THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in 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 otherwise transferred all your shares in China Resources Gas Group Limited, you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

華潤燃氣控股有限公司
China Resources Gas Group Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 1193)

MAJOR AND CONNECTED TRANSACTION ACQUISITION OF TOP STEED LIMITED

Financial Adviser

CREDIT SUISSE

Independent Financial Adviser

CIMB

CIMB Securities (HK) Limited

A letter from the Board is set out on pages 5 to 20 of this circular.

A letter from CIMB is set out on pages 23 to 33 of this circular

A notice convening the special general meeting of China Resources Gas Group Limited to be held at Room 1901-05, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong on 19 October 2009 at 4:15 p.m. is set out on pages N-1 to N-2 of this circular. Whether or not you are able to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event by no later than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so desire.

2 October 2009

CONTENTS

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

"Acquisition"	:	the acquisition of the Sale Shares by the Company from Powerfaith pursuant to the terms and conditions under the Share Purchase Agreement;
"Associates"	:	the meaning ascribed to it in the Listing Rules;
"Board"	:	the board of Directors;
"BVI"	:	the British Virgin Islands;
"Completion"	:	the completion of the Acquisition;
"Company"	:	China Resources Gas Group Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange;
"CR Gas (China)"	:	China Resources Gas (China) Investment Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company;
"CR Gas Holdings"	:	China Resources Gas (Holdings) Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of China Resources Holdings;
"China Resources Gas"	:	China Resources Gas Limited, a company incorporated in the British Virgin Islands with limited liability, which was acquired by the Company on 30 October 2008 and a wholly-owned subsidiary of the Company;
"China Resources Gas Group"	:	China Resources Gas Limited, its subsidiaries and its jointly-controlled entities;
"China Resources Holdings"	:	China Resources (Holdings) Company Limited, the substantial and controlling shareholder (as defined in the Listing Rules) of the Company holding approximately 74.94% of its issued share capital or, where the context requires, the relevant subsidiary or subsidiaries thereof;
"China Resources Holdings Group"	:	China Resources Holdings and its subsidiaries, excluding, for the purpose of this circular, the China Resources Gas Group and the Target Group;
"CIMB"	:	CIMB Securities (HK) Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition;

"CNG"	:	compressed natural gas;
"Companies Ordinance"	:	the Companies Ordinance (Cap 32 of the Laws of Hong Kong);
"Director(s)"	:	the directors of the Company;
"Enlarged Group"	:	the Group and the Target Group and for the purposes of Appendix IV, references to "Enlarged Group" shall be construed to include the Group, Top Steed and its subsidiaries only;
"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 to advise and make recommendations to the Independent Shareholders as to how to vote at the SGM on the ordinary resolution regarding the Acquisition. 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;
"Latest Practicable Date	:	30 September 2009, being the latest practicable date before the printing of this circular for ascertaining certain information contained herein;
"Listing Rules"	:	the Rules Governing the Listing of Securities on the Stock Exchange;
"LPG"	:	liquefied petroleum gas;
"Macau"	:	the Macau Special Administrative Region of the People's Republic of China;
"Powerfaith"	:	Powerfaith Enterprises Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of China Resources Holdings;

"PRC"	:	the People's Republic of China, but for the purposes of this circular only, excluding Hong Kong, Macau and Taiwan;
"Pre-Acquisition Reorganisation"	:	the reorganisation undertaken by the China Resources Holdings Group, under which Top Steed acquired from the China Resources Holdings Group its entire interests in members of the Target Group to form the Target Group;
"Proposed PRC Company Acquisition"	:	the proposed acquisition of a 6% interest in Zhenjiang CR Gas by the Company (through its wholly-owned subsidiary, CR Gas (China)) as announced on 28 August 2009;
"Qianjiang CR Gas"	:	潛江華潤燃氣有限公司 (translated as Qianjiang China Resources Gas Co., Ltd.)*, a limited liability company established in the PRC;
"RMB"	:	Reminbi, the lawful currency of the PRC;
"Sale Shares"	:	2 ordinary shares of par value of US$1.00 each, being the entire issued share capital of Top Steed as at the date of this circular and such additional shares as may be issued by Top Steed to Powerfaith prior to Completion;
"SFO"	:	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong);
"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 Acquisition contemplated under the Share Purchase Agreement on or around Monday, 19 October 2009;
"Share Purchase Agreement"	:	the Share Purchase Agreement between the Company, Powerfaith and CR Gas Holdings dated 8 September 2009 in relation to the Acquisition;
"SPV(s)"	:	special purpose(s) vehicle(s);
"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);
"Stock Exchange"	:	The Stock Exchange of Hong Kong Limited;

"subsidiary"	:	shall have the meaning ascribed to that term in the Listing Rules;
"substantial shareholder"	:	shall have the meaning ascribed to that term in the Listing Rules;
"Target Group"	:	Top Steed, its subsidiaries and jointly-controlled entities or associated companies; and "members of the Target Group" shall be construed accordingly;
"Top Steed"	:	Top Steed Limited, a company incorporated in the British Virgin Islands with limited liability, a wholly-owned subsidiary of China Resources Holdings;
"Xiangfan CR Gas"	:	襄樊華潤燃氣有限公司 (translated as Xiangfan China Resources Gas Co., Ltd.)*, a limited liability company established in the PRC;
"Yicheng CR Gas"	:	宜城華潤燃氣有限公司 (translated as Yicheng China Resources Gas Co., Ltd.)*, a limited liability company established in the PRC;
"Zaoyang CR Gas"	:	棗陽華潤燃氣有限公司 (translated as Zaoyang China Resources Gas Co., Ltd.)*, a limited liability company established in the PRC and an indirect wholly-owned subsidiary of the Company;
"Zhenjiang CR Gas"	:	鎮江華潤燃氣有限公司 (translated as Zhenjiang China Resources Gas Co., Ltd.)*, a limited liability company established in the PRC which is currently indirectly owned by China Resources Holdings as to 45%;
"HK$"	:	Hong Kong dollar(s), the lawful currency of Hong Kong; and
"%"	:	per cent.

* *The English names of the PRC-incorporated company are only English translations of the corresponding official Chinese name and are provided for identification purposes only.*

華潤燃氣控股有限公司
China Resources Gas Group Limited

(Incorporated in Bermuda with limited liability)

(Stock code: 1193)

Executive Directors:
MA Guoan *(Chairman)*
WANG Chuandong *(Managing Director)*
ONG Thiam Kin *(Chief Financial Officer)*

Non-executive Directors
LI Fuzuo
DU Wenmin
WEI Bin

Independent Non-executive Directors
WONG Tak Shing
LUK Chi Cheong
YANG Chonghe, Howard

Registered Office:
Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

Principal Place of Business in Hong Kong:
Room 1901-05
China Resources Building
26 Harbour Road
Wanchai
Hong Kong

2 October 2009

To the Shareholders

Dear Sir and Madam,

MAJOR AND CONNECTED TRANSACTION
ACQUISITION OF TOP STEED LIMITED

I. INTRODUCTION

The Company has, by an announcement dated 8 September 2009, announced that it has entered into the Share Purchase Agreement to conditionally agree to acquire the entire issued share capital of Top Steed, an indirect wholly-owned subsidiary of China Resources Holdings, for a consideration of HK$1,600 million.

