and losses are eliminated to the extent of the CR Gas Group's interest in the relevant associate.

Joint ventures

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

CR Gas' interests in jointly controlled entities are stated at cost, as reduced by any distributions and identified impairment loss. The results of jointly controlled entities are accounted for by CR Gas on the basis of dividends received and receivable.

(a) Jointly controlled entities are accounted for using proportionate consolidation

The CR Gas Group recognises its interests in jointly controlled entities using proportionate consolidation. The CR Gas Group's share of each of the assets, liabilities, income and expenses of the jointly controlled entities are combined with the CR Gas Group's similar line items, line by line, in the audited consolidated financial information of the CR Gas Group.

Any goodwill arising on the acquisition of the CR Gas Group's interest in a jointly controlled entity is accounted for in accordance with the CR Gas Group's accounting policy for goodwill arising on the acquisition of a business or a jointly controlled entity (see above).

Any excess of the CR Gas Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

When a group entity transacts with a jointly controlled entity of the CR Gas Group, profits or losses are eliminated to the extent of the CR Gas Group's interest in the jointly controlled entity.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Income from connection of gas pipelines is recognised when the outcome of a gas connection contract can be estimated reliably and the stage of completion at the balance sheet date can be measured reliably. Revenue from gas connection contracts is recognised on the percentage of completion method, measured by reference to the value of work carried out during the year/period. When the outcome of a gas connection contract cannot be estimated reliably, revenue is recognised only to the extent of contract cost incurred that is probable to be recoverable.

Revenue from gas supply is recognised when gas is used.

Sales of goods are recognised when goods are delivered and title has been passed.

Service income is recognised when services are rendered to customers.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write-off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year/period in which the item is derecognised.

Leasehold land and buildings under development for future owner-occupied purpose

When the leasehold land and buildings are in the course of development for production or for administrative purposes, the leasehold land component is classified as a prepaid lease payment and amortised over a straight-line basis over the lease term. During the construction period, the amortisation charge provided for the leasehold land is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year/period in which the item is derecognised.

Construction contracts

When the outcome of a construction contract can be estimated reliably and the stage of contract completion at the balance sheet date can be measured reliably, contract costs are charged to the consolidated income statement by reference to the stage of completion of the contract activity at the balance sheet date on the same basis as contract revenue is recognised.

When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred. When it is probable that total contracts costs will exceed contract revenue, the expected loss is recognised as an expense immediately.

Intangible assets

Intangible assets refer to the exclusive operating rights for city pipeline network.

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses.

Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The CR Gas Group's financial assets are classified into one of the two categories, including loans and receivables, and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount of the asset on initial recognition.

Income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from group companies, and bank balances and cash), are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss ("FVTPL"), loans and receivables or held-to-maturity investments.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganisation.

For certain categories of financial asset, such as trade receivables and loan receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the CR Gas Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period up to 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the CR Gas Group after deducting all of its liabilities. The CR Gas Group's financial liabilities are generally classified into financial liabilities other than those at FVTPL.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount of the liabilities on initial recognition.

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities including trade and other payables, amounts due to group companies, bank and other borrowings and long term payables are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by CR Gas are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the CR Gas Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At each balance sheet date, the CR Gas Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The CR Gas Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease.

The CR Gas Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases.

Foreign currencies

In preparing the financial information of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the Financial Information, the assets and liabilities of the CR Gas Group's foreign operations are translated into the presentation currency of the CR Gas Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the exchange reserve.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the year/period in which they are incurred.

Retirement benefit costs

Payments to defined contribution retirement benefit plans/state-managed retirement benefit schemes/the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The CR Gas Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and joint controlled entities, except where the CR Gas Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year/period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Condensed combined results of CR Gas Group

The following table sets forth, for the periods indicated, a summary of CR Gas Group's consolidated results. This should be read in conjunction with CR Gas Group's financial statements set out in Appendix II to this circular.

	Year ended 31 December			Six months ended 30 June	
	2005	**2006**	**2007**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*	*HK$'000*
Turnover	985,761	1,339,017	1,537,244	691,733	966,474
Cost of sales	(872,622)	(1,035,185)	(1,106,122)	(498,388)	(688,278)
Gross profit	113,139	303,832	431,122	193,345	278,196
Other income	60,269	37,378	39,775	24,881	31,305
Selling and distribution expenses	(46,631)	(94,080)	(109,024)	(48,421)	(52,930)
General and administrative expenses	(22,752)	(119,365)	(165,588)	(78,233)	(88,501)
Finance costs	(2,532)	(11,191)	(9,001)	(5,108)	(6,745)
Loss on disposal of subsidiaries	—	(4,185)	—	—	—
Discount on acquisition of a jointly controlled entity	5,587	—	—	—	—
Share of results of associates	—	1,786	2,445	1,185	1,586
Profit before taxation	107,080	114,175	189,729	87,649	162,911
Taxation (charge) credit	(6,066)	(3,128)	34,728	38,110	(15,818)
Profit for the year/period	101,014	111,047	224,457	125,759	147,093
Attributable to:					
Equity holders of CR Gas	87,974	94,776	193,632	113,654	128,070
Minority interests	13,040	16,271	30,825	12,105	19,023
	101,014	111,047	224,457	125,759	147,093
Dividends	71,000	—	1,500,000	—	—
Earnings per share (HK$'000)	43,987	38,386	64,544	37,885	42,690

The following table sets forth, for the periods indicated, a summary of CR Gas Group's consolidated results, excluding results contributed by a previous subsidiary which was disposed on 30 April 2006. This should be read in conjunction with CR Gas Group's financial statements set out in Appendix II to this circular.

	Year ended 31 December			Six months ended 30 June	
	2005	**2006**	**2007**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	334,463	1,090,782	1,537,244	691,733	966,474
Cost of sales	(256,626)	(800,312)	(1,106,122)	(498,388)	(688,278)
Gross profit	77,837	290,470	431,122	193,345	278,196
Other income	1,599	26,068	39,775	24,881	31,305
Selling and distribution expenses	(21,989)	(89,533)	(109,024)	(48,421)	(52,930)
General and administrative expenses	(13,679)	(117,255)	(165,588)	(78,233)	(88,501)
Finance costs	(714)	(10,334)	(9,001)	(5,108)	(6,745)
Loss on disposal of subsidiaries	—	—	—	—	—
Discount on acquisition of a jointly controlled entity	5,587	—	—	—	—
Share of results of associates	—	1,786	2,445	1,185	1,586
Profit before taxation	48,641	101,202	189,729	87,649	162,911
Taxation (charge) credit	(170)	(1,165)	34,728	38,110	(15,818)
Profit for the year/period	48,471	100,037	224,457	125,759	147,093
Attributable to:					
Equity holders of CR Gas	35,404	83,766	193,632	113,654	128,070
Minority interests	13,067	16,271	30,825	12,105	19,023
	48,471	100,037	224,457	125,759	147,093
Dividends	71,000	—	1,500,000	—	—
Earnings per share (HK$'000)	17,702	33,927	64,544	37,885	42,690

Results of operations of segmental operations

In accordance with the internal financial reporting of CR Gas Group, the CR Gas Group has historically reported its results in two segments: sale and distribution of gas fuel and related products to non-residential and residential users and gas connection to non-residential and residential users.

The following table sets forth, for the periods indicated, the selected financial information of the CR Gas Group by operating segment.

Revenue

	Year ended 31 December			Six months ended 30 June	
	2005	**2006**	**2007**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Sale and distribution of gas fuel					
Non-residential users	174,698	538,611	869,919	384,327	558,952
Residential users	15,646	214,374	263,568	133,747	170,158
Bottled LPG	92,165	177,609	192,919	89,755	88,193
Sub-total	282,509*	930,594*	1,326,406	607,829	817,303
Gas connection					
Non-residential users	17,223	20,000	55,148	15,867	34,539
Residential users	34,731	140,188	155,690	68,037	114,632
Sub-total	51,954	160,188	210,838	83,904	149,171
Total	334,463*	1,090,782*	1,537,244	691,733	966,474

* *excludes amounts from revenue from sale and distribution of gas fuel of approximately HK$651.3 million and HK$248.2 million for the two years ended 31 December 2006 contributed by a previous subsidiary which has been subsequently disposed on 30 April 2006.*

Gross profit

	Year ended 31 December			Six months ended 30 June	
	2005	**2006**	**2007**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Sale and distribution of gas fuel	45,617*	210,130*	331,064	150,084	199,358
Gas connection	32,220	80,340	100,058	43,261	78,838
Total	77,837*	290,470*	431,122	193,345	278,196

* *excludes amounts from gross profit from sale and distribution of gas fuel of approximately HK$35.3 million and HK$13.4 million for the two years ended 31 December 2006 contributed by a previous subsidiary which has been subsequently disposed on 30 April 2006.*

Six Months Ended 30 June 2008 Compared to Six Months Ended 30 June 2007

Turnover. Turnover increased by 39.7%, to HK$966.5 million in the six months ended 30 June 2008 from HK$691.7 million in the six months ended 30 June 2007.

(a) ***Sales and distribution of fuel gas for non-residential users***

Turnover from sales and distribution of fuel gas for non-residential users increased by 45.4%, to HK$559.0 million in the six months ended 30 June 2008 from HK$384.3 million in the six months ended 30 June 2007, primarily due to an increase of the total sales volume of gas by the CR Gas Group to non-residential users by 15.6%, to 432.3 million cubic metres from 374.0 million cubic metres primarily contributed by Chengdu Gas, Wuxi Gas and Nanjing Gas and an increase of the average sale price for gas by the CR Gas Group to non-residential users by 23.5%, to HK$2.47 per cubic metre of gas from HK$2.00 per cubic metre of gas. The total number of non-residential gas pipeline customers of the CR Gas Group increased by 25.5%, to 16,746 as at 30 June 2008 from 13,342 as at 30 June 2007.

(b) ***Sales and distribution of fuel gas for residential users***

Turnover from sales and distribution of fuel gas for residential users increased by 27.3%, to HK$170.2 million in the six months ended 30 June 2008 from HK$133.7 million in the six months ended 30 June 2007, primarily due to an increase of the total sales volume of gas by the CR Gas Group to residential users by 10.9%, to 264.2 million cubic metres from 238.3 million cubic metres primarily contributed by Chengdu Gas, Wuxi Gas and Suzhou Gas and an increase of the average sale price for gas by the CR Gas Group to residential users by 13.3%, to HK$1.53 per cubic metre of gas from HK$1.35 per cubic metre of gas. The total number of residential customers of the CR Gas Group increased by 7.0%, to 1,902,127 as at 30 June 2008 from 1,777,788 as at 30 June 2007.

(c) ***Sales and distribution of bottled LPG***

Turnover from sales and distribution of bottled LPG decreased by 1.8%, to HK$88.2 million in the six months ended 30 June 2008 from HK$89.8 million in the six months ended 30 June 2007, primarily as a result of the disposal of the bottled LPG distribution business by Nanjing Gas in March 2008 which is slightly off-set by an overall increase in the sale price for bottled LPG.

(d) ***Gas pipeline connections for non-residential users***

Turnover from gas pipeline connections for non-residential users increased by 117.0%, to HK$34.5 million in the six months ended 30 June 2008 from HK$15.9 million in the six months ended 30 June 2007, primarily resulting from the increase in turnover contributed by Wuxi Gas, Chengdu Gas and Suzhou Gas. 1,747 new non-residential gas pipeline connections were made by the CR Gas Group during the six months ended 30 June 2008.

(e) ***Gas pipeline connections for residential users***

Turnover from gas pipeline connections for residential users increased by 68.5%, to HK$114.6 million in the six months ended 30 June 2008 from HK$68.0 million in the six months ended 30 June 2007, primarily due to the increase in turnover contributed by Chengdu Gas, Huaibei Gas and Fuyang Gas. 64,478 new residential gas pipeline connections were made by the CR Gas Group for the same periods.

Cost of Sales. Cost of sales increased by 38.1%, to HK$688.3 million in the six months ended 30 June 2008 from HK$498.4 million in the six months ended 30 June 2007.

(a) ***Sales and distribution of fuel gas***

Cost of sales for sales and distribution of fuel gas increased by 35.0%, to HK$617.9 million in the six months ended 30 June 2008 from HK$457.7 million in the six months ended 30 June 2007, primarily due to an increase of the total sales volume of gas by the CR Gas Group by 13.1%, to 704.4 million cubic metres from 622.8 million cubic metres for the same periods and an overall increase in the purchase price for gas by the CR Gas Group.

(b) ***Gas pipeline connections***

Cost of sales for gas pipeline connections increased by 73.2%, to HK$70.3 million in the six months ended 30 June 2008 from HK$40.6 million in the six months ended 30 June 2007, primarily due to increase in revenue by the CR Gas Group for the same periods and an overall increase in construction costs (including costs for raw materials and labour costs).

Gross Profit. Gross profit increased by 43.9%, to HK$278.2 million in the six months ended 30 June 2008 from HK$193.3 million in the six months ended 30 June 2007.

(a) ***Sales and distribution of fuel gas***

Gross profit for sales and distribution of fuel gas increased by 32.8%, to HK$199.4 million in the six months ended 30 June 2008 from HK$150.1 million in the six months ended 30 June 2007, primarily due to the increase in gross profit contributed by Suzhou Gas, Wuxi Gas and Chengdu Gas. The gross margin decreased marginally to 24.4% from 24.7% for the same periods.

(b) ***Gas pipeline connections***

Gross profit for gas pipeline connections increased by 82.2%, to HK$78.8 million in the six months ended 30 June 2008 from HK$43.3 million in the six months ended 30 June 2007, due to the increase in gross profit contributed by Chengdu Gas, Huaibei Gas and Fuyang Gas. The gross margin increased to 52.8% from 51.6% for the same periods due to higher gross margin in Fuyang Gas, Huaibei Gas and Chengdu Gas.

Other income. Other income increased by 25.7%, to HK$31.3 million in the six months ended 30 June 2008 from HK$24.9 million in the six months ended 30 June 2007, representing dividend income from available-for-sale investments in Chengdu.

Selling and Distribution Expenses. Selling and distribution expenses increased by 9.3%, to HK$52.9 million in the six months ended 30 June 2008 from HK$48.4 million in the six months ended 30 June 2007, as increase in depreciation of property, plant and equipment, employee's remuneration, pipeline maintenance expenses and utilities expenses (such as costs for water and electricity).

General and Administrative Expenses. General and administrative expenses increased 13.2%, to HK$88.5 million in the six months ended 30 June 2008 from HK$78.2 million in the six months ended 30 June 2007 as a result of increase in the number of employees employed by the CR Gas Group and general increase in employee's remuneration for the same periods.

Finance Costs. Finance costs increased by 31.4%, to HK$6.7 million in the six months ended 30 June 2008 from HK$5.1 million in the six months ended 30 June 2007, primarily as a result of increase in interest on bank and other borrowings and imputed interest on long term payables by the CR Gas Group.

Profit Before Taxation. Profit before taxation increased by 86.0%, to HK$162.9 million in the six months ended 30 June 2008 from HK$87.6 million in the six months ended 30 June 2007.

Taxation. Taxation charge was HK$15.8 million in the six months ended 30 June 2008 as compared to a taxation credit of HK$38.1 million in the six months ended 30 June 2007, due to increase of profit by the CR Gas Group and Wuxi Gas' exemption from PRC Enterprise Income Tax was reduced from a tax free exemption to a 50 per cent. tax exemption. There was also a deferred tax credit of HK$49.1 million attributable to a decrease in the PRC Enterprise Income Tax rate to 25% from 33% for the six months ended 30 June 2007 which resulted in an overall tax credit recorded for the six months ended 30 June 2007.

Minority Interests. Minority interests, which represent the interests of joint-venture partners in CR Gas' operating entities, increased by 57.0%, to HK$19.0 million in the six months ended 30 June 2008 from HK$12.1 million in the six months ended 30 June 2007.

Net Profit. Net profit attributable to the equity holders of the company increased by 12.7%, to HK$128.1 million in the six months ended 30 June 2008 representing a net profit margin of approximately 13.3%.

Year Ended 31 December 2007 Compared to Year Ended 31 December 2006

Turnover. Turnover increased by 40.9%, to HK$1,537.2 million in the year ended 31 December 2007 from HK$1,090.8 million in the year ended 31 December 2006 (excluding HK$248.2 million turnover in the year ended 31 December 2006 contributed by a previous subsidiary which was disposed on 30 April 2006).

(a) ***Sales and distribution of fuel gas for non-residential users***

Turnover from sales and distribution of fuel gas for non-residential users increased by 61.5%, to HK$869.9 million in the year ended 31 December 2007 from HK$538.6 million in the year ended 31 December 2006, primarily due to an increase of the total sales volume of gas by the CR Gas Group to non-residential users by 31.0%, to 788.1 million cubic metres from 601.8 million cubic metres primarily contributed by Wuxi Gas, Chengdu Gas and Suzhou Gas and an increase of the average sale price for gas by the CR Gas Group to non-residential users by 14.4%, to HK$2.14 per cubic metre of gas from HK$1.87 per cubic metre of gas. The total number of non-residential gas pipeline customers of the CR Gas Group increased by 22.9%, to 14,999 as at 31 December 2007 from 12,207 as at 31 December 2006.

(b) ***Sales and distribution of fuel gas for residential users***

Turnover from sales and distribution of fuel gas for residential users increased by 22.9%, to HK$263.6 million in the year ended 31 December 2007 from HK$214.4 million in the year ended 31 December 2006, primarily due to an increase of the total sales volume of gas by the CR Gas Group to residential users by 5.2%, to 447.2 million cubic metres from 425.1 million cubic metres primarily contributed by Huaibei Gas, Chengdu Gas and Suzhou Gas, an increase of the average sale price for gas by the CR Gas Group to residential users by 9.4%, to HK$1.40 per cubic metre of gas from HK$1.28 per cubic metre of gas. The total number of residential customers of the CR Gas Group increased by 6.2%, to 1,837,649 as at 31 December 2007 from 1,731,173 as at 31 December 2006.

(c) ***Sales and distribution of bottled LPG***

Turnover from sales and distribution of bottled LPG increased by 8.6%, to HK$192.9 million in the year ended 31 December 2007 from HK$177.6 million in the year ended 31 December 2006, primarily due to an increase of the total sales volume of bottled LPG by the CR Gas Group by 6.2% to 20.7 million cubic metres from 19.5 million cubic metres for the same periods and an overall increase in the sale price for bottled LPG.

(d) ***Gas pipeline connections for non-residential users***

Turnover from gas pipeline connections for non-residential users increased by 175.5%, to HK$55.1 million in the year ended 31 December 2007 from HK$20.0 million in the year ended 31 December 2006, primarily resulting from the increase in revenue contributed by Chengdu Gas, Wuxi Gas and Suzhou Gas. 2,792 new non-residential gas pipeline connections were made by the CR Gas Group during the year ended 31 December 2007.

(e) ***Gas pipeline connections for residential users***

Turnover from gas pipeline connections for residential users increased by 11.1%, to HK$155.7 million in the year ended 31 December 2007 from HK$140.2 million in the year ended 31 December 2006, primarily due to the increase in revenue contributed by Huaibei Gas, Fuyang Gas and Nanjing Gas. 106,476 new residential gas pipeline connections were made by the CR Gas Group for the same periods.

Cost of Sales. Cost of sales increased by 38.2%, to HK$1,106.1 million in the year ended 31 December 2007 from HK$800.3 million in the year ended 31 December 2006 (excluding HK$234.8 million cost of sales in the year ended 31 December 2006 contributed by a previous subsidiary which was disposed on 30 April 2006).

(a) ***Sales and distribution of fuel gas***

Cost of sales for sales and distribution of fuel gas increased by 38.1%, to HK$995.3 million in the year ended 31 December 2007 from HK$720.5 million in the year ended 31 December 2006, primarily due to an increase of the total sales volume of gas by the CR Gas Group by 20.0%, to 1,256.1 million cubic metres from 1,046.4 million cubic metres for the same periods and an overall increase in the purchase price for gas by the CR Gas Group.

(b) ***Gas pipeline connections***

Cost of sales for gas pipeline connections increased by 38.7%, to HK$110.8 million in the year ended 31 December 2007 from HK$79.8 million in the year ended 31 December 2006, according to increase in revenue by the CR Gas Group for the same periods and an overall increase in construction costs (including costs for raw material and labour costs).

Gross Profit. Gross profit increased by 48.4%, to HK$431.1 million in the year ended 31 December 2007 from HK$290.5 million in the year ended 31 December 2006 (excluding HK$13.4 million gross profit in the year ended 31 December 2006 contributed by a previous subsidiary which was disposed on 30 April 2006).

(a) ***Sales and distribution of fuel gas***

Gross profit for sales and distribution of fuel gas increased by 57.6%, to HK$331.1 million in the year ended 31 December 2007 from HK$210.1 million in the year ended 31 December 2006, primarily due to the increase in gross profit contributed by Wuxi Gas, Suzhou Gas and Chengdu Gas. Gross margin increased to 25.0% from 22.6%, which is mainly attributable to higher gross margin of Wuxi Gas and Chengdu Gas for the same periods.

(b) ***Gas pipeline connection***

Gross profit for gas pipeline connections increased by 24.7%, to HK$100.1 million in the year ended 31 December 2007 from HK$80.3 million in the year ended 31 December 2006, due to the increase in gross profit contributed by Huaibei Gas, Fuyang Gas and Chengdu Gas. Gross margin slightly decreased to 47.5% from 50.1% mainly due to the lower gross margin of Chengdu Gas, Suzhou Gas and Wuxi Gas for the same periods.

Other income. Other income increased by 52.5%, to HK$39.8 million in the year ended 31 December 2007 from HK$26.1 million in the year ended 31 December 2006 (excluding HK$11.3 million other income in the year 31 December 2006 contributed by a previous subsidiary which was disposed on 30 April 2006), representing a gain on disposal of prepaid lease payments by the CR Gas Group.

Selling and Distribution Expenses. Selling and distribution expenses increased by 21.8%, to HK$109.0 million in the year ended 31 December 2007 from HK$89.5 million in the year ended 31 December 2006 (excluding HK$4.5 million selling and distribution expenses in the year ended 31 December 2006 contributed by a previous subsidiary which was disposed on 30 April 2006), representing an increase in employee's remuneration, pipeline maintenance expenses and utilities expenses (such as costs for water and electricity).

General and Administrative Expenses. General and administrative expenses increased by 41.2 %, to HK$165.6 million in the year ended 31 December 2007 from HK$117.3 million in the year ended 31 December 2006 (excluding HK$2.1 million general and administrative expenses in the year ended 31 December 2006 contributed by a previous subsidiary which was disposed on 30 April 2006) as a result of the increase in the number of employees employed by the CR Gas Group and general increase in employee's remuneration for the same periods.

Finance Costs. Finance costs decreased 12.6%, to HK$9.0 million in the year ended 31 December 2007 from HK$10.3 million in the year ended 31 December 2006 (excluding HK$0.9 million finance costs in the year ended 31 December 2006 contributed by a previous subsidiary which was disposed on 30 April 2006). The decrease was primarily due to decrease in and difference in interest payment cycles in relation to interest on bank and other borrowings and imputed interest on long term payables by the CR Gas Group.

Profit Before Taxation. Profit before taxation increased by 87.5%, to HK$189.7 million in the year ended 31 December 2007 from HK$101.2 million in the year ended 31 December 2006 (excluding HK$13.0 million profit before taxation in the year ended 31 December 2006 contributed by a previous subsidiary which was disposed on 30 April 2006).

Taxation. Taxation credit was HK$34.7 million in the year ended 31 December 2007 as compared to a taxation charge of HK$1.2 million in the year ended 31 December 2006 (excluding HK$2.0 million taxation in the year ended 31 December 2006 contributed by a previous subsidiary which was disposed on 30 April 2006). There was an increase of profit by the CR Gas Group and Chengdu Gas' exemption from PRC Enterprise Income Tax was reduced from a tax free exemption to a 50 per cent. tax exemption in the year ended 31 December 2007, which was offset by an increase in deferred tax credit primarily due to HK$49.1 million deferred tax attributable to a decrease in the PRC Enterprise Income Tax rate to 25% from 33% in the year ended 31 December 2007. As a result, there was an increase in the taxation credit for the year ended 31 December 2007.

Minority Interests. Minority interests increased by 89.0%, to HK$30.8 million in the year ended 31 December 2007 from HK$16.3 million in the year ended 31 December 2006.

Net Profit. Net profit attributable to equity holders of the company increased by 131.0 %, to HK$193.6 million in the year ended 31 December 2007 representing a net profit margin of approximately 12.6% (excluding HK$11 million net profit in the year ended 31 December 2006 contributed by a previous subsidiary which was disposed on 30 April 2006).

Year Ended 31 December 2006 Compared to Year Ended 31 December 2005

Turnover. Turnover increased by 226.1%, to HK$1,090.8 million in the year ended 31 December 2006 from HK$334.5 million in the year ended 31 December 2005 (excluding HK$651.3 million and HK$248.2 million turnover in the two years ended 31 December 2006 contributed by a previous subsidiary which was disposed on 30 April 2006).

(a) ***Sales and distribution of fuel gas for non-residential users***

Turnover from sales and distribution of fuel gas for non-residential users increased by 208.3%, to HK$538.6 million in the year ended 31 December 2006 from HK$174.7 million in the year ended 31 December 2005, primarily due to the turnover from sales and distribution of fuel gas for non-residential users from the five new operating entities (Linhai Gas, Fuyang Gas, Wuxi Gas, Chengdu Gas and Huaibei Gas) acquired by the CR Gas Group during 2006, an increase of the total sales volume of gas by the CR Gas Group to non-residential users by 1,080.0%, to 601.8 million cubic metres from 51.0 million cubic metres primarily contributed by Chengdu Gas, Wuxi Gas and Suzhou Gas. The total number of non-residential gas pipeline customers of the CR Gas Group increased by 9,665.6%, to 12,207 from 125 during the same period.

(b) ***Sales and distribution of fuel gas for residential users***

Turnover from sales and distribution of fuel gas for residential users increased by 1,274.4%, to HK$214.4 million in the year ended 31 December 2006 from HK$15.6 million in the year ended 31 December 2005, primarily due to the turnover from sales and distribution of fuel gas for residential users from the five new operating entities (Linhai Gas, Fuyang Gas, Wuxi Gas, Chengdu Gas and Huaibei Gas) acquired by the CR Gas Group during 2006, an increase of the total sales volume of gas by the CR Gas Group to residential users by 3,948.6%, to 425.1 million cubic metres from 10.5 million cubic metres primarily contributed by Chengdu Gas, Wuxi Gas and Huaibei Gas. The total number of residential customers of the CR Gas Group increased by 2,275.0%, to 1,731,173 from 72,892 during the same period.

(c) ***Sales and distribution of bottled LPG***

Turnover from sales and distribution of bottled LPG increased by 92.6%, to HK$177.6 million in the year ended 31 December 2006 from HK$92.2 million in the year ended 31 December 2005, primarily due to the increase in turnover from sales and distribution of bottled LPG from two new operating entities (Fuyang Gas and Wuxi Gas) and an overall increase in the sale price for bottled LPG.

(d) ***Gas pipeline connections for non-residential users***

Turnover from gas pipeline connections for non-residential users increased by 16.3%, to HK$20.0 million in the year ended 31 December 2006 from HK$17.2 million in the year ended 31 December 2005, primarily resulting from the turnover from gas pipeline connections for non-residential users from the five new operating entities (Linhai Gas, Fuyang Gas, Wuxi Gas, Chengdu Gas and Huaibei Gas) acquired by the CR Gas Group during 2006, the increase in turnover contributed by Chengdu Gas, Wuxi Gas and Fuyang Gas. 1,441 new non-residential gas pipeline connections were by the CR Gas Group during the year ended 31 December 2006.

(e) ***Gas pipeline connections for residential users***

Turnover from gas pipeline connections for residential users increased by 304.0%, to HK$140.2 million in the year ended 31 December 2006 from HK$34.7 million in the year ended 31 December 2005, primarily due to the turnover from gas pipeline connections for residential users from the five new operating entities (Linhai Gas, Fuyang Gas, Wuxi Gas, Chengdu Gas and Huaibei Gas) acquired by the CR Gas Group during 2006, the increase in turnover contributed by Chengdu Gas, Wuxi Gas and Fuyang Gas. 93,709 new residential gas pipeline connections were made by the CR Gas Group for the same periods.

Cost of Sales. Cost of sales increased by 211.9%, to HK$800.3 million in the year ended 31 December 2006 from HK$256.6 million in the year ended 31 December 2005 (excluding HK$616.0 million and HK$234.9 million cost of sales for the two years ended 31 December 2006 contributed by a previous subsidiary which was disposed on 30 April 2006).

(a) ***Sales and distribution of fuel gas***

Cost of sales for sale and distribution of fuel gas increased by 204.1%, to HK$720.5 million in the year ended 31 December 2006 from HK$236.9 million in the year ended 31 December 2005, primarily due to the cost of sales for fuel gas from the five new operating entities (Linhai Gas, Fuyang Gas, Wuxi Gas, Chengdu Gas and Huaibei Gas) acquired by the CR Gas Group during 2006, an increase of the total sales volume of gas by the CR Gas Group by 1,369.7%, to 1,046.4 million cubic metres from 71.2 million cubic metres for the same periods and an overall increase in the purchase price for gas by the CR Gas Group.

(b) ***Gas pipeline connections***

Cost of sales for gas pipeline connection increased by 305.1%, to HK$79.8 million in the year ended 31 December 2006 from HK$19.7 million in the year ended 31 December 2005, due to the cost of sales for gas pipeline connections from the five new operating entities (Linhai Gas, Fuyang Gas, Wuxi Gas, Chengdu Gas and Huaibei Gas) acquired by the CR Gas Group during 2006, according to increase in revenue by the CR Gas Group for the same periods and an overall increase in construction costs (including costs for raw material and labour costs).

Gross Profit. Gross profit increased by 273.4%, to HK$290.5 million in 2006 from HK$77.8 million in 2005 (excluding HK$35.3 million and HK$13.4 million gross profit for the two years ended 31 December 2006 contributed by a previous subsidiary which was disposed on 30 April 2006).

(a) ***Sales and distribution of fuel gas***

Gross profit for sales and distribution of fuel gas increased by 360.7%, to HK$210.1 million in the year ended 31 December 2006 from HK$45.6 million in the year ended 31 December 2005, primarily due to Suzhou Gas and the two new operating entities (Wuxi Gas and Chengdu Gas) acquired by the CR Gas Group during 2006. Gross margin increased to 22.6% from 16.1%, which is mainly attributable to higher gross margin of Suzhou Gas and the two new operating entities (Wuxi Gas and Chengdu Gas) for the same periods.

(b) ***Gas pipeline connection***

Gross profit for gas pipeline connection increased by 149.4%, to HK$80.3 million in the year ended 31 December 2006 from HK$32.2 million in the year ended 31 December 2005, primarily due to the five new operating entities (Linhai Gas, Fuyang Gas, Wuxi Gas, Chengdu Gas and Huaibei Gas) acquired by the CR Gas Group during 2006. Gross margin decreased to 50.2% from 62.0%, which is mainly attributable to the lower gross margin of the three new operating entities (being Chengdu Gas, Huaibei Gas and Wuxi Gas) for the same periods.

Other income. Other income increased by 1,531.3%, to HK$26.1 million in the year ended 31 December 2006 from HK$1.6 million in the year ended 31 December 2005 (excluding HK$58.7 million and HK$11.3 million other income for the two years ended 31 December 2006 contributed by a previous subsidiary which was disposed on 30 April 2006), due to the other income from the five new operating entities injected during 2006.

Selling and Distribution Expenses. Selling and distribution expenses increased by 306.8%, to HK$89.5 million in the year ended 31 December 2006 from HK$22.0 million in the year ended 31 December 2005 (excluding HK$24.6 million and HK$4.5 million selling and distribution expenses for the two years ended 31 December 2006 contributed by a previous subsidiary which was disposed on 30 April 2006), due to selling and distribution expenses from the five new operating entities injected during 2006 and increase distribution costs (including costs for water and electricity).

General and Administrative Expenses. General and administrative expenses increased by 756.2 %, to HK$117.3 million in the year ended 31 December 2006 from HK$13.7 million in the year ended 31 December 2005 (excluding HK$9.1 million and HK$2.1 million general and administrative expenses for the two years ended 31 December 2006 contributed by a previous subsidiary which was disposed on 30 April 2006) due to general and administrative expenses from the five new operating entities acquired during the year ended 31 December 2006 and increase in the number of employees employed by the CR Gas Group and general increase in employee's remuneration for the same periods.

Finance Costs. Finance costs increased by 1,371.4%, to HK$10.3 million in the year ended 31 December 2006 from HK$0.7 million in the year ended 31 December 2005 (excluding HK$1.8 million and HK$0.9 million finance costs for the two years ended 31 December 2006 contributed by a previous subsidiary which was disposed on 30 April 2006). The increase was primarily due to finance costs from the five new operating entities injected during 2006.

Discount on Acquisition of Jointly Controlled Entities. The discount on acquisition of jointly controlled entities in the year ended 31 December 2005 was HK$5.6 million due to acquisition of Chengdu Gas in 2006.

Profit Before Taxation. Profit before taxation increased by 108.2%, to HK$101.2 million in 2006 from HK$48.6 million in 2005 (excluding HK$58.5 million and HK$13.0 million profit before taxation for the two years ended 31 December 2006 contributed by a previous subsidiary which was disposed on 30 April 2006).

Taxation. Taxation increased to HK$1.2 million in 2006 from HK$0 in 2005 (excluding HK$6.1 million and HK$2.0 million taxation for the two years ended 31 December 2006 contributed by a previous subsidiary which was disposed on 30 April 2006), primarily due to the CR Gas Group enjoying full exemption from PRC Enterprise Income Tax in the year ended 31 December 2005 and Suzhou Gas' exemption from PRC Enterprise Income Tax was reduced from a tax free exemption to a 50 per cent. tax exemption in the year ended 31 December 2006.