The Acquisition constitutes a major transaction of the Company under the Listing Rules. Since China Resources Holdings is the substantial and controlling shareholder of the Company, holding approximately 74.94% 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 therefore subject to the approval of the Independent Shareholders at the SGM.

The purpose of this circular is:

(i) to provide Shareholders with further details of the Acquisition;

(ii) to set out the recommendations of the Independent Board Committee to the Independent Shareholders on the Acquisition;

(iii) to set out the recommendations of the Company's independent financial adviser, CIMB, to the Independent Board Committee and the Independent Shareholders; and

(iv) to give notice of the SGM.

II. THE ACQUISITION

A. THE SHARE PURCHASE AGREEMENT

Date

8 September 2009

Parties to the Share Purchase Agreement

(i) the Company;

(ii) Powerfaith; and

(iii) CR Gas Holdings

Assets to be Acquired

Pursuant to the Share Purchase Agreement, the Company conditionally agreed to acquire, and Powerfaith conditionally agreed to sell the Sale Shares.

In consideration of the Company entering into the Share Purchase Agreement, CR Gas Holdings unconditionally and irrevocably guarantees as a primary obligor, the due and punctual performance by Powerfaith of all its obligations and punctual discharge by Powerfaith of all its liabilities to the Company under the Share Purchase Agreement.

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 SGM, excluding any continuing connected transactions of the Company arising as a result of completion of the Acquisition that require approval of the Independent Shareholders and matters ancillary thereto in compliance with the applicable Listing Rules requirements; and

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

The condition set out in paragraph (i) above shall not be waived in any event. If any of the conditions set out in the Share Purchase Agreement is not fulfilled (or waived by the Company, where applicable) on or before 31 December 2009 (or such later date as agreed between the parties), the Share Purchase Agreement and the transactions contemplated thereunder shall be terminated. Completion shall take place on or before the second business day (or such other date as Powerfaith and the Company may agree) after the conditions precedent set out in the Share Purchase Agreement have been fulfilled in accordance with the Share Purchase Agreement.

Consideration

The consideration payable by the Company for the Acquisition is HK$1,600 million. The consideration for the Acquisition under the Share Purchase Agreement has been arrived at after arm's length negotiations between Powerfaith 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 of the Target Group for the two financial years ended 31 December 2008 and the six months ended 30 June 2009, combined net asset value of the Target Group as at 30 June 2009 and future prospects of the relevant industries including general economic trends and market growth and the prevailing commercial and business conditions in which Top Steed operates. For further details about the future prospects of the gas distribution industries, please refer to the section headed "F. Financial and Trading Prospects of the Group" below.

China Resources Holdings had originally acquired the Target Group for a consideration of HK$374 million during the period from 1 April 2007 to 25 June 2008. The consolidated net asset value of Top Steed as at 31 December 2008 and 30 June 2009 are HK$356 million and HK$675 million respectively.

Source of Funding

The consideration of HK$1,600 million payable by the Company to Powerfaith for the Acquisition shall be satisfied in cash and payable within 12 months from the date of Completion.

While such amount remains outstanding, interest will accrue at a normal commercial or preferable rate to the Company from the date of Completion until the date of payment of the consideration by the Company (both days inclusive). The Company is proposing that the consideration be funded by internal resources of the Company and other financings to be arranged by the Company.

Profit Guarantee

Pursuant to the Share Purchase Agreement, Powerfaith has guaranteed to the Company that the combined profit after taxation of members of the Target Group attributable to Top Steed for the financial year ending 31 December 2009 assuming the Pre-Acquisition Reorganisation had completed since 1 January 2009 will not be less than HK$124 million. In the event that such combined profit after taxation is less than the guaranteed level or Top Steed has a combined loss after taxation for such period, Powerfaith will compensate the Company an amount equal to the difference between the guaranteed amount of HK$124 million and the combined profit or loss after taxation of Top Steed for the period commencing from 1 January and ending 31 December 2009 multiplied by 13 and in any event, the compensation payable by Powerfaith to the Company will not exceed the difference between the consideration of the Acquisition and the combined net asset value of Top Steed as at 30 June 2009. As part of the commercial negotiation between Powerfaith and the Company, Powerfaith was willing to provide a profit guarantee for the year ending 31 December 2009 to the Company. As part of the calculation of compensation, a measurable and verifiable parameter needs to be used and it was concluded that the combined profit or loss after tax of Top Steed is the most appropriate parameter for the purposes of calculating the compensation. 13 times is the implied multiple of the combined profit or loss after tax of Top Steed calculated using a total consideration of HK$1,600 million.

In the event that the Company claims against Powerfaith pursuant to the above profit guarantee, 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 Powerfaith has fulfilled its obligations under the profit guarantee.

B. **REASONS FOR AND BENEFITS OF THE ACQUISITION**

On 21 August 2008, the Company announced its acquisition of China Resources Gas Group, with the intention to expand into the city gas distribution business in China and capturing the increase in demand for natural gas in China. The said acquisition has provided stable cash flows income as well as a platform for higher growth potential to the Company. Leveraging the Company's current presence in the gas industry in China and China Resources Holdings Group's strong presence and brand name in China, the Board believes that the Acquisition is a step forward in further expanding its market share in the down stream gas industry and strengthening its customer and earning base into different regions in China. Upon Completion, the Board believes that the Company, being one of the leading pan-China gas distributors, will be strategically positioned to take up new opportunities and to capture growth opportunity in the gas industry in China.