Minority Interests. Minority interests increased by 24.4%, to HK$16.3 million in 2006 from HK$13.1 million in 2005.

Net Profit. Net profit attributable to equity holders of the company increased by 136.7 %, to HK$83.8 million in 2006 (excluding HK$52.5 million and HK$11.0 million net profit for the two years ended 31 December 2006 contributed by a previous subsidiary which was disposed on 30 April 2006).

Liquidity and Capital Resources

The CR Gas Group's primary cash requirements are to finance the operations of the CR Gas Group. The CR Gas Group funds its operations primarily by cash generated by its operations and short- and long-term borrowings.

The following table presents selected cash flow data from CR Gas' consolidated cash flow statements for 2005, 2006 and 2007 and the six months ended 30 June 2008.

	Year ended 31 December			Six months ended 30 June
	2005*	**2006***	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Net cash inflow/(outflow) from operating activities	74,076	350,066	510,784	220,433
Net cash inflow/(outflow) from investing activities	113,278	(268,608)	(139,385)	(88,316)
Net cash inflow/(outflow) from financing activities	72,111	268,126	(254,911)	(186,769)

* *excludes HK$44.6 million and HK$39.2 million net cash inflow/(outflow) from operating activities, HK$(2.1) million and HK$0.1 million net cash inflow/(outflow) from investing activities, and HK$(42.7) million and HK$(21.9) million net cash inflow/(outflow) from financing activities for the two years ended 31 December 2006 contributed by a previous subsidiary which was disposed on 30 April 2006)*

Cash Flows from (used in) Operating Activities. CR Gas recorded net cash used in operating activities of HK$74.1 million, net cash from operating activities of HK$350.1 million, net cash from operating activities of HK$510.8 million and net cash from operating activities of HK$220.4 million in 2005, 2006 and 2007 and the six months ended 30 June 2008, respectively. For the same periods, CR Gas recorded operating cash flows before movements in working capital of HK$66.1 million, HK$193.9 million, HK$278.5 million and HK$209.9 million, respectively. For the years ended 2005, 2006 and 2007 and the six months ended 30 June 2008, CR Gas recorded non-cash depreciation charges of HK$7.3 million, HK$66.1 million, HK$65.6 million and HK$33.9 million, respectively. The above excludes HK$44.6 million net cash used in/from operating activities and HK$39.2 million net cash used in/from operating activities in the two years ended 31 December 2006 contributed by a previous subsidiary which was disposed on 30 April 2006.

In 2006, CR Gas had an adjusted net working capital deficit of HK$(284) million. The decrease is due to decrease in adjusted net working capital in 2006 relative to 2005 reflects a HK$57.7 million increase in adjusted current assets and a HK$79.2 million increase in adjusted current liabilities. The movements in adjusted current assets include a HK$52.5 million increase in amount due from immediate holding company primarily due to the restructuring of the CR Gas Group in 2006. The movements in adjusted current liabilities include a HK$116.8 million increase in trade and other payables representing increase in other payables.

In 2007, CR Gas had an adjusted net working capital deficit of HK$1,881.4 million. The decrease in adjusted net working capital in 2007 relative to 2006 reflects a HK$19.5 million decrease in adjusted current assets and a HK$1,577.9 million increase in adjusted current liabilities. The movements in adjusted current liabilities include a HK$1,231.7 million increase in amount due to immediate holding company reflecting an increase in dividend payable to the immediately holding company.

For the six months ended 30 June 2008, CR Gas had an adjusted net working capital deficit of HK$780.6 million. The increase in adjusted net working capital in this period relative to the six months ended 30 June 2007 reflects a HK$118.5 million increase in adjusted current assets and a HK$982.3 million decrease in adjusted current liabilities. The movements in adjusted current assets include a HK$84.1 million increase in trade and other receivables due to increase in other receivable. The movements in adjusted current liabilities include a HK$1,175.4 million decrease in amount due to immediate holding company, due to repayment to the immediate holding company.

The above excludes HK$88.4 million adjusted current assets, HK$4.1 million adjusted current liabilities and HK$84.3 million adjusted net working capital for year ended 31 December 2005 contributed by a previous subsidiary which was disposed on 30 April 2006.

Cash Flows from Investing Activities. CR Gas had net cash inflows/(outflows) from investing activities of HK$113.3 million, HK$(268.6) million, HK$(139.4) million and HK$(88.3) million in 2005, 2006 and 2007 and the six months ended 30 June 2008, respectively (excluding HK$2.2 million net cash outflows and HK$0.1 million net cash inflows from investing activities in the two years ended 31 December 2006 contributed by a previous subsidiary which was disposed on 30 April 2006), primarily due to purchase of property, plant and equipment as to support the business expansion.

Cash Flows from Financing Activities. CR Gas had net cash inflows/(outflows) from financing activities of HK$72.1 million, HK$268.1 million, HK$(254.9) million and HK$(186.8) million in 2005, 2006, 2007 and the six months ended 30 June 2008, respectively (excluding HK$42.7 net cash outflow million and HK$21.9 million net cash outflow from financing activities in the two years ended 31 December 2006 contributed by a previous subsidiary which was disposed on 30 April 2006). The cash inflows in 2005 and 2006 were primarily attributable to issue of new shares. The cash outflows in 2007 and the six months ended 30 June 2008 primarily due to repayment to the immediate holding company.

As at 30 June 2008, CR Gas had outstanding unsecured bank borrowings with an aggregate principal amount outstanding of HK$209.3 million. The borrowings of HK$185.3 million are denominated in RMB and all of CR Gas' receipts and all of CR Gas' payments with respect to such borrowings are denominated in RMB.

As at 31 December 2007, CR Gas had outstanding unsecured bank borrowings with an aggregate principal amount outstanding of HK$198.8 million. The borrowings of HK$175.7 million are denominated in RMB and all of CR Gas' receipts and all of CR Gas' payments with respect to such borrowings are denominated in RMB.

As at 31 December 2006, CR Gas had outstanding unsecured bank borrowings with an aggregate principal amount outstanding of HK$224.1 million. The borrowings of HK$202.1 million are denominated in RMB and all of CR Gas' receipts and all of CR Gas' payments with respect to such borrowings are denominated in RMB.

As at 31 December 2005, CR Gas had outstanding unsecured bank borrowings with an aggregate principal amount outstanding of HK$231.7 million (excluding an aggregate principal amount of HK$39.2 million outstanding borrowings as at 31 December 2005 contributed by a previous subsidiary which was disposed on 30 April 2006). The borrowings of HK$211.6 million are denominated in RMB and all of CR Gas' receipts and all of CR Gas' payments with respect to such borrowings are denominated in RMB.

CR Gas' borrowings due within one year were HK$10.3 million as at 31 December 2005, HK$6.9 million as at 31 December 2006 and HK$61.9 million as at 31 December 2007 (excluding borrowings due within one year of HK$39.2 million as at 31 December 2005 contributed by a previous subsidiary which was disposed on 30 April 2006). CR Gas' borrowings due within one year increased to HK$84.8 million at 30 June 2008.

Indebtedness, contingent liabilities and capital commitment

Indebtedness

The CR Gas Group's consolidated borrowings as at 31 December 2005, 2006, 2007 and 30 June 2008, being the latest practicable date for the purposes of calculating the indebtedness of the CR Gas Group, were as follows:

		Carrying amount			
	Effective interest rate per annum	**At 31 December 2005**	**2006**	**2007**	**At 30 June 2008**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Fixed-rate borrowings:					
Unsecured RMB bank loans	5.050%-6.700%	180,755	174,370	128,136	130,824
Unsecured RMB other borrowings	1.980%	30,884	27,750	26,210	26,060
Total fixed-rate borrowings		211,639	202,120	154,346	156,884
Floating-rate borrowing:					
Unsecured RMB bank loans at the People's Bank of China Base Rate	5.387%	—	—	21,356	28,440
Unsecured EURO other borrowings at 0.3% over the People's Bank of China Base Rate	3.746%	20,061	21,965	23,145	23,927
Total floating rate borrowings		20,061	21,965	44,501	52,367
Total borrowings		231,700	224,085	198,847	209,251

* *excludes consolidated borrowings of HK$39.2 million as at 31 December 2005 and 2006, respectively contributed by a previous subsidiary which was disposed on 30 April 2006*

The CR Gas Group's borrowings shown above consists of unsecured fixed and floating rate borrowings. The unsecured fixed rate borrowings was approximately HK$250.8 million for the year ended 31 December 2005, approximately HK$202.1 million for the year ended 31 December 2006, approximately HK$154.3 million for the year ended 31 December 2007 and approximately HK$156.9 million for the six-months period ended 30 June 2008. These consist of unsecured RMB bank loans, RMB other borrowings and trust receipt loans in HK$. The CR Gas Group's borrowings bore interest rates ranging from 5.050% - 6.700% per annum for fixed rate unsecured RMB bank loans, 1.980% per annum for fixed rate unsecured RMB other borrowings and 4.870% per annum for trust receipt loans in HK$.

The CR Gas Group (excluding any charge over its assets contributed by a previous subsidiary which was disposed on 30 April 2006) has not taken any charge over its assets during the six months ended 30 June 2008 and the financial years ended 31 December 2007, 2006 and 2005.

For the floating rate borrowings, the CR Gas Group recorded borrowings of approximately HK$20.1 million as at 31 December 2005, approximately HK$22.0 million as at ended 31 December 2006, approximately HK$44.5 million as at 31 December 2007 and approximately HK$52.4 million as at 30 June 2008 (there were no floating rate borrowings as at 31 December 2005 and 2006 respectively contributed by a previous subsidiary which was disposed on 30 April 2006). These consist of RMB unsecured loans and EURO unsecured other borrowings. The unsecured RMB bank loans bore interest rates at the People's Bank of China Base Rate at an effective interest rate of 5.387% per annum and the unsecured EURO other borrowings bore interest rates at 0.3% over the People's Bank of China Base Rate resulting in an effective interest rate of 3.746% per annum.

Other than HK$, the CR Gas Group had bank and other borrowings that are denominated in Euro as follows:

	At 31 December			At 30 June
	2005	**2006**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Borrowings denominated in Euro	20,061	21,965	23,145	23,927

The maturity profile of the interest bearing borrowings of the CR Gas Group as at each of the dates indicated below was as follows:

	At 31 December			At 30 June
	2005	**2006**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	10,301	6,867	61,933	84,798
After one year but within two years	5,612	31,419	72,227	8,692
In the second to fifth years inclusive	194,623	168,986	56,510	108,930
After five years	21,164	16,813	8,177	6,831
	221,399	217,218	136,914	124,453
	231,700	224,085	198,847	209,251

* *excludes HK$39.2 million interest bearing borrowings as at 31 December 2005 respectively contributed by a previous subsidiary which was disposed on 30 April 2006*

The CR Gas Group's gearing ratio was 24%, 14.9%, 78.8% and 14.5% as at 31 December 2005, 2006, 2007 and 30 June 2008 respectively. The gearing ratio is calculated by total debt divide by equity and excludes the amounts contributed by a previous subsidiary which was disposed on 30 April 2006.

The CR Gas Group's current gearing ratio (calculated on the current assets to current liabilities) as of 31 December 2007 was 50.5% as compared to 162.7% as of 31 December 2006.

Save as disclosed above, the Directors confirm that there has been no material change in the CR Gas Group's indebtedness since 31 July 2008.

Contingent liabilities

The CR Gas Group had no contingent liabilities as at 30 June 2008, 31 December 2007, 2006 and 2005 (including no contingent liabilities as at 31 December 2005 contributed by a previous subsidiary which was disposed on 30 April 2006).

Capital Commitments

The CR Gas Group had no contractual capital expenditure commitments as at 30 June 2008.

Aggregate Contractual Obligations

At the balance sheet dates, the CR Gas Group had outstanding commitments in respect of land and buildings under non-cancellable operating leases with fixed and pre-determined lease payments which fall due as follows:

As lessee

	At 31 December			At 30 June
	2005	**2006**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	2,109	1,897	3,616	2,353
In the second to fifth year inclusive	4,232	4,742	6,056	3,540
After five years	—	2,320	1,840	113
	6,341	8,959	11,512	6,006

* *there was no outstanding commitments in respective of land and buildings under non-cancellable operating leases with fixed and pre-determined lease payments as lessee as at 31 December 2005 contributed by a previous subsidiary which was disposed on 30 April 2006)*

Operating lease payments represent rental payable by the CR Group for certain of its properties. Leases are negotiated for lease terms principally ranged from one to seven years.

At the balance sheet dates, the CR Gas Group had contracted with tenants, in respect of the premises leased to the tenants, for periods up to six years at fixed pre-determined amounts, or the following future minimum lease payments:

As lessor

	At 31 December			At 30 June
	2005	**2006**	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	677	811	1,844	1,534
In the second to fifth year inclusive	1,060	2,209	1,892	1,874
After five years	—	—	493	351
	1,737	3,020	4,229	3,759

* *there was no outstanding commitments in respective of land and buildings under non-cancellable operating leases with fixed and pre-determined lease payments as lessor as at 31 December 2005 contributed by a previous subsidiary which was disposed on 30 April 2006)*

No contingent rent was arranged for the above operating lease arrangements during the years ended 31 December 2005, 2006 and 2007 and the six months period ended 30 June 2008. CR Gas does not have any lease commitment at the balance sheet dates.

Employees remuneration

As at 30 June 2008, the CR Gas Group employed approximately 3,471 employees, as compared with 3,669 as at 31 December 2007, 3,472 as at 31 December 2006 and 382 as at 31 December 2005. All employees are remunerated based on industry practice and in accordance with the prevailing employment law. All employees of the CR Gas Group are employed in the PRC. For the purposes of this circular, the employees employed in Hong Kong by a subsidiary disposed in 2006 are excluded.

Foreign Currency Exchange Risk

The CR Gas Group is exposed to exchange rate risk. The reporting currency of the CR Gas Group is the Hong Kong dollar. All of the CR Gas Group's net operating revenues have been denominated in Renminbi, which is not freely transferable into other foreign currencies. All foreign currency exchange transactions in the PRC must be effected through either the People's Bank of China, or PBOC, or other institutions authorised by the PBOC to buy and sell foreign currencies. Approval of all foreign currency payments, including remittances of dividends, by the PBOC or other institutions, requires submitting a payment application together with relevant supporting documents.

As the CR Gas Group's functional currency is the Renminbi, such foreign currency-denominated cash and cash equivalents are exposed to fluctuations in the value of the Renminbi against the currencies in which these cash and cash equivalents are denominated. Any significant appreciation of the Renminbi against these foreign currencies may result in significant exchange loss to be recorded in the Enlarged Group's income statement. Although the CR Gas Group may enter into hedging transactions in the future to hedge against this exposure, the CR Gas Group has not to date entered into any hedging transactions to reduce its exposure to currency exchange risk.

Interest Rate Risk. The CR Gas Group is exposed to interest rate risk. The interest rate of the CR Gas Group's total indebtedness is based on rates set by the People's Bank of China plus the applicable margin. As of 30 June 2008, the total indebtedness of the CR Gas Group was approximately HK$209.3 million. CR Gas group's interest rate risk is not currently hedged. The Group and the CR Gas Group may, however, hedge its interest rate exposure in the future.

SUMMARY OF FINANCIAL INFORMATION FOR EACH OF THE THREE YEARS ENDED 31 DECEMBER 2005, 2006 AND 2007

The following is a summary of the financial results of the CR Logic Group for each of the three years ended 31 December 2005, 2006 and 2007 as extracted from the published annual reports of CR Logic.

Consolidated Income Statement

	For the year ended 31 December		
	2007	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Turnover			
Continuing operation	3,016,902	2,086,396	2,863,232
Discontinued operation	1,247,230	1,364,263	201,215
	4,264,132	3,450,659	3,064,447
Cost of sales	(3,267,584)	(2,602,462)	(2,248,895)
Gross profit	996,548	848,197	815,552
Other income	111,239	104,199	138,583
Selling and distribution expenses	(156,336)	(129,972)	(130,410)
Administrative expenses	(359,175)	(301,962)	(260,976)
Other expenses	(233,239)	(161,255)	(134,065)
Profit from operations	359,037	359,207	428,684
Finance costs	(104,367)	(89,601)	(51,038)
Share of results of an associate	—	1,103	(12,541)
Gain on disposal of discontinued operation	61,864	—	74,295
Loss on closure of a production plant	(69,868)	—	—
Gain (loss) on deemed disposal of an associate	—	1,590	(2,826)
Discount on acquisition of subsidiaries	—	41,296	—
Profit before taxation			
Continuing operation	130,912	208,660	341,637
Discontinued operation	115,754	104,935	94,937
	246,666	313,595	436,574
Taxation			
Continuing operation	(41,102)	(21,552)	(30,371)
Discontinued operation	(6,696)	(11,647)	(2,104)
	(47,798)	(33,199)	(32,475)
Profit for the year			
Continuing operation	89,810	187,108	311,266
Discontinued operation	109,058	93,288	92,833
	198,868	280,396	404,099

	For the year ended 31 December		
	2007	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Attributable to:			
Equity holders of the Company			
Continuing operation	60,411	171,992	223,948
Discontinued operation	91,950	60,425	92,833
	152,361	232,417	316,781
Minority interests	46,507	47,979	87,318
	198,868	280,396	404,099
	HK Cents	*HK Cents*	*HK Cents*
Dividend per share			
Interim dividend paid	1.00	1.00	1.00
Final dividend proposed	—	1.00	2.00
	1.00	2.00	3.00
Earnings per share			
From continuing and discontinued operations			
Basic	5.48	8.57	11.90
Diluted	5.37	8.49	11.78
From continuing operation			
Basic	2.17	6.34	8.41
Diluted	2.11	6.28	8.33

Consolidated Balance Sheet

	As at 31 December		
	2007	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets			
Property, plant and equipment	3,949,268	4,217,639	2,489,740
Prepaid lease payments	160,266	172,559	161,125
Investment properties	—	—	50,649
Interest in an associate	—	—	289,380
Available-for-sale investments	9,904	10,105	998
Goodwill	24,060	152,777	152,777
Technical know-how	35,678	53,663	19,235
Deferred tax assets	10,886	16,416	11,691
Deposit for acquisition of property, plant and equipment	17,011	63,205	—
	4,207,073	4,686,364	3,175,595
Current assets			
Inventories	813,870	1,068,568	739,697
Debtors, deposits and prepayments	1,029,983	1,622,459	1,163,649
Prepaid lease payments	3,928	4,625	4,366
Amount due from an associate	—	—	10,236
Amounts due from minority shareholders	—	2,164	5,188
Tax recoverable	4,172	10,057	—
Pledged bank deposits	6,030	7,642	2,695
Bank balances and cash	867,908	521,250	470,009
	2,725,891	3,236,765	2,395,840
Assets classified as held for sale	46,708	—	—
	2,772,599	3,236,765	2,395,840

	As at 31 December		
	2007	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Current liabilities			
Creditors and accrued charges	1,313,849	1,595,098	984,551
Government grants — current portion	13,221	10,520	—
Amount due to an associate	—	—	38,558
Amounts due to minority shareholders	—	85,213	61,547
Bank borrowings	682,762	1,706,617	523,630
Provisions	42,183	77,111	93,332
Taxation	10,327	8,133	2,863
	2,062,342	3,482,692	1,704,481
Net current assets (liabilities)	710,257	(245,927)	691,359
Total assets less current liabilities	4,917,330	4,440,437	3,866,954
Capital and reserves			
Share capital	281,215	276,580	266,491
Share premium and reserves	2,770,716	2,478,511	2,130,178
Equity attributable to equity holders of the Company	3,051,931	2,755,091	2,396,669
Share option reserve of a listed subsidiary	10,840	5,805	—
Minority interests	515,041	1,048,727	627,119
Total equity	3,577,812	3,809,623	3,023,788
Non-current liabilities			
Bank borrowings	1,174,746	522,306	843,166
Long-term payables	66,026	66,025	—
Government grants	98,746	42,483	—
	1,339,518	630,814	843,166
	4,917,330	4,440,437	3,866,954

UNAUDITED FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED 30 JUNE 2008

The following is a summary of the unaudited financial statements of the CR Logic Group for the six months ended 30 June 2008 as extracted from the published 2008 interim report of CR Logic.

Condensed Consolidated Income Statement
For the six months ended 30th June, 2008

		Six months ended 30th June,	
		2008	**2007**
			(restated and
		(unaudited)	*unaudited)*
	NOTES	*HK$'000*	*HK$'000*
Turnover	4		
Continuing operations		188,402	176,878
Discontinued operations	6	428,201	2,451,847
		616,603	2,628,725
Cost of sales		(450,218)	(2,038,878)
Gross profit		166,385	589,847
Other income		11,864	66,408
Selling and distribution expenses		(32,243)	(123,087)
Administrative expenses		(81,473)	(191,295)
Other expenses		(64,746)	(120,525)
Finance costs		(14,791)	(59,789)
Share of results of an associate		(2)	—
(Loss) profit before taxation			
Continuing operations		36,086	(6,501)
Discontinued operations	6	(51,092)	168,060
		(15,006)	161,559

	NOTES	Six months ended 30th June, 2008 (unaudited) HK$'000	2007 (restated and unaudited) HK$'000
Taxation	5		
Continuing operations		(7,651)	(5,600)
Discontinued operations	6	(617)	(20,675)
		(8,268)	(26,275)
(Loss) profit for the period	7		
Continuing operations		28,435	(12,101)
Discontinued operations	6	(51,709)	147,385
		(23,274)	135,284
Attributable to:			
Equity holders of the Company			
Continuing operations		28,435	(12,101)
Discontinued operations	6	(45,635)	125,370
		(17,200)	113,269
Minority interests		(6,074)	22,015
		(23,274)	135,284
Dividends paid		—	27,671
Distribution by way of dividend in specie	8	2,731,463	—
		2,731,463	27,671
Proposed interim dividend of nil (2007: 1.0 HK cent) per share	8	—	27,937
		HK$	HK$
(Loss) earnings per share	9		
From continuing and discontinued operations			
— Basic		(0.06)	0.41
— Diluted		N/A	0.40
From continuing operations			
— Basic		0.10	(0.04)
— Diluted		N/A	N/A

Condensed Consolidated Balance Sheet

At 30th, June, 2008

	NOTES	At 30th June, 2008 (unaudited) HK$'000	At 31st December, 2007 (restated and unaudited) HK$'000
Non-current assets			
Property, plant and equipment	10	195,815	4,167,395
Prepaid lease payments		—	160,266
Investment properties	10	17,986	—
Interest in an associate		46	48
Available-for-sale investments		14,330	16,131
Goodwill		—	24,060
Technical know-how		—	35,678
Deferred tax assets		5,031	15,767
Deposits for acquisition of property, plant and equipment		—	17,011
		233,208	4,436,356
Current assets			
Inventories		1,958	815,876
Debtors, deposits and prepayments	11	68,153	1,097,640
Prepaid lease payments		—	3,928
Taxation recoverable		—	4,172
Pledged bank deposits		740	6,030
Bank balances and cash		85,996	883,543
		156,847	2,811,189
Assets classified as held for sale	6	52,969	46,708
		209,816	2,857,897
Current liabilities			
Creditors and accrued charges	12	60,437	1,363,655
Government grants		—	13,221
Bank borrowings	13	—	682,762
Provisions		—	42,183
Taxation payable		14,296	16,535
		74,733	2,118,356
Net current assets		135,083	739,541
Total assets less current liabilities		368,291	5,175,897

	NOTES	At 30th June, 2008 (unaudited) HK$'000	At 31st December, 2007 (restated and unaudited) HK$'000
Capital and reserves			
Share capital	14	28,288	281,215
Share premium and reserves		310,313	2,999,305
Equity attributable to equity holders of the Company		338,601	3,280,520
Share option reserve of a listed subsidiary		—	10,840
Minority interests		—	515,041
Total equity		338,601	3,806,401
Non-current liabilities			
Bank borrowings	13	—	1,174,746
Long-term payables		—	66,026
Government grants		—	98,746
Deferred tax liabilities		29,690	29,978
		29,690	1,369,496
		368,291	5,175,897

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th June, 2008

	Attributable to equity holders of the Company											
	Share capital	Share premium	Capital reserve	Translation reserve	Share option reserve	Other reserves	Merger reserve	Retained profits	Total	Share option reserve of a listed subsidiary	Minority interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (*Note b*)	*HK$'000* (*Note d*)	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January, 2008 (restated and audited)	281,215	1,015,332	3,816	356,244	13,436	109,015	300	1,501,162	3,280,520	10,840	515,041	3,806,401
Exchange differences recognised directly in equity *(Note a)*	—	—	—	144	—	—	—	—	144	—	115	259
Loss for the period	—	—	—	—	—	—	—	(17,200)	(17,200)	—	(6,074)	(23,274)
Total recognised income (expense) for the period	—	—	—	144	—	—	—	(17,200)	(17,056)	—	(5,959)	(23,015)
Shares issued at premium upon exercise of share options	1,668	10,720	—	—	—	—	—	—	12,388	—	—	12,388
Recognition of equity-settled share-based payments	—	—	—	—	—	—	—	—	—	1,129	430	1,559
Capital reduction	(254,595)	(1,026,052)	—	—	—	—	—	1,280,647	—	—	—	—
Deemed distribution *(Note c)*	—	—	—	—	—	—	(217,757)	—	(217,757)	—	—	(217,757)
Distribution by way of dividend in specie	—	—	—	—	—	—	—	(2,731,463)	(2,731,463)	—	(509,512)	(3,240,975)
Release of reserves upon distribution by way of dividend in specie	—	—	—	(356,388)	—	(109,015)	—	477,372	11,969	(11,969)	—	—
At 30th June, 2008 (unaudited)	28,288	—	3,816	—	13,436	—	(217,457)	510,518	338,601	—	—	338,601
At 1st January, 2007 (restated and audited)	276,580	987,987	3,816	189,047	12,526	120,515	300	1,440,449	3,031,220	5,805	1,048,727	4,085,752
Exchange differences recognised directly in equity *(Note a)*	—	—	—	123,106	—	—	—	—	123,106	—	34,740	157,846
Profit for the period	—	—	—	—	—	—	—	113,269	113,269	—	22,015	135,284
Total recognised income for the period	—	—	—	123,106	—	—	—	113,269	236,375	—	56,755	293,130

	Attributable to equity holders of the Company											
	Share capital	Share premium	Capital reserve	Translation reserve	Share option reserve	Other reserves	Merger reserve	Retained profits	Total	Share option reserve of a listed subsidiary	Minority interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (Note b)	*HK$'000* (Note d)	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Shares issued at premium upon exercise of share options	1,567	8,292	—	—	—	—	—	—	9,859	—	—	9,859
Recognition of equity-settled share-based payments	—	—	—	—	—	—	—	—	—	2,726	1,026	3,752
Transfers between categories	—	—	—	—	—	6,568	—	(6,568)	—	—	—	—
Dividends paid	—	—	—	—	—	—	—	(27,671)	(27,671)	—	—	(27,671)
Dividends paid to minority interests	—	—	—	—	—	—	—	—	—	—	(29,856)	(29,856)
At 30th June, 2007 (restated and unaudited)	278,147	996,279	3,816	312,153	12,526	127,083	300	1,519,479	3,249,783	8,531	1,076,652	4,334,966

Notes:

(a) The exchange differences arose from translation of the assets and liabilities of foreign operations into the presentation currency.

(b) Other reserves comprise general reserve, statutory surplus reserve, enterprise expansion fund, statutory public welfare fund and discretionary surplus reserve of subsidiaries established in the People's Republic of China (the "PRC").

(c) On 5th March, 2008, the Group acquired 100% equity interest in Redland Concrete Limited ("Redland Concrete") from China Resources Concrete Limited ("CR Concrete") for a cash consideration of approximately HK$217,757,000. This is a business combination that involves entities under common control as explained in Note 2. The transaction is accounted for in accordance with the Accounting Guideline 5 "Merger Accounting under Common Control Combination" ("AG 5") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The cash paid to CR Concrete of HK$217,757,000 was treated as a deemed distribution.

(d) Merger reserve as at 30th June, 2008 represented the difference between the cash consideration paid by the Group of approximately HK$217,757,000 and the amount of the issued capital of Redland Concrete with nominal value of HK$300,000. The amount as at 30th June, 2007 represented the amount of the issued capital of Redland Concrete.

Condensed Consolidated Cash Flow Statement

For the six months ended 30th June, 2008

	Six months ended 30th June, 2008 (unaudited) HK$'000	2007 (restated and unaudited) HK$'000
Net cash from operating activities	91,148	292,043
Investing activities		
Government grant received	7,993	—
Proceeds on disposal of property, plant and equipment	1,745	11,809
Disposal of subsidiaries	(508,688)	—
Payments and deposits for acquisition of property, plant and equipment	(215,132)	(347,797)
Advance to former immediate holding company	—	(63,090)
Payments for acquisition of available-for-sale investments	(1,145)	(1,286)
Other investing cash flows (net)	4,287	5,115
Net cash used in investing activities	(710,940)	(395,249)
Financing activities		
New bank loans raised	272,390	1,662,865
Repayments of borrowings	(230,911)	(1,447,831)
Deemed distribution in relation to the acquisition of Redland Concrete	(217,757)	—
Other financing cash flows (net)	(1,736)	(47,840)
Dividends paid	—	(27,671)
Dividends paid to minority shareholders of subsidiaries	—	(29,856)
Net cash (used in) generated from financing activities	(178,014)	109,667
Net (decrease) increase in cash and cash equivalents	(797,806)	6,461
Cash and cash equivalents at beginning of the period	883,543	544,364
Effect of foreign exchange rate changes	259	5,643
Cash and cash equivalents at end of the period, representing bank balances and cash	85,996	556,468

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th June, 2008

1. GENERAL

The Company is a listed public company incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company's parent company is China Resources (Holdings) Company Limited ("CRH"), a company incorporated in Hong Kong and its ultimate holding company is China Resources National Corp. ("CRNC"), a company established in the PRC.

As part of the group reorganisation (the "Group Reorganisation") with details set out in the Company's circular dated 16th January, 2008, the Company acquired the entire equity interests in Redland Concrete. The acquisition was completed on 5th March, 2008, and the Group would engage in the supply of ready mixed concrete and related products to the Hong Kong and Macau markets.

The interim results of the Group are unaudited and have been reviewed by the Company's Audit Committee.

2. BASIS OF PREPARATION

During the six months ended 30th June, 2007 and 2008, the Company is the holding company of the companies now comprising the Group except for Redland Concrete and its subsidiaries. Under the Group Reorganisation, Rich Team Resources Limited, a wholly-owned subsidiary of the Company which was incorporated on 30th October, 2007, acquired the entire equity interests in Redland Concrete from CR Concrete, a fellow subsidiary of the Company, at a cash consideration of approximately HK$217,757,000.

Both the Group and Redland Concrete are ultimately controlled by CRNC before and after the Group Reorganisation, and that control is not transitory. The Group and Redland Concrete and its subsidiaries are regarded as a continuing entity and hence the acquisition has been accounted for as a combination of entities under common control by applying the principles of merger accounting in accordance with AG 5 issued by the HKICPA. Accordingly, the condensed consolidated income statements, condensed consolidated statements of changes in equity and the condensed consolidated cash flow statements of the Group for the six months ended 30th June, 2007 and 2008 include the results of operations, changes in equity and cash flows of the companies now comprising the Group as if the current group structure upon the completion of the Group Reorganisation had been in existence throughout the six months ended 30th June, 2007 and 2008, or since their respective dates of incorporation or establishment where this is a shorter period. The condensed consolidated balance sheet of the Group as at 31st December, 2007 has been prepared to present the assets and liabilities of the companies now comprising the Group as if current group structure had been in existence as at the respective date.

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the HKICPA.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31st December, 2007, except for the application of AG 5 as stated in Note 2. The condensed consolidated financial statements have been prepared as if Redland Concrete and its subsidiaries were the Group's wholly-owned subsidiaries throughout the six months ended 30th June, 2007 and 2008, or since their respective dates of incorporation or establishment where this is a shorter period.

In addition, the Group has applied the following accounting policy for distribution in specie during the current interim period:

Distribution in specie is measured at the carrying value of the net assets of subsidiaries distributed at the date of the distribution.

In the current interim period, the Group has applied, for the first time, the new interpretations ("new Interpretations") issued by the HKICPA, which are effective for the Group's financial year beginning on 1st January, 2008. The adoption of these new Interpretations had no material effect on the results or financial position of the Group for the current or the prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the new and revised standards, amendments or interpretations that have been issued but are not yet effective.

The adoption of HKFRS 3 (revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1st July, 2009. HKAS 27 (revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other standards or interpretations will have no material impact on the results and the financial position of the Group.

4. TURNOVER AND SEGMENT INFORMATION

Business segments

For management purposes, the Group is currently organised into two operating divisions — semiconductor and concrete. These divisions are the bases on which the Group reports its primary segment information.

The activities of these divisions are as follows:

Semiconductor — design, fabrication and packaging of integrated circuits and discrete devices

Concrete — manufacture and sale of concrete

During the six months ended 30th June, 2008, the Group disposed of all of its equity interests in its subsidiary, China Resources Microelectronics Limited ("CR Microelectronics"), by way of a distribution in specie, with details set out in Note 15. Upon completion of the disposal, the Group is principally engaged in the concrete operation.

The Group was also involved in the following division in prior period:

Compressor — manufacture of compressor for air-conditioners (discontinued on 16th August, 2007)

Results for the six months ended 30th June, 2008

	Continuing operations Concrete	Discontinued operations Semiconductor	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
Turnover			
External sales	188,402	428,201	616,603
Result			
Segment results	41,946	(39,067)	2,879
Unallocated income			2,952
Unallocated expenses			(6,044)
Finance costs			(14,791)
Share of results of an associate			(2)
Loss before taxation			(15,006)
Taxation			(8,268)
Loss for the period			(23,274)

Results for the six months ended 30th June, 2007

	Continuing operations	Discontinued operations			
	Concrete	Semiconductor	Compressor	Total	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover					
External sales	176,878	1,329,469	1,122,378	2,451,847	2,628,725
Result					
Segment results	28,650	151,372	56,312	207,684	236,334
Unallocated income	950			3,152	4,102
Unallocated expenses	(15,730)			(3,358)	(19,088)
Finance costs	(20,371)			(39,418)	(59,789)
(Loss) profit before taxation	(6,501)			168,060	161,559
Taxation	(5,600)			(20,675)	(26,275)
(Loss) profit for the period	(12,101)			147,385	135,284

5. TAXATION

	Six months ended 30th June,	
	2008	**2007**
	HK$'000	*HK$'000*
Current tax		
PRC	1,537	19,366
Hong Kong	8,089	7,723
Overprovision in prior years	—	(11)
	9,626	27,078
Deferred tax	(1,358)	(803)
	8,268	26,275

Hong Kong Profits Tax is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. On 26th June, 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which includes the reduction in corporate profit tax rate by 1% to 16.5% effective from the year of assessment 2008-2009. The effect of such decrease has been reflected in measuring the current and deferred tax for the six months ended 30th June, 2008. The estimated average annual tax rate used is 16.5% (2007: 17.5%) for the six months ended 30th June, 2008.

Profits tax arising in the PRC is calculated based on the applicable tax rates on assessable profits.

On 16th March, 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6th December, 2007, the State Council of the PRC issued Implementation Regulation of the New Law. The New Law and the Implementation Regulation have changed the tax rate from 33% to 25% for the Group's subsidiaries from 1st January, 2008, except for those subsidiaries regarded as advanced technology enterprises by the local tax bureau which are subject to a tax rate of 15%.

6. DISCONTINUED OPERATIONS

On 4th December, 2007, the Company entered into a conditional agreement with its subsidiary, CR Microelectronics, for the sale of the entire interests in certain of the Company's wholly-owned subsidiaries engaging principally in the manufacture of semiconductors and the shareholders' loans advanced to these subsidiaries to CR Microelectronics, for an aggregate consideration of HK$1,488,900,000 which was satisfied by the issue of 3,106,932,317 shares in CR Microelectronics to the Company. The disposal of these subsidiaries was approved at a special general meeting held on 13th February, 2008 and was completed on 5th March, 2008.

Immediately after the disposal, the Company distributed all of its shares in CR Microelectronics, by way of a dividend in specie on the basis of 180 shares in CR Microelectronics for every 100 shares in the Company held. After the distribution of dividend in specie, the entire equity interests held in CR Microelectronics by the Company were disposed of.

The disposal of subsidiaries and distribution of shares in CR Microelectronics are part of the Group Reorganisation, and upon signing the above-mentioned conditional agreement with CR Microelectronics, the management had the intention to dispose of the entire equity interests in China Resources Semiconductor Company Limited ("CRSC"), a wholly-owned subsidiary of the Company which is engaged in manufacture and sales of integrated circuit design and wafer packaging, so that the Group would principally engage in the concrete operations after acquisition of Redland Concrete. On 25th April, 2008, the Group entered into a non-legally binding letter of intent with independent third parties for the disposal of entire equity interests in CRSC. The semiconductor operation is presented as a discontinued operation and the assets of CRSC are classified as disposal group held for sale and are presented separately in the consolidated balance sheet as at 30th June, 2008 and 31st December, 2007. The estimated proceeds of disposal are expected to be lower than the net carrying amount of the relevant assets and accordingly, an impairment loss of HK$8,000,000 has been recognised during the six months ended 30th June, 2008.

On 10th June, 2008, the Group entered into an asset transfer agreement with Sean Trump Investments Limited, a wholly-owned subsidiary of CR Microelectronics, to dispose of certain of its property, plant and equipment and inventories with the aggregate carrying amount of HK$17,125,000. The disposal was completed on 1st July, 2008, accordingly, these assets are classified as disposal group held for sale and are presented separately in the consolidated balance sheet as at 30th June, 2008.

The major classes of assets classified as held for sale are as follows:

	At 30th June, 2008	**At 31st December, 2007**
	HK$'000	*HK$'000*
Property, plant and equipment	35,878	38,869
Prepaid lease payments	5,503	5,535
Inventories	11,588	2,304
Assets classified as held for sale	52,969	46,708

The results of the semiconductor operation for the six months ended 30th June, 2007 and 2008, which have been included in the consolidated income statement, were as follows:

	Six months ended 30th June,	
	2008	**2007**
	HK$'000	*HK$'000*
Turnover	428,201	1,329,469
Cost of sales	(333,832)	(976,534)
Gross profit	94,369	352,935
Other income	8,536	61,680
Selling and distribution expenses	(13,833)	(35,335)
Administrative expenses	(63,176)	(124,899)
Other expenses	(62,401)	(104,896)
Finance costs	(14,587)	(33,350)
(Loss) profit before taxation	(51,092)	116,135
Taxation	(617)	(14,336)
(Loss) profit for the period	(51,709)	101,799
Attributable to:		
Equity holders of the Company	(45,635)	96,309
Minority interests	(6,074)	5,490
	(51,709)	101,799

The net cash flows of the semiconductor operation for the six months ended 30th June, 2007 and 2008, were as follows:

	Six months ended 30th June, 2008	2007
	HK$'000	*HK$'000*
Net cash from operating activities	42,413	202,492
Net cash used in investing activities (including cash flow from disposal of CR Microelectronics)	(697,064)	(316,861)
Net cash from financing activities	25,931	113,449
Effect of foreign exchange rate changes	259	(1,326)
	(628,461)	(2,246)

On 21st June, 2007, the Group entered into an agreement with Gradison Limited, a fellow subsidiary of the Company, to dispose of the entire issued share capital of China Resources Cooling Technology Co., Ltd. ("CR Cooling"), a wholly-owned subsidiary of the Company, at a consideration of HK$1,170,000,000. CR Cooling was a holding company and was engaged principally in the compressor manufacture business, through its subsidiaries. The disposal was completed on 16th August, 2007.

The results of the compressor operation for the six months ended 30th June, 2007, which have been included in the consolidated income statement, were as follows:

	Six months ended 30th June, 2008	2007
	HK$'000	*HK$'000*
Turnover	—	1,122,378
Cost of sales	—	(957,214)
Gross profit	—	165,164
Other income	—	2,106
Selling and distribution expenses	—	(68,383)
Administrative expenses	—	(34,367)
Other expenses	—	(6,526)
Finance costs	—	(6,069)
Profit before taxation	—	51,925
Taxation	—	(6,339)
Profit for the period	—	45,586
Attributable to:		
Equity holders of the Company	—	29,061
Minority interests	—	16,525
	—	45,586

The net cash flows of the compressor operation for the six months ended 30th June, 2007, were as follows:

	Six months ended 30th June, 2008	2007
	HK$'000	*HK$'000*
Net cash from operating activities	—	49,374
Net cash used in investing activities	—	(10,046)
Net cash used in financing activities	—	(92,991)
Effect of foreign exchange rate changes	—	6,330
	—	(47,333)

7. (LOSS) PROFIT FOR THE PERIOD

	Six months ended 30th June, 2008	2007
	HK$'000	*HK$'000*
(Loss) profit for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	71,376	240,567
Amortisation of technical know-how	657	2,054
Write down of inventories to net realisable value	11,963	26,155
Impairment loss on available-for-sale investments	2,376	1,175
Impairment loss on debtors	1,652	5,827
Impairment loss on goodwill (included in other expenses)	3,036	—
Impairment loss on property, plant and equipment included in assets classified as held for sale	8,000	—
Gain on disposal of available-for-sale investments	—	(1,924)
Net gain on disposal of property, plant and equipment	(445)	(6,561)
Interest on bank deposits	(2,952)	(4,102)
Write back of allowance for inventories	(1,494)	—

8. DIVIDENDS

On 5th June, 2007, a dividend of 1.0 HK cent per share, amounting to HK$27,671,000 in total, was paid by the Company to its shareholders as the final dividend for the year ended 31st December, 2006.

The directors did not propose the payment of an interim dividend for the six months ended 30th June, 2008 (2007: an interim dividend of 1.0 HK cent per share was declared, amounting to HK$27,937,000 in total).

Pursuant to an ordinary resolution passed at a special general meeting held on 13th February, 2008, the Company distributed all of its shares in its subsidiary, CR Microelectronics, by way of a dividend in specie on the basis of 180 shares in CR Microelectronics for every 100 shares in the Company held. A total of 5,091,900,165 shares in CR Microelectronics with aggregate market value of approximately HK$3,055,140,000 were distributed to the shareholders of the Company on 5th March, 2008.

9. (LOSS) EARNINGS PER SHARE

From continuing and discontinued operations

The calculation of the basic and diluted (loss) earnings per share is based on the following data:

	Six months ended 30th June, 2008 *HK$'000*	2007 *HK$'000*
(Loss) earnings:		
(Loss) earnings for the purpose of basic (loss) earnings per share ((Loss) profit for the period attributable to equity holders of the Company)	(17,200)	113,269
Effect of dilutive potential shares of subsidiaries on their (loss) earnings attributable to the Group's discontinued operations	—	(167)
(Loss) earnings for the purpose of diluted (loss) earnings per share	(17,200)	113,102
Number of shares:		
Weighted average number of shares for the purpose of basic (loss) earnings per share	282,649,279	276,825,064
Effect of dilutive potential shares		
Share options	—	3,477,293
Weighted average number of shares for the purpose of diluted (loss) earnings per share	282,649,279	280,302,357

For both periods, the weighted average number of ordinary shares for the purpose of basic earnings per share has been adjusted retrospectively for the capital reduction and share consolidation as stated in Note 14.

The computation of diluted (loss) earnings per share for the six months ended 30th June, 2008 does not assume the exercise of the Company's outstanding share options as the exercise price of those options is higher than the average market price for shares for the period.

From continuing operations

The calculation of the basic earnings (loss) per share from continuing operations is based on the following data:

	Six months ended 30th June, 2008 *HK$'000*	2007 *HK$'000*
(Loss) earnings:		
(Loss) profit for the period attributable to equity holders of the Company	(17,200)	113,269
Less: Loss (profit) for the period from discontinued operations attributable to equity holders of the Company	45,635	(125,370)
Earnings (loss) for the purpose of basic earnings (loss) per share from continuing operations	28,435	(12,101)

The denominators used are the same as those detailed above for basic earnings (loss) per share from continuing operations.

No diluted loss per share in relation to continuing operations has been presented for the six months ended 30th June, 2007 because the potential ordinary shares in issue during the period would result in a decrease in loss per share.

From discontinued operations

	Six months ended 30th June,	
	2008	**2007**
	HK$'000	*HK$'000*
(Loss) profit for the period from discontinued operations attributable to equity holders of the Company	(45,635)	125,370
Basic (loss) earnings per share	(0.16)	0.45
Diluted earnings per share	N/A	0.45

The denominators used are the same as those detailed above for both basic and diluted (loss) earnings per share from discontinued operations.

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30th June, 2008, the Group spent HK$8,277,000 on machinery and equipment and HK$202,382,000 on construction in progress. Property, plant and equipment of carrying value of HK$4,087,244,000 was disposed of upon distribution of CR Microelectronics shares as stated in Note 15.

During the six months ended 30 June 2008, the Group rented out certain of its leasehold properties to outsiders for rental income. These properties were reclassified from property, plant and equipment to investment properties. The Group's investment properties are measured using the cost model.

11. DEBTORS, DEPOSITS AND PREPAYMENTS

The Group generally allows credit periods ranging from 30 to 90 days to its trade customers, which may be extended to 180 days for selected customers depending on their trade volume and settlement terms. The aged analysis of trade debtors, including notes receivable, net of allowance for doubtful debts, is as follows:

	At 30th June, 2008	At 31st December, 2007
	HK$'000	*HK$'000*
0-90 days	47,485	770,084
91-180 days	6,282	187,450
Over 180 days	1,289	14,463
	55,056	971,997

Included in trade debtors as at 30th June, 2008 are trade receivables from fellow subsidiaries of HK$2,297,000 (as at 31st December, 2007: HK$3,589,000), which are due within 90 days (as at 31st December, 2007: within 90 days).

12. CREDITORS AND ACCRUED CHARGES

The aged analysis of trade creditors which are included in creditors and accrued charges is as follows:

	At 30th June, 2008	At 31st December, 2007
	HK$'000	*HK$'000*
0-90 days	21,480	752,099
91-180 days	2,851	241,944
Over 180 days	263	19,746
	24,594	1,013,789

The average credit period on purchases of goods ranges from 7 to 180 days. Included in trade creditors as at 30th June, 2008 are trade payables to fellow subsidiaries of HK$7,261,000 (as at 31st December, 2007: HK$5,557,000), which are due within 90 days (as at 31st December, 2007: within 90 days).

13. BANK BORROWINGS

	At 30th June, 2008	At 31st December, 2007
	HK$'000	*HK$'000*
Bank loans		
Secured	—	76,425
Unsecured	—	1,781,083
	—	1,857,508
The bank loans are repayable as follows:		
On demand or within one year	—	682,762
More than two years, but not exceeding five years	—	1,174,746
	—	1,857,508
Less: Amount due within one year shown under current liabilities	—	(682,762)
Amount due after one year shown as non-current liabilities	—	1,174,746

14. SHARE CAPITAL

	Number of shares		Nominal value of shares	
	At 30th June, 2008	**At 31st December, 2007**	**At 30th June, 2008** *HK$'000*	**At 31st December, 2007** *HK$'000*
Shares of HK$0.10 each				
Authorised:				
At beginning of the period/year	6,000,000,000	6,000,000,000	600,000	600,000
Capital reduction	—	—	(540,000)	—
Share consolidation	(5,400,000,000)	—	—	—
Increase in authorised share capital	9,400,000,000	—	940,000	—
At end of the period/year	10,000,000,000	6,000,000,000	1,000,000	600,000
Issued and fully paid:				
At beginning of the period/year	2,812,155,425	2,765,799,425	281,215	276,580
Shares repurchased and cancelled	—	—	—	—
Shares issued upon exercise of share options	16,678,000	46,356,000	1,668	4,635
Capital reduction	—	—	(254,595)	—
Share consolidation	(2,545,950,083)	—	—	—
At end of the period/year	282,883,342	2,812,155,425	28,288	281,215

Pursuant to the ordinary resolutions and special resolutions passed at special general meetings of the Company held on 13th February, 2008 and 29th February, 2008, the capital of the Company which involves the nominal value of each of the existing shares in issue being reduced from HK$0.10 to HK$0.01 by the reduction of HK$0.09 paid up capital on each existing share. All amounts standing to the credit of the share premium account of the Company will be reduced to nil. The credit arising from the above reduction in capital and share premium will be credited to the contributed surplus account of the Company where it may be utilised by the directors in accordance with the bye-laws and all applicable laws, including for distribution of dividends. All issued shares of the Company after the capital reduction and share premium reduction will rank pari passu in all respects.

Following the distribution in specie with details set out in Note 8, every ten issued and unissued shares of HK$0.01 each were consolidated into one share of HK$0.10 each. And the authorised share capital of the Company was increased from HK$60,000,000 to HK$1,000,000,000 by the creation of an additional 9,400,000,000 shares of HK$0.10 each, ranking pari passu in all respects with the existing shares.

15. DISPOSAL OF SUBSIDIARIES

As mentioned in Note 6, the Company distributed all its shares in CR Microelectronics by way of a dividend in specie. After the distribution of dividend in specie, the entire equity interests held in CR Microelectronics by the Company were disposed of.

	HK$'000
Net assets of CR Microelectronics disposed of:	
Property, plant and equipment	4,087,244
Prepaid lease payments	163,564
Available-for-sale investments	570
Goodwill	21,024
Technical know-how	35,021
Deferred tax assets	11,806
Deposits for acquisition of property, plant and equipment	20,280
Inventories	872,317
Debtors, deposits and prepayments	842,176
Taxation recoverable	4,937
Pledged bank deposits	3,955
Bank balances and cash	508,688
Creditors and accrued charges	(1,204,710)
Borrowings	(1,898,987)
Provisions	(41,971)
Long-term payables	(64,979)
Government grants	(119,960)
	3,240,975
Minority interests	(509,512)
Retained profits distributed by way of dividend in specie	2,731,463
Net cash outflow arising on disposal:	
Bank balances and cash disposed of	(508,688)

The disposal of CR Microelectronics by way of a dividend in specie is considered as an equity transaction and hence no gain or loss was recognised. The cumulative amounts of translation reserve, other reserves and share option reserve amounting to HK$356,388,000, HK$109,015,000 and HK$11,969,000, respectively, are reclassified to retained earnings.

The impact of disposal of CR Microelectronics on the Group's results and cash flows during the six months ended 30th June, 2007 and 2008 is disclosed in Note 6.

16. CONTINGENT LIABILITIES

One of the Group's subsidiaries issued guarantees of HK$3,750,000 as at 31st December, 2007 to a bank in respect of the mortgage loans borrowed by the employees of the subsidiary. The management anticipated that no material liabilities to the Group would arise from the guarantees. No such guarantee existed as at 30th June, 2008 as the subsidiary was disposed of during the period.

17. CAPITAL COMMITMENTS

	At 30th June, 2008 HK$'000	At 31st December, 2007 HK$'000
Capital expenditure in respect of acquisition of property, plant and equipment		
Authorised but not contracted for	—	2,711,486
Contracted but not provided for	—	890,623

18. RELATED PARTY TRANSACTIONS

Transactions with related parties

In addition to the related parties transactions set out in other notes to the condensed consolidated financial statements, during the period, the Group entered into the following significant transactions with related parties:

	Six months ended 30th June,	
	2008	2007
	HK$'000	HK$'000
Sales to fellow subsidiaries	7,513	14,091
Sales to subsidiaries of minority shareholders of subsidiaries	—	103,729
Service income from fellow subsidiaries	1,691	1,521
Purchases from fellow subsidiaries	57,912	35,027
Rental expenses paid to a fellow subsidiary	481	1,123
Royalties paid to minority shareholders of subsidiaries, net	—	33,588
License fees paid to minority shareholders of subsidiaries, net	—	8,957
Commission paid to a minority shareholder of a subsidiary	1,023	—
Management fee paid to a former intermediate holding company	—	1,200
Interest income from former immediate holding company subsidiary	—	904

The amounts due from/to minority shareholders as included in the condensed consolidated balance sheet are unsecured, interest-free and repayable on demand.

Compensation of key management personnel of the Group

	Six months ended 30th June,	
	2008	2007
	HK$'000	HK$'000
Short-term benefits	2,548	3,314
Post-employment benefits	134	134
Share-based payment	—	—
	2,682	3,448

Transactions/balances with other state-controlled entities

The Group itself is part of a larger group of companies under CRNC which is controlled by the government of the PRC. Apart from the transactions with the parent company and its subsidiaries which have been disclosed in other notes to the condensed consolidated financial statements, the Group also conducts businesses with entities directly or indirectly owned or controlled by the PRC government in the ordinary course of business. The directors consider those entities other than the CRNC group are independent third parties as far as the Group's business transactions with them are concerned. In establishing its pricing strategies and approval process for transactions with other state-controlled entities, the Group does not differentiate whether the counter-party is a state-controlled entity or not. The Group is of the opinion that it has provided, in the best of its knowledge, adequate and appropriate disclosure of related party transactions in the condensed consolidated financial statements.

19. POST BALANCE SHEET EVENTS

On 21st August, 2008, the Company entered into a share purchase agreement with CRH to conditionally agree to acquire the entire issued share capital of China Resources Gas Limited, a wholly-owned subsidiary of CRH, for a consideration of HK$3,814.8 million (the "Acquisition"). The Acquisition is subject to the approval of the independent shareholders of the Company at a special general meeting to be held on or around 6 October, 2008.

In order to finance the Acquisition, the Company proposed to raise an amount of approximately HK$3,869.8 million before expenses by way of the rights issue of no less than 1,131,533,368 rights shares at a subscription price of HK$3.42 per rights share on the basis of four rights shares for every existing share held on the record date. The rights issue is fully underwritten by Splendid Time Investments Inc., a wholly-owned subsidiary of CRH, and is conditional upon the fulfillment of the conditions set out in the underwriting agreement and the approval by the Company's independent shareholders.

AUDITED FINANCIAL INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2007

The following is a summary of the audited financial statements of the CR Logic Group for the year ended 31 December 2007 as extracted from the published 2007 annual report of CR Logic.

Consolidated Income Statement
For the year ended 31st December, 2007

	NOTE	2007 HK$'000	2006 HK$'000
Turnover	7		
Continuing operation		3,016,902	2,086,396
Discontinued operation	11	1,247,230	1,364,263
		4,264,132	3,450,659
Cost of sales		(3,267,584)	(2,602,462)
Gross profit		996,548	848,197
Other income	8	111,239	104,199
Selling and distribution expenses		(156,336)	(129,972)
Administrative expenses		(359,175)	(301,962)
Other expenses		(233,239)	(161,255)
Profit from operations	7	359,037	359,207
Finance costs	9	(104,367)	(89,601)
Share of results of an associate		—	1,103
Gain on disposal of discontinued operation	11	61,864	—
Loss on closure of a production plant	13	(69,868)	—
Gain on deemed disposal of an associate		—	1,590
Discount on acquisition of subsidiaries	34	—	41,296
Profit before taxation			
Continuing operation		130,912	208,660
Discontinued operation	11	115,754	104,935
		246,666	313,595
Taxation	10		
Continuing operation		(41,102)	(21,552)
Discontinued operation	11	(6,696)	(11,647)
		(47,798)	(33,199)
Profit for the year	13		
Continuing operation		89,810	187,108
Discontinued operation	11	109,058	93,288
		198,868	280,396
Attributable to:			
Equity holders of the Company			
Continuing operation		60,411	171,992
Discontinued operation	11	91,950	60,425
		152,361	232,417
Minority interests		46,507	47,979
		198,868	280,396

		HK Cents	*HK Cents*
Dividend per share	15		
Interim dividend paid		1.00	1.00
Final dividend proposed		—	1.00
		1.00	2.00
Earnings per share	16		
From continuing and discontinued operations			
Basic		5.48	8.57
Diluted		5.37	8.49
From continuing operation			
Basic		2.17	6.34
Diluted		2.11	6.28

Consolidated Balance Sheet

At 31st December, 2007

		2007	2006
	NOTE	*HK$'000*	*HK$'000*
Non-current assets			
Property, plant and equipment	17	3,949,268	4,217,639
Prepaid lease payments	18	160,266	172,559
Available-for-sale investments	20	9,904	10,105
Goodwill	21	24,060	152,777
Technical know-how	22	35,678	53,663
Deferred tax assets	30	10,886	16,416
Deposit for acquisition of property, plant and equipment		17,011	63,205
		4,207,073	4,686,364
Current assets			
Inventories	23	813,870	1,068,568
Debtors, deposits and prepayments	24	1,029,983	1,622,459
Prepaid lease payments	18	3,928	4,625
Amounts due from minority shareholders		—	2,164
Tax recoverable		4,172	10,057
Pledged bank deposits	25	6,030	7,642
Bank balances and cash	25	867,908	521,250
		2,725,891	3,236,765
Assets classified as held for sale	12	46,708	—
		2,772,599	3,236,765

Consolidated Balance Sheet
At 31st December, 2007

	NOTE	2007 HK$'000	2006 HK$'000
Current liabilities			
Creditors and accrued charges	26	1,313,849	1,595,098
Government grants — current portion	40	13,221	10,520
Amounts due to minority shareholders		—	85,213
Bank borrowings	27	682,762	1,706,617
Provisions	28	42,183	77,111
Taxation		10,327	8,133
		2,062,342	3,482,692
Net current assets (liabilities)		710,257	(245,927)
Total assets less current liabilities		4,917,330	4,440,437
Capital and reserves			
Share capital	31	281,215	276,580
Share premium and reserves		2,770,716	2,478,511
Equity attributable to equity holders of the Company		3,051,931	2,755,091
Share option reserve of a listed subsidiary		10,840	5,805
Minority interests		515,041	1,048,727
Total equity		3,577,812	3,809,623
Non-current liabilities			
Bank borrowings	27	1,174,746	522,306
Long-term payables	29	66,026	66,025
Government grants	40	98,746	42,483
		1,339,518	630,814
		4,917,330	4,440,437

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2007

	Attributable to equity holders of the Company									
	Share capital	Share premium	Translation reserve	Share option reserve	Other reserves	Retained profits	Total	Share option reserve of a listed subsidiary	Minority interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (Note b)	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January, 2006	266,491	920,947	59,527	12,097	74,664	1,062,943	2,396,669	—	627,119	3,023,788
Exchange differences recognised directly in equity (Note a)	—	—	129,520	—	—	—	129,520	—	30,719	160,239
Profit for the year	—	—	—	—	—	232,417	232,417	—	47,979	280,396
Total recognised income for the year	—	—	129,520	—	—	232,417	361,937	—	78,698	440,635
Shares repurchased and cancelled	(307)	(1,817)	—	—	—	—	(2,124)	—	—	(2,124)
Shares issued at premium upon exercise of share options	1,033	5,188	—	—	—	—	6,221	—	—	6,221
Acquisition of subsidiaries (Note 34)	9,363	63,669	—	—	—	—	73,032	—	337,689	410,721
Capital contribution by minority interests	—	—	—	—	—	—	—	—	77,786	77,786
Recognition of equity-settled share-based payments	—	—	—	429	—	—	429	5,805	2,167	8,401
Transfers between categories	—	—	—	—	45,851	(45,851)	—	—	—	—
Dividends paid (Note 15)	—	—	—	—	—	(81,073)	(81,073)	—	—	(81,073)
Dividends paid to minority interests	—	—	—	—	—	—	—	—	(74,732)	(74,732)
At 31st December, 2006	276,580	987,987	189,047	12,526	120,515	1,168,436	2,755,091	5,805	1,048,727	3,809,623
Exchange differences recognised directly in equity (Note a)	—	—	260,147	—	—	—	260,147	—	57,523	317,670
Profit for the year	—	—	—	—	—	152,361	152,361	—	46,507	198,868
Disposal of subsidiaries (Note 11)	—	—	(92,950)	—	(53,100)	53,100	(92,950)	—	(609,778)	(702,728)
Total recognised income for the year	—	—	167,197	—	(53,100)	205,461	319,558	—	(505,748)	(186,190)
Shares issued at premium upon exercise of share options	4,635	27,345	—	—	—	—	31,980	—	—	31,980
Recognition of equity-settled share-based payments	—	—	—	910	—	—	910	5,035	1,918	7,863
Transfers between categories	—	—	—	—	41,600	(41,600)	—	—	—	—
Dividends paid (Note 15)	—	—	—	—	—	(55,608)	(55,608)	—	—	(55,608)
Dividends paid to minority interests	—	—	—	—	—	—	—	—	(29,856)	(29,856)
At 31st December, 2007	281,215	1,015,332	356,244	13,436	109,015	1,276,689	3,051,931	10,840	515,041	3,577,812

Note:

(a) The exchange differences arose from translation of the assets and liabilities of foreign operations into the presentation currency.

(b) Other reserves comprise general reserve, statutory surplus reserve, enterprise expansion fund, statutory public welfare fund and discretionary surplus reserve of subsidiaries established in Mainland China.

General reserve was appropriated each year on the basis of 5% to 10% of the profit after taxation of certain subsidiaries as determined by their board of directors in accordance with the Articles of Association of the subsidiaries. This reserve should only be used for making up losses, capitalisation into capital and expansion of production and operation.

Consolidated Cash Flow Statement
For the year ended 31st December, 2007

	2007	2006
	HK$'000	*HK$'000*
OPERATING ACTIVITIES		
Profit before taxation	246,666	313,595
Adjustments for:		
Finance costs	104,367	89,601
Interest income	(10,717)	(6,072)
Government grants recognised	(10,520)	(6,339)
Share of results of an associate	—	(1,103)
Gain on deemed disposal of an associate	—	(1,590)
Gain on additional investment in an associate	—	(3,641)
Gain on disposal of discontinued operation	(61,864)	—
Discount on acquisition of subsidiaries	—	(41,296)
Depreciation of property, plant and equipment	437,444	326,170
Depreciation of investment properties	—	1,367
Impairment loss on property, plant and equipment recognised	13,654	9,271
Amortisation of technical know-how	5,915	4,886
Release from prepaid lease payments	4,522	4,615
Write down of inventories to net realisable value	83,677	37,321
Impairment loss on debtors recognised	5,660	3,308
Impairment loss on other receivables recognised	10,990	—
Share-based payment expense	7,863	8,401
Gain on disposal of property, plant and equipment	(8,311)	(6,337)
Gain on disposal of available-for-sale investments	(3,586)	—
Write back of provisions	(25,858)	—
Write back of other loans	—	(14,735)
Operating cash flows before movements in working capital	799,902	717,422
Increase in inventories	(183,937)	(215,492)
Increase in debtors, deposits and prepayments	(711,255)	(305,900)
Decrease in amount due from an associate	—	10,236
(Increase) decrease in amounts due from minority shareholders	(7,330)	3,024
Increase in creditors and accrued charges	581,975	431,769
Decrease in long-term payables	(9,087)	(4,109)
Decrease in amount due to an associate	—	(38,558)
Increase in amounts due to minority shareholders	25,975	23,666
Utilisation of provisions	(10,066)	(17,580)
Cash generated from operations	486,177	604,478
Profits tax paid	(39,948)	(40,159)
NET CASH FROM OPERATING ACTIVITIES	446,229	564,319

	NOTE	2007 HK$'000	2006 HK$'000
INVESTING ACTIVITIES			
Payments and deposits for acquisition of property, plant and equipment		(938,885)	(703,116)
Acquisition of subsidiaries	34	—	(224,291)
Additional investment in an associate		—	(23,178)
Purchases of technical know-how		(595)	(2,200)
Purchases of prepaid lease payments		(91)	(2,818)
Disposal of subsidiaries	11	1,004,155	—
Proceeds on disposal of property, plant and equipment		22,617	16,546
Proceeds on disposal of available-for-sale investments		3,842	—
Government grants received		69,484	38,748
Interest received		10,717	6,072
Decrease in pledged bank deposits		1,612	14,325
NET CASH FROM (USED IN) INVESTING ACTIVITIES		172,856	(879,912)
FINANCING ACTIVITIES			
Repayments of bank borrowings		(3,245,069)	(1,511,617)
Dividends paid		(55,608)	(81,073)
Dividends paid to minority shareholders of subsidiaries		(29,856)	(74,732)
Interest paid on bank borrowings		(100,181)	(85,492)
Repurchase of shares		—	(2,124)
New bank loans raised		3,091,956	2,004,814
Capital contribution from minority shareholders of a subsidiary		—	77,786
Exercise of share options		31,980	6,221
NET CASH (USED IN) FROM FINANCING ACTIVITIES		(306,778)	333,783
NET INCREASE IN CASH AND CASH EQUIVALENTS		312,307	18,190
CASH AND CASH EQUIVALENTS AT 1ST JANUARY		521,250	470,009
Effect of foreign exchange rate changes		34,351	33,051
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER, representing bank balances and cash		867,908	521,250

Notes to the Consolidated Financial Statements
For the year ended 31st December, 2007

1. GENERAL

The Company is a company incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company's parent company is China Resources (Holdings) Company Limited ("CRH"), a company incorporated in Hong Kong and its ultimate holding company is China Resources National Corp. ("CRNC"), a company established in the People's Republic of China.

The Company is an investment holding company. The activities of its principal subsidiaries are set out in Note 41.

The consolidated financial statements are presented in Hong Kong dollars, which is the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning on 1st January, 2007. The adoption of the new HKFRSs has had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

The Group has not early applied the following new and revised standards and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards and interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKFRS 8	Operating Segments[1]
HK(IFRIC)-Int 11	HKFRS 2: Group and Treasury Share Transactions[2]
HK(IFRIC)-Int 12	Serivce Concession Arrangements[3]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[4]
HK(IFRIC)-Int 14	HKAS19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[3]

[1] Effective for annual periods beginning on or after 1st January, 2009

[2] Effective for annual periods beginning on or after 1st March, 2007

[3] Effective for annual periods beginning on or after 1st January, 2008

[4] Effective for annual periods beginning on or after 1st July, 2008

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Subsidiaries are entities over which the Group has control. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 Business Combinations are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Goodwill

Goodwill arising on acquisitions prior to 1st January, 2005

Goodwill arising on an acquisition of net assets and operations of another entity for which the agreement date is before 1st January, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant acquiree at the date of acquisition.

For previously capitalised goodwill arising on acquisitions after 1st January, 2001, the Group has discontinued amortising such goodwill from 1st January, 2005 onwards and such goodwill will be tested for impairment at least annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired (see the accounting policy below).

Goodwill arising on acquisitions on or after 1st January, 2005

Goodwill arising on an acquisition of a business for which the agreement date is on or after 1st January, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss for goodwill is recognised directly in the consolidated income statement and is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Assets held for sale

Non-current assets (and disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets'(disposal groups') previous carrying amount and fair value less costs to sell.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from sales of goods is recognised when goods are delivered and title has passed.