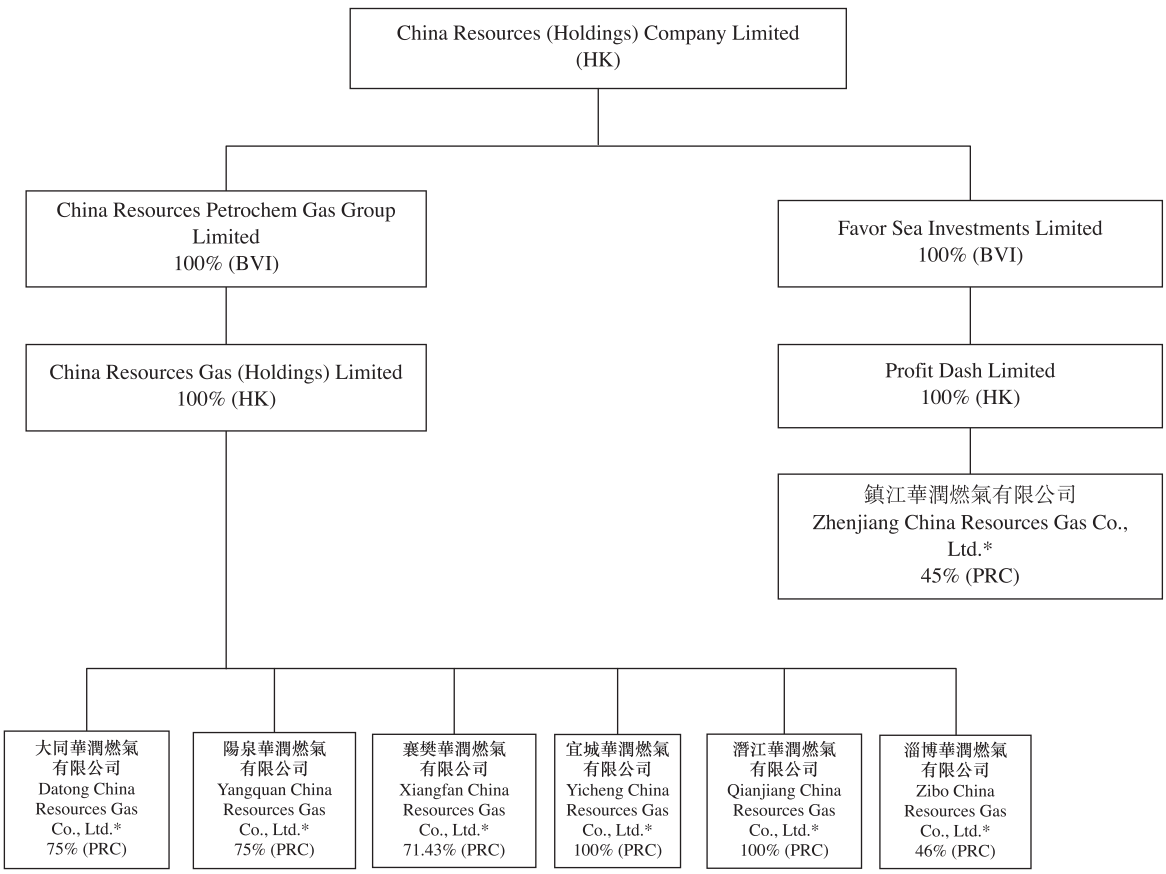
The Directors consider that the terms and conditions of the Acquisition and the Share Purchase Agreement are fair and reasonable, on normal commercial terms and are in the interest of the Company and the Shareholders as a whole.

C. INFORMATION ON TOP STEED

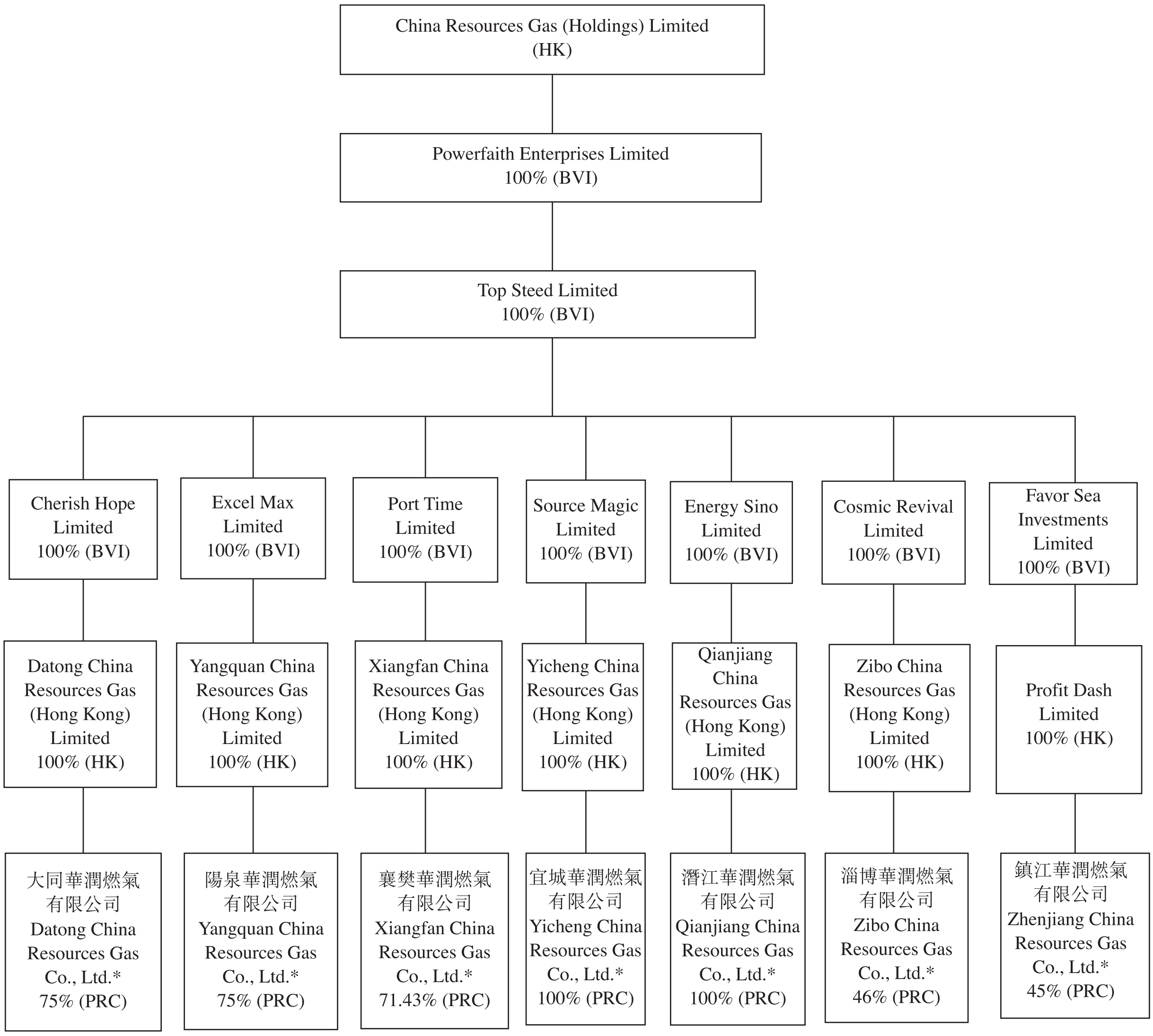
Top Steed, a wholly-owned subsidiary of China Resources Holdings, is a holding company. The Target Group currently operates a portfolio city gas distribution businesses including natural or petroleum gas pipelines, CNG filling stations and bottled LPG distribution. Its natural gas distribution operations are strategically located in the cities of Zibo, Yangquan, Xiangfan, Zhenjiang, Yicheng, Qianjiang and Datong.