Service income is recognised when services are provided.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Property, plant and equipment, including buildings held for use in the production or supply of goods or services, or for administrative purposes other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account their estimated residual values, ranging from zero to 10%, using the straight-line method, as follows:

Leasehold properties	25 to 40 years or over the relevant lease terms, if shorter
Furniture and fixtures	5 to 13 years
Machinery and equipment	5 to 13 years
Motor vehicles	$3\frac{1}{3}$ to 6 years

Construction in progress represents property, plant and equipment in the course of construction for production or for own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property, plant and equipment, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Prepaid lease payments

Prepaid lease payments are stated at cost less subsequent accumulated amortisation and any accumulated impairment losses. The costs of prepaid lease payments are amortised on a straight-line basis over the shorter of the relevant lease terms and the operation period of the entity which incurred such payment.

Investments in associates

An associate is an entity over which the Group is in a position to exercise significant influence through participation in the financial and operating policy decisions of the entity which is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for the post-acquisition changes in the Group's share of net assets of the associate, less any identified impairment loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Technical know-how

Technical know-how comprises the acquired rights to use certain technologies for the manufacture of air-conditioner compressors and wafer products.

Costs incurred in the acquisition of technical know-how are capitalised and carried at cost less accumulated amortisation. Amortisation is provided on a straight-line basis over their estimated useful lives of ten to twelve years.

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired (see the accounting policies in respect of impairment losses for tangible and intangible assets below).

An intangible asset is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of asset. Any gain or loss arising from derecognition of an intangible assets are measured as the difference between the net disposal proceeds and the carrying amount of the asset is recognised in the consolidated income statement when the asset is derecognised.

Research, design and development expenditure

Research, design and development expenditure is recognised as an expense in the period in which it is incurred, except for development costs incurred on a clearly-defined project, which are anticipated to be recovered through future commercial activity, such costs are recognised as intangible assets.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of those assets. 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 eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are presented as liability and are released to income over the useful lives of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statement and are reported separately as 'other income'.

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes consolidated income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. The costs of finished goods and work in progress comprise raw materials, direct labour, other direct costs and related production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less applicable selling expenses.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into one of the four categories, namely financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial assets and held-to-maturity investments. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The Group's financial assets comprise of loans and receivables and available-for-sale financial assets, the accounting policies adopted in respect of which are set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including debtors, amounts due from minority shareholders, pledged bank deposits and bank deposits and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses.

The effective interest method is a method of calculating the amortised cost of a financial asset and allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period. Interest income is recognised on an effective interest basis.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables, or held-to-maturity investments. The Group designated listed equity as well as unlisted equity security as available-for-sale financial assets. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value, except for available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- when it becomes probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade debtors, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade debtor is considered uncollectible, it is written off against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit and loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit and loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments are measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset and will not be reversed in profit or loss in subsequent period.

Financial liabilities

Financial liabilities, including creditors, borrowings, amounts due to minority shareholders, and long-term payables, are measured at amortised cost, using the effective interest method subsequent to initial recognition.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. Interest expense is recognised on an effective interest basis.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issued costs.

Considerations paid to repurchase the Company's own equity instruments are deducted from equity. No gain or loss is recognised in the consolidated income statement.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Where the Group is the lessor, rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the relevant lease term.

Where the Group is the lessee, rental expense under operating leases is charged to the consolidated income statement on a straight-line basis over the relevant lease term. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group at the rates of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition prior to 1st January, 2005 is treated as non-monetary foreign currency items of the acquirer and reported using the historical exchange rate prevailing at the date of acquisition.

Equity-settled share-based payment transactions

Share options and CSMC equity incentive scheme granted to employees after 7th November, 2002 and vested on or after 1st January, 2005

The fair value of services received determined by reference to the fair value of the options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve.

At the time when the options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will continue to be held in share options reserve.

Share options and CSMC equity incentive scheme granted to employees on or before 7th November, 2002, or granted after 7th November, 2002 and vested before 1st January, 2005

The financial impact of options granted is not recorded in the consolidated financial statements until such time as the options are exercised, and no charge is recognised in the consolidated income statement in respect of the value of options granted. Upon the exercise of the options, the resulting shares issued are recorded as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded as share premium. Options which lapsed or are cancelled prior to their exercise date are deleted from the register of outstanding options.

Impairment losses of tangible and intangible assets other than goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The Group makes estimates and assumptions concerning the future in preparing accounting estimates. The resulting accounting estimates may not be equal to the actual results. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both the current and future periods. The key estimates and assumptions that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimation of useful lives of property, plant and equipment

Management estimates the useful lives of property, plant and equipment. The estimated useful lives are based on the expected lifespan of those property, plant and equipment. The useful lives of property, plant and equipment could change significantly as a result of technical obsolescence. When the actual useful lives of property, plant and equipment due to the change of commercial and technological environment are different from their estimated useful lives, such difference will impact the deprecation charges and the amounts of assets written down for future periods.

The carrying amount of property, plant and equipment at 31st December, 2007 is HK$3,949,268,000 (2006: HK$4,217,639,000).

Impairment of property, plant and equipment

The Group assesses annually whether property, plant and equipment have any indication of impairment, in accordance with the relevant accounting policies. The recoverable amounts of property, plant and equipment have been determined based on value in use calculations. These calculations and valuations require the use of judgment and estimates on future operating cash flows and discount rates adopted.

Impairment loss on property, plant and equipment of HK$13,654,000 (2006: HK$9,271,000) was charged in consolidated income statement in the current year.

Allowance for doubtful debts

The Group makes allowance for doubtful debts based on an assessment of the recoverability of debtors. Allowances are made on trade debtors whenever there is any objective evidence that the balances may not be collectible. The Group makes judgment in assessing the collectability based on observable data including creditworthiness and payment history of the customers (for details please refer to Note 24). When objective evidence for allowance exists, the amount of allowance is the difference between the carrying amounts of the debts and the present value of estimated future cash flows, discounted at the effective interest rate. Where the expectation on the recoverability of the debts is different from the original estimate, such difference will impact the carrying amounts of debtors and doubtful debt expenses in the periods in which such estimate has been changed.

The carrying amount of trade debtors at 31st December, 2007 is HK$911,113,000 (net of allowance for doubtful receivables of HK$23,135,000) (2006: HK$1,495,039,000 (net of allowance for doubtful receivables of HK$18,556,000)).

Allowance for inventories

The Group makes allowance for inventories based on an assessment of the net realisable value of inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than the cost of inventories. The identification of obsolete inventories requires the use of judgment and estimates on the conditions and usefulness of the inventories.

The carrying amount of inventories at 31st December, 2007 is HK$813,870,000 (net of allowance for inventories of HK$139,757,000) (2006: HK$1,068,568,000 (net of allowance for inventories of HK$102,459,000)).

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to maintain a balance between continuity of cash flows from operating activities and the flexibility through the use of bank borrowings. The Group also monitors the current and expected liquidity requirements and its compliance with lending covenants regularly to ensure that sufficient working capital and adequate committed lines of funding are maintained to meet its liquidity requirements.

The capital structure of the Group consists of debts, which include borrowings, bank balances and equity attributable to equity holders of the Company, comprising issued capital, retained profits and other reserves.

The management of the Group reviews the capital structure on a regular basis. As part of this review, management considers the cost of capital and the associated risk, and take appropriate actions to adjust the Group's capital structure through the payment of dividends, new share issues as well as the issue of new debts or the extinguishment of existing debts.

6. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The Group's major financial instruments include debtors, available-for-sale investments, pledged bank deposits, bank balances and cash, creditors, borrowings and long-term payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

The main risk arising from the Group's financial instruments are foreign currency risk, cash flow interest rate risk, liquidity risk and credit risk. The directors closely review and monitor the Group's exposure to each of these risks, which are discussed below.

Categories of financial instruments

	2007	2006
	HK$'000	*HK$'000*
Financial assets		
Loans and receivables	1,785,051	2,026,095
Available-for-sale investments	9,904	10,105
Financial liabilities		
Amortised cost	2,923,554	3,738,137

Foreign currency risk management

The Group conducts certain sales and purchases transactions in foreign currencies, hence is exposed to foreign currency risk. The Group manages its foreign currency risk by closely monitoring the movements of foreign currency exchange rates. The Group currently has not entered into any foreign currency forward contracts to hedge against foreign currency risk. Management will consider hedging foreign currency exposure should the need arise.

The carrying amounts of the Group's monetary assets and monetary liabilities denominated in foreign currencies, i.e. currency other than the functional currency of the respective group entities, which are mainly debtors, creditors, bank balances and bank borrowings, at the balance sheet dates are as follows:

	2007	2006
	HK$'000	*HK$'000*
Assets		
United States dollar	150,862	146,308
Hong Kong dollar	37,451	23,137
Japanese Yen	7	5,119
	188,320	174,564
Liabilities		
United States dollar	400,555	276,011
Hong Kong dollar	5	—
Japanese Yen	374	13,784
	400,934	289,795

Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 5% increase and decrease in Renminbi, the functional currency of the subsidiaries operating in the PRC, against relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for 5% change in foreign currency rates. A positive (negative) number indicates an increase (decrease) in profit for the year when Renminbi strengthens against the relevant foreign currencies. For a 5% weakening of Renminbi against the relevant currency, there would be an equal but opposite impact on the profit for the year.

	2007	2006
	HK$'000	*HK$'000*
United States dollar		
Profit for the year	10,474	8,006
Hong Kong dollar		
Profit for the year	(1,471)	(922)
Japanese Yen		
Profit for the year	15	340

Cash flow interest rate risk management

Cash flow interest rate risk is the risk that the cash flows of the financial instruments will fluctuate because of changes in market interest rates. The Group's interest rate risk relates primarily to the Group's floating rate borrowings. It is the Group's policy to maintain its borrowings at floating interest rate so as to minimise the fair value interest rate risk.

Interest rate sensitivity analysis

At the balance sheet dates, assuming the bank borrowings outstanding at the balance sheet dates had been outstanding for the whole year, if interest rates had increased by 200 basis points and all other variables were held constant, the Group's profit would decrease by approximately HK$28,241,000 and HK$36,558,000 for the year ended 31st December, 2007 and 31st December, 2006 respectively. If interest rates had decreased by 200 basis points, there would be an equal but opposite impact on the profit for the year.

The Group's exposure to cash flow interest rate risk is mainly concentrated on the fluctuation of HIBOR arising from the Group's Hong Kong dollar denominated borrowings. In the management's opinion, the sensitivity analysis is unrepresentative of the inherent cash flow interest rate risk as the year end exposure does not reflect the exposure for the whole year as a result of the repayment of a substantial amount of the Group's borrowings during the year.

Credit risk management

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the Group has policies in place for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

Before accepting any new customer, the Group carries out searches on the creditability of the new customer and assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed once a year.

In addition, the Group reviews the recoverability of each individual trade debt on a regular basis to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Group considers that the credit risk is significantly reduced.

The credit risk on bank deposits is limited because the counterparties are financial institutions with high credit standing.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties. No single debtor outstanding at the balance sheet dates exceeds 5% of the total balance of trade debtors.

Liquidity risk management

The Group's liquidity position is monitored closely by the management of the Group. The Group relies on bank borrowings as a significant source of liquidity. Details of the Groups' bank borrowings are set out in Note 27. The following table details the Group's contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities in accordance with the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	0-60 days	61-90 days	91-180 days	181-365 days	1-2 years	2-3 years	Over 3 years	Total undiscounted cash flows	Carrying amounts
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 31st December, 2006									
Non-interest bearing									
Trade creditors and amounts due to minority shareholders	814,616	207,704	411,069	4,791	—	—	—	1,438,180	1,438,180
Long-term payables	—	—	3,765	3,765	9,288	9,288	68,622	94,728	71,034
Variable interest rate instruments									
Bank borrowings	59,130	325,173	223,913	1,174,815	116,149	18,728	465,456	2,383,364	2,228,923
	873,746	532,877	638,747	1,183,371	125,437	28,016	534,078	3,916,272	3.738.137
As at 31st December, 2007									
Non-interest bearing									
Trade creditors	585,494	147,295	241,814	19,626	—	—	—	994,229	994,229
Long-term payables	—	—	4,701	4,701	9,959	9,959	63,538	92,858	71,817
Variable interest rate instruments									
Bank borrowings	228,532	155,663	202,733	166,526	57,538	387,697	874,782	2,073,471	1,857,508
	814,026	302,958	449,248	190,853	67,497	397,656	938,320	3,160,558	2,923,554

Fair value

The fair value of financial assets and financial liabilities recorded at amortised cost are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is organised into two operating divisions — semiconductor and compressor. These divisions are the bases on which the Group reports its primary segment information.

The activities of these divisions are as follows:

Semiconductor	—	design, fabrication and packaging of integrated circuits and discrete devices
Compressor	—	manufacture of compressor for air- conditioners

The Compressor operation was discontinued on 16th August, 2007 (see Note 11).

Results for the year ended 31st December, 2007

	Continuing Operation Semiconductor	Discontinued Operation Compressor	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
Turnover			
External sales	3,016,902	1,247,230	4,264,132
Result			
Segment results	324,854	59,290	384,144
Unallocated expenses			(35,824)
Unallocated income			10,717
Profit from operations			359,037
Finance costs			(104,367)
Gain on disposal of discontinued operation	—	61,864	61,864
Loss on closure of a production plant	(69,868)	—	(69,868)
Profit before taxation			246,666
Taxation			(47,798)
Profit for the year			198,868

At 31st December, 2007
Consolidated assets and liabilities

	Continuing Operation Semiconductor	Discontinuted Operation Compressor	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
ASSETS			
Segment assets	6,408,422	—	6,408,422
Unallocated corporate assets			571,250
Consolidated total assets			6,979,672
LIABILITIES			
Segment liabilities	1,516,620	—	1,516,620
Unallocated corporate liabilities			1,885,240
Consolidated total liabilities			3,401,860

For the year ended 31st December, 2007
Other information

	Continuing Operation		Discontinued Operation	
	Semiconductor	**Others**	**Compressor**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Capital expenditure	1,077,209	506	12,432	1,090,147
Depreciation and amortisation	363,502	179	79,678	443,359
Write down of inventories	70,955	—	12,722	83,677
Impairment loss on debtors recognised	5,660	—	—	5,660
Impairment loss on property, plant and equipment recognized	13,654	—	—	13,654

Results for the year ended 31st December, 2006

	Continuing Operation	Discontinued Operation	
	Semiconductor	**Compressor**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*
Turnover			
External sales	2,086,396	1,364,263	3,450,659
Result			
Segment results	249,703	113,909	363,612
Unallocated expenses			(25,212)
Unallocated income			20,807
Profit from operations			359,207
Finance costs			(89,601)
Share of results of an associate	1,103	—	1,103
Gain on deemed disposal of an associate	1,590	—	1,590
Discount on acquisition of subsidiaries	41,296	—	41,296
Profit before taxation			313,595
Taxation			(33,199)
Profit for the year			280,396

At 31st December, 2006
Consolidated assets and liabilities

	Continuing Operation Semiconductor	Discontinuted Operation Compressor	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
ASSETS			
Segment assets	5,246,602	2,638,219	7,884,821
Unallocated corporate assets			38,308
Consolidated total assets			7,923,129
LIABILITIES			
Segment liabilities	1,242,073	620,217	1,862,290
Unallocated corporate liabilities			2,251,216
Consolidated total liabilities			4,113,506

For the year ended 31st December, 2006
Other information

	Continuing Operation		Discontinued Operation	
	Semiconductor	Others	Compressor	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Capital expenditure	609,453	73	68,180	677,706
Depreciation and amortisation	205,525	268	126,630	332,423
Write down of inventories	32,906	—	4,415	37,321
Impairment loss on debtors recognised	3,308	—	—	3,308
Impairment loss on property, plant and equipment recognized	9,271	—	—	9,271

Geographical segments

The activities of the Semiconductor division are carried out in Hong Kong and other regions in the People's Republic of China (the "Mainland China"), while those of the Compressor division are carried out in the Mainland China.

The following table provides an analysis of the Group's sales from continuing operation by geographical market:

	2007	2006
	HK$'000	*HK$'000*
Mainland China	2,394,334	1,688,298
Hong Kong	208,550	166,163
United States of America	105,302	50,698
Europe	27,446	22,871
Others	281,270	158,366
	3,016,902	2,086,396

The turnover from the Group's discontinued Compressor operation in respect of the year amounted to HK$1,247,230,000 (2006: HK$1,364,263,000) was derived principally from the Mainland China.

The following is an analysis of the carrying amounts of segment assets and additions to property, plant and equipment and technical know-how, analysed by the geographical areas in which the assets are located:

	Carrying amounts of segment assets		Additions to property, plant and equipment and technical know-how	
	At 31st December		For the year ended 31st December	
	2007	2006	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Mainland China	6,269,638	7,677,257	1,083,925	662,537
Hong Kong	138,784	207,564	6,222	15,169
	6,408,422	7,884,821	1,090,147	677,706

8. OTHER INCOME

	2007	2006
	HK$'000	*HK$'000*
Included in other income are:		
Interest on bank deposits	10,717	6,072
Government grants (Note 40)	10,520	6,339
Rental income from investment properties	—	5,609
Gain on disposal of property, plant and equipment	8,311	6,337
Gain on disposal of available-for-sale investments	3,586	—
Tax refund on re-investment of profit of PRC subsidiaries	9,566	19,932
Write back of provisions (Note 28)	25,858	—
Write back of other loans	—	14,735

9. FINANCE COSTS

	2007	2006
	HK$'000	*HK$'000*
Interests on:		
Bank loans wholly repayable within five years	100,181	85,492
Long-term payables	4,186	4,109
	104,367	89,601

10. TAXATION

	2007	2006
	HK$'000	*HK$'000*
The tax charge (credit) comprises:		
Current tax		
Mainland China	55,881	35,753
Hong Kong	712	—
Overprovision in prior year	(7,567)	—
	49,026	35,753
Deferred tax (Note 30)	(1,228)	(2,554)
	47,798	33,199

Hong Kong Profits Tax is calculated at 17.5% on the estimated assessable profit for the year. No provision for Hong Kong Profits Tax has been made in the prior year as the Group did not generate any profits subject to Hong Kong Profits Tax for that year.

Profits tax arising in the Mainland China is calculated based on the applicable tax rates on assessable profits.

Certain subsidiaries operating in the Mainland China are exempted from income tax applicable in the Mainland China for two years starting from the first profit making year after utilisation of the tax losses brought forward and were granted a 50% relief for the following three years. Certain subsidiaries operating in the Mainland China which are regarded as advance technology enterprises have also been granted tax concessions by the local tax bureau and are entitled to PRC Enterprise Income Tax at concessionary rate of 15%. With effect from 1st January, 2008, the subsidiaries qualified as High and New Technology Enterprise (under the new PRC Enterprise Income Tax Law) would be subject to a tax rate of 15%.

The tax charge for the year can be reconciled to the profit before taxation as follows:

	2007	2006
	HK$'000	*HK$'000*
Profit before taxation	246,666	313,595
Tax at the applicable tax rate of 15% (2006: 15%) (Note)	37,000	47,039
Tax effect of expenses not deductible for tax purpose	17,987	15,188
Tax effect of income not taxable for tax purpose	(18,298)	(12,999)
Overprovision in respect of prior year	(7,567)	—
Tax effect of tax losses not recognised	45,993	20,206
Tax effect of deferred tax asset not recognised	3,413	—
Utilisation of tax losses previously not recognised	(1,066)	(1,589)
Utilisation of deductible temporary differences previously not recognised	—	(2,037)
Effect of tax exemptions granted to subsidiaries operating in the Mainland China	(7,591)	(2,586)
Income tax on concessionary rates	(16,315)	(35,663)
Effect of different tax rates of subsidiaries operating in the Mainland China	(6,439)	661
Tax effect of share of results of an associate	—	(165)
Others	681	5,144
Tax charge for the year	47,798	33,199

Note: The rate represents the tax rate applicable to the subsidiaries established in the Mainland China which are regarded as advanced technology enterprises by the local tax bureau.

11. DISCONTINUED OPERATION

On 21st June, 2007, the Company and CRT (BVI) Limited, a wholly owned subsidiary of the Company, entered into an agreement with Gradison Limited, a wholly owned subsidiary of CRH, for the sale of the entire issued share capital of China Resources Cooling Technology Co. Ltd., the Company's subsidiary which, through its subsidiaries, is engaged principally in the compressor manufacture business, for a consideration of HK$1,170,000,000. The disposal was completed on 16th August, 2007.

The results of the compressor operation for the period from 1st January, 2007 to 16th August, 2007, which have been included in the consolidated income statement, are as follows:

	Period from 1.1.2007 to 16.8.2007	Year ended 31.12.2006
	HK$'000	*HK$'000*
Turnover	1,247,230	1,364,263
Cost of sales	(1,058,348)	(1,116,936)
Gross profit	188,882	247,327
Other income	2,190	11,085
Selling and distribution expenses	(77,845)	(71,106)
Administrative expenses	(38,572)	(64,404)
Other expenses	(13,684)	(7,282)
Finance costs	(7,081)	(10,685)
Profit from operations	53,890	104,935
Gain on disposal of compressor operation	61,864	—
Profit before taxation	115,754	104,935
Taxation	(6,696)	(11,647)
Profit for the year	109,058	93,288
Attributable to:		
Equity holders of the Company	91,950	60,425
Minority interests	17,108	32,863
	109,058	93,288

The net assets of the compressor operation disposed of are as follows:

	HK$'000
Property, plant and equipment	1,110,308
Prepaid lease payments	13,458
Technical know-how	15,815
Deferred tax assets	7,179
Inventories	401,721
Debtors, deposits and prepayments	1,349,263
Amounts due from minority shareholders	9,494
Bank balances and cash	165,845
Creditors and accrued charges	(1,043,388)
Amounts due to minority shareholders	(111,188)
Bank borrowings	(236,049)
Taxation	(311)
	1,682,147

The effect of the disposal is as follows:

	HK$'000
Net assets disposed of	1,682,147
Minority interests	(609,778)
Goodwill	128,717
Translation reserve realised	(92,950)
	1,108,136
Gain on disposal	61,864
Consideration satisfied by cash	1,170,000
Net cash inflow arising on disposal:	
Cash consideration	1,170,000
Bank balances and cash disposed of	(165,845)
	1,004,155

The net cash flows of the compressor operation for the period from 1st January, 2007 to 16th August, 2007, are as follows:

	Period from 1.1.2007 to 16.8.2007	**Year ended 31.12.2006**
	HK$'000	*HK$'000*
Net cash from operating activities	46,668	237,678
Net cash used in investing activities	(10,747)	(63,475)
Net cash used in financing activities	(94,002)	(151,747)
Effect of foreign exchange rate changes	21,751	21,873
Net (decrease) increase in cash and cash equivalents	(36,330)	44,329

12. ASSETS CLASSIFIED AS HELD FOR SALE

In connection with the group reorganization scheme as detailed in Note 38, the semiconductor operations of China Resources Semiconductor Company Limited, a wholly-owned indirect subsidiary of the Company, will be sold or closed down. The assets attributable to the production plant, which is expected to be sold within twelve months, have been classified as a disposal group held for sale and are presented separately in the balance sheet (see below).

The major classes of assets classified as held for sale at the balance sheet date are as follows:

	HK$'000
Property, plant and equipment	38,869
Prepaid lease payments	5,535
Inventories	2,304
Assets classified as held for sale	46,708

13. PROFIT FOR THE YEAR

	2007	2006
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging (crediting):		
Staff costs		
Directors' emoluments (Note 14)	8,421	7,263
Other staff		
— Salaries and other benefits	393,734	400,723
— Retirement benefits schemes contributions	37,267	35,095
Share-based payment expense	7,863	8,401
Total staff costs	447,285	451,482
Auditor's remuneration	5,040	4,690
Depreciation of property, plant and equipment	437,444	326,170
Depreciation of investment properties	—	1,367
Amortisation of technical know-how	5,915	4,886
Release from prepaid lease payments	4,522	4,615
Write down of inventories to net realisable value (included in other expenses)	46,209	37,321
Research, design and development expenses (included in other expenses)	143,734	102,529
Reorganisation expenses	11,000	—
Impairment loss on property, plant and equipment	2,844	9,271
Operating lease rentals in respect of rented premises	3,197	4,850
Exchange loss, net	886	1,129
Loss on closure of a production plant		
— Write down of inventories to net realisable value	37,468	—
— Impairment loss on property, plant and equipment	10,810	—
— Impairment loss on other receivables	10,990	—
— Employee severance payment expenses	10,600	—
	69,868	—
Rental income from investment properties	—	(5,609)
Less: Direct rental expenses	—	981
	—	(4,628)

14. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES

Directors

The emoluments paid or payable to the directors are as follows:

		2007					2006
Name of Director		**Fees**	**Salaries and other benefits**	**Performance related incentive payments**	**Retirement benefit schemes contributions**	**Total**	**Total**
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ZHU JINKUN		60	1,334	626	100	2,120	2,008
WANG GUOPING		60	718	539	18	1,335	1,102
ONG THIAM KIN, KEN		60	1,554	380	172	2,166	2,110
CHEN CHENG-YU, PETER	b	446	1,447	309	—	2,202	615
YU YU	a	—	—	—	—	—	1,068
JIANG WEI	c	30	—	—	—	30	—
LIU YANJIE	c	15	—	—	—	15	—
LI FUZUO	c	30	—	—	—	30	—
WONG TAK SING	d	120	—	—	—	120	120
LUK CHI CHEONG	d	120	—	—	—	120	120
KO PING KEUNG	d	120	—	—	—	120	120
YANG CHONGHE, HOWARD	e	163	—	—	—	163	—
		1,224	5,053	1,854	290	8,421	7,263

Note:

(a) Mr. Yu Yu had resigned on 11th April, 2006.

(b) Mr. Chen Cheng-yu, Peter was appointed as an executive director on 22nd August, 2006.

(c) Mr. Jiang Wei, Mr. Liu Yanjie and Mr. Li Fuzuo were appointed as non-executive directors on 22nd August, 2006.

(d) Independent non-executive directors and members of the Audit Committee.

(e) Mr. Yang Chonghe, Howard was appointed as an independent nonexecutive director on 22nd August, 2006.

(f) Share-based payment expense is recognised based on the estimated fair value of the share options granted to directors at the date of grant. No such expense was recognised in respect of the year (2006: HK$162,000).

Performance related incentive payments were determined with reference to the Group's operating results, individual performances and comparable market statistics.

Employees

The five highest paid individuals of the Group included three (2006: two) executive directors, details of whose emoluments are set out above. The emoluments of the remaining two (2006: three) highest paid employees of the Group are as follows:

	2007	**2006**
	HK$'000	*HK$'000*
Salaries and other benefits	4,025	3,571
Performance related incentive payments	687	556
Retirement benefit scheme contributions	—	98
	4,712	4,225

The emoluments of the above employees are within the following bands:

	2007	**2006**
HK$	**Number of employees**	**Number of employees**
1,000,001 to 1,500,000	—	3
2,000,001 to 2,500,000	1	—
More than 2,500,000	1	—

15. DIVIDENDS

On 12th June, 2006, a dividend of 2.0 HK cents per share, totalling HK$53,406,000, was paid to the shareholders as the final dividend for the year ended 31st December, 2005.

On 10th October, 2006, a dividend of 1.0 HK cent per share, totalling HK$27,667,000, was paid to the shareholders as an interim dividend for the six months ended 30th June, 2006.

On 5th June, 2007, a dividend of 1.0 HK cent per share, totalling HK$27,671,000, was paid to the shareholders as the final dividend for the year ended 31st December, 2006.

On 9th October, 2007, a dividend of 1.0 HK cent per share, totalling HK$27,937,000, was paid to the shareholders as an interim dividend for the six months ended 30th June, 2007.

The directors do not propose the payment of a final dividend for the year ended 31st December, 2007.

16. EARNINGS PER SHARE

For both continuing and discontinued operations and continuing operation

The calculation of the basic and diluted earnings per share is based on the following data:

	2007	2006
	HK$'000	*HK$'000*
Earnings:		
Earnings for the purposes of basic and diluted earnings per share		
Profit for the year attributable to equity holders of the Company	152,361	232,417
Less: Profit for the year from discontinued operation	(91,950)	(60,425)
Profit for the year from continuing operation, representing earnings for the purpose of basic earnings per share	60,411	171,992
Effect of dilutive potential shares of subsidiaries on their earnings attributable to the Group's continuing operation	(992)	(397)
Earnings for the purpose of diluted earnings per share	59,419	171,595

	2007	2006
Number of shares:		
Weighted average number of shares for the purpose of basic earnings per share	2,781,703,639	2,713,044,353
Effect of dilutive potential shares Share options	37,527,925	18,630,526
Weighted average number of shares for the purpose of diluted earnings per share	2,819,231,564	2,731,674,879

For discontinued operation

Basic earnings per share for the discontinued operation is 3.31 HK cents per share (2006: 2.23 HK cents per share) and the diluted earnings per share for the discontinued operation is 3.26 HK cents per share (2006: 2.21 HK cents per share), based on the profit from the discontinued operation and the denominators presented above.

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold properties	Furniture and fixtures	Machinery and equipment	Motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST						
At 1st January, 2006	397,983	122,197	2,350,855	43,651	428,750	3,343,436
Exchange adjustments	9,753	5,160	120,038	1,781	31,558	168,290
Additions	2,521	10,049	22,800	2,035	602,506	639,911
Acquisition of subsidiaries	14,184	45,527	739,842	3,359	459,340	1,262,252
Disposals	(2,128)	(7,499)	(44,767)	(2,958)	—	(57,352)
Transfers between categories	15,652	16,866	565,748	3,209	(601,475)	—
Transfer from investment properties	60,947	—	—	—	—	60,947
At 31st December, 2006	498,912	192,300	3,754,516	51,077	920,679	5,417,484
Exchange adjustments	30,152	9,804	230,580	3,384	68,340	342,260
Additions	1,948	3,294	108,182	3,082	973,046	1,089,552
Reclassified as held for sale	(6,500)	—	(12,529)	—	(26,024)	(45,053)
Disposals	(4,894)	(1,001)	(14,720)	(3,696)	(1,052)	(25,363)
Disposal of subsidiaries	(136,978)	(75,109)	(1,489,363)	(7,002)	(21,822)	(1,730,274)
Transfers between categories	15,883	31,434	593,210	4,616	(645,143)	—
At 31st December, 2007	398,523	160,722	3,169,876	51,461	1,268,024	5,048,606
DEPRECIATION AND IMPAIRMENT						
At 1st January, 2006	47,738	36,399	747,163	22,396	—	853,696
Exchange adjustments	2,083	1,194	42,026	916	—	46,219
Depreciation provided for the year	20,991	19,539	279,959	5,681	—	326,170
Impairment loss recognised in consolidated income statement	—	—	9,271	—	—	9,271
Eliminated on disposals	(473)	(4,261)	(38,425)	(2,152)	—	(45,311)
Transfer from investment properties	9,800	—	—	—	—	9,800
At 31st December, 2006	80,139	52,871	1,039,994	26,841	—	1,199,845
Exchange adjustments	5,402	2,601	76,829	1,834	—	86,666
Depreciation provided for the year	23,140	27,488	380,245	6,571	—	437,444
Impairment loss recognised in consolidated income statement	—	717	12,130	—	807	13,654
Reclassified as held for sale	(1,725)	—	(4,459)	—	—	(6,184)
Eliminated on disposals	(975)	(976)	(7,064)	(3,106)	—	(12,121)
Eliminated on disposal of subsidiaries	(30,593)	(21,901)	(564,403)	(3,069)	—	(619,966)
At 31st December, 2007	75,388	60,800	933,272	29,071	807	1,099,338
NET BOOK VALUES						
At 31st December, 2007	323,135	99,922	2,236,604	22,390	1,267,217	3,949,268
At 31st December, 2006	418,773	139,429	2,714,522	24,236	920,679	4,217,639

The Group's leasehold properties are situated on land:

	2007	**2006**
	HK$'000	*HK$'000*
Outside Hong Kong on		
— medium-term lease	321,443	359,252
— short lease	—	51,783
In Hong Kong on medium-term lease	1,692	7,738
	323,135	418,773

Machineries with an aggregate net book value of HK$15,358,000 (2006: HK$199,471,000) were pledged to secure the bank borrowings granted to the Group (Note 27).

18. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise of land situated:

	2007	**2006**
	HK$'000	*HK$'000*
Outside Hong Kong on		
— medium-term lease	162,204	163,648
— short lease	—	4,748
In Hong Kong on medium-term lease	1,990	8,788
	164,194	177,184
Analysed for reporting purposes as		
Non-current assets	160,266	172,559
Current assets	3,928	4,625
	164,194	177,184

Land use rights with an aggregate carrying amount of HK$4,572,000 (2006: HK$4,362,000) are pledged to secure the bank borrowings granted to the Group (Note 27).

19. INVESTMENT PROPERTIES

	2006
	HK$'000
COST	
At 1st January	58,782
Exchange adjustments	2,165
Transfer to property, plant and equipment	(60,947)
At 31st December	—
DEPRECIATION	
At 1st January	8,133
Exchange adjustments	300
Provided for the year	1,367
Transfer to property, plant and equipment	(9,800)
At 31st December	—
NET BOOK VALUE	
At 31st December	—

The Group's investment properties were all situated in the Mainland China and held under medium-term lease.

20. AVAILABLE-FOR-SALE INVESTMENTS

	2007	2006
	HK$'000	*HK$'000*
Equity investments, at cost	9,904	10,105

The investments comprise mainly of the Group's 14.63% equity interest in a private entity established in Hong Kong which is principally engaged in the design, manufacturing and sales of semiconductors. Such investment is carried at cost less any impairment loss, and is not carried at fair value because it does not have a quoted market price in an active market. Since the business of such entity is at preliminary stage, the directors are of the opinion that its fair value cannot be reliably measured.

During the year ended 31st December, 2007, the Group disposed of certain unlisted investments with a carrying amount of HK$256,000 (2006: HK$264,000) at the consideration of HK$3,842,000 (2006: HK$264,000), resulting in a gain of HK$3,586,000 (2006: Nil) for the year which was included in other income.