The China Resources Holdings Group, in order to cater for the Acquisition, underwent the Pre-Acquisition Reorganisation pursuant to which Top Steed has acquired from the China Resources Holdings Group its entire interests in members of the Target Group. Pursuant to the Pre-Acquisition Reorganisation, China Resources Holdings formed various SPVs in Hong Kong and BVI to acquire seven PRC companies engaged in the gas distribution operations in the PRC to form the Target Group. Powerfaith is one of the directly wholly owned subsidiaries of CR Gas Holdings. Simplified versions of the corporate charts before and after the Pre-Acquisition Reorganisation are set out below:-

The corporate chart (simplified version) before the Pre-Acquisition Reorganisation:-



The corporate chart (simplified version) after the Pre-Acquisition Reorganisation:-



* The English names of these PRC-incorporated companies are only English translations of the corresponding official Chinese names and are provided for identification purposes only.

Financial information of Top Steed

The financial information of Top Steed for the two years ended 31 December 2007 and 31 December 2008 and six months ended 30 June 2009 are as follows:-

	For the year ended 31 December 2007	For the year ended 31 December 2008	For six months ended 30 June 2009
	HK$ million	*HK$ million*	*HK$ million*
Audited consolidated profit before taxation and minority interests[1]	7	88	67
Audited consolidated profit after taxation and minority interests[1]	3	60	36
Unaudited combined profit before taxation and minority interests[2]	30	134	93
Unaudited combined profit after taxation and minority interests[2]	32	107	57
Audited total equity attributable to owners[1]	N/A	N/A	589[3]

Notes:

1 As prepared in accordance with accounting principles generally accepted in Hong Kong and assuming the Pre-Acquisition Reorganisation had completed since 1 January 2007 excluding the figures of Zhenjiang CR Gas and Zibo China Resources Gas Co., Ltd for the respective periods in accordance with accounting principles generally accepted in Hong Kong, i.e. using merger accounting applicable for subsidiaries only (not applicable to jointly controlled enterprise).

2 Assuming the Pre-Acquisition Reorganisation had completed since 1 January 2007 including Zhenjiang CR Gas and Zibo China Resources Gas Co., Ltd. though they were only acquired by Top Steed on 30 June 2009.

3 Before taking into consideration minority interests amounting to HK$86 million.

The following table sets forth the combined turnover of the Target Group from sale and distribution of gas fuel and gas pipeline connection to external customers for the periods indicated together with those products' respective percentage shares of the Target Group's turnover:

	Year ended 31 December				Six months ended 30 June	
	2007		2008		2009	
Category	*HK$ million (unaudited)*		*HK$ million (unaudited)*		*HK$ million (unaudited)*	
Sale and Distribution of Gas Fuel						
- residential customers	22	8%	111	16%	69	13%
- non-residential customers	200	70%	416	58%	370	72%
Sub-Total	222	78%	527	74%	439	85%
Connection Fees						
- residential customers	63	22%	147	21%	65	13%
- non-residential customers	—	—	38	5%	12	2%
Sub-Total	63	22%	185	26%	77	15%
Total	285	100%	712	100%	516	100%

The Board has previously on 27 March 2009 announced that an indirect wholly-owned subsidiary of the Company, Zaoyang CR Gas has entered into continuing connected transactions with Xiangfan CR Gas for the purchase and supply of natural gas. As Xiangfan CR Gas forms part of the Target Group, the aforementioned transactions with Zaoyang CR Gas will cease to be treated as continuing connected transactions upon Completion.

On 28 August 2009, the Board announced the Proposed PRC Company Acquisition where the Company, through CR Gas (China), a wholly-owned subsidiary of the Company, agreed to acquire from an independent third party a 6% interest in Zhenjiang CR Gas which is currently indirectly owned by China Resources Holdings as to 45%. Zhenjiang CR Gas forms part of the Target Group which is subject to the Acquisition. As announced, the Proposed PRC Company Acquisition will, subject to receipt of all approvals from the relevant PRC authorities, be completed upon CR Gas (China) being duly registered as the holder of 6% interest in Zhenjiang CR Gas. The parties to the Proposed PRC Company Acquisition have agreed to submit all relevant documents for the Proposed PRC Company Acquisition to the PRC authority within 15 days after 18 January 2010. Upon completion of the Acquisition and the PRC Company Acquisition, Zhenjiang CR Gas will become a subsidiary of the Company held through Top Steed and CR Gas (China).

D. MANAGEMENT DISCUSSION AND ANALYSIS OF THE TARGET GROUP

Results of operations of segmental operations

In accordance with the internal management reports of the Target Group, the Target Group has historically reported its results in two segments: sale and distribution of gas fuel and related products to non-residential and residential customers and connection fees to non-residential and residential customers.

Sales and distribution of gas fuel and related products to non-residential and residential customers

The Target Group recorded revenue from sales and distribution of gas fuel and related products to non-residential and residential customers of approximately HK$222 million, HK$527 million and HK$439 million during the two years ended 31 December 2007, 2008 and in the six months ended 30 June 2009. The growth of the revenue during the years under review was primarily due to the acquisition of Xiangfan CR Gas, Qianjiang CR Gas and Yicheng CR Gas, resulting in a substantial increase of sales volume contributed by the said companies of the Target Group to non-residential and residential customers.

Gas pipeline connections fees for non-residential and residential customers

The Target Group recorded revenue from gas pipeline connection fees for non-residential and residential customers of approximately HK$63 million, HK$185 million and HK$77 million during the two years ended 31 December 2007, 2008 and in the six months ended 30 June 2009. There was no revenue recorded from gas pipeline connection fees for non-residential customers for the year ended 31 December 2007 prior to the acquisition of Xiangfan CR Gas, Qianjiang CR Gas and Yicheng CR Gas. Later, the growth of the revenue during the years under review was primarily due to the acquisition of Xiangfan CR Gas, Qianjiang CR Gas and Yicheng CR Gas, resulting in a substantial increase of sales volume contributed by the said companies of the Target Group to non-residential and residential customers.

Material acquisitions and disposals

On 1 April 2007, CR Gas Holdings, China Resources Holdings and an independent third party of the Company entered into sale and purchase agreements, pursuant to which CR Gas Holdings agreed to acquire Datong China Resources Gas Co., Ltd for a cash consideration of HK$60,600,839.