21. GOODWILL

	HK$'000
CARRYING AMOUNTS	
At 1st January, 2006 and 31st December, 2006	152,777
Eliminated on disposal of subsidiaries	(128,717)
At 31st December, 2007	24,060

The goodwill at 31st December, 2007 arose on acquisition in 2002 of subsidiaries engaged in semiconductor business. The Group determines that the goodwill, which had been allocated to two cash generating units ("CGU"), including two subsidiaries engaging in semiconductor business amounting to HK$10,575,000 and HK$13,485,000 (2006: HK$10,575,000 and HK$13,485,000), was not impaired by comparing the carrying amount of the CGU including the goodwill, with its recoverable amount.

The recoverable amount of the relevant CGU had been determined on the basis of value in use calculation. The value in use calculation use cash flow projections which were based on approved financial budgets covering a 5-year period, and the discount rate of approximately 9%. Zero growth was projected for cash flows beyond the 5-year period. The projected growth rate did not exceed the average long-term growth rate for relevant markets. Other key assumptions for the value in use calculations included the budgeted sales and gross margins, such estimations were based on past performance and management's expectations for the market's development. Management believed that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGU to exceed the aggregate recoverable amount of the CGU.

22. TECHNICAL KNOW-HOW

	2007	**2006**
	HK$'000	*HK$'000*
COST		
At 1st January	70,796	31,047
Exchange adjustments	3,764	1,954
Additions	595	37,795
Disposals of subsidiaries	(33,751)	—
At 31st December	41,404	70,796
AMORTISATION		
At 1st January	17,133	11,812
Exchange adjustments	614	435
Provided for the year	5,915	4,886
Eliminated on disposal of subsidiaries	(17,936)	—
At 31st December	5,726	17,133
CARRYING AMOUNT		
At 31st December	35,678	53,663

The amortisation charge is included in administrative expenses in the consolidated income statement.

23. INVENTORIES

	2007	2006
	HK$'000	*HK$'000*
Raw materials	235,113	305,483
Work in progress	319,033	296,255
Finished goods	259,724	466,830
	813,870	1,068,568

24. DEBTORS, DEPOSITS AND PREPAYMENTS

	2007	2006
	HK$'000	*HK$'000*
Trade debtors	934,248	1,513,595
Less: allowance for doubtful receivables	(23,135)	(18,556)
	911,113	1,495,039
Deposits and prepayments	118,870	127,420
	1,029,983	1,622,459

The Group generally allows credit periods ranging from 30 to 90 days to its trade customers, which may be extended to 180 days for selected customers depending on their trade volume and settlement terms. The aged analysis of trade debtors, including notes receivable, net of allowance for doubtful debts, is as follows:

	2007	2006
	HK$'000	*HK$'000*
0 — 60 days	587,632	802,195
61 — 90 days	125,151	176,328
91 — 180 days	186,420	396,316
Over 180 days	11,910	120,200
	911,113	1,495,039

Included in debtors at 31st December, 2006 were notes receivable of HK$109,156,000 due from related companies arising from transactions carried out in the ordinary course of business of the Group. These amounts were unsecured, interest-free and were repayable within the credit periods similar to those offered by the Group to its major customers. No such notes were outstanding at 31st December, 2007.

Included in the Group's debtors are receivables of HK$95,336,000 (31st December, 2006: HK$383,003,000) which are past due at the reporting date but are regarded as not impaired as there has not been a significant change in the credit standing of the debtors. The Group does not hold any collateral over these receivables.

90% (2006: 74%) of the debtors are neither past due nor impaired and have either been subsequently settled or maintain active trade business relationship with the Group.

Included in the Group's debtors are receivables with carrying amounts of HK$83,208,000 (2006: HK$73,305,000) and HK$24,916,000 (2006: HK$15,900,000) which are denominated in United States dollar and Hong Kong dollar respectively, being the foreign currency of the respective group entities.

Aging of trade debtors which are past due but not impaired

	2007	2006
	HK$'000	*HK$'000*
0 — 60 days	4,768	—
61 — 90 days	31,069	11,581
91 — 180 days	47,589	251,222
Over 180 days	11,910	120,200
	95,336	383,003

In determining the recoverability of a receivable, the Group considers whether there has been adverse change in the credit standing of the debtor from the date credit was initially granted. The concentration of credit risk is limited as the Group's customer base comprises of a large number of customers. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts already provided for in the consolidated financial statements.

Included in the allowance for doubtful debts are individually impaired receivables due from certain trade debtors with an aggregate amount of HK$23,135,000 (2006: HK$18,556,000) which have either been placed under liquidation or are in financial difficulties. The Group does not hold any collateral over these receivables.

Movements in the allowance for doubtful debts

	2007	2006
	HK$'000	*HK$'000*
Balance at beginning of the year	18,556	11,993
Exchange differences	1,330	442
Acquisition of subsidiaries	—	2,813
Disposal of subsidiaries	(38)	—
Amounts written off as uncollectible	(2,373)	—
Increase in allowance recognized in profit or loss	5,660	3,308
Balance at end of the year	23,135	18,556

25. BANK BALANCES/PLEDGED BANK DEPOSITS

The bank balances carry interest at market rates ranging from 0% to 5.7% (2006: 0.7% to 4.2%). The pledged bank deposits carry interest at market rates ranging from 1% to 1.2% (2006: 0.7%).

Bank deposits of HK$6,030,000 (2006: HK$7,642,000) were pledged to banks for letters of credit issued by those banks for the Group and for employees' mortgage loans.

Included in the Group's bank balances are balances with carrying amounts of HK$67,654,000 (2006: HK$73,003,000) and HK$12,535,000 (2006: HK$7,237,000) which are denominated in United States dollar and Hong Kong dollar respectively, being the foreign currency of the respective group entities.

26. CREDITORS AND ACCRUED CHARGES

The aged analysis of trade creditors which are included in creditors and accrued charges is as follows:

	2007	2006
	HK$'000	*HK$'000*
0 — 60 days	585,494	729,403
61 — 90 days	147,295	207,704
91 — 180 days	241,814	411,069
Over 180 days	19,626	4,791
	994,229	1,352,967

The average credit period on purchases of goods ranges from 7 to 180 days. The Group has financial risk management policies in place to ensure that all payables are within the credit timeframe.

Included in creditors at 31st December, 2007 are payables of HK$104,473,000 due to a related company arising from transactions carried out in the ordinary course of business of the Group. The amount was unsecured, interest-free and is repayable within the credit periods similar to those offered by the Group's major suppliers.

Included in the Group's creditors are creditors with a carrying amount of HK$117,655,000 (2006: HK$73,768,000) which are denominated in United States dollar, being the foreign currency of the respective group entities.

27. BANK BORROWINGS

	2007	2006
	HK$'000	*HK$'000*
Bank loans	1,857,508	2,228,923
Secured	76,425	119,057
Unsecured	1,781,083	2,109,866
	1,857,508	2,228,923
Bank loans repayable:		
On demand or within one year	682,762	1,706,617
More than one year, but not exceeding two years	—	94,306
More than two years, but not exceeding five years	1,174,746	428,000
	1,857,508	2,228,923
Less: Amount due within one year shown under current liabilities	(682,762)	(1,706,617)
Amount due after one year shown as non-current liabilities	1,174,746	522,306

Note:

(a) The bank loans include Hong Kong dollar revolving credit and term loan facilities of HK$1,100,000,000 (2006: HK$1,428,000,000), which carry interest at floating rate based on HIBOR plus a margin. The average interest rate for the year is 4.4% (2006: 4.7%). Under the terms of the loan facilities agreements, CRH, the controlling shareholder of the Company, is required to remain as a majority beneficial owner of the issued share capital of the Company and shall maintain its management control over the Company. The maturity dates of the bank loans are as follows:

Bank loan	**Maturity dates**	**2007**	**2006**
HK$		*HK$'000*	*HK$'000*
500,000,000	16th September, 2007	—	500,000
500,000,000	10th December, 2007	—	500,000
428,000,000	13th December, 2011	—	428,000
1,100,000,000	14th March, 2012	1,100,000	—
		1,100,000	1,428,000

(b) The remaining balance of the bank loans comprises of several floating rate bank loans denominated in Hong Kong dollar, Renminbi and United States dollar with an average interest rate of 5.5% (2006: 5.4%).

(c) At 31st December, 2007, the Group had unutilised bank loan facilities of HK$1,901,833,000 (2006: HK$1,245,618,000).

(d) Included in the Group's bank loans are loans with a carrying amount of HK$282,900,000 (2006: HK$202,243,000) which are denominated in United States dollar, being the foreign currency of the respective group entities.

28. PROVISIONS

	Staff housing benefits	**Restructuring costs**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
	(Note a)	*(Note b)*	
At 1st January, 2006	50,953	42,379	93,332
Exchange adjustments	—	1,359	1,359
Utilisation of provisions	(13,072)	(4,508)	(17,580)
At 31st December, 2006	37,881	39,230	77,111
Exchange adjustments	—	996	996
Utilisation of provisions	(6,489)	(3,577)	(10,066)
Write back of provisions	—	(25,858)	(25,858)
At 31st December, 2007	31,392	10,791	42,183

Note:

(a) The provision for staff housing benefits represents management's best estimate of the liabilities of certain subsidiaries established in the Mainland China in respect of housing allowances available to the remaining eligible staff for the purchase of residential properties, based on the local government policy in this regard. The outflow is expected upon the receipt of application to be submitted by the eligible staff for such allowance.

(b) The amount represents provisions for employee termination benefit in relation to restructuring activities of subsidiaries acquired by the Group through the acquisition of the entire equity interest of Wuxi China Resources Microelectronics Co., Ltd. in December 2002. The provisions are to be utilised to meet restructuring expenses, including staff redundancy, in accordance with the restructuring plans adopted when such subsidiaries were acquired. The outflow is expected within the next twelve months from the balance sheet date.

During the year, management reconsidered the restructuring plan of certain subsidiaries acquired and, as a result, determined that the provision for restructuring plan to the extent of HK$25,858,000 previously made is no longer required. Such provision has been written back in the consolidated income statement for the year.

29. LONG-TERM PAYABLES

The Group has entered into an agreement to acquire certain machinery and equipment and technical know-how relating to the manufacturing of wafers. At the balance sheet date, the carrying amount of the outstanding consideration with an aggregate undiscounted principal amount of HK$92,858,000 (2006: HK$94,728,000), which are non-interest bearing, are as follows:

	2007	**2006**
	HK$'000	*HK$'000*
Within one year	5,791	5,009
More than one year, but not exceeding five years	28,911	23,452
More than five years	37,115	42,573
	71,817	71,034
Less: Amount due within one year included in creditors and accrued charges shown under current liabilities	(5,791)	(5,009)
Amount due after one year shown as non-current liabilities	66,026	66,025

The present values are based on cash flows discounted using a rate based on the borrowing rate of 5.85% for the terms from 10 to 12 years.

30. DEFERRED TAXATION

The following are the major deferred tax assets recognised and movements thereon during the current and prior years:

	Accelerated tax depreciation	Technology know-how	Provisions on assets	Other temporary differences	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January, 2006	2,325	1,852	3,692	3,822	11,691
Exchange adjustments	1	—	8	—	9
Acquisition of subsidiaries	—	—	2,162	—	2,162
(Charge) credit to consolidated income statement for the year	(807)	(771)	5,112	(980)	2,554
At 31st December, 2006	1,519	1,081	10,974	2,842	16,416
Exchange adjustments	—	—	421	—	421
(Charge) credit to consolidated income statement for the year	110	(417)	1,535	—	1,228
Disposal of subsidiaries	(1,635)	(664)	(4,880)	—	(7,179)
At 31st December, 2007	(6)	—	8,050	2,842	10,886

At 31st December, 2007, the Group had unused tax losses of HK$525,072,000 (2006: HK$234,181,000) available to offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. Losses of HK$110,710,000 (2006: HK$105,044,000) and HK$118,895,000 (2006: nil) will expire in 2011 and 2012 respectively. Other losses may be carried forward indefinitely.

At 31st December, 2007, the Group also had deductible temporary differences of HK$66,526,000 (2006: HK$44,228,000). No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

31. SHARE CAPITAL OF THE COMPANY

	Number of shares		Nominal value	
	2007	2006	2007	2006
			HK$'000	*HK$'000*
Shares of HK$0.10 each				
Authorised:				
At beginning and end of the year	6,000,000,000	6,000,000,000	600,000	600,000
Issued and fully paid:				
At beginning of the year	2,765,799,425	2,664,916,071	276,580	266,492
Shares repurchased and cancelled	—	(3,070,000)	—	(307)
Shares issued upon exercise of share options	46,356,000	10,322,000	4,635	1,032
Shares issued upon acquisition of subsidiaries (Note 34)	—	93,631,354	—	9,363
At end of the year	2,812,155,425	2,765,799,425	281,215	276,580

The new shares issued during the year rank pari passu in all respects with the existing shares in issue.

32. SHARE-BASED PAYMENT TRANSACTIONS

(i) The Company's equity-settled share option schemes

On 26th November, 2001, the Company terminated the share option scheme adopted on 15th October, 1994 (the "Old Share Option Scheme") and adopted a new share option scheme (the "New Share Option Scheme"). On 21st February, 2002, upon approval of the Company's shareholders, the Company amended the New Share Option Scheme to widen the scope of participants that are eligible to participate in the New Share Option Scheme.

The purpose of the Old Share Option Scheme was to promote commitment by its participants and to encourage its participants to perform their best for the Company. The participants are the employees of the Company (including executive directors) or any of its subsidiaries. As the Old Share Option Scheme had been terminated, no more option can be issued under the Old Share Option Scheme but in all other respects the provisions of the Old Share Option Scheme shall remain in force. The maximum entitlement of each participant shall not exceed 25% of the maximum number of shares in respect of which options may be granted under the Old Share Option Scheme. The period within which the shares must be taken up under an option shall not be later than 10 years from the date the option is granted. There is no minimum period for which an option must be held before it can be exercised. An amount of HK$1 is payable on acceptance of the option within 28 days from its date of grant. The subscription price is the higher of (i) the nominal value of a share and (ii) 80% of the average of the closing prices of the share on the Stock Exchange on the five trading days immediately preceding the date of grant of the options.

The purpose of the New Share Option Scheme is to promote dedication by its participants and to encourage its participants to perform their best in achieving the goals of the Group. The participants are any directors (or any persons proposed to be appointed as such) and employees of each member of the Group; any discretionary object of a discretionary trust established by any employees or directors of each member of the Group; any executives or employees of any business consultants, business partners, professionals and other advisers to each member of the Group (or any persons proposed to be appointed as such); any substantial shareholders of the member of the Group; any associates of the director or substantial shareholders of the Company; and any employees of the Company's substantial shareholders or any employees of such substantial shareholders' subsidiaries or associated companies, as absolutely determined by the Board.

The period within which the shares must be taken up under an option of the New Share Option Scheme shall not be later than 10 years from the date the option is granted. There is no minimum period for which an option must be held before it can be exercised. An amount of HK$1 is payable on acceptance of the option within 28 days from its date of grant. The subscription price is the highest of (i) the closing price of the share as stated in the Stock Exchange's daily quotations sheet on the date of grant, (ii) a price being the average of the closing prices of the share as stated in the Stock Exchange's daily quotations sheet on the five business days immediately preceding the date of grant and (iii) the nominal value of a share. The New Share Option Scheme is valid for 10 years from 26th November, 2001. No further options may be granted pursuant to the New Share Option Scheme after 25th November, 2011.

Share options generally either become fully vested and exercisable within a period of 10 years immediately after the date of grant or become vested over a period of time up to a maximum of three years after the acceptance of a grant.

Options granted to a grantee become lapsed if the grantee ceased to be an eligible participant before the options become vested.

Details of the movements of share options granted under the Company's share option schemes are as follows:

			Number of share options			
Date of grant	**Exercise price**	**Outstanding at 1.1.2007**	**Granted during the year**	**Exercised during the year**	**Lapsed during the year**	**Outstanding at 31.12.2007**
	HK$					
Old Share Option Scheme						
21.9.2000	0.590	8,250,000	—	(8,250,000)	—	—
25.4.2001	0.547	17,200,000	—	(6,050,000)	—	11,150,000
		25,450,000	—	(14,300,000)	—	11,150,000
New Share Option Scheme						
4.12.2001	0.790	14,520,000	—	(7,020,000)	—	7,500,000
9.4.2002	0.820	23,074,000	—	(8,858,000)	—	14,216,000
22.5.2002	0.920	2,300,000	—	—	—	2,300,000
2.10.2002	0.570	7,203,000	—	(2,598,000)	—	4,605,000
9.4.2003	0.479	17,970,000	—	(6,520,000)	—	11,450,000
3.11.2003	0.800	500,000	—	(300,000)	—	200,000
13.1.2004	0.906	28,470,000	—	(5,560,000)	(300,000)	22,610,000
9.6.2005	0.910	500,000	—	(500,000)	—	—
19.4.2006	0.940	1,000,000	—	(700,000)	(300,000)	—
		95,537,000	—	(32,056,000)	(600,000)	62,881,000
		120,987,000	—	(46,356,000)	(600,000)	74,031,000
Exercisable at the end of the year						74,031,000
Weighted average exercise price (HK$)		0.72	—	0.69	0.92	0.74

Date of grant	Exercise price	Outstanding at 1.1.2006	Number of share options Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2006
	HK$					
Old Share Option Scheme						
21.9.2000	0.590	8,250,000	—	—	—	8,250,000
25.4.2001	0.547	17,200,000	—	—	—	17,200,000
		25,450,000	—	—	—	25,450,000
New Share Option Scheme						
4.12.2001	0.790	14,520,000	—	—	—	14,520,000
9.4.2002	0.820	26,068,000	—	(2,964,000)	(30,000)	23,074,000
22.5.2002	0.920	2,300,000	—	—	—	2,300,000
2.10.2002	0.570	10,201,000	—	(2,918,000)	(80,000)	7,203,000
9.4.2003	0.479	22,560,000	—	(4,440,000)	(150,000)	17,970,000
3.11.2003	0.800	500,000	—	—	—	500,000
13.1.2004	0.906	28,970,000	—	—	(500,000)	28,470,000
9.6.2005	0.910	500,000	—	—	—	500,000
19.4.2006	0.940	—	1,000,000	—	—	1,000,000
		105,619,000	1,000,000	(10,322,000)	(760,000)	95,537,000
		131,069,000	1,000,000	(10,322,000)	(760,000)	120,987,000
Exercisable at the end of the year						117,277,000
Weighted average exercise price (HK$)		0.71	0.94	0.60	0.78	0.72

In respect of the share options exercised during the year, the weighted average share price at the date of exercise is HK$1.38 (2006: HK$0.87). The options outstanding at the end of the year have a weighted average remaining contractual life of 4.8 years (2006: 5.4 years).

The estimated fair values of the share options on the date of grant were calculated using The Black-Scholes pricing model. The inputs into the model are as follows:

Date of grant	Exercise price	Weighted average share price	Expected volatility	Expected life	Risk-free rate	Expected dividend yield	Estimated fair value
	HK$	*HK$*	*%*		*%*	*%*	*HK$*
19th April, 2006	0.940	0.96	24.41	5 years	4.44	3.13	0.21

Expected volatility was determined by using the historical volatility of the Company for the weekly closing share price for the period of 52 weeks before the date of grant. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

For the year ended 31st December, 2007, the Group recognised the total expense of HK$910,000 (2006: HK$429,000) relating to equity-settled share-based payment transactions in respect of the share options granted by the Company.

(ii) **CSMC equity incentive scheme**

A subsidiary of the Company, CSMC, operates an "Equity Incentive Plan" (the "Plan") for the purpose of sharing the pride of ownership among its participants and to reward their performance and contribution. The Plan was approved by its shareholders and adopted on 8th May, 2004. The eligible participants are any directors and full time employees of CSMC or any of its subsidiaries. The Plan is valid for 10 years from the date of adoption.

The CSMC's shares granted under the Plan will vest in equal portions over a period of four years commencing from the date of grant to the participants. CSMC's shares granted will only be issued once they vest and formal applications from the respective participants are received.

Details of the movements of the shares under the Plan are as follows:

Number of CSMC's shares ('000)	**2007**	**2006**
At 1st January, 2007/at date of acquisition of CSMC	45,883	48,215
Granted during the year/period	—	1,150
Exercised during the year/period	(13,962)	(2,092)
Lapsed during the year/period	(3,683)	(1,390)
Outstanding as at 31st December	28,238	45,883

The estimated fair values of the shares on the date of grant were calculated using The Binomial model. The inputs into the model are as follows:

Date of grant	**Exercise price** *HK$*	**Weighted average share price** *HK$*	**Expected volatility** *%*	**Risk-free rate** *%*	**Expected dividend paid out** *%*	**Estimated fair value** *HK$*
2nd January, 2006	0.078	0.38	27.7	1.08-1.99	0	0.30
16th May, 2006	0.078	0.41	27.7	1.08-1.99	0	0.33

(iii) **CSMC share option scheme**

A subsidiary of the Company, CSMC, operates a "Share Option Scheme" (the "Scheme") for the purpose of providing the participants with the opportunity to acquire proprietary interests in CSMC and to encourage the participants to work towards enhancing the value of CSMC and its shares for the benefit of CSMC and its shareholders as a whole. The Scheme was approved by its shareholders and adopted on 27th May, 2005. The directors of CSMC may grant CSMC's options to eligible participants including any directors and employees of CSMC or any of its subsidiaries; and any advisors, consultants, distributors, contractors, contract manufacturers, suppliers, agents, customers, business partners, joint venture business partners, service providers of CSMC or any of its subsidiaries. The Scheme is valid for 10 years from the date of adoption.

The period which the shares must be taken up under an option of the Scheme shall be notified by the board of CSMC and in any event shall not be later than 10 years from the date the option is granted. The subscription price is the highest of (i) the closing price of the share as stated in the Stock Exchange's daily quotations sheet on the date of grant, (ii) a price being the average of the closing prices of the share as stated in the Stock Exchange's daily quotations sheet on the five business days immediately preceding the date of grant and (iii) the nominal value of a share.

Share options granted under the Scheme will vest in equal portions over a period of four years from the commencement of vesting date as approved by CSMC's Remuneration Committee.

Details of the movements of the share options under the Scheme are as follows:

Number of CSMC's share options ('000)	**2007**	**2006**
At 1st January, 2007/at date of acquisition of CSMC	21,291	—
Granted during the year/period	1,987	21,291
Exercised during the year/period	(2,150)	—
Lapsed during the year/period	(1,200)	—
Outstanding as at 31st December	19,928	21,291

The estimated fair value of the share options on the date of grant were calculated using The Binomial model. The inputs into the model are as follows:

Date of grant	**Exercise price**	**Weighted average share price**	**Expected volatility**	**Risk-free rate**	**Expected dividend paid out**	**Estimated fair value**
	HK$	*HK$*	*%*	*%*	*%*	*HK$*
28th May, 2007	0.75	0.75	27.4	3.481	0	0.09
8th September, 2006	0.36	0.36	27.7	1.08-1.99	0	0.04

Expected volatility was based on the volatility return on Hang Seng Index for the past ten years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

For the year ended 31st December, 2007, the Group recognised the total expense of HK$6,953,000 (2006: HK$7,972,000) relating to equity-settled share-based payment transactions in respect of CSMC.

33. RETIREMENT BENEFIT SCHEMES

Hong Kong

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance (the "ORSO Scheme") and a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme were offered a choice of staying within the ORSO Scheme or switching to the MPF Scheme, whereas all new employees joining the Group on or after 1st December, 2000 are required to join the MPF Scheme.

The ORSO Scheme is funded by monthly contributions from both employees and the Group based on a specified percentage of the employee's basic salary, depending on the length of service with the Group. Where there are employees who leave the ORSO Scheme prior to vesting, the contributions payable by the Group are reduced by the amount of forfeited contributions. No forfeited contributions were utilised in this manner in respect of the year (2006: HK$145,442).

For members of the MPF Scheme, the Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by the employees.

At the balance sheet date of both years, the amount of forfeited contributions available to reduce contributions payable in the future years is insignificant.

Mainland China

The employees of the Group in the Mainland China are members of state-managed retirement benefit schemes operated by the local government in the Mainland China. The Group is required to contribute a specified percentage of the payroll costs to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the specified contributions.

34. ACQUISITION OF SUBSIDIARIES

On 12th July, 2006, the Group acquired an additional 47.5% of the issued share capital of CSMC and CSMC became a 72.9% owned subsidiary. The carrying amounts and fair value of net assets acquired in the transaction are as follows:

	HK$'000
Net assets acquired:	
Property, plant and equipment	1,262,252
Prepaid lease payments	4,299
Deferred tax assets	2,162
Inventories	156,300
Debtors, deposits and prepayments	156,218
Tax recoverable	933
Pledged bank deposits	19,272
Bank balances and cash	243,173
Creditors and accrued charges	(188,870)
Bank borrowings	(374,904)
Other non-current liabilities	(36,127)
	1,244,708
Minority interests	(337,689)
Discount on acquisition accounted for in consolidated income statement	(41,296)
	865,723
Total consideration satisfied by:	
Cash	467,464
Shares issued (Note)	73,032
	540,496
Interest in an associate	325,227
	865,723
Net cash outflow arising on acquisition:	
Cash consideration paid	(467,464)
Bank balances and cash acquired	243,173
	(224,291)

Note:

As part of the consideration for the acquisition, a total of 93,631,354 shares of the Company with a par value of HK$0.10 each were issued. The fair value of the shares issued, which was determined by reference to the share price quoted on the Stock Exchange at the date of acquisition, amounted to HK$73,032,000.

The directors consider that the carrying amount of the net assets of CSMC approximates its fair value.

The acquiree contributed turnover of HK$367,850,000 and profits of HK$41,224,000 to the Group for the year ended 31st December, 2006.

If the acquisition had been completed on 1st January, 2006, the Group's revenue and profit for the year ended 31st December, 2006 would have been HK$3,748,898,000 and HK$281,770,000 respectively. The pro forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1st January, 2006, nor is it intended to be a projection of actual results.

35. CONTINGENT LIABILITIES

The Group has issued guarantees of HK$3,750,000 (2006: HK$4,006,000) to a bank in respect of the mortgage loans borrowed by the employees of a subsidiary. Management anticipates that no material liabilities to the Group will arise from the guarantees.

36. OPERATING LEASES

The Group as lessee

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2007	**2006**
	HK$'000	*HK$'000*
Within one year	5,451	3,539
In the second to fifth year inclusive	6,497	4,494
After five years	2,847	3,653
	14,795	11,686

Operating lease payments represent rentals payable by the Group for office and factory premises. Leases are negotiated and rentals are fixed for a term ranging from one to ten years.

37. CAPITAL COMMITMENTS

	2007	**2006**
	HK$'000	*HK$'000*
Capital expenditure in respect of acquisition of property, plant and equipment		
Authorised but not contracted for	2,711,486	504,621
Contracted for but not provided (Note)	890,623	679,817

Note:

During the year ended 31st December, 2006, the Group entered into an agreement with a minority shareholder of a subsidiary (the "Vendor") for the acquisition of certain tools, equipment and spare parts for an aggregate consideration of US$35,000,000 (equivalent to HK$272,948,000), of which US$24,858,000 (equivalent to HK$193,856,000) (2006: US$12,000,000, equivalent to HK$93,343,000) had been paid and accrued up to the balance sheet date in respect of the items delivered. The amount of commitments disclosed above includes the balance of the consideration of US$10,142,000 (equivalent to HK$79,092,000) (2006: US$23,000,000, equivalent to HK$178,908,000) which is payable by 4 annual instalments.

Pursuant to another agreement entered into with the Vendor, the Group has undertaken to make incentive payment of US$5,000,000 (equivalent to HK$38,993,000) to a subsidiary of the Vendor in the event that the cumulative revenue from assembly and testing services provided by the Group arising from orders placed by customers of the Vendor for the years 2007 to 2010 exceeds an agreed amount. However, no fair value was ascribed to the undertaking as at the balance sheet date, which has been accounted for as a derivative, as the directors consider that the equipment is still under installation and it is unlikely that the agreed amount could be achieved based on the Group's assessment.

38. POST BALANCE SHEET EVENT

In December 2007, the Group announced a reorganization scheme pursuant to which:

— the Company entered into a conditional agreement with CSMC for the sale of the entire interests in certain of the Company's subsidiaries engaging principally in the manufacture of semi-conductors and the shareholders' loans advanced to these subsidiaries to CSMC, for an aggregate consideration of approximately HK$1,488,900,000 which will be satisfied by the issue of a minimum of 3,050,581,517 and a maximum of 3,210,167,717 shares in CSMC to the Company.

— the Company also entered into a conditional agreement with China Resources Concrete Limited for the purchases of the entire issued voting share capital of Redland Concrete Limited for a cash consideration of HK$217,757,665. Details regarding the reorganisation and the financial effects on the Group are set out in the circular to shareholders dated 16th January, 2008 dispatched to the Company's shareholders.

— the board of directors of the Company resolved to distribute, subject to the fulfilment of certain conditions, to the shareholders of the Company, its shares in CSMC, by way of a dividend in specie on the basis of 180 shares in CSMC for every 100 shares in the Company held.

Upon completion of the scheme, CSMC will cease to be a subsidiary of the Group. The Group will no longer be engaged in the semiconductor business, but will be principally engaged in the supply of ready mixed concrete and related products to the Hong Kong and Macau markets.

Completion of the above transactions was conditional upon, inter alia, (i) the approval by independent shareholders of the Company and CSMC and (ii) the written consent from the lenders of the Company, CSMC and their respective subsidiaries, which were fulfiled subsequent to the balance sheet date.

39. RELATED PARTY TRANSACTIONS

Transactions with related parties

In addition to the related parties transactions set out in the respective notes to the consolidated financial statements, during the year, the Group entered into the following transactions with related parties:

	2007	2006
	HK$'000	*HK$'000*
Sales to a fellow subsidiary	2,468	2,352
Rental expenses paid to a fellow subsidiary	2,495	2,165
Rental income received from a fellow subsidiary	595	565
Rental income received from an associate	—	5,044
Sales to an associate	—	47,532
Wafer fabrication service charges paid to an associate	—	62,118
Commission paid to a minority shareholder	1,622	—
Sales to subsidiaries of minority shareholders of subsidiaries	143,504	145,173
Royalties paid to minority shareholders of subsidiaries, net	37,828	20,870
License fees paid to minority shareholders of subsidiaries, net	10,380	15,029

The amounts due from/to minority shareholders as included in the consolidated balance sheet are unsecured, interest-free and repayable on demand.

Transactions/balances with other state-controlled entities

The Group itself is part of a larger group of companies under CRNC which is controlled by the government of the People's Republic of China ("PRC"). Apart from the transactions with the parent company and its subsidiaries which have been disclosed in other notes to the consolidated financial statements, the Group also conducts businesses with entities directly or indirectly owned or controlled by the PRC government in the ordinary course of business. The directors consider those entities other than the CRNC group are independent third parties as far as the Group's business transactions with them are concerned. In establishing its pricing strategies and approval process for transactions with other state-controlled entities, the Group does not differentiate whether the counter-party is a state-controlled entity or not. The Group is of the opinion that it has provided, in the best of its knowledge, adequate and appropriate disclosure of related party transactions in the consolidated financial statements.

Compensation of key management personnel of the Group

	2007	2006
	HK$'000	*HK$'000*
Short-term benefits	8,132	6,933
Post-employment benefits	289	330
Share-based payment	—	162
	8,421	7,425

The remunerations of the Group's key management personnel include those of the directors of the Company only, which are determined with reference to the terms of the remuneration committee, are disclosed in Note 14.

40. GOVERNMENT GRANTS

Government grants of HK$111,967,000 (2006: HK$53,003,000) represent subsidies granted by PRC governmental authorities for the purpose of financing the purchases of machinery and equipment and relevant expenses for the development of new products. The government grants recognised as income for the year in accordance with the Group's accounting policy amounted to HK$10,520,000 (2006: HK$6,339,000).

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share/ registered capital	Proportion of ownership interest held 2007 %	2006 %	Principal activities
Semiconductor business					
華潤微電子（控股）有限公司 China Resources Microelectronics (Holdings) Limited	British Virgin Islands	Ordinary US$11	100	100	Investment holding
華潤半導體有限公司 China Resources Semiconductor Company Limited	Hong Kong	Ordinary HK$3	100	100	Manufacture and sales of integrated circuit design and wafer packaging
Faithway Resources Limited	British Virgin Islands	Ordinary US$1	100	100	Investment holding
# 深圳華潤矽科微電子有限公司	Mainland China	US$1,800,000	100	100	Design of wafer
# 賽美科微電子（深圳）有限公司 Semicon Microelectronics (Shen Zhen) Co., Ltd.	Mainland China	US$7,550,000	100	100	Testing and packaging of wafers
# 無錫華潤微電子有限公司 Wuxi China Resources Microelectronics Co., Ltd.	Mainland China	RMB570,000,000	100	100	Manufacture and sales of integrated circuit, packaging and testing of integrated circuit, investment holding
# 無錫華潤矽科微電子有限公司 Wuxi China Resources Semico Co., Ltd.	Mainland China	RMB25,000,000	100	100	Design, testing and sale of integrated circuit products and chips
@ 無錫華潤華晶微電子有限公司 Wuxi China Resources Huajing Microelectronics Co., Ltd.	Mainland China	RMB235,000,000	99.662	99.662	Manufacture and sale of integrated circuit
# 無錫華潤晶芯半導體有限公司 Wuxi CR Semiconductor Wafers & Chips Ltd.	Mainland China	RMB330,348,671	100	100	Manufacture and sales of integrated circuit
# 無錫華潤安盛科技有限公司 Wuxi CR Micro-Assemb Tech. Ltd.	Mainland China	RMB320,000,000	100	100	Testing and packaging of wafers

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share/ registered capital	Proportion of ownership interest held 2007 %	2006 %	Principal activities
華潤上華科技有限公司 CSMC Technologies Corporation	Cayman Islands	Ordinary US$35,145,000	72.41	72.82	Investment holding
# 無錫華潤上華半導體有限公司 CSMC Technologies Fab 1 Co., Ltd.	Mainland China	US$87,436,849	72.41	72.82	Manufacture and sale of integrated circuit and related products
# 無錫華潤上華科技有限公司 CSMC Technologies Fab 2 Co., Ltd.	Mainland China	US$50,000,000	72.41	72.82	Manufacture and sale of integrated circuit and related products
# 北京華潤上華半導體有限公司 CSMC Technologies Fab 3 Co., Ltd.	Mainland China	US$18,800,000	72.41	72.82	Manufacture and sale of integrated circuit and related products
Compressor business					
華潤制冷科技有限公司 China Resources Cooling Technology Co., Ltd.	British Virgin Islands	Ordinary US$66	—	100	Investment holding
@ 瀋陽華潤三洋壓縮機有限公司 China Resources (Shenyang) Sanyo Compressor Co., Ltd.	Mainland China	US$159,980,000	—	63.75	Manufacture and sale of compressors for air-conditioners
@ 瀋陽盛潤三洋壓縮機有限公司 Shenyang Shengrun Sanyo Compressor Co. Ltd.	Mainland China	US$20,000,000	—	63.75	Manufacture and sale of compressors for air-conditioners
Others					
CRT (BVI) Limited	British Virgin Islands	Ordinary US$14	100	100	Investment holding

All the above subsidiaries, except for CRT (BVI) Limited which is directly held, are indirectly held by the Company and are operating principally in their place of incorporation/ establishment.

None of the subsidiaries had any debt securities outstanding at 31st December, 2007 or at any time during the year.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

@ Equity Joint Venture

Wholly Foreign Owned enterprises

MANAGEMENT DISCUSSION AND ANALYSIS OF THE CR LOGIC GROUP

The following is the management discussion and analysis of the CR Logic Group principally extracted from the annual reports of CR Logic for each of the years ended 31 December 2005, 2006 and 2007 and the interim report of CR Logic for the six months ended 30 June 2008.

1. For the six months ended 30 June 2008

BUSINESS REVIEW AND PROSPECTS

The recently acquired ready mixed concrete business provided the Group with immediate profit and cash flow contributions, whereas the discontinued semiconductor operation registered loss for the period under review.

Since the announcement of the Company's acquisition of Redland Concrete in December 2007, the global economic and capital market conditions have deteriorated significantly. During the same period, the Company's share performance has also been subject to considerable volatility, despite the relatively stable and healthy business performance of Redland Concrete. In response to the above circumstances, the Company began to explore additional means to further accelerate its business expansion to a more optimal scale in order to promote a healthier capital market performance and to enhance the long term return of the shareholders. While pursuing this growth strategy, the Company is also conscious about the uncertain global economics outlook and hence it has adopted a prudent approach in selectively pursuing acquisition opportunities with stable cash flow and reasonable future growth potential. For the above reasons and with the support of China Resources Holdings, the Company has therefore entered into the agreement to acquire CR Gas. The acquisition will allow the Company to transform itself from focusing on the building materials sector in Hong Kong, which is generally cyclical in nature and largely dependent on infrastructure projects available in Hong Kong, into a less cyclical city gas distribution business in China, which should provide for stable cash flows and a higher growth potential by capturing the increase in demand for natural gas in China and leveraging China Resources Group's strong presence and brand name in China.

The corporate restructuring as noted above will be financed by a proposed rights issue to be underwritten by a wholly owned subsidiary of China Resources Holdings. The entire transactions, if approved eventually by the Company's independent shareholders, will provide the Group with a sound foundation to tap into the burgeoning city gas distribution business in the PRC. This will deliver stable cash flow as well as excellent growth opportunity for the enhancement of shareholders' value in the long term.

FINANCIAL REVIEW

Cash Flow

The net cash inflow from operations during the period amounted to HK$91.1 million (2007: HK$292.0 million), out of which HK$48.7 million was contributed from the continuing ready mixed concrete operation (2007: HK$40.2 million) and HK$42.4 million was contributed from the discontinued semiconductor operation (2007: HK$251.8 million including discontinued compressor operation).

The Group has spent HK$212.0 million in capital expenditure during the period of which 99.9% and 0.1% respectively were used to fund the expansion and upgrading of existing production facilities of the Semiconductor Business up to its disposal in March 2008 and ready mixed concrete business. The above required funding was financed by the operating cash flow, bank borrowings and cash on hand of the Group. As at period end the Group's free cash on hand was HK$86.0 million. Among the cash balance 96% was denominated in Hong Kong dollar and the remaining in Renminbi and US dollar.

Liquidity and Financial Resources

As at the end of the period, the Group has no banking credit facilities and has no borrowing. It is the Group's policy to use the cash flow generated from operations and appropriate level of borrowings as the principal source of fund to finance major expansion and acquisition.

Charge of Assets

As at 30th June, 2008, a bank deposit of HK$740,000 was pledged to a bank for issuing a guarantee for utility usage.

Property, Plant and Equipment

During the six months ended 30th June, 2008, the Group spent HK$8,277,000 on machinery and equipment and HK$202,382,000 on construction in progress. Property, plant and equipment of carrying value of HK$4,087,244,000 was disposed of upon distribution of CRM shares as stated in Note 15 to the condensed consolidated financial statements.

Contingent Liabilities

As at 30th June, 2008, the Group did not have any material liabilities.

Financial Management and Treasury Policy

The financial risk management of the Group is the responsibility of the Group's treasury function at the head office in Hong Kong. One of the major objectives of the Group's treasury policies is to manage its exposure to fluctuation in interest rates and foreign currency exchange rates. It is the Group's policy not to engage in speculative activities.

Most of the Group's assets and liabilities are denominated in Hong Kong dollar and Renminbi with some payables denominated in Japanese Yen and US dollar. The Group does not expect significant exposure to foreign exchange fluctuations in this regard.

Capital Structure

The share capital of the Company was reduced from HK$600,000,000 divided into 6,000,000,000 shares of HK$0.10 each to HK$60,000,000 divided into 6,000,000,000 shares of HK$0.01 each on 3rd March, 2008.

The share capital of the Company was consolidated on the basis of every ten shares in the issued and unissued share capital respectively of the Company of HK$0.01 each for one share of HK$0.10 on 7th March, 2008 and with immediate effect following the share consolidation, the authorized share capital of the Company was increased from HK$60,000,000 to HK$1,000,000,000 by creation of an addition 9,400,000,000 new shares of HK$0.10 each.

As at the end of the period, the authorized share capital of the Company was HK$1,000,000,000 divided into 10,000,000,000 shares of HK$0.10 each, of which 282,883,342 shares had been issued and fully paid, and the shareholders' equity of the Group was HK$338,601,000. During the period, no dividend was paid to shareholders of the Company as final dividend for the year 2007.

Pursuant to an ordinary resolution passed at a special general meeting held on 13th February, 2008, the Company distributed all of its shares in its subsidiary, CRM, by way of a dividend in specie on the basis of 180 shares in CRM for every 100 shares in the Company held. A total of 5,091,900,165 shares in CRM representing shareholders' equity of HK$2,731,463,000 were distributed to the shareholders of the Company on 5th March, 2008.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

Amalgamation of the Semiconductor Interests

On 4th December, 2007, the Company entered into a conditional agreement with CRM for the sale of the Semiconductor Business of the Group, being all its semiconductor operations other than China Resources Semiconductor Company Limited which operates a 4 inch wafer fab in Tai Po, Hong Kong, for a consideration of approximately HK$1,488.9 million which has been satisfied by the issue of 3,106,932,317 new shares in CRM to the Company. The disposal consideration represents the aggregate net asset value of the Semiconductor Business being acquired based on its management accounts as at 30th June, 2007 adjusted for the payment of a dividend of approximately HK$474.4 million.

On 4th December, 2007, the Company also entered into a conditional agreement with China Resources Concrete Limited, a subsidiary of China Resources Holdings, the substantial and controlling shareholder of the Company, for the purchase of the entire issued voting share capital of Redland Concrete for a cash consideration of approximately HK$217,757,000. The consideration was determined by referencing to the unaudited consolidated net asset value of Redland Concrete as at 31st October, 2007 and its financial results in recent years. Redland Concrete is principally engaged in the production and sale of ready mixed concrete within Hong Kong. It also engaged in the production and sale of ready mixed mortars.

On 4th December, 2007, the board of directors of the Company proposed that a distribution in specie be made to the shareholders of the Company, being shares in CRM on the basis of 180 shares in CRM for every 100 shares held in the Company, a total of 5,091,900,165 shares in CRM were distributed (comprising 1,984,967,848 shares in CRM held by the Company and 3,106,932,317 CRM shares issued to the Company as consideration under the conditional agreement with CRM). CRM will cease to be a subsidiary of the Company and the accounts of CRM will no longer be consolidated into the financial statements of the Company once the distribution described above has been effected, and with the exception of the Tai Po 4 inch wafer fab which will be sold and/or closed down, the Company will cease to be engaged in the Semiconductor Business and will instead be engaged in the supply of ready mixed concrete and related products to the Hong Kong and Macau markets and will maintain its listing on the Stock Exchange. After the completion of the disposal of the semiconductor interests of the Company and the acquisition of Redland Concrete by the Company in March 2008, five Directors (comprising three executive Directors and two non-executive Directors) resigned and two additional Directors (comprising one executive Director and one non-executive Director) were appointed by the Company. It is currently intended that due to internal restructuring, one executive Director and one non-executive Director will resign following the completion of the Transactions. As a result of the reduction of the total number of Directors, the aggregate remuneration payable to and benefits in kind receivable by the Company (excluding the aggregate remuneration payable to and benefits in kind receivable by the Company to the Proposed Directors) is therefore expected to decrease from approximately HK$8,421,000 for the year ended 31 December 2007 to approximately HK$4,288,000 for the year ending 31 December 2008.

The above transactions have been completed on 5th March, 2008 upon obtaining necessary shareholders' approval and the fulfilment of all necessary conditions.

Acquisition of CR Gas

On 21st August, 2008, the Company entered into a share purchase agreement with China Resources Holdings to conditionally agree to acquire the entire issued share capital of CR Gas, a wholly owned subsidiary of China Resources Holdings, for a consideration of HK$3,814.8 million (the "Acquisition"). The Acquisition is subject to the approval of the independent shareholders of the Company at a special general meeting to be held on or around 29th, September, 2008.

In order to finance the Acquisition, the Company proposed to raise approximately HK$3,869.8 million before expenses by way of the rights issue of no less than 1,131,533,368 rights shares at a subscription price of HK$3.42 per rights share on the basis of four rights shares for every one existing share held on the record date. The rights issue is fully underwritten by Splendid Time Investments Inc., a wholly owned subsidiary of China Resources Holdings, and is conditional upon the fulfillment of the conditions set out in the underwriting agreement and the approval by the Company's independent shareholders.

The Company believes that the latest proposed acquisition of CR Gas, if approved by its shareholders, will provide a solid platform for the Company to tap into the burgeoning city gas distribution business in the PRC thereby enhancing the long term return of the shareholders. The name of the Company, if approved by its shareholders, will also be changed to China Resources Gas Group Limited to reflect its primary focus on the new city gas distribution business.

GOING CONCERN

On the basis of current financial projections and facilities available, the Group has adequate financial resources to continue its operation for the foreseeable future. For this reason, the going concern basis continues to be adopted in preparing the consolidated financial statements.

SHARE OPTION SCHEME

On 26th November, 2001, the Company has terminated the share option scheme of the Company adopted on 15th October, 1994 (the "Old Share Option Scheme") and adopted a new share option scheme (the "New Share Option Scheme") as a result of changes in Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange in relation to share option scheme. On 21st February, 2002, upon approval of its shareholders, the Company amended the New Share Option Scheme to widen the scope of participants that are eligible to participate in the New Share Option Scheme. On 5th March, 2008, the Company has terminated the New Share Option Scheme of the Company adopted on 26th November, 2001 (and subsequently amended on 21st February, 2002).

On 16th January, 2008, the Company despatched an offer letter to all holders of unexercised options issued under the Old Share Option Scheme and New Share Option Scheme for the cancellation of their options in exchange for shares in CRM (the "Option Cancellation Offer Letter"). On 14th February, 2008, the Company received acceptance of the cancellation of options from the optionholders in respect of a total of 53,373,000 options; and that a total of 46,707,693 CRM shares were allotted and issued on 6th March, 2008 to the relevant accepting optionholders pursuant to the terms of the Option Cancellation Offer Letter. After the cancellation of the 53,373,000 options, there were a total of 2,660,000 outstanding options.

There were a total of 2,120,000 outstanding options on 6th March, 2008. The number of shares issuable on the exercise of the options and the relevant exercise prices per share were adjusted pursuant to the New Share Option Scheme as a result of the consolidation of the share capital of the Company on the basis of every ten shares in the issued and unissued share capital respectively of the Company of HK$0.01 each were consolidated into one share of HK$0.10 each on 7th March, 2008.

A summary showing the Old Share Option Scheme and the New Share Option Scheme and their respective movements during the period are detailed in the Additional Information.

REWARD FOR EMPLOYEES

As at 30th June 2008, the Group employs approximately 180 employees in Hong Kong and the PRC. The Group values human resources and recognizes the importance of attracting and retaining quality staff for its continual success. Staff bonus and share options are granted to certain employees basing on individual performance. The Group believes this will assist the Group to attract and retain quality staff and at the same time encourage the employees to give their best performance.

2. For the year ended 31 December 2007

BUSINESS REVIEW

The Group's Semiconductor Business has continued to improve its performance during 2007 with consolidated revenue hitting HK$3,017 million, representing an increase of 45% over the previous year's HK$2,087 million. This provided the Group with a solid foundation to further tap into the huge and expanding semiconductor market in the PRC.

The performance of the Group's Compressor Business for the year was less than satisfactory due to excess production capacity in the industry and rising raw material costs. This business was sold in August 2007 generating a gain on disposal of HK$62 million.

Semiconductor Business

Since the IC's produced by Group's Semiconductor Business have relatively longer product life cycle and belong to the mature technology IC market segment targeting the PRC market, they are relatively immune to volatile price fluctuations found in high end market segments meant for global markets and thus contribute to the Semiconductor Business's stable gross profit margin. The Group will continuously enhance its technical expertise to produce higher value-added products within this stable-price yet high-growth IC market segment in the PRC. The Group will diligently apply its successful business model of using mature technology and hence relatively low capital expenditure in tapping profitably into the growing PRC's analogue IC and discrete device market.

The turnover of the Semiconductor Business increased to HK$3,017 million for the year ended 31st December, 2007 from the HK$2,087 million recorded in previous year, an increase of 45%. The increase in turnover was mainly due to the turnover contribution from the semiconductor open foundry and discrete device operations. The gross profit margin for the year was 27%, compared to 29% of previous year. Gross margin is expected to improve further in 2008 when the captive foundry and testing & packaging operations are further ramped up. The Semiconductor Business achieved an operating profit of HK$325 million for the year ended 31st December, 2007 (2006: HK$250 million), an increase of 30%.

The Group is one of the largest players in the PRC semiconductor industry and the Group's Semiconductor Business includes:

IC Design Operation

Wuxi China Resources Semico Co., Ltd., one of the leading PRC fabless design houses in terms of technology and scale, uses digital and mixed-signal technologies to design and develop semiconductor IC products such as MCU and audio and video processing SoC applied in consumer electronics such as television, hi-fi, DVD and MP3 players, game consoles, telecommunication devices, voice synthesisers, etc.

CR PowTech (Shanghai) Limited and InPower Semiconductor (WuXi) Co., Ltd. are engaged in the development and design of power management IC and high power discrete devices, which have very promising market prospects and will contribute positively to the growth of the design operations.

Foundry Operation

CSMC Technologies Corporation is currently the largest 6-inch open foundry operator in the PRC. The current total production capacity of 6 inch wafer of the Group has attained a significant scale of 80,000 wafers per month. The Group has three 6 inch wafer fabrication lines in total, with a production capacity of over 100,000 6-inch wafers per month and 0.35rm capability, providing various technical platforms such as MOS, bipolar and BICMOS and DMOS for customers. In future, the Group will focus on transforming its 6-inch open foundry operation into analogue foundry to achieve higher value-added operations.

IC Testing & Packaging Operation

The Group formed a joint venture called Wuxi CR Micro-Assemb Tech. Ltd., with STATS ChipPAC Ltd., a leading global IC assembly and testing foundry operator. The joint venture, one of the key enterprises focused in IC testing and packaging foundry operations in the PRC, mainly provided IC assembly and testing foundry services for internationally well-known semiconductor enterprises with its leading wire bond packaging testing technology in the PRC and a packaging capacity of 2.5 billion wires per month. The Company holds 75% equity interest of the joint venture.

Semicon Microelectronics (Shen Zhen) Co., Ltd. has become the largest wafer test open foundry operator in the PRC to support the Group's IC testing and packaging operation.

Discrete Device Manufacturing Operation

Wuxi China Resources Huajing Microelectronics Co., Ltd. is a leader in the development and manufacture of power semiconductor discrete devices in the PRC. With an annual capacity of 1.5 million 4-6 inch wafers for discrete devices, this company is a major supplier of discrete device wafers and finished products in the PRC. China Resources Semiconductor Company Limited, established by the Group in Hong Kong, is a major supplier of the phototransistor products in the PRC. The above discrete device products developed by the Company are applied in promising sectors including energy saving lightings, home appliances, industrial control devices and personal computers.

Compressor Business

The PRC residential air-conditioner compressor market has softened in recent years with the increase in industry capacity in the PRC. This situation is further aggravated by the increase in cost of raw materials. The Compress Business was sold in August 2007 generating a gain on disposal of HK$62 million.

Up to its disposal date, turnover of the Compressor Business amounted to HK$1,247 million, which represents a decrease of 9% from the HK$1,364 million turnover in 2006. Due to continued increase in raw material costs, gross profit margin deteriorated from 18% of previous year to 15%. Its operating margin was 5% (2006: 8%). An operating profit of HK$59 million was achieved during the year, a decrease of 48% over the HK$114 million for 2006.

PROSPECTS

The Semiconductor Business will continue to focus on and benefit from the rapidly increasing demand in the PRC for analogue IC's. The acquisition of a leading PRC semiconductor enterprise in 2002 and its subsequent successful restructuring and integration, provided the Group with a solid Chinese manufacturing platform. To further strengthen its semiconductor manufacturing platform and enhance its future competitiveness, the Company entered into a joint venture agreement in June, 2006 with STATS ChipPAC Ltd., one of the world's leading IC assembly and testing foundry service providers, to expand its test and assembly business.

The Group's fabless design operations are leading IC design houses in the PRC and have significantly increased its analogue IC's product portfolio during the year as well as enhancing their design capabilities. The Group has recruited high caliber semiconductor design experts from the United States in recent years and will continue to recruit overseas trained semiconductor experts to enhance the continuous development of its IC and discrete device design and manufacturing capabilities.

The restructuring, funding and the invitation of strategic partners carried out by the Group's open foundry associated company, CSMC and its subsequent listing on the HK Stock Exchange in 2004, paved the way for the rapid expansion of the Group's foundry business. The Group acquired a controlling interest in CSMC in July 2006 and this catapulted the Group into one of the largest semiconductor foundries in the PRC.

The Group has become the market leader in the mature technology IC market segment of the PRC with dominant positions in manufacturing and packaging analogue IC's and discrete devices; operating fabless design house as well as providing open foundry service technology.

The Semiconductor Businesses of the Company and its subsidiary, CSMC Technologies Corporation, were amalgamated to form China Resources Microelectronics Limited in March 2008. The new amalgamated China Resources Microelectronics Limited will continue to expand its Semiconductor Business by organic growth, external acquisitions and by exploring the forming of strategic partnerships with both overseas and Chinese enterprises.

In March 2008, the Group acquired the entire issued voting share capital of Redland Concrete Limited, which is principally engaged in the production and sale of ready mixed concrete in Hong Kong.

The disposal of the Compressor and Semiconductor Businesses and the acquisition of Redland Concrete Limited transform the Group into a major ready mixed concrete supplier. With the continued recovery of the local property market and steady growth in construction projects in Hong Kong, the performance of the newly acquired business is expected to improve further. The Group repositions itself as a major supplier of ready mixed concrete for Hong Kong's construction and civil engineering industry and aspires to extend this role to the entire PRC in the future.

FINANCIAL REVIEW

Cash Flow

The net cash inflow from operations during the year amounted to HK$446 million which was 21% lower than that of the previous year.

The Group has spent HK$939 million in capital expenditure during the year of which 99% and 1% respectively were used to fund the expansion and upgrading of existing production facilities of the Semiconductor Business and Compressor Business. The above required funding was financed by the operating cash flow, bank borrowings and cash on hand of the Group. As at year end the Group's free cash on hand was HK$868 million representing an increase of HK$347 million or 67% against that at last year end. Among the cash balance 24% and 66% were denominated in Renminbi and Hong Kong dollar respectively and the remaining in Japanese Yen and US dollar.

Liquidity and Financial Resources

It is the Group's policy to use the cash flow generated from operations and appropriate level of borrowings as the principal source of fund to finance major expansion and acquisition. As at the end of the year, the Group has total borrowings of HK$1,858 million which represents a decrease of 17% from that of last year end. 37% of the borrowings are considered as current liabilities and repayable within one year, the remaining are repayable in five years. Renminbi and HK dollar denominated borrowings accounted for 20% and 63% of the total borrowings respectively with the rest denominated in US dollar. Bank loans of HK$76 million was secured by assets of the Group. 90% of borrowings are interest bearing bank loans on floating rate terms.

The net borrowings of the Group was HK$990 million as at the year end. The gearing ratio of the Group at the end of the year, calculated as net borrowings over total equity, was 28%, compared to 45% as of last year end. The current ratio (ratio of current assets to current liabilities) was maintained at the healthy level of 1.3. On the whole, the financial position and liquidity of the Group is healthy and stable.

The Group has been granted HK$1,300 million revolving credit and term loan facilities with maturity in 2012 as well as HK$2,343 million other banking facilities. The facilities are unsecured and with floating interest rates. As at the end of the year, 48% of the total facilities has been drawn down. The facility together with healthy operating cash flow will provide sufficient funding for foreseeable expansion and working capital requirement. Other than the above mentioned committed facilities, the Group has no other committed borrowing facilities.

Charge of Assets

As at 31st December, 2007, certain Group's assets with carrying values of HK$26 million were pledged with banks to secure bank borrowings, letter of credits and employees' mortgage loans.

Contingent Liabilities

As at 31st December, 2007, the Group provided guarantees of HK$4 million on mortgage loans for employees of a subsidiary.

Financial Management and Treasury Policy

The financial risk management of the Group is the responsibility of the Group's treasury function at the head office in Hong Kong. One of the major objectives of the Group's treasury policies is to manage its exposure to fluctuation in interest rates and foreign currency exchange rates. It is the Group's policy not to engage in speculative activities.

Most of the Group's assets and liabilities are denominated in Hong Kong dollar and Renminbi with some payables denominated in Japanese Yen and US dollar. The Group does not expect significant exposure to foreign exchange fluctuations in this regard.

Capital Structure

As at the end of the year the shareholders' fund of the Group was HK$3,052 million, representing an increase of HK$297 million or 11% compared to that of last year end. During the year, HK$28 million and HK$28 million were paid to shareholders of the Company as final dividend for the year 2006 and interim dividend for the year 2007 respectively.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

Disposal of the Compressor Business

The Group disposed of its Compressor Business in August, 2007 to its holding company, CRH. The disposal consideration was HK$1,170,000,000 which represents approximately 20 times the attributable unaudited consolidated after tax net profit of the Compressor Business for the year ended 31st December, 2006 and some 10 percent premium over the attributable unaudited consolidated net asset value of the Compressor Business as at 31st December, 2006.

Amalgamation of the Semiconductor Interests

On 4th December, 2007, the Company entered into a conditional agreement with CSMC for the sale of the Semiconductor Business of the Group, being all its semiconductor operations other than China Resources Semiconductor Company Limited which operates a 4 inch wafer fab in Tai Po, Hong Kong, for a consideration of approximately of HK$1,488,900,000 which has been satisfied by the issue of 3,106,932,317 new shares in CSMC to the Company. The disposal consideration represents the aggregate net asset value of the Semiconductor Business being acquired based on its management accounts as at 30th June, 2007 adjusted for the payment of a dividend of approximately HK$474.4 million.

On 4th December, 2007, the Company also entered into a conditional agreement with China Resources Concrete Limited, a subsidiary of CRH, the substantial and controlling shareholder of the Company, for the purchase of the entire issued voting share capital of Redland Concrete Limited for a cash consideration of HK$217,757,665. The consideration was determined by referencing to the consolidated net asset value of Redland Concrete Limited as at 31st October, 2007 and its financial results in recent years. Redland Concrete Limited is principally engaged in the production and sale of ready mixed concrete within Hong Kong. It also engaged in the production and sale of ready mixed mortars.

On 4th December, 2007, the board of directors of the Company proposed that a distribution in specie be made to the shareholders of the Company, being shares in CSMC on the basis of 180 shares in CSMC for every 100 shares held in the Company, a total of 5,091,900,165 shares in CSMC were distributed (comprising 1,984,967,848 shares in CSMC held by the Company and 3,106,932,317 CSMC shares issued to the Company as consideration under the conditional agreement with CSMC). CSMC will cease to be a subsidiary of the Company and the accounts of CSMC will no longer be consolidated into the financial statements of the Company once the distribution described above has been effected, and with the exception of the Tai Po 4 inch wafer fab which will be sold and/or closed down, the Company will cease to be engaged in the Semiconductor Business and will instead be engaged primarily in the supply of ready mixed concrete and related products to the Hong Kong and Macau markets and will maintain its listing on the HK Stock Exchange.

The above transactions have been completed on 5th March, 2008 upon obtaining necessary Shareholders' approval and the fulfilment of all necessary conditions.

GOING CONCERN

On the basis of current financial projections and facilities available, the Group has adequate financial resources to continue its operation for the foreseeable future. For this reason, the going concern basis continues to be adopted in preparing the consolidated financial statements.

SHARE OPTION SCHEME

On 26th November, 2001, the Company has terminated the share option scheme of the Company adopted on 15th October, 1994 (the "Old Share Option Scheme") and adopted a new share option scheme (the "New Share Option Scheme") as a result of changes in Rules Governing the Listing of Securities (the "Listing Rules") on the HK Stock Exchange in relation to share option scheme. On 21st February, 2002, upon approval of its shareholders, the Company amended the New Share Option Scheme to widen the scope of participants that are eligible to participate in the New Share Option Scheme. On 5th March, 2008, the Company has terminated the New Share Option Scheme of the Company adopted on 26th November, 2001 (and subsequently amended on 21st February, 2002).

On 16th January, 2008, the Company despatched an offer letter to all holders of unexercised options issued under the Old Share Option Scheme and New Share Option Scheme for the cancellation of their options in exchange for shares in CSMC (the "Option Cancellation Offer Letter"). On 14th February, 2008, the Company received acceptance of the cancellation of options from the optionholders in respect of a total of 53,373,000 options; and that a total of 46,707,693 CSMC shares were allotted and issued on 6th March, 2008 to the relevant accepting optionsholders pursuant to the terms of the Option Cancellation Offer Letter. After the cancellation of the 53,373,000 options, there were a total of 2,660,000 outstanding options.

A summary showing the Old Share Option Scheme and the New Share Option Scheme and their respective movements during the year are detailed in the Directors' Report and in Note 32 to the consolidated financial statements.

REWARD FOR EMPLOYEES

As at 31st December, 2007, the Group employs approximately 7,575 employees in Hong Kong and the PRC. The Group values human resources and recognizes the importance of attracting and retaining quality staff for its continual success. Staff bonus and share options are granted to certain employees basing on individual performance. The Group believes this will assist the Group to attract and retain quality staff and at the same time encourage the employees to give their best performance.

3. For the year ended 31 December 2006

BUSINESS REVIEW

The Group's Semiconductor Business has continued to improve its performance during 2006 with consolidated revenue hitting HK$2,087 million, the joint venture with STATS ChipPAC Ltd. and the acquisition of the majority interests of CSMC during the year further provided the Group with a solid strengthened platform to tap into the huge and expanding semiconductor market in the PRC.

The Group's Compressor Business did not perform as well as expected due to excess production capacity in the industry and rising raw material costs. However, with expansion successfully carried out, the Compressor Business has transformed from a leading PRC air-conditioner compressor supplier to become a major global supplier and is poised to reap rewards once the excess production capacity situation reverses in the near future.

Semiconductor Business

At present, the domestic semiconductor industry satisfies only approximately 20% of the total demand for IC's and discrete devices in the PRC, which has been growing rapidly in recent years and is expected to do so for the foreseeable future. This represents an excellent market environment for the expansion of the Group's Semiconductor Business. Since the IC's produced by Group's Semiconductor Business have relatively longer product life cycle and belong to the mature technology IC market segment targeting the PRC market, they are relatively immune to volatile price fluctuations found in high end market segments meant for global markets and thus contribute to the Semiconductor Business's stable gross profit margin. The Group will continuously enhance its technical expertise to produce higher value-added products within this stable-price yet high-growth IC market segment in the PRC. The Group will diligently apply its successful business model of using mature technology and hence relatively low capital expenditure in tapping profitably into the growing PRC's IC and discrete device market.

The turnover of the Semiconductor Business increased to HK$2,087 million for the year ended 31st December, 2006 from the HK$1,430 million recorded in previous year, an increase of 46%. The gross profit margin for the year was 29% compared to 22% of previous year. The increase in gross profit margin were mainly due to the adjustment and improvement in product mix, increase in production utilization rate and the effect of revision in useful lives of certain manufacturing equipment. Gross margin is expected to improve further when these operations are further ramped up in 2007. The Semiconductor Business achieved an operating profit of HK$250 million for the year ended 31st December, 2006 compared with HK$153 million during the same period in 2005, an increase of 63%.

The Group is one of the largest players in the PRC semiconductor industry and the Group's Semiconductor Business includes:

IC Design Operation

Wuxi China Resources Semico Co., Ltd., one of the leading PRC fabless design houses in terms of technology and scale, uses digital and mixed-signal technologies to design and develop semiconductor IC products such as MCU and audio and video processing SoC applied in consumer electronics such as television, hi-fi, DVD and MP3 players, game consoles, telecommunication devices, voice synthesisers, etc.

The recently established CR PowTech (Shanghai) Limited and InPower Semiconductor (WuXi) Co., Ltd. are engaged in the development and design of power management IC and IGBT devices, which have very promising market prospects. These two types of products have been launched since the second half of 2006, and the Company believes that the products will contribute positively to the growth of the design operations.

Foundry Operation

CSMC is currently the largest 6-inch open foundry operator in the PRC. Together with the ramping up production of a 6 inch wafer fabrication line newly invested by the Group in 2004, the current total production capacity of 6 inch wafer of the Group has attained significant scale. The Company has three 6 inch wafer fabrication lines in total, with a production capacity of over 100,000 6-inch wafers per month and 0.35 m capability, providing various technical platforms such as MOS, bipolar and BICMOS and DMOS for customers. In future, the Group will focus on transforming its 6-inch open foundry operation into analogue foundry to achieve higher value-added operations.

IC Testing & Packaging Operation

The Group formed a joint venture called Wuxi CR Micro-Assemb Tech. Ltd., with STATS ChipPAC Ltd., a leading global IC assembly and testing foundry operator. The joint venture, also one of the key enterprises focused in IC testing and packaging foundry operations in the PRC, mainly provided IC assembly and testing foundry services for internationally well-known semiconductor enterprises with its leading wire bond packaging testing technology in the PRC and a packaging capacity of 2.5 billion wires per month. The Company holds 75% equity interest of the joint venture.

Semicon Microelectronics (Shen Zhen) Co., Ltd. has become the largest wafer test open foundry operator in the PRC to support the Group's IC testing and packaging operation.

Discrete Device Manufacturing Operation

Wuxi China Resources Huajing Microelectronics Co., Ltd. is a leader in the development and manufacture of power semiconductor discrete devices in the PRC. With an annual capacity of 1.50 million 4-6 inch wafers for discrete devices, this company is a major supplier of discrete device wafers and finished products in the PRC. China Resources Semiconductor Company Limited, established by the Group in Hong Kong, is a major supplier of the phototransistor products in the PRC. The above discrete device products developed by the Company are applied in promising sectors including energy saving lights, home appliances, industrial control and personal computers.

Compressor Business

The Group's Compressor Business, with Sanyo Electric of Japan as a joint-venture partner, is one of the leading suppliers of residential air-conditioner compressors in the PRC.

The PRC residential air-conditioner compressor market has softened in 2006 with the increase in industry capacity in the PRC during 2006. This situation is further aggravated by the increase in cost of raw materials during the year.

During 2006, turnover amounted to HK$1,364 million, which represents a decrease of 5% over the HK$1,433 million turnover in 2005. Nevertheless, the Compressor Business has continued to make a significant contribution to the Group's operating profit. Its gross and operating margins were 18% and 8% respectively (2005: compared with 30% and 19% for the same period in 2005 respectively). An operating profit of HK$114 million was achieved during the year, a decrease of 59% over the HK$277 million for 2005.

The annual production capacity of the Compressor Business has reached 6 million units with the completion of Phase V Expansion. Once the industry's excess production capacity is digested over the next few years, the Group is well poised to capture the growing demand for the residential air-conditioners in both the PRC and overseas markets, which will continue to be brought about by (i) growing affluence among the Chinese population, (ii) low penetration rate of residential air-conditioners in the PRC, and (iii) global climate warming leading to higher export demand of air-conditioners.