On 31 July 2007, CR Gas Holdings, China Resources Holdings and an independent third party of the Company entered into sale and purchase agreements, pursuant to which CR Gas Holdings agreed to acquire Zibo China Resources Gas Co., Ltd for a cash consideration of HK$95,395,668.

On 25 June 2008, CR Gas Holdings, China Resources Holdings and three respective independent third party of the Company entered into three separate sale and purchase agreements, pursuant to which CR Gas Holdings agreed to acquire Xiangfan CR Gas, Qianjiang CR Gas and Yicheng CR Gas for a cash consideration of HK$74,206,021.82, HK$16,512,815.99 and HK$21,422,873.90 respectively.

Further and as mentioned in the section entitled "Information of Top Steed", China Resources Holdings, pursuant to the Pre-Acquisition Reorganisation, has procured Top Steed through various SPVs in BVI and Hong Kong to acquire seven target PRC companies to form the Target Group at a total cash consideration of RMB338,653,637.70.

Liquidity and Capital Resources

The Target Group's primary cash requirements are to finance its own operations. The Targets Group funds its operations primarily by cash generated by its own operations and short-term and long-term borrowings.

The following table presents selected cash flow data from Target Group's consolidated cash flow statements for 2007 and 2008 and the six months ended 30 June 2009.

	Year ended 31 December		Six months ended 30 June
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Net cash inflow/(outflow) from operating activities	14,091	109,417	61,670
Net cash inflow/(outflow) from investing activities	(1,857)	22,118	12,811
Net cash inflow/(outflow) from financing activities	48,366	(36,875)	137

Indebtedness

The Target Group's consolidated borrowings as at 31 December 2007 and 31 December 2008 and 30 June 2009 were as follows:

	Effective interest rate per annum	At 31 December 2007	At 31 December 2008	At 30 June 2009
		HK$'000	*HK$'000*	*HK$'000*
Fixed-rate borrowings:				
Unsecured RMB bank loans	4.78% - 7.47%	64,068	10,223	36,876
Unsecured RMB other loans	4.78%	—	29,534	—
Total fixed-rate borrowings		64,068	39,757	36,876
Floating-rate borrowing:				
Unsecured RMB bank loan at 1% below the People's Bank of China Base Rate	4.78%	—	—	34,039
Total floating-rate borrowing		—	—	34,039
Total borrowings		64,068	39,757	70,915

The maturity profile of the interest bearing borrowings of the Target Group as at each of the dates indicated below was as follows:

	At 31 December 2007	At 31 December 2008	At 30 June 2009
	HK$'000	*HK$'000*	*HK$'000*
On demand or within one year	64,068	39,757	45,386
After one year but within two years	—	—	25,529
	64,068	39,757	70,915

The Target Group's current ratio (calculated by total current assets divided by total current liabilities) was 79.6%, 81.5% and 86.6% as at 31 December 2007, 31 December 2008 and 30 June 2009 respectively.

Charge of assets

Save and except for a pledged bank deposit and trade receivables in the amount of HK$2,555,000 and HK$1,265,000 as at 30 June 2009, respectively, the Target Group has not taken any charge over its assets during the financial years ended 2007 and 2008 and the six months period ended 30 June 2009.

Contingent liabilities

The Target Group had no contingent liabilities as at 31 December 2007, 31 December 2008 and 30 June 2009.

Capital Commitments

The Target Group had no contractual capital expenditure commitments as at 30 June 2009.

Employees remuneration

As at 30 June 2009, the Target Group employed approximately 1,678 employees, as compared with 1,569 as at 31 December 2008 and 1,270 as at 31 December 2007. All employees are remunerated based on industry practice and in accordance with the prevailing employment law. All employees of the Target Group are employed in the PRC.

Foreign currency risk

The management considers the Target Group is not exposed to significant foreign currency risks as majority of its operations and businesses are transacted and denominated in RMB.

E. FINANCIAL EFFECTS OF THE ACQUISITION ON THE TARGET GROUP

Net Assets

As at 30 June 2009, the consolidated net assets of the Group attributable to the Shareholders was approximately HK$2,175 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 2009 is the date of Completion, the unaudited pro-forma combined net assets of the Enlarged Group attributable to the Shareholders will be decreased by approximately HK$925 million to approximately HK$1,250 million.

Net Current Assets

As at 30 June 2009, the consolidated net current assets of the Group attributable to the Shareholders were approximately HK$208 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 2009 is the date of Completion, the unaudited pro-forma combined net current assets of the Enlarged Group attributable to the Shareholders will be decreased by approximately HK$1,688 million and resulted in consolidated net current liabilities of approximately HK$1,480 million.

Profits

For the year ended 31 December 2008, the consolidated profit before taxation of the Group from continuing operation was approximately HK$336 million. Assuming 1 January 2008 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 2008 will be approximately HK$424 million.

For the year ended 31 December 2008, the consolidated profit for the year of the Group from continuing operation was approximately HK$302 million. Assuming 1 January 2008 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 2008 will be approximately HK$374 million.

F. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The continued economic growth and the rapid industrialization and urbanisation of China have spiked the demand for energy in the PRC. 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 2009 for 2008, natural gas only accounted for 3.63% of China's total primary energy consumption, which is lower than Asia Pacific region's consumption of 10.97% and far lower than the world's consumption of 24.14%. The Company therefore believes that there is significant room for further increases in the utilisation of natural gas in China. The PRC government has been very supportive of the development of the natural gas industry and has promulgated various policies and guidelines to encourage and rationalize the usage of natural gas. The "West to East Gas Transmission" pipelines were constructed to bring natural gas from the Xinjiang Autonomous Region to the coastal regions of the PRC. Construction of the second phase of the "West to East Gas Transmission" pipelines and the "Sichuan to East" pipelines from the gas-rich Central Asia and Sichuan province to coastal regions of the PRC as well as construction of liquefied natural gas terminals in coastal cities are actively in progress. All these offer significant opportunity for future growth in the natural gas industry in China. The Company will ride on these favourable industry fundamentals and its strong and experienced management team to scale new heights via organic and acquisition growth. The Board believes that the Enlarged Group, being one of the leading pan-China gas distributors, will be strategically positioned to take up new opportunities and to capture growth opportunity in the gas industry in China.

G. NATURE OF BUSINESS OF THE COMPANY, POWERFAITH AND CHINA RESOURCES HOLDINGS

Nature of the business of the Company

The Company is an investment holding company which is principally engaged in city gas distribution business including piped natural or petroleum gas distribution and operating CNG (compressed natural gas) filling stations in the PRC. Its piped natural gas operations are strategically located in areas of China with rich reserves of natural gas and areas which are economically more developed and densely populated. Its operation covers provincial capitals and major cities such as Chengdu, Nanjing, Wuhan, Kunming, Jinan, Wuxi and Suzhou.