Sanyo Electric increased its equity shareholding in the joint-venture from 13% to 34.25% in 2004. This signified Sanyo Electric's confidence in the joint-venture's past performance and its future business prospect. The Group views the continual enhancement of relationship and co-operation with Sanyo Electric as a key business strategy which will bring long term benefits to the Compressor Business. With production capacity expansion successfully carried out, the Compressor Business has transformed from a leading PRC air-conditioner compressor supplier to become a major global supplier.

PROSPECTS

The Group will continue to expand its Semiconductor Business by organic growth, external acquisitions and by exploring the forming of strategic partnerships with both overseas and Chinese enterprises.

For the Semiconductor Business, the Group will continue to focus on and benefit from the rapidly increasing demand in the PRC for analogue IC's. The acquisition of a leading PRC semiconductor enterprise in 2002 and its subsequent successful restructuring and integration, provided the Group with a solid Chinese manufacturing platform. To further strengthen its semiconductor manufacturing platform and enhance its future competitiveness, the Company entered into a joint venture agreement in June, 2006 with STATS ChipPAC Ltd., one of the world's leading IC assembly and testing foundry service providers, to expand its test and assembly business.

The Group's fabless design operations are leading IC design houses in the PRC and have significantly increased its analogue IC's product portfolio during the year as well as enhancing their design capabilities. The Group has recruited high caliber semiconductor design experts from the United States in recent years and will continue to recruit overseas trained semiconductor experts to enhance the continuous development of its IC and discrete device manufacturing and design capabilities.

The restructuring, funding and the invitation of strategic partners carried out by the Group's open foundry associated company, CSMC and its subsequent listing on the HK Stock Exchange in 2004, paved the way for the rapid expansion of the Group's foundry business. The Group acquired a controlling interest in CSMC in July, 2006 and this catapulted the Group into one of the largest semiconductor entities in the PRC. The Group has become the market leader in the mature technology IC market segment of the PRC with dominant positions in manufacturing and packaging analogue IC's and discrete devices; operating fabless design house as well as providing open foundry service technology.

The Group spent some HK$1,102 million of capital expenditure during 2006 to acquire the majority interests of CSMC and purchase additional semiconductor production equipment. The Group's Semiconductor Business has become the key growth drivers of the Group, providing the

Group with a solid platform to tap into the huge and expanding semiconductor market in the PRC. The Group foresees the revenue contribution from its Semiconductor Business will continue to account for a very significant share of the Group's total revenue in 2007 and thereafter. The Group will strive to continually enhance its technical capability within the consumer IC and discrete device market segment via infusion of talents and forging strategic and technical alliances with foreign partners.

For the Compressor Business, the Group is confident of its long term potential as evidenced by the growth of air-conditioner market in the PRC in recent years and the present low penetration rate of air-conditioners in the PRC. The Group's Compressor Business will strive to enlarge its market share in the PRC to further capture the huge potential demand for residential air-conditioners.

In 2004, the Group's Compressor Business entered into an Equipment Purchase Contract and Technology License Agreements with Sanyo Electric for the purchase of three production lines for the manufacture of 15F and 20F series rotary compressor products for residential and commercial air-conditioners. The arrangement has increased the Group's annual production capacity of compressors to some 6 million units currently.

The arrangement with Sanyo Electric is for the mutual benefit of both the Group's Compressor Business and Sanyo Electric. The increased capacity will enable the Group to capture the business opportunities arising from the growing demand in the PRC. The Group's Compressor Business also acquires new international market, production capacity and technology from Sanyo Electric while Sanyo Electric can further leverage on the production and cost efficiency of the joint venture to enhance its own residential air-conditioner business.

With its capacity increased to 6 million units and production technology further enhanced, the Compressor Business of the Group has become one of the leading global suppliers of residential air-conditioner compressors. Moreover, Sanyo Electric's increased shareholding in the Group's Compressor Business signifies an important gesture of confidence, which reflects Sanyo Electric's long term commitment as a key strategic business partner for the expansion of the Group's Compressor Business in both local and global markets.

It is expected that both the Semiconductor Business and the Compressor Business will continue to contribute positively to the Group's turnover and profitability in 2007 and thereafter.

FINANCIAL REVIEW

Cash Flow

The net cash inflow from operations during the year amounted to HK$607 million which was 16% higher than that of previous year. The increase was mainly due to the increase in the operating profit of the Group's Semiconductor Business.

The Group has spent HK$703 million in capital expenditure during the year of which 90% and 10% respectively were used to fund the expansion and upgrading of existing production facilities of the Semiconductor Business and Compressor Business. The above required funding was financed by the operating cash flow, bank borrowings and cash on hand of the Group. As at the end of the year the Group's free cash on hand was HK$521 million representing an increase of HK$51 million or 11% against that at last year end. Among the cash balance 76% and 7% were denominated in Renminbi and Hong Kong dollar respectively and the remaining in Japanese Yen and US dollar.

Liquidity and Financial Resources

It is the Group's policy to use the cash flow generated from operations and appropriate level of borrowings as the principal source of fund to finance major expansion and acquisition. As at the end of the year, the Group has total borrowings of HK$2,229 million which represents an increase of 63% over that of last year end. The significant increase was due to loan drawdown in the voluntary conditional offer to acquire the majority interests of the issued share capital of CSMC. 77% of the borrowings are considered as current liabilities and repayable within one year, the remaining are repayable in five years. Renminbi and HK dollar denominated borrowings accounted for 16% and 72% of the total borrowings respectively with the rest denominated in US dollar. Bank loans of HK$119 million was secured by assets of the Group. All borrowings are interest bearing bank loans on floating rate terms.

The net borrowings of the Group was HK$1,708 million as at the year end. The gearing ratio of the Group at the end of the year, calculated as net borrowings over total equity, was 45%, compared to 30% as of last year end. The net operating cash flow to interest expense was at the healthy level of 7 times. On the whole, the financial position and liquidity of the Group is healthy and stable.

The Group has been granted HK$1,300 million revolving credit and term loan facilities with maturity in 2007 as well as HK$2,439 million other banking facilities. The facilities are unsecured and with floating interest rates. As at the end of the year, 58% of the total facilities has been drawn down. The facility together with healthy operating cash flow will provide sufficient funding for foreseeable expansion and working capital requirement. Other than the above mentioned committed facilities, the Group has no other committed borrowing facilities.

Charge of Assets

As at 31st December, 2006, certain Group's assets with carrying values of HK$211 million were pledged with banks to secure bank borrowing, letter of credits and employees' mortgage loans.

Contingent Liabilities

As at 31st December 2006, the Group provided guarantees of HK$4 million on mortgage loans for employees of a subsidiary.

Financial Management and Treasury Policy

The financial risk management of the Group is the responsibility of the Group's treasury function at the head office in Hong Kong. One of the major objectives of the Group's treasury policies is to manage its exposure to fluctuation in interest rates and foreign currency exchange rates. It is the Group's policy not to engage in speculative activities.

Most of the Group's assets and liabilities are denominated in Hong Kong dollar and Renminbi with certain items denominated in Japanese Yen and US dollar. The Group does not expect significant exposure to foreign exchange fluctuations in this regard.

Capital Structure

As at the end of the year the shareholders' fund of the Group was HK$2,755 million, representing an increase of HK$358 million or 15% compared to that of last year end. During the year, HK$53 million and HK$28 million were paid to shareholders of the Company as final dividend for the year 2005 and interim dividend for the year 2006 respectively.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

Acquisition of CSMC

On 15th May, 2006, the Group has made a voluntary conditional offer (the "Offer") to acquire all the issued shares in the share capital of CSMC. The Offer became unconditional on 28th June, 2006 whereby the Group has by then obtained valid acceptances representing about 29.8% of the entire issued share capital of CSMC.

The Offer remained open for acceptance up to 12th July, 2006 after it becomes unconditional on 28th June, 2006. Up to and including 12th July, 2006, the Group has obtained a total of about 72.9% (including the shareholding it held before the Offer) of the entire issued share capital of CSMC. The acceptances were satisfied by cash of some HK$452 million and the issue of 93,631,354 new shares of the Company.

The semiconductor market, globally and particularly in the PRC, continues to grow due to the increase in demand for consumer electronic products. Both the Group and CSMC are leveraging this growth with their common strategy of using mature technology (hence lower capital expenditure and costs) to competitively service the rapidly growing IC market. The consolidation of the Group and CSMC would enable both entities to capture the opportunities offered by this rapidly growing business segment and further increase their competitiveness, which are in line with the business strategies of the Group and CSMC. The Group believes that CSMC will make substantial contribution to the Group's turnover and profit in the near future. The acquisition is an important strategic step in the Group's future development and in its plans to become a leading player in the PRC semiconductor industry.

Joint venture with STATS ChipPAC

On 22nd June, 2006, the Company and its subsidiary, Wuxi CR Micro-Assemb Tech. Ltd. ("ANST"), has entered into an Asset Sale and Purchase Agreement with STATS ChipPAC Group ("SCL"), for the purchase of certain assets (the "Assets") so as to enable ANST to increase its production capacity and expand its range of products and services. The consideration is US$35,000,000 with an upfront payment of US$12,000,000. The balance of the consideration is payable by 4 instalments on the last business day of each year from 2007 to 2010. The upfront payment of US$12,000,000 is wholly financed by borrowed funds. The balance of US$23,000,000 will be satisfied partly by internal resources and partly by revenue derived from customers introduced by SCL to ANST.

On 22nd June, 2006, the Company and its wholly owned subsidiary, Wuxi China Resources Microelectronics (Holdings) Limited ("Wuxi CRM") has established a joint venture with SCL. Before the joint venture, Wuxi CRM wholly owns Micro Assembly Technologies Limited ("MAT"), which, in turn, wholly owns ANST. After the establishment of the joint venture, Wuxi CRM holds 75% of the shareholdings in MAT whilst SCL holds 25%. ANST remains wholly owned by MAT.

The total investment made by the Company and SCL is US$30,000,000 and US$10,000,000 respectively and are used for subscription of shares in MAT. The investment by the Company and SCL in MAT was used to increase the registered capital of ANST from RMB100,000,000 to the RMB equivalent of US$40,000,000.

SCL is one of the leading IC assembly and testing foundry provider in the world providing full turnkey solutions for high value added range of IC packaging and testing services. Both SCL and ANST are currently providing IC assembly and testing foundry services to their respective customers in different market segments. With the Assets transfer to ANST and with SCL as a partner and participation in MAT, the joint venture company, ANST will be able to significantly expand its production capacity, upgrade its operation and broaden its customer base with the referral of international customers by SCL. The purchase of the Assets, together with the referral customers by SCL to ANST will enable ANST to benefit from having the ability to meet the booming Chinese IC market requirement as well as demand from overseas customers. Further, these measures will allow ANST to increase significantly its production capacity and business scale, and expand its range of products and service coverage, especially test services which are hitherto not carried out by ANST. It is expected that ANST will contribute significantly to the Group's revenue and profit in the near future.

GOING CONCERN

On the basis of current financial projections and facilities available, the Group has adequate financial resources to continue its operation for the foreseeable future. For this reason, the going concern basis continues to be adopted in preparing the financial statements.

SHARE OPTION SCHEME

On 26th November, 2001, the Company has terminated the share option scheme of the Company adopted on 15th October, 1994 (the "Old Share Option Scheme") and adopted a new share option scheme (the "New Share Option Scheme") as a result of changes in Rules Governing the Listing of Securities (the "Listing Rules") on the HK Stock Exchange in relation to share option scheme. On 21st February, 2002, upon approval of its shareholders, the Company amended the New Share Option Scheme to widen the scope of participants that are eligible to participate in the New Share Option Scheme.

A summary showing the Old Share Option Scheme and the New Share Option Scheme and their respective movements are detailed in the Directors' Report and in Note 33 to the consolidated financial statements.

REWARD FOR EMPLOYEES

As at 31st December, 2006, the Group employs approximately 9,173 employees in Hong Kong and the PRC. The Group values human resources and recognizes the importance of attracting and retaining quality staff for its continual success. Staff bonus and share options are granted to certain employees basing on individual performance. The Group believes this will assist the Group to attract and retain quality staff and at the same time encourage the employees to give their best performance.

4. For the year ended 31 December 2005

FINANCIAL REVIEW

Liquidity and Financial Resources

It is the Group's policy to use the cash flow generated from operations and appropriate level of borrowings as the principal source of fund to finance major expansion and acquisition. As at the end of the year, the Group has total borrowings of HK$1,367 million which was about the same as that of last year end. The net borrowings of the Group was HK$897 million as at the year end.

The gearing ratio of the Group at the end of the year, calculated as net borrowings over total equity, was 30%, compared to 33% as of last year end. The current ratio (ratio of current assets to current liabilities) was maintained at the healthy level of 1.41. The financial position and liquidity of the Group is healthy and stable.

The Group's total borrowings of HK$1,367 million came from two sources namely interest bearing bank loans and other borrowings which are all unsecured. 38% of the borrowings are considered as current liabilities and repayable within one year, the remaining are repayable in two to three years. Renminbi denominated interest bearing bank loans accounted for 14% of the interest bearing bank loans with the rest denominated in HK dollar. All Renminbi interest bearing bank loans are on floating interest rate terms.

The Group has been granted HK$1,300 million revolving credit and term loan facilities with maturity in 2007. The facilities are unsecured and with floating HK dollar interest rates. As at the end of the year, 77% of the facility has been drawn down. The facility together with healthy operating cash flow will provide sufficient funding for foreseeable expansion.

Other loans which accounts for 1% of the Group's total borrowings as at the year end date were all denominated in Renminbi and interest bearing. They are repayable on demand. HK$113 million was repaid during the year.

Other than the above mentioned committed facilities, the Group has no other committed borrowing facilities. For day-to-day liquidity management and maintaining flexibility in funding, the Group has managed to obtain sufficient uncommitted short-term facilities from banks.

Capital Structure

As at the end of the year the shareholders' fund of the Group was HK$2,397 million, representing an increase of HK$449 million or 23% compared to that of last year. During the year HK$93 million was paid to shareholders of the Company as final dividend for the year 2004 and interim dividend for 2005.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

The Group disposed of its Office Furniture Business in December, 2005 to China Resources Holdings. The disposal consideration was HK$183 million which represents approximately 12 times the average after tax net profit of the Office Furniture Business for the years 2003 and 2004 as well as approximately 1.8 times its net tangible asset value as at 31st December 2004.

Other than the above, the Group has not entered into significant investments, acquisitions and disposals agreements during the year, except for the following contract entered into in 2004 and continues during the year.

On 6 July 2004, the Company, through its 63.75% owned subsidiary, China Resources (Shenyang) Sanyo Compressor Co., Ltd. ("**CR Shenyang Sanyo**") entered into an Equipment Purchase Contract with Sanyo Electric and Toyota Tsusho Corporation, for the purchase of 3 compressor production lines ("**Phase V expansion plan**") for a consideration of JPY4,414,860,000 (about HK$319,635,864). HK$140 million and HK$155 million were paid in the year 2004 and the current year respectively. The outstanding commitment is HK$25 million and is payable in full till mid 2006.

REWARD FOR EMPLOYEES

As at 31 December 2005, the Group employs approximately 7,000 employees in Hong Kong and the PRC. The Group values human resources and recognises the importance of attracting and retaining quality staff for its continual success. Staff bonus and share options are granted to certain employees basing on individual performance. The Group believes this will assist the Group to attract and retain quality staff and at the same time encourage the employees to give their best performance.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF REDLAND CONCRETE

Results

The six months ended 30 June 2008 compared to the six months ended 30 June 2007

Redland Concrete's consolidated turnover for the six months ended 30 June 2008 amounted to HK$188 million, representing an increase of 7% from that of 2007. Redland Concrete's gross profit for the six months ended 30 June 2008 was HK$72 million, representing a gross profit margin of 38% as compared with HK$72 million for the six months ended 30 June 2007.

Redland Concrete's profit from operations for the six months ended 30 June 2008 was HK$44 million, representing an operating margin of 24% as compared with HK$30 million for the six months ended 30 June 2007. Redland Concrete's profit attributable to equity holders for the six months ended 30 June 2008 was HK$34 million as compared to HK$24 million during the same period in 2007. The improved result was in line with the continuing recovery of the construction business in Hong Kong.

Year Ended 31 December 2007 Compared to Year Ended 31 December 2006

Redland Concrete's audited consolidated turnover for the year ended 31 December 2007 amounted to HK$367 million, representing an increase of 38% from that of 2006. Redland Concrete's gross profit margin for the year ended 31 December 2007 was 42% which was the same as that for the same period ended 31 December 2006. Redland Concrete's profit from operations for the year ended 31 December 2007 was HK$67 million, representing an operating margin of 18% compared with 14% for the year ended 31 December 2006. Redland Concrete's profit attributable to equity holders for the year ended 31 December 2007 was HK$54 million compared with HK$29 million in 2006. The improved result was in line with the continuing recovery of the construction business in Hong Kong.

Year Ended 31 December 2006 Compared to Year Ended 31 December 2005

Redland Concrete's audited consolidated turnover for the year ended 31 December 2006 amounted to HK$265 million, representing a decrease of 37% from that of 2005, the decrease was due to the disposal of precast products business in 2006. Redland Concrete's gross profit margin for the year ended 31 December 2006 was 42% compared with 22% for the year ended 31 December 2005. Redland Concrete's profit from operations for the year ended 31 December 2006 was HK$37 million, representing an operating margin of 14% compared with a 5% loss for the year ended 31 December 2005. Redland Concrete's profit attributable to equity holders for the year ended 31 December 2006 was HK$29 million compared with a loss of HK$25 million for the year ended 31 December 2005, mainly due to HK$33 million losses of the precast concrete business. The improved result was in line with the continuing recovery of the construction business in Hong Kong.

Dividend

The Directors have resolved not to declare the payment of an interim dividend for the six months ended 30 June 2008.

An interim dividend of HK$10,200,000 per ordinary share amounting to HK$102,000,000 was paid in 2007.

The Directors have resolved not to declare the payment of interim dividend for the six months ended 30 June 2006.

An interim dividend of HK$1,700,000 per ordinary share amounting to HK$17,000,000 was paid in 2005.

The Directors have resolved not to recommend the payment of final dividend for the years ended 31 December 2007, 31 December 2006 and 31 December 2005.

FINANCIAL REVIEW

Cash Flow

The six months ended 30 June 2008 compared to the six months ended 30 June 2007

The net cash inflow from operations during the six months ended 30 June 2008 amounted to HK$61 million and HK$9 million outflow for the six months ended 30 June 2007.

Redland Concrete has incurred HK$0.2 million in capital expenditure during the six months ended 30 June 2008. The above required funding was financed by internal resources. As at 30 June 2008, Redland Concrete's free cash on hand was HK$75 million representing an increase of HK$60 million against that of the previous year end. Among the cash balance 99.9% was denominated in Hong Kong dollar.

Year Ended 31 December 2007 Compared to Year Ended 31 December 2006

The net cash inflow from operations during the year ended 31 December 2007 amounted to HK$105 million (HK$118 million outflow in 2006).

Redland Concrete has incurred HK$5 million in capital expenditure during the year ended 31 December 2007 of which 98% was used for the purchase of a vessel for transportation of cement. The above required funding was financed by internal resources. As at 31 December 2007 Redland Concrete's free cash on hand was HK$16 million representing a decrease of HK$7 million against that of the previous year end. Among the cash balance 99.9% was denominated in Hong Kong dollar.

Year Ended 31 December 2006 Compared to Year Ended 31 December 2005

The net cash outflow from operations during the year ended 31 December 2006 amounted to HK$118 million as compared with HK$29 million inflow in 2005.

Redland Concrete has incurred HK$0.2 million in capital expenditure during the year ended 31 December 2006. The above required funding was financed by internal resources. As at 31 December 2006 Redland Concrete's free cash on hand was HK$23 million representing an decrease of HK$8 million against that of the previous year end. Among the cash balance 99.9% was denominated in Hong Kong dollar.

Liquidity and Financial Resources

The six months ended 30 June 2008 compared to the six months ended 30 June 2007

As at 30 June 2008, Redland Concrete has banking credit facilities amounted to HK$5 million but has no borrowing. The current ratio (ratio of current assets to current liabilities) was maintained at the level of 2.2. On the whole, the financial position and liquidity of Redland Concrete is maintained at a healthy level.

Year Ended 31 December 2007 Compared to Year Ended 31 December 2006

As at 31 December 2007, Redland Concrete has banking credit facilities amounted to HK$5 million but has no borrowing. The current ratio (ratio of current assets to current liabilities) was maintained at the level of 1.5. On the whole, the financial position and liquidity of Redland Concrete is maintained at a healthy level.

Year Ended 31 December 2006 Compared to Year Ended 31 December 2005

As at 31 December 2006, Redland Concrete has banking credit facilities amounted to HK$5 million but has no borrowing. As at 31 December 2005, Redland Concrete has total borrowing (trust receipts loan) of HK$17 million contributed from its wholly-owned subsidiary Redland Precast Concrete Products Ltd which was subsequently disposed in 2006. The current ratio (ratio of current assets to current liabilities) was maintained at the level of 2.9. On the whole, the financial position and liquidity of Redland Concrete is maintained at a healthy level.

Charge of Assets

For the six months ended 30 June 2008

As at 30 June 2008, Redland Concrete had no charge against any asset.

Year Ended 31 December 2007 Compared to Year Ended 31 December 2006

As at 31 December 2007, Redland Concrete had no charge against any asset as compared to an amount of HK$18.7 million which has been charged to banks as at 31 December 2006.

Year Ended 31 December 2006 Compared to Year Ended 31 December 2005

As at 31 December 2006, certain Redland Concrete's assets with carrying values of HK$18.7 million were pledged with banks to secure credit facilities as compared to HK$19.2 million in the same period for the year ended 31 December 2005.

Contingent Liabilities

For the six months ended 30 June 2008

Redland Concrete did not have any material contingent liabilities as at 30 June 2008.

Year Ended 31 December 2007 Compared to Year Ended 31 December 2006

Redland Concrete did not have any material contingent liabilities as at 31 December 2007 and 31 December 2006.

Year Ended 31 December 2006 Compared to Year Ended 31 December 2005

Redland Concrete did not have any material contingent liabilities as at 31 December 2006. As at 31 December 2005, Redland Concrete incurred an amount of HK$39,899 in relation to guarantees given to financial institutions to facilitate hire purchase loans granted to its sub-contractors for the acquisition of trucks.

FINANCIAL RISK MANAGEMENT

Foreign Currency Exchange Risk

The majority of assets and liabilities of Redland Concrete are denominated in Hong Kong dollars and therefore has limited exposure to foreign exchange risk.

Interest Rate Risk

The banking facility of Redland Concrete is principally on floating rate basis. In light of the net cash position and no bank indebtedness as at 30 June 2008, its exposure to interest rate fluctuation is minimal.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

Redland Concrete did not make any significant investments, acquisitions and disposals during the six months ended 30 June 2008 and the year ended 31 December 2007.

During the year ended 31 December 2006, Redland Concrete disposed of the entire issued share capital of Redland Precast Concrete Products Limited.

Redland Concrete did not make any significant investments, acquisitions and disposals during the year ended 31 December 2005.

Redland Concrete currently intends to replace 15 of its mixer trucks and enhance its computer system in 2009 which would amount to approximately HK$26 million which will be funded by internal resources.

EMPLOYEES' REMUNERATION

As at 30 June 2008, the Redland Concrete Group employed approximately 136 employees in Hong Kong as compared with 135 as at 31 December 2007, 134 as at 31 December 2006 and 1,103 as at 31 December 2005. All employees are remunerated based on industry practice and in accordance with the prevailing employment law. In Hong Kong, apart from basic salary, staff benefits include medical insurance, performance related bonuses and mandatory provident fund would be provided by the Redland Concrete Group.

PROSPECTS

Given the improved performance of Redland Concrete in recent years and the prospect of robust infrastructure and construction activities expected over the coming years under the Hong Kong Government's major infrastructure initiatives, Redland Concrete is confident to continue to perform well in the Hong Kong construction material industry.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts not contained herein the omission of which would make any statement contained in this circular misleading.

2. INFORMATION ABOUT THE ISSUE SHARES

	Number of Shares	*Amount (HK$)*
Authorised:		
Ordinary shares of HK$0.1 each	10,000,000,000	1,000,000,000.00
Issued and fully paid:		
Ordinary shares of HK$0.1 each	282,883,342	28,288,334.20

3. MORTGAGES AND CHARGES OF THE COMPANY

As at the Latest Practicable Date, a bank deposit of HK$740,000 was pledged to a bank for issuing a guarantee for utility usage.

4. TOTAL AMOUNT OF ANY CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at the Latest Practicable Date.

5. SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

(a) As at the Latest Practicable Date, so far as was known to the Directors and the chief executive of the Company and according to the register of interest kept by the Company under section 336 of the SFO, the parties (other than a Director or chief executive of the Company) which had interests or short positions in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any members of the Enlarged Group were as follows:

(i) **Interests in the Shares:**

Name of shareholder	**Number of shares**	**Nature of Interests**	**Percentage of shares held (%)**
Gold Touch	29,722,960 *(Note)*	Beneficial	10.51%
Waterside	53,534,774 *(Note)*	Beneficial	18.92%

Name of shareholder	Number of shares	Nature of Interests	Percentage of shares held (%)
Splendid Time	110,968,881 *(Note)*	Beneficial	39.23%
China Resources Holdings	483,600 *(Note)*	Beneficial	0.17%
China Resources Holdings	194,226,615 *(Note)*	Interest of Controlled Corporation	68.66%
CRC Bluesky	194,710,215 *(Note)*	Interest of Controlled Corporation	68.83%
CRCL	194,710,215 *(Note)*	Interest of Controlled Corporation	68.83%
CRN	194,710,215 *(Note)*	Interest of Controlled Corporation	68.83%

Note:

* Gold Touch, Waterside and Splendid Time each directly holds 29,722,960 Shares, 53,534,774 Shares and 110,968,881 Shares respectively in the Company. Gold Touch, Waterside and Splendid Time are wholly-owned subsidiaries of China Resources Holdings, which is therefore deemed to interested in 194,226,615 Shares of the Company under Part XV of the SFO. In addition, China Resources Holdings directly holds 483,600 Shares in the Company. China Resources Holdings is a wholly-owned subsidiary of CRC Bluesky. CRC Bluesky is a wholly-owned subsidiary of CRCL which in turn is 99.98% owned by CRN. CRC Bluesky, CRCL and CRN are all therefore deemed to be interested in 194,710,215 Shares of the Company under Part XV of the SFO.

(ii) **Substantial shareholders of other members of the Enlarged Group:**

So far as was known to the Directors and chief executive of the Company, as at the Latest Practicable Date, the following persons, were, directly or indirectly, interested in 10% or more of the share capital carrying rights to vote at general meetings of the following members of the Enlarged Group:

Member of the Enlarged Group	Name of substantial shareholder	Percentage of shares held (%)
Nanjing Gas	Nanjing City Construction Investment Holdings (Group) Company Limited (南京市城市建設投資控股(集團)有限責任公司)	10%

Member of the Enlarged Group	Name of substantial shareholder	Percentage of shares held (%)
Fuyang Gas	Fuyang City Construction Investment Company Limited (富陽市城市建設投資有限公司)	50%
Suzhou Gas	Suzhou City Huqiu District State-owned (Collective) Asset Management Limited (蘇州市虎丘區國有(集體)資產經營公司)	30%
Huaibei Gas	Huaibei City Utilities Asset Management Company Limited (淮北市公用事業資產運營有限公司)	40%

(b) Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person who had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who were recorded in the register required to be kept by the Company under section 336 of the SFO.

6. DIRECTORS' AND PROPOSED DIRECTORS' INTERESTS IN SECURITIES

So far as was known to the Directors and the chief executive of the Company, as at the Latest Practicable Date, the interests and/or short positions of the Directors and Proposed Directors in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or were required pursuant to section 352 of the SFO to be entered in the register referred to therein; or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

(a) Interests in issued ordinary shares and underlying shares of the Company

Name of Director/ Proposed Director	Capacity	Long or short position	Number of shares	Number of share options[1]	Aggregate percentage of interest[2]
Mr. Zhou Longshan	Beneficial owner	Long position	6,000	—	0.0021%
Mr. Li Fuzuo	Beneficial owner	Long position	51,000	—	0.0180%
Mr. Du Wenmin	Beneficial owner	Long position	54,000	—	0.0191%
Mr. Wong Tak Shing	Beneficial owner	Long position	40,000	—	0.0141%

Notes:

1. This refers to the number of underlying shares of the Company covered by its share option schemes.

2. This represents the percentage of aggregate long position in ordinary shares and underlying shares of the Company to the total issued share capital of the Company as at the Latest Practicable Date.

(b) **Interests in issued ordinary shares and underlying shares of China Resources Enterprise, Limited ("CRE"), an associated corporation of the Company**

Name of Director/ Proposed Director	Capacity	Long or short position	Number of shares	Number of share options[1]	Exercise price per share (HK$)	Date of grant	Aggregate percentage of interest[2]
Mr. Ong Thiam Kin	Beneficial owner	Long position	50,000	—	—	—	0.0021%
Mr. Jiang Wei	Beneficial owner	Long position	240,000	—	—	—	0.0100%
Mr. Du Wenmin	Beneficial owner	Long position	100,000	—	—	—	0.0042%
Mr. Wang Chuandong	Beneficial owner	Long position	—	100,000[3]	9.72	13 January 2004	0.0251%
	Beneficial owner	Long position	—	500,000[4]	10.35	4 October 2004	

Notes:

1. This refers to the number of underlying shares of CRE covered by its share option schemes.

2. This represents the percentage of aggregate long position in ordinary shares and underlying shares of CRE to the total issued share capital of CRE as at the Latest Practicable Date.

3. The share options are exercisable during the period from 1 January 2007 to 13 January 2014.

4. The share options are exercisable within a period of 10 years from the date of grant.

5. In each case, HK$1.00 is payable upon acceptance of the share options granted.

(c) Interests in issued ordinary shares and underlying shares of China Resources Power Holdings Company Limited ("CRP"), an associated corporation of the Company

Name of Director/ Proposed Director	Capacity	Long or short position	Number of shares	Number of share options[1]	Exercise price per share (HK$)	Date of grant	Aggregate percentage of interest[2]
Mr. Ong Thiam Kin	Beneficial owner	Long position	100,000	50,000[3]	2.80	12 November 2003	0.0041%
Mr. Jiang Wei	Beneficial owner	Long position	1,040,000	200,000[3]	2.80	12 November 2003	0.0382%
	Beneficial owner	Long position	—	360,000[5]	3.99	18 March 2005	
Mr. Li Fuzuo	Beneficial owner	Long position	480,000	90,000[3]	2.80	12 November 2003	0.0179%
	Beneficial owner	Long position	—	180,000[5]	3.99	18 March 2005	
Mr. Du Wenmin	Beneficial owner	Long position	270,000	180,000[4]	2.80	12 November 2003	0.0108%
Mr. Ma Guoan	Interest of spouse	Long position	20,000	—	—	—	0.0005%
Mr. Wang Chuandong	Beneficial owner	Long position	—	100,000[6]	2.80	6 October 2003	0.0024%
Mr. Wei Bin	Beneficial owner	Long position	—	110,000[6]	2.80	6 October 2003	0.0026%

Notes:

1. This refers to the number of underlying shares of CRP covered by its share option scheme.

2. This represents the percentage of aggregate long position in ordinary shares and underlying shares of CRP to the total issued share capital of CRP as at the Latest Practicable Date.

3. The share options are exercisable during the period from 6 October 2007 to 5 October 2013.

4. The share options are exercisable in 2 tranches, from 6 October 2007 and 2008 to 5 October 2013.

5. The share options are exercisable in 3 tranches, from 18 March 2008, 2009 and 2010 to 17 March 2015.

6. The share options are exercisable in 5 tranches, from 6 October 2004, 2005, 2006, 2007 and 2008 to 5 October 2013.

7. In each case, HK$1.00 is payable upon acceptance of the share options granted.

(d) **Interests in issued ordinary shares and underlying shares of China Resources Land Limited ("CR Land"), an associated corporation of the Company**

Name of Director/ Proposed Director	Capcaity	Long or short position	Number of shares	Number of share options[1]	Exercise price per share (HK$)	Date of grant	Aggregate percentage of interest[2]
Mr. Ong Thiam Kin	Beneficial owner	Long position	130,000	—	—	—	0.0028%
Mr. Jiang Wei	Beneficial owner	Long position	892,000	—	—	—	0.0189%
Mr. Li Fuzuo	Beneficial owner	Long position	750,000	250,000[3]	1.23	1 June 2005	0.0212%
Mr. Du Wenmin	Beneficial owner	Long position	790,000	250,000[3]	1.23	1 June 2005	0.0221%
Mr. Ma Guoan	Interest of spouse	Long position	10,000	—	—	—	0.0002%

Notes:

1. This refers to the number of underlying shares of CR Land covered by its share option scheme.

2. This represents the percentage of aggregate long position in ordinary shares and underlying shares of CR Land to the total issued share capital of CR Land as at the Latest Practicable Date.