Nature of the business of Powerfaith

Powerfaith is a wholly-owned subsidiary of China Resources Holdings and is an investment holding company with investments in gas projects in various parts of China, including investments in the Target Group.

Nature of business of China Resources Holdings

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

III. LISTING RULES IMPLICATIONS

A. THE ACQUISITION

The Acquisition constitutes a major acquisition of the Company under the Listing Rules. Since China Resources Holdings, being the controlling shareholder of both Powerfaith, the vendor, and Top Steed, the acquired company, is also the controlling shareholder of the Company, holding approximately 74.94% 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 therefore subject to the approval of the Independent Shareholders at the SGM.

B. THE INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee has been constituted to consider the terms of the Acquisition contemplated under the Share Purchase Agreement and to advise and make recommendations to the Independent Shareholders as to how to vote at the SGM on the ordinary resolution regarding the Acquisition. 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 Acquisition.

CIMB has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the Acquisition. A letter from CIMB is set out on pages 23 to 33 of this circular.

IV. SGM

A SGM will be held on 19 October 2009 at 4:15 p.m. at Room 1901-05, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong, during which resolutions will be proposed to seek the Independent Shareholders' approval of, amongst other things, the Acquisition. By virtue that China Resources Holdings, being the controlling shareholder of the Company, holding approximately 74.94% of its issued share capital, is also the controlling shareholder of both Powerfaith and Top Steed, holding 100% of indirect interests in the respective companies, China Resources Holdings and any of its Associates are considered to have material interests in the Acquisition and will abstain from voting in respect of the proposed ordinary resolution to approve the Share Purchase Agreement and the Acquisition.

Voting by way of poll

Pursuant to rule 13.39(4) of the Listing Rules, all votes of the Shareholders at the SGM must be taken by poll. The chairman of the meeting will therefore demand a poll for every resolution put to the vote at the SGM pursuant to bye-law 78 of the bye-laws of the Company and the Company will announce the results of the poll in the manner prescribed under rule 13.39(5) of the Listing Rules.

A form of proxy for use by the Shareholders at the 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 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.

V. RECOMMENDATION

The Directors consider that the terms of the Share Purchase Agreement, are and will be conducted in ordinary course of business of the Group, 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 SGM to approve the Acquisition and the Share Purchase Agreement.

Your attention is drawn to the recommendation of the Independent Board Committee as set out on pages 21 to 22 to this circular and the letter from CIMB as set out on pages 23 to 33.

VI. ADDITIONAL INFORMATION

Appendix II to this circular contains the financial information of the Target Group for each of the two years ended 31 December 2007 and 2008 and for the six months ended 30 June 2009. Since the subsidiaries of Top Steed were acquired from independent third parties (except one which was established by CR Gas Holdings) during the two years ended 31 December 2007 and 2008 and the jointly controlled entities within the Target Group were acquired by the Target Group during the six months ended 30 June 2009, no financial information of the Target Group for the year ended 31 December 2006 can be presented in the accountants' report in Appendix II.

Among the seven subsidiaries and jointly controlled entities within the Target Group that are incorporated in the PRC and held by the intermediate holding companies incorporated in the BVI, three of them were acquired from an independent third party in 2008 and two were acquired from different independent third parties in 2007 by CR Gas Holdings, one was invested by China Resources Holdings in 2006 and commenced business in 2007 and the remaining one was established by CR Gas Holdings in 2007. Regarding those PRC companies that were acquired by CR Gas Holdings from independent third parties during 2007 and 2008, to the knowledge of the Company, CR Gas Holdings did not rely on any of the financial information of such companies for the financial year ended December 31, 2006 when it acquired such companies; CR Gas Holdings has mainly focused on the growth potentials, general economic trends and market conditions which are common factors for valuing companies engaged in the gas distribution business in the PRC; and in determining the purchase consideration payable, valuations were conducted in respect of the PRC Operating Companies, and CR Gas Holdings and the counterparties agreed on the purchase consideration by reference to such valuations and the strategic factors afore-mentioned. Also to the knowledge of the Company, given that the independent third party sellers of the relevant PRC companies were state-owned or state-controlled enterprises in the PRC, determination of the purchase consideration was largely driven by the appraised value of the companies based on the valuations due to the fact that state-owned or state-controlled enterprises in the PRC are prohibited under the law from disposing of their assets at a price below 90 per cent. of the appraised value of the assets; therefore CR Gas Holdings and the independent third party sellers did not focus or rely on the then financial information of the relevant PRC companies but rather rely on the valuations of the companies instead. In addition, since CR Gas Holdings acquired the relevant PRC companies during 2007 and 2008, to the knowledge of the Company, CR Gas Holdings has no direct and complete knowledge of the financial conditions and entries in the books and records of such companies for the period before the relevant acquisition dates. In light of the above, the Company was unable and hence did not rely on any of the 2006 financial information of the relevant PRC companies in considering the Acquisition proposal. Based on the above, the Company believes that non-inclusion of the 2006 financial information of the Target Group is not likely to mislead the shareholders of the Company or deprive the shareholders of any material information for an informed assessment or making an informed voting decision in respect of the Acquisition.

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

Your faithfully,
For and on behalf of
China Resources Gas Group Limited
Ma Guoan
Chairman

華潤燃氣控股有限公司
China Resources Gas Group 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

2 October 2009

To the Independent Shareholders

Dear Sir and Madam,

MAJOR AND CONNECTED TRANSACTION ACQUISITION OF TOP STEED LIMITED

We refer to the circular (the "Circular") dated 2 October 2009 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.

We have been appointed as members of the Independent Board Committee on 8 September 2009 to advise the Independent Shareholders in respect of the Acquisition contemplated under the terms of the Share Purchase Agreement, details of which are described in the letter from the Board as set out in the Circular.

We also draw your attention to the advice of CIMB, the independent financial adviser appointed in respect of the Acquisition as set out on pages 23 to 33 to the Circular.

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

Having taken into account, amongst other things, the advice of CIMB, the independent financial adviser to the Company, we consider that the terms of the Share Purchase Agreement as described in the letter from the Board as set out in the Circular are fair and reasonable and the Acquisition contemplated under the terms of the Share Purchase Agreement are in the interests of the Company and its Shareholders as a whole. Accordingly, we recommend you to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Acquisition.

Yours faithfully,
Independent Board Committee
Mr. Wong Tak Shing
Mr. Luk Chi Cheong
Dr. Yang Chonghe, Howard
Independent Non-Executive Directors

CIMB

CIMB Securities (HK) Limited

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

2 October 2009

*To the Independent Board Committee and
the Independent Shareholders of China Resources Gas Group Limited*

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION ACQUISITION OF TOP STEED LIMITED

We refer to our engagement as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition contemplated under the Share Purchase Agreement, details of which are contained in a circular (the "Circular") to the Shareholders dated 2 October 2009, 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 Mr. Wong Tak Shing, Mr. Luk Chi Cheong, and Dr. Yang Chonghe, Howard, being all the independent non-executive Directors, has been formed to advise the Independent Shareholders of the Company in relation to the Acquisition. Any vote of the Independent Shareholders at the SGM shall be taken by poll. China Resources Holdings and its associates will abstain from voting in relation to the resolution to be proposed to approve the Share Repurchase Agreement and the Acquisition.

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 the Company. The directors of the Company have declared in a responsibility statement set out in the Appendix IV 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 up to the date of the SGM. 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 the Company. 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 the Company, the Target Group or any of their respective subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

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*

In October 2008, the Group acquired from China Resources Holdings the entire issued share capital of China Resources Gas Group ("October 08 Acquisition") with the intention to expand into the city gas distribution business in China and capturing the increase in demand for natural gas in China. Since completion of the October 08 Acquisition, the Group has been principally engaged in city gas distribution business including piped natural or petroleum gas distribution and operating CNG (compressed natural gas) filling stations in PRC. Its piped natural gas operations are strategically located in areas of China with rich reserves of natural gas and areas which are economically more developed and densely populated. Its operation covers provincial capitals and major cities such as Chengdu, Nanjing, Wuhan, Kunming, Jinan, Wuxi and Suzhou. The October 08 Acquisition provides the Group with a new solid platform to further expand and establish itself as one of the leaders in the city gas distribution business in the PRC.

The October 08 Acquisition has provided stable cash flows income as well as a platform for higher growth potential to the Company. Leveraging the Company's current presence in the gas industry in China and China Resources Holdings Group's strong presence and brand name in China, the Board believes that the Acquisition is a step forward in further expanding its market share in the down stream gas industry and strengthening its customer and earnings base into different regions in China. Upon Completion, the Board believes that the Company, being one of the leading pan-China gas distributors, will be strategically positioned to take up new opportunities and to capture growth opportunity in the gas industry in China.

2. *The Target Group*

The Target 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 distribution operations are strategically located in the cities of Zibo, Yangquan, Xiangfan, Zhenjiang, Yicheng, Qianjiang and Datong. The China Resources Holdings Group, in order to cater for the Acquisition, underwent the Pre-Acquisition Reorganisation pursuant to which Top Steed has acquired from the China Resources Holdings Group its entire interests in members of the Target Group. The corporate chart before and after the Pre-Acquisition Reorganisation is set out on pages 9 and 10 of the Circular.

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 levels. We note that according to BP Statistical Review of World Energy June 2009, for 2008, natural gas only accounted for 3.63% of China's total primary energy consumption, which is lower than the Asia Pacific region's consumption of 10.97% and far lower than the world's consumption of 24.14%.

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 Top Steed***

The key financial information relating to Top Steed for the two years ended 31 December 2008 and the six months ended 30 June 2009 (the "Track Record Period") as stated in the letter from the Board in the Circular (the "Letter from the Board") are summarized as follows:-

	For the year ended 31 December 2007 *HK$ million*	**For the year ended 31 December2008** *HK$ million*	**For six months ended 30 June 2009** *HK$ million*
Audited consolidated profit before taxation and minority interests [1]	7	88	67
Audited consolidated profit after taxation and minority interests [1]	3	60	36
Unaudited combined profit before taxation and minority interests [2]	30	134	93
Unaudited combined profit after taxation and minority interests [2]	32	107	57
Audited total equity attributable to owners [1]	N/A	N/A	589[3]

Note:

1. As prepared in accordance with accounting principles generally accepted in Hong Kong and assuming the Pre-Acquisition Reorganisation had completed since 1 January 2007 excluding the figures of Zhenjiang CR Gas and Zibo China Resources Gas Co., Ltd for the respective periods in accordance with accounting principles generally accepted in Hong Kong, i.e. using merger accounting applicable for subsidiaries only (not applicable to jointly controlled enterprise).

2. Assuming the Pre-Acquisition Reorganisation had completed since 1 January 2007 including Zhenjiang CR Gas and Zibo China Resources Gas Co., Ltd. though they were only acquired by Top Steed on 30 June 2009.

3. Before taking into consideration minority interests amounting to HK$86 million.

The following table sets forth the combined turnover of the Target Group (assuming the Pre-Acquisition Reorganisation had completed since 1 January 2007 including Zhenjiang CR Gas and Zibo China Resources Gas Co., Ltd. though they were only acquired by Top Steed on 30 June 2009) from sale and distribution of gas fuel and gas pipeline connection to external customers for the periods indicated together with those products' respective percentage shares of the Target Group's turnover:

	For the year ended 31 December				Six months ended	
	2007		2008		30 June 2009	
Category	*HK$ million (unaudited)*		*HK$ million (unaudited)*		*HK$ million (unaudited)*	
Sale and Distribution of Gas Fuel						
- residential customers	22	8%	111	16%	69	13%
- non-residential customers	200	70%	416	58%	370	72%
Sub-Total	222	78%	527	74%	439	85%
Connection Fees						
- residential customers	63	22%	147	21%	65	13%
- non-residential customers	—	—	38	5%	12	2%
Sub-Total	63	22%	185	26%	77	15%
Total	285	100%	712	100%	516	100%

Turnover of the Target Group primarily represents income derived from sale and distribution of gas fuel and gas pipeline connection. The Target Group has 7 operating subsidiaries and jointly controlled entities which were acquired or incorporated by the China Resources Holding Group in different period as follows:

Operating subsidiaries and jointly controlled entities of Top Steed	**Incorporation/acquisition by the China Resources Holdings Group**
Datong China Resources Gas Co. Ltd	Acquired in April 2007
Yangquan China Resources Gas Co. Ltd	Incorporated in September 2007
Xiangfan China Resources gas Co. Ltd	Acquired in June 2008
Yicheng China Resouces Gas Co. Ltd	Acquired in June 2008
Qianjiang China Resources Gas Co.Ltd	Acquired in June 2008
Zibo China Resources Gas Co. Ltd	Acquired in July 2007
Zhenjiang China Resources Gas Co. Ltd	Commenced operation in January 2007

As these operating subsidiaries and jointly controlled entities (except for Zhenjiang CR Gas and Zibo China Resources Gas Co., Ltd. where their results were accounted for since 1 January 2007 as if the Pre-Acquisition Reorganisation had completed on the same date) of the Target Group were acquired or incorporated in various time during the Track Record Period, their results were only consolidated into the group results of the Target Group since their respective dates of acquisition or incorporation. The increase in turnover (and hence the profitability) of the Target Group during the Track Record Period was mainly attributable to the revenue contribution from these entities from their respective dates of acquisition or incorporation.