3. The share options are exercisable in 2 tranches, from 1 June 2008 and 2009 to 31 May 2015.

4. In each case, HK$1.00 is payable upon acceptance of the share options granted.

(e) **Interests in issued ordinary shares and underlying shares of CRM, an associated corporation of the Company**

Name of Director/ Proposed Director	Capcaity	Long or short position	Number of shares	Number of share options[1]	Exercise price per share (HK$)	Date of grant	Aggregate percentage of interest[2]
Mr. Zhou Longshan	Beneficial owner	Long position	108,000	—	—	—	0.0018%
Mr. Ong Thiam Kin	Beneficial owner	Long position	5,031,767	—	—	—	0.0858%
Mr. Jiang Wei	Beneficial owner	Long position	537,614	—	—	—	0.0092%
Mr. Li Fuzuo	Beneficial owner	Long position	918,000	—	—	—	0.0157%
Mr. Du Wenmin	Beneficial owner	Long position	972,000	—	—	—	0.0166%
Mr. Luk Chi Cheong	Beneficial owner	Long position	774,322	—	—	—	0.0132%
Mr. Wei Bin	Beneficial owner	Long position	216,000	—	—	—	0.0037%

Notes:

1. This refers to the number of underlying shares of CRM covered by its equity incentive plan or share option scheme.

2. This represents the percentage of aggregate long position in ordinary shares and underlying shares of CRM to the total issued share capital of CRM as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or Proposed Directors had an interest and/or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or were required pursuant to section 352 of the SFO to be entered in the register referred to therein; or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

7. DIRECTORS' AND PROPOSED DIRECTORS' INTERESTS IN CONTRACTS

None of the Directors and the Proposed Directors was materially interested in any contract or arrangement subsisting at the date of this circular, and which was significant in relation to the business of the Enlarged Group.

8. SERVICE CONTRACTS

As at the date of this circular, none of the Directors and Proposed Directors has entered into any service contract with any member of the Enlarged Group which is not expiring or determinable by the employer within one year without payment of compensation other than statutory compensation, nor does the Company intend to enter into any such service contracts with the Proposed Directors.

9. COMPETING INTERESTS

As at the date of this circular, none of the Directors and their respective associates was considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group other than those businesses to which the Directors and his associates were appointed to represent the interests of the Company and/or the Group.

10. EXPERTS AND CONSENTS

The following are the qualifications of the professional adviser who has given opinions or advice contained in this circular:

Name	Qualifications
Deloitte Touche Tohmatsu	Certified Public Accountants
CIMB	Independent financial adviser, a corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO

The experts set out above had given and had not withdrawn their written consents to the issue of this circular with the inclusions of their letters, reports and opinion (as the case may be) as set out in this circular and references to their name in the form and context in which it is included.

None of the experts set out above was beneficially interested in the Shares of the Company and its subsidiaries and did not have any right, whether legally enforceable or not, to subscribe for or nominate persons to subscribe for securities of any member of the Group.

As at the Latest Practicable Date, none of the experts set out above had any interests, either direct or indirect, in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2007, being the date to which the latest published audited consolidated financial statements of the Company were made up.

The unaudited pro forma financial information of the Enlarged Group dated 19 September 2008 is set out in Appendix I hereto.

The financial information on CR Gas Group dated 19 September 2008 is set out in Appendix II hereto.

11. INTERESTS IN ASSETS

None of the Directors, Proposed Directors and the experts named in paragraph 10 of this Appendix had since 31 December 2007, being the date to which the latest published audited financial statements of the Group were made up, any direct or indirect interest in any assets which have been acquired or disposed of by or leased to the Enlarged Group, or are proposed to be acquired or disposed of by or leased to the Enlarged Group.

12. MATERIAL ADVERSE CHANGE

Save as otherwise publicly disclosed by the Company, the Directors are not aware of any material adverse change in the financial or trading position of the Company and its subsidiaries since 31 December 2007, the date to which the latest published audited financial statements of the Group were made up.

13. LITIGATION

As at the Latest Practicable Date, none of the members of the Enlarged Group was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Enlarged Group.

14. PARTICULARS OF THE DIRECTORS AND SENIOR MANAGEMENT

(a) Name and address of the Directors of CR Logic

Name	Correspondence address
Executive Directors:	
Mr. Zhou Longshan	c/o Redland Concrete Limited 8/F., Kaiseng Commercial Centre, 4-6 Hankow Road, T.S.T. Kowloon, Hong Kong
Mr. Ong Thiam Kin	c/o China Resources Logic Limited Room 4006, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong
Non-executive Directors:	
Mr. Jiang Wei	c/o China Resources (Holdings) Company Limited 47/F., China Resources Building, 26 Harbour Road, Wanchai, Hong Kong
Mr. Li Fuzuo	c/o China Resources (Holdings) Company Limited 47/F., China Resources Building, 26 Harbour Road, Wanchai, Hong Kong
Mr. Du Wenmin	c/o China Resources (Holdings) Company Limited 47/F., China Resources Building, 26 Harbour Road, Wanchai, Hong Kong
Independent non-executive Directors:	
Mr. Wong Tak Shing	c/o Messrs. Wong Sham & Co. Room 806, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong
Mr. Luk Chi Cheong	c/o C.C. Luk & Co., Unit 2210, 113 Argyle Street, Mongkok, Kowloon
Dr. Yang Chonghe, Howard	c/o Montage Technology Group, Inc., Suite 406, Innovation Center, 680 Guiping Road, Shanghai 200233, China

(b) **Qualification of the Directors**

Executive Directors:

Mr. Zhou Longshan, aged 48, was appointed as Chairman, Chief Executive Officer and Executive Director of the Company with effect from 21 March 2008. He is the Managing Director of Redland Concrete. He was appointed as an Executive Director of CR Cement with effect from March 2003, the listing of the shares of which on the Main Board of the Stock Exchange was withdrawn on 26 July 2006. CR Cement is a fellow subsidiary of the Company. Mr. Zhou joined China Resources Holdings in 1984 and has over 20 years of experience in international trade and corporate management. Mr. Zhou obtained a Bachelor's Degree in Economics from the Jilin Finance and Trade Institute in China.

Mr. Ong Thiam Kin, aged 51, was appointed as an Executive Director and Chief Financial Officer of the Company on 28 May 2001 with overall responsibilities for the financial and legal operations of the Group. He was a Non-executive Director of CRM (formerly known as CSMC Technologies Corporation), a company whose shares are listed on the Main Board of the Stock Exchange and he resigned on 20 March 2008. He is also a director of various subsidiaries of the Group. He is a fellow member of the Association of Chartered Certified Accountants in the United Kingdom, the Hong Kong Institute of Certified Public Accountants and members of the national accounting bodies of Singapore and Malaysia. He obtained a Master of Business Administration Degree from the University of Southern Queensland, Australia. He has more than 20 years of diverse range of experience in professional practice and various industries straddling countries and cities in Southeast Asia, the PRC and Hong Kong.

Non-executive Directors:

Mr. Jiang Wei, aged 45, was appointed as a Non-executive Director of the Company on 22 August 2006. Mr. Jiang is currently a Director and Chief Financial Officer of China Resources Holdings and China Resources National Corp. Mr. Jiang is a Non-executive Director of China Resources Enterprise, Limited, China Resources Power Holdings Company Limited, China Resources Land Limited, CRM and China Assets (Holdings) Limited. He is also an Executive Director of Cosmos Machinery Enterprises Limited and an Independent Non-executive Director of Greentown China Holdings Limited. Shares of the above seven immediately mentioned companies are listed on the Main Board of the Stock Exchange. He was also a Non-executive Director (resigned on 8 August 2008) of CR Cement, the listing of the shares of which company on the Main Board of the Stock Exchange was withdrawn on 26 July 2006. Further, Mr. Jiang was the Chairman and Non-executive Director (resigned on 30 March 2006) of China Resources Peoples Telephone Company Limited, the listing of the shares of which company on the Main Board of the Stock Exchange was withdrawn on 29 March 2006. He was also a Chairman (resignation effective on 30 June 2008) of Shandong Dong-E E-Jiao Co., Ltd., the shares of which company are listed on the Shenzhen Stock Exchange. He is also a Director of

China Vanke Co., Ltd., which is a listed company in China. He joined China Resources Holdings in 1988. Mr. Jiang obtained both his Bachelor's Degree in International Trade and Master's Degree in International Business and Finance from the University of International Business and Economics in Beijing, China.

Mr. Li Fuzuo, aged 44, was appointed as a Non-executive Director of the Company on 22 August 2006. Mr. Li is currently an Assistant President of China Resources Holdings and General Manager of its Strategy Management Department. Mr. Li is also a Non-Executive Director of China Resources Enterprise, Limited, China Resources Land Limited and CRM. Shares of the above three immediate mentioned companies are listed on the Main Board of the Stock Exchange. He was a Non-executive Director (resigned on 30 March 2006) of China Resources Peoples Telephone Company Limited, the listing of the shares of which company on the Main Board of the Stock Exchange was withdrawn on 29 March 2006. Further, Mr. Li was the Deputy Chairman and General Manager (resigned on 6 March 2006) of China Resources (Jilin) Bio-Chemical Co., Ltd., the shares of which company are listed in China. Mr. Li obtained both his Bachelor's and Master's Degrees in Mechanical Manufacturing Engineering from the Beijing University of Aeronautics and Astronautics, China in 1987 and 1990 respectively and joined China Resources Holdings Group in 1990.

Mr. Du Wenmin, aged 45, was appointed as a Non-executive Director of the Company with effect from 21 March 2008. Mr. Du is the President of the Internal Audit Department of China Resources Holdings. Mr. Du is also a Non-executive Director of China Resources Enterprise, Limited, China Resources Land Limited and CRM. Shares of the above three immediately mentioned companies are listed on the Main Board of the Stock Exchange. Mr. Du received a Master of Business Administration Degree from the University of San Francisco, USA and joined China Resources Holdings Group in 1985.

Independent non-executive Directors:

Mr. Wong Tak Shing, aged 57, was appointed as an Independent Non-executive Director of the Company in 1998. He is the Chairman of the Company's Remuneration Committee. He was admitted as a solicitor of the Supreme Court of Hong Kong in 1984 and has been in private practice in Hong Kong for over 20 years. From 1984 to 1987, he worked as an assistant solicitor with two local law firms in Hong Kong before setting up his own practice in 1987. He was appointed as a China-Appointed Attesting Officer with effect from 18 January 2003. Mr. Wong holds a Master's Degree in Laws from the Peking University.

Mr. Luk Chi Cheong, aged 52, was appointed as an Independent Non-executive Director of the Company on 31 January 2002. He is the Chairman of the Company's audit committee. He is a practicing Certified Public Accountant in Hong Kong and a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants, United Kingdom. He has been in accounting practice since 1995 and prior to that he has over 10 years of diversified experience in audit, construction and airline industry.

Dr. Yang Chonghe, Howard, aged 50, was appointed as an Independent Non-executive Director of the Company with effect from 22 August 2006. He is the Chairman of the Company's nomination committee. He worked at National Semiconductor Corp., Chips and Technology Inc. and Pericom Semiconductor Corp. in Silicon Valley before his return to China. In 1997, he co-founded Newave Semiconductor Corp. ("Newave"), and later successfully merged Newave with Integrated Device Technology Inc., which ranked China's top ten mergers in 2001. He is currently the Chairman and Chief Executive Officer of Montage Technology Group Limited ("Montage"). Prior to co-founding Montage, he was Vice President of Integrated Device Technology Inc. He received the prestigious Institute of Electrical and Electronics Engineers (IEEE) Circuits and System (CAS) Industrial Pioneer Award in 2002 for his pioneering contribution in China's integrated circuit design industry. Dr. Yang received his Doctor of Philosophy Degree in Electrical Engineering from the Oregon State University, USA.

(c) **Name and address of the Senior Management of Redland Concrete**

Name	**Correspondence address**
Deputy General Manager:	
Mr. Lo Kai Seung Frank	c/o Redland Concrete Limited 8/F., Kaiseng Commercial Centre, 4-6 Hankow Road, TST, Kowloon, Hong Kong
Financial Controller:	
Mr. Wong Kwong Ning	c/o Redland Concrete Limited 8/F., Kaiseng Commercial Centre, 4-6 Hankow Road, TST, Kowloon, Hong Kong

(d) **Qualification of the Senior Management of Redland Concrete**

Deputy General Manager:

Mr. Lo Kai Seung Frank, aged 52, joined Redland Concrete in August 1992, was appointed as the General Manager of Redland Concrete's subsidiaries, Redland Mortars Limited in charge of the research and development, sales and overall operations of Mortars and Shotcrete products. He was then appointed as the Deputy General Manager of Redland Concrete in December 2002. Mr. Lo has devoted himself in the concrete industry since 1980. He has extensive experience in concrete business and expert technical knowledge. Since 2004, he has been voted as the Chairman of The Concrete Producers Association of Hong Kong Limited.

Financial Controller:

Mr. Wong Kwong Ning, aged 45, was appointed as Financial Controller of Redland Concrete in January 2006 in charge of the financial operations of Redland Concrete and its subsidiaries. He joined China Resources Holdings since 1998 and had worked in Teck Soon Hong Limited and Redland Precast Concrete Products Limited. Mr. Wong obtained a Bachelor's Degree in Actuarial Science from the University of Calgary in Canada, and also obtained a Bachelor's Degree of Law from the Qinghua University in the PRC.

15. PARTICULARS OF THE PROPOSED DIRECTORS AND SENIOR MANAGEMENT TO BE APPOINTED

(a) Name and address of the Proposed Directors to be appointed

Name	**Correspondence address**
Chairman and Non-executive Director:	
Mr. Ma Guoan	c/o China Resources (Holdings) Company Limited 49/F., China Resources Building, 26 Harbour Road, Wanchai, Hong Kong
Managing Director and Executive Director:	
Mr. Wang Chuandong	c/o China Resources Gas (Holdings) Limited Room 1901-05, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong
Non-executive Director:	
Mr. Wei Bin	c/o China Resources (Holdings) Company Limited 47/F., China Resources Building, 26 Harbour Road, Wanchai, Hong Kong

(b) Qualification of the Proposed Directors to be appointed

Chairman and Non-executive Director:

Mr. Ma Guoan, aged 57, is proposed to be appointed as Chairman and Non-executive Director of the Company. Mr. Ma joined China Resources Holdings, the immediate holding company of the Company in March 2008. He is currently a Director of China Resources Holdings and concurrently Chairman of China Resources Gas (Holdings) Limited. Before joining China Resources Holdings, he was in charge of General Office of China State Economic and Trade Commission and once served as the Vice General Secretary of the State-owned Assets Supervision and Administration Commission of the State Council (SASAC). He holds a post-graduate degree majoring in Economic Management.

Managing Director and Executive Director:

Mr. Wang Chuandong, aged 44, is proposed to be appointed as an Executive Director and Managing Director of the Company. He was appointed as a Director and the General Manager of China Resources Gas (Holdings) Limited, a wholly owned subsidiary of China Resources Holdings with effect from March 2007. Mr. Wang joined China Resources Petrochems (Group) Company Limited in 1985 and was previously the Deputy Managing Director and the Managing Director of China Resources Petroleum Company Limited. He has over 23 years of corporate management experience in the area of petroleum and related products trading and distribution and holds a Bachelor's Degree in Science majoring in Petroleum Refining from the East China Petroleum Institute (presently known as the University of Petroleum (East China)).

Non-executive Director:

Mr. Wei Bin, aged 39, is proposed to be appointed as Non-executive Director of the Company. He is the General Manager of Finance Department of China Resources Holdings. Mr. Wei has a Bachelor's Degree in Auditing and a Master's Degree in Finance and is a Senior Accountant and a Senior Auditor in the PRC. Mr. Wei is also a non-practising member of The Chinese Institute of Certified Public Accountants and joined China Resources Group in 2001. Mr. Wei was previously a Director of Shanghai Worldbest Co., Ltd., Shanghai Worldbest Industry Development Co., Ltd., both of which are companies whose shares are currently listed on the Shanghai Stock Exchange; and Shandong Dong-E E-Jiao Co., Ltd., a company whose shares are listed on the Shenzhen Stock Exchange in the PRC.

(c) **Name and address of the proposed senior management to be appointed**

Name	**Correspondence address**
Mr. Zheng Xifeng	c/o China Resources Gas (Holdings) Limited Room 1904-1905, 19/F., Office Tower, China Resources Building, No. 5001 Shennan East Road, Shenzhen, Guangdong, China (Postcode: 518001)
Mr. Wang Yan	c/o China Resources Gas (Holdings) Limited Room 1901-1905, 19/F., China Resources Building, 26 Harbour Road, Wanchai, Hong Kong

Mr Huang Weizhong	c/o China Resources Gas (Holdings) Limited Room 1904-1905, 19/F., Office Tower, China Resources Building, No. 5001 Shennan East Road, Shenzhen, Guangdong, China (Postcode: 518001)
Mr. Shi Baofeng	c/o China Resources Gas (Holdings) Limited Room 1904-1905, 19/F., Office Tower, China Resources Building, No. 5001 Shennan East Road, Shenzhen, Guangdong, China (Postcode: 518001)
Mr. Ge Bin	c/o Wuxi China Resources Gas Co., Ltd. No. 800 East Jiefang Road, Wuxi, Jiangsu, China (Postcode: 214002)
Mr. Zhu Likun	c/o Suzhou China Resources Gas Co., Ltd. No. 126 Jinshan Road, Suzhou, Jiangsu, China (Postcode: 215011)
Mr. Peng Junfu	c/o Chengdu City Gas Co., Ltd. No.19 Shaoling Street, Chengdu, Sichuan Province, China (Postcode: 610041)

(d) **Qualification of the proposed senior management to be appointed**

Mr. Zheng Xifeng, aged 50, was appointed as a Deputy General Manager of China Resources Gas (Holdings) Limited in September 2007, responsible for the human resources management of China Resources Gas (Holdings) Limited. Mr. Zheng holds a Bachelor's Degree in Law from the School of Law of Xiamen University, a Master of Business Administration Degree from the University of San Francisco in the United States, and the qualification as Senior International Business Engineer. He joined China Resources Holdings Group in August 1985 and has been working for China Resources Gas (Holdings) Limited since September 2007. He was appointed as a director of CR Gas in September 2008.

Mr. Wang Yan, aged 36, was appointed as a Deputy General Manager of China Resources Gas (Holdings) Limited in September 2007, responsible for the finance and internal auditing operations of China Resources Gas (Holdings) Limited. Mr. Wang holds a Bachelor's Degree in Economics from the Finance and Accounting Department, Capital University of Economics and Business, a Master of Business Administration Degree from the University of South Australia and is a qualified PRC Certified Accountant. He joined China Resources Holdings Group in July 1994 and has been working for China Resources Gas (Holdings) Limited since September 2007. He was appointed as a director of CR Gas in November 2005.

Mr. Huang Weizhong, aged 42, was appointed as a Deputy General Manager of China Resources Gas (Holdings) Limited in September 2007, responsible for the investment, strategic management and PRC legal affairs of China Resources Gas (Holdings) Limited. Mr. Huang holds a Master's Degree majoring in International Finance from the Fudan University and licenses to practice as a lawyer and an engineer. He joined China Resources Holdings Group in March 2000 and has been working for China Resources Gas (Holdings) Limited since March 2007. He was appointed as a director of CR Gas in November 2005.

Mr. Ge Bin, aged 44, was appointed as an Assistant General Manager of China Resources Gas（Holdings）Limited in September 2007, and concurrently held the positions as a director and the General Manager of Wuxi China Resources Gas Co., Ltd. Mr. Ge graduated from the Shanghai Institute of Finance and Commerce Management (currently known as Shanghai Business School), presently pursuing a Master's Degree majoring in Gas Engineering and Control System, Nanjing University of Technology, and holds a senior economist qualification. He joined China Resources Holdings Group in September 1996 and has been working for China Resources Gas（Holdings）Limited since September 2007. He was appointed as a director of CR Gas in September 2008.

Mr. Shi Baofeng, aged 36, was appointed as the Operations Director of China Resources Gas (Holdings) Limited in September 2007, responsible for the operation management of members of China Resources Gas (Holdings) Limited. Mr. Shi holds a Master of Business Administration Degree from the Southwest Jiaotong University and a Senior Engineer qualification. He joined China Resources Holdings Group in 2006 and China Resources Gas (Holdings) Limited in March 2007. He was appointed as a director of CR Gas in September 2008.

Mr. Zhu Likun, aged 42, was appointed as a director and the General Manager of Suzhou China Resources Gas Company Limited, a subsidiary of China Resources Gas (Holdings) Limited, in August 2003, responsible for its general operation and management. Mr. Zhu holds a Bachelor's Degree majoring in Automation in Petro-chemical Industry from the Nanjing University of Chemical Technology, a Master's Degree majoring in International Economics from the Soochow University, and a Senior Engineer qualification. He joined China Resources Holdings Group in August 2003.

Mr. Peng Junfu, aged 52, was appointed as a director and the General Manager of Chengdu City Gas Co., Ltd., a member of China Resources Gas (Holdings) Limited, in March 2005. Mr. Peng graduated from the Sichuan Radio TV University majoring in Industrial Statistics and the Economic and Management Department, Party School of The Central Committee of Sichuan Province and holds the certificate of completion for the post graduate class on Business Administration from the Sichuan University. He also holds a Senior Economist qualification. He currently holds the positions as Member of Chengdu CPPCC Committee, Standing Director of China Gas Association, Standing Vice Chairman of Sichuan Gas Association, and Member of the Appraisal Board of Economic Profession of Chengdu Province.

Save as disclosed above, none of the Proposed Directors and proposed senior management to be appointed has held any directorship in other listed public companies in the last three years and has not held any other position with the Company or its subsidiaries. Save as disclosed above, none of the Proposed Directors and proposed senior management to be appointed is and was connected with any directors, senior management or substantial or controlling shareholders of the Company.

16. MISCELLANEOUS

(a) On 4 December 2007, CR Logic, together with its listed subsidiary CSMC Technologies Corporation (now known as China Resources Microelectronics Limited), announced a restructuring proposal which resulted in the amalgamation of both companies' semiconductor businesses under CRM. The amalgamated group will have a broad spread of interests within the sector from its own IC design to open foundry operations for the group and outside customers. This is expected to provide for a greater stability of earnings and greater financial resources to fund expansion. The amalgamated group will also have greater flexibility in deploying its existing resources and discretionary cashflows.

Simultaneous to the disposal of the semiconductor business, the Group acquired from a subsidiary of China Resources Holdings the entire issued voting share capital of Redland Concrete for a cash consideration of approximately HK$217.7 million.

Pursuant to an ordinary resolution passed at a special general meeting held on 13 February 2008, the Company distributed all of its shares in its then subsidiary, CRM, by way of a dividend in specie on the basis of 180 shares in CRM for every 100 shares in the Company held. A total of 5,091,900,165 shares in CRM representing shareholders' equity of HK$2,731,463,000 were distributed to the shareholders of the Company on 5 March 2008.

As part of the restructuring, the share capital of the Company was reduced from HK$600,000,000 divided into 6,000,000,000 shares of HK$0.10 each to HK$60,000,000 divided into 6,000,000,000 shares of HK$0.01 each on 3 March 2008.

The share capital of the Company was consolidated on the basis of every ten shares in the issued and unissued share capital respectively of the Company of HK$0.01 each for one share of HK$0.10 on 7 March 2008 and with immediate effect following the share consolidation, the authorised share capital of the Company was increased from HK$60,000,000 to HK$1,000,000,000 by creation of an addition 9,400,000,000 new shares of HK$0.10 each.

After the Group restructuring, the authorised share capital of the Company was HK$1,000,000,000 divided into 10,000,000,000 shares of HK$0.10 each, of which 282,883,342 shares had been issued and fully paid.

(b) The company secretary of the Company is Mr LEE Yip Wah, Peter, who is a practising solicitor in Hong Kong, a consultant of Messrs. Woo Kwan Lee & Lo, Solicitors and Notaries, and a China Appointed Attesting Officer.

(c) The qualified accountant of CR Logic appointed pursuant to Rule 3.24 of the Listing Rules is Mr. ONG Thiam Kin, who is a fellow member of the Association of Chartered Certified Accountants in the United Kingdom, the Hong Kong Institute of Certified Public Accountants and members of the national accounting bodies of Singapore and Malaysia.

(d) Tricor Secretaries Limited, the Hong Kong branch share registrar and transfer office of the Company, is located at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(e) The registered office of CR Logic is situated at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda and the principal place of business of CR Logic is situated at Room 4006, 40th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong.

(f) The English text of this circular and the accompanying proxy form shall prevail over its Chinese text.

17. MATERIAL CONTRACTS

The following are the material contracts, not being contracts entered into in the ordinary course of business of the Enlarged Group, which have been entered into by members of the Enlarged Group within the two years immediately preceding the Latest Practicable Date:

(a) an agreement for the sale and purchase of China Resources Cooling Technology Co. Ltd. dated 21 June 2007 and entered into between CRT (BVI) Limited, Gradison Limited and CR Logic;

(b) an agreement for the sale and purchase of the semiconductor business of CR Logic dated 4 December 2007 and entered into among CR Logic, China Resources Microelectronics (Holdings) Limited, China Resources Semiconductor (International) Limited and CSMC Technologies Corporation (presently known as CRM);

(c) an agreement for the sale and purchase of Redland Concrete dated 4 December 2007 and entered into between China Resources Concrete Limited and CR Logic;

(d) the Share Purchase agreement; and

(e) the Underwriting Agreement.

Save as disclosed above, none of the members of the Enlarged Group has entered into any contracts (not being contracts entered into in the ordinary course of business) within the two years preceding the date of this circular that are or may be material.

18. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at Slaughter and May at 47th Floor, Jardine House, One Connaught Place, Central, Hong Kong during normal business hours (Saturdays and public holidays excepted) from the date of this circular until 3 October 2008 (both dates inclusive):

(a) the memorandum of association and bye-laws of the Company;

(b) the annual reports of the Company for the three years ended 31 December 2007 and the interim report of the Company for the six months ended 30 June 2008;

(c) the letter from CIMB regarding these transactions set out in this circular;

(d) unaudited pro forma financial information of the Enlarged Group set out at Appendix I to this circular;

(e) the accountants report on the CR Gas Group set out at Appendix II to this circular;

(f) the written consents referred to in the section headed "Experts and consents" of this Appendix;

(g) the material contracts referred to in the section headed "Material Contracts" in this Appendix (including the Share Purchase Agreement and the Underwriting Agreement);

(h) circular dated 16 January 2008 issued jointly by the Company and CSMC Technologies Corporation (now known as China Resources Microelectronics Limited); and

(i) this circular.

華潤勵致有限公司
China Resources Logic Limited

(incorporated in Bermuda with limited liability)

(Stock Code: 1193)

NOTICE IS HEREBY GIVEN that a special general meeting of China Resources Logic Limited (the "Company") will be held at 49th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong on Monday, 6 October 2008 at 4:15 p.m. to consider and, if thought fit, pass (with or without amendments) the following resolutions:

ORDINARY RESOLUTIONS

1. "**THAT** subject to approval of the resolutions numbered 2 below, conditional upon the completion of the Rights Issue (as hereinafter defined in resolution numbered 2), the conditional share purchase agreement dated 21 August 2008 (the "Share Purchase Agreement") entered into between (i) China Resources (Holdings) Company Limited ("China Resources Holdings"), the substantial and controlling shareholder of the Company, as vendor; and (ii) the Company as purchaser in relation to the sale and purchase of the entire issued share capital of China Resources Gas Limited ("CR Gas") at a consideration of HK$3,814.8 million, a copy of which has been produced at the Meeting marked "A" and signed by the chairman of the Meeting for identification purpose, be and is hereby approved, confirmed and ratified, and THAT all the transactions contemplated under the Share Purchase Agreement be and are hereby approved, confirmed and ratified, and **THAT** the directors of the Company (the "Directors") be and are hereby authorised to do such acts and execute such other documents with or without amendments and affix the common seal of the Company thereto (if required) as they may consider necessary, desirable or expedient to carry out or give effect to or otherwise in connection with or in relation to the Share Purchase Agreement."

2. "**THAT** conditional upon (i) the Listing Committee of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") granting or agreeing to grant (subject to allotment and despatch of certificates in respect of Rights Shares (as hereinafter defined), as appropriate, the posting of the prospectus to be issued by the Company on or around 8 October 2008, the renounceable provisional allotment letter and the form of application for excess Rights Shares (collectively the "Rights Issue Documents") to the qualifying shareholders of the Company, and the delivery of the same to the Underwriter (as hereinafter defined) on or around 8 October 2008, and any other condition which may be agreed in their reasonable opinion by the Company and the Underwriter (as hereinafter defined)) the listing of, and permission to deal in, the Rights Shares (as hereinafter defined) (in both their nil-paid and fully paid forms) on the Stock Exchange on or before 5:00 p.m. on the second business day after the date which is the latest time for acceptance of and payment for the Rights Shares (as hereinafter defined); (ii) the filing with and registration of the Rights Issue Documents by the Registrar of Companies in Hong Kong in compliance with the Companies Ordinance and the Registrar of Companies in Bermuda (the "Registrar in Bermuda") in accordance with the Companies Act 1981 of Bermuda (as amended); and (iii) the obligations of Splendid Time Investments Inc. (the "Underwriter") under the underwriting

agreement dated 21 August 2008 (the "Underwriting Agreement" including, if any, all supplemental agreements relating thereto) made between the Company, the Underwriter and China Resources Holdings becoming unconditional and the Underwriting Agreement not being terminated in accordance with the terms thereof prior to 5:00 p.m. on the third business day after the date which is the latest time for acceptance of and payment for Rights Shares (as hereinafter defined), as set out in the circular dated 19 September 2008 (the "Circular") despatched by the Company to the Shareholders (a copy of which has been produced at the Meeting marked "B" and signed by the chairman of the Meeting for the purpose of identification):

(a) the issue, by way of rights, if none of the Share Options (as hereinafter defined) is exercised on or before the Record Date (as hereinafter defined), of not less than 1,131,533,368 new shares, or, if all of the Share Options (as hereinafter defined) are exercised on or before the Record Date (as hereinafter defined), of not more 1,132,381,368 new shares, in either case of par value of HK$0.10 each (the "Shares") in the issued share capital of the Company (the "Rights Issue"), such new Shares (the "Rights Shares") to be issued at a price of HK$3.42 per Rights Share (the "Subscription Price") to the Shareholders whose names appear on the register of members of the Company on the date by reference to which entitlements under the Rights Issue will be determined (other than those Shareholders (the "Excluded Shareholders") with registered addresses outside Hong Kong and whom the board of Directors, after making relevant enquiry, considers their exclusion from the Rights Issue to be necessary or expedient on account either of the legal restrictions under the laws of the relevant place or any requirements of the relevant regulatory body or stock exchange in that place) in the proportion of four (4) Rights Shares for every one (1) existing Share then held and otherwise pursuant to and in accordance with the terms and conditions set out in the Circular be and is hereby approved;

(b) (i) the Directors be and are hereby authorised to allot and issue the Rights Shares pursuant to or in connection with the Rights Issue notwithstanding that the same may be offered, allotted or issued otherwise than pro rata to the existing Shareholders and, in particular, (ii) the Directors be and are hereby authorised to make such exclusions or other arrangements in relation to fractional entitlements or Excluded Shareholders as they may, at their absolute discretion, deem necessary or expedient or appropriate, and the Rights Shares shall not be issued to the Excluded Shareholders but shall be aggregated and issued to a nominee to be named by the Directors and such Rights Shares shall be sold and the net proceeds of such sale, after deduction of expenses shall be distributed to the Excluded Shareholders pro rata to their respective shareholdings unless the amount falling to be distributed to any Excluded Shareholder shall be HK$100 or less than HK$100 in which case such amount shall be retained for the benefit of the Company;

(c) the Underwriting Agreement, a copy of which has been produced at the Meeting marked "C" and signed by the chairman of the Meeting for identification purpose, be and is hereby approved, confirmed and ratified, and **THAT** all the transactions contemplated under the Underwriting Agreement be and are hereby approved, confirmed and ratified, and **THAT** the Directors be and are hereby authorised to do such acts and execute such other documents with or without amendments and affix the common seal of the Company thereto (if required) as they may consider necessary, desirable or expedient to carry out or give effect to or otherwise in connection with or in relation to the Underwriting Agreement;

(d) the Directors be and are hereby authorised to do all such acts and execute such other documents with or without amendments and affix the common seal of the Company thereto (if required) as they may consider necessary, desirable or expedient to carry out or give effect to or otherwise in connection with or in relation to the Rights Issue; and

(e) for the purpose of this Resolution 2:

(i) "Share Options" means the share options granted under the share option scheme of the Company adopted on 26 November 2001 and subsequently amended on 21 February 2002 and outstanding as at 12 September 2008 and which are exercisable on or before the Record Date (as hereinafter defined); and

(ii) "Record Date" means 6 October 2008, or such other date at which the entitlement of the Shareholders (other than the Excluded Shareholders), whose names appear on the register of members of the Company as at the close of business on such date, to the Rights Issue is determined."

By Order of the Board
Lee Yip Wah, Peter
Company Secretary

Hong Kong, 19 September 2008

Principal office in Hong Kong:
Room 4006
40th Floor, China Resources Building
26 Harbour Road
Wanchai
Hong Kong

Notes:

1. A form of proxy for use at the meeting is enclosed herewith.

2. The instrument appointing a proxy shall be in writing under the hand of the appointer or of his/her attorney duly authorised in writing or, if the appointer is a corporation, either under its seal or under the hand of any officer or attorney authorised to sign the same.

3. Any member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him/her. A proxy need not be a member of the Company.

4. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarised copy of such power of attorney or authority, must be lodged at the office of the Company's Hong Kong branch share registrar and transfer office, Tricor Secretaries Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting thereof (as the case may be).

5. Completion and return of the form of proxy will not preclude members from attending and voting in person at the meeting or at any adjourned meeting thereof (as the case may be) should they so wish, and in such event, the form of proxy shall be deemed to be revoked.

6. Where there are joint registered holders of any share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she was solely entitled thereto, but if more than one of such joint holders are present at the meeting, whether in person or by proxy, the joint registered holder present whose name stands first on the register of members in respect of the shares shall be accepted to the exclusion of the votes of the other registered holders.