For the year ended 31 December 2008 and the six months ended 30 June 2009, approximately 58% and 72% of the revenue of the Target Group were derived from sale and distribution of 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 Target Group to achieve further growth and profitability.

Further details of the results of the Target Group during the Track Record Period are set out in the sub-section headed "Financial information of Top Steed" on pages 11 to 12 of the Circular and the financial information of Top Steed set out in Appendix II to the Circular.

Views

Having taken account of the above factors, we concur with the Directors that since the October 08 Acquisition, the Company has been strategically positioned to take up new opportunities and to capture growth opportunity in the gas industry in China, and that the Acquisition is a step forward in further expanding the Group's market share in the gas distribution industry and strengthening its market coverage and earnings base in China. Given that the consideration for the Acquisition is fair and reasonable as elaborated below, we consider that the Acquisition is in line with the Company's strategy to become China's leading gas distribution company and hence 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 is HK$1,600 million ("Consideration"), which shall be satisfied in cash and payable within 12 months from the date of Completion. The Consideration has been arrived at after arm's length negotiations between Powerfaith 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 of the Target Group, combined net asset value of the Target Group and future prospects of the relevant industries including general economic trends and market growth and the prevailing commercial and business conditions in which Top Steed operates.

We further note that pursuant to the Share Purchase Agreement, Powerfaith has guaranteed to the Company that the combined profit after taxation of members of the Target Group attributable to Top Steed for the financial year ending 31 December 2009 assuming the Pre-Acquisition Reorganisation had completed since 1 January 2009 will not be less than HK$124 million ("Guaranteed Profit"). In the event that such combined profit after taxation is less than the guaranteed level or Top Steed has a combined loss after taxation for such period, Powerfaith will compensate the Company an amount equal to the difference between the guaranteed amount of HK$124 million and the combined profit or loss after taxation of Top Steed for the period commencing from 1 January and ending 31 December 2009 multiplied by 13 and in any event, the compensation payable by Powerfaith to the Company will not exceed the difference between the consideration of the Acquisition and the combined net asset value of Top Steed as at 30 June 2009.

Market Comparables

In assessing the fairness of the Consideration, we have, to our best knowledge, identified 9 companies (including the Company) listed on the Main Board of the Stock Exchange whose principal businesses are the operation of city gas distribution business and with market capitalization over HK$1 billion (the "Listed Comparables"). The following table sets out the comparison between the price-to-earnings ratio ('PER") and the price-to-book ratio ("PBR") as implied under the Consideration with those of the Listed Comparables.

Name of the Listed Comparables (stock code)	**Market capitalization** *(HK$' million)* *(Note 1)*	**PER for the year ended 31 December 2008 ("2008 PER")** *(times)* *(Note 2)*	**PER for the year ending 31 December 2009 ("2009 PER")** *(times)* *(Notes 2 & 3)*	**PBR** *(times)* *(Note 2)*
Hong Kong & China Gas Co. Ltd. (3)	124,731	18.14	26.52	3.98
Beijing Enterprises Holdings Ltd (392)	44,127	14.88	19.80	1.49
China Resources Gas Group Ltd (1193)	9,830	5.07	28.37	5.04
Xinao Gas Holdings Ltd. (2688)	13,652	16.60	11.51	2.72
China Gas Holdings Ltd. (384)	7,902	43.96	38.91	2.45
Towngas China Co. Ltd. (1083)	5,403	14.81	21.73	0.87
China Oil and Gas Group Limited (603)	2,274	28.56	N/A	1.52
Zhengzhou Gas Company Limited (3928)	2,042	10.04	9.55	2.30
Chinese People Holdings Company Limited (681)	1,041	28.98	N/A	1.64
Minimum		**5.07**	**9.55**	**0.87**
Maximum		**43.96**	**38.91**	**5.04**
Average		**20.12**	**22.34**	**2.45**
The Acquisition		**14.95** *(Note 4)*	**12.90** *(Note 5)*	**2.72** *(Note 6)*

Notes:

1. Calculated based on the closing price of the shares of the Listed Comparables as extracted from Bloomberg as of the date of the Share Purchase Agreement.

2. Extracted from Bloomberg.

3. Represents the prospective 2009 PER of the Listed Comparables (based on market consensus) as quoted on Bloomberg as of the date of the Share Purchase Agreement as available.

4. Calculated based on the Consideration and the combined net profit of Top Steed for the year ended 31 December 2008 of approximately HK$107 million, assuming the Pre-Acquisition Reorganisation had completed since 1 January 2007 including Zhenjiang CR Gas and Zibo Gas Co. Ltd.

5. Calculated based on the Consideration and the Guaranteed Profit of HK$124 million.

6. Calculated based on the Consideration and the equity attributable to the owners of Top Steed of approximately HK$589 million as at 30 June 2009.

As noted from the table above, the 2008 PER as implied under the Consideration is lower than the average of those of the Listed Comparables. Given that China Resources Holdings has guaranteed to the Company that the Guaranteed Profit will not be less than HK$124 million, we have also compared the 2009 PER (calculated based on the Consideration and the Guaranteed Profit) with the 2009 PER of the Listed Comparables (as quoted on Bloomberg where available). We note that the 2009 PER as implied under the Consideration is also lower than the average of those of the Listed Comparables. The PBR as implied under the Consideration is comparable to the average of those of the Listed Comparables.

Comparable Transactions

In assessing the fairness of the Consideration, we have also, to our best knowledge, identified 4 notifiable transactions ("Comparable Transactions") conducted by companies listed on the Main Board of the Stock Exchange in relation to natural gas business in the past one year preceding the Latest Practicable Date.

Listed company (stock code)	**Announcement Date**	**Net asset value ("NAV") of target**	**Consideration**	**Brief description of target**	**PER**	**PBR**
		HK$' million	*HK$' million*		*times*	*times*
China Resources Gas Group Ltd (1193) (as purchaser)	9-Jan-09	63	301	51% interest in Wuhan Tongbao Gas Development Co. Ltd., which is engaged in the provision of natural gas related products and services	61.48	9.37

Listed company (stock code)	Announcement Date	Net asset value ("NAV") of target	Consideration	Brief description of target	PER	PBR
		HK$' million	*HK$' million*		*times*	*times*
Town Gas China Co Ltd (1083) (as purchaser)	3-Mar-09	43	287	100% equity interest in Sichuan Huachuan Gas Company Ltd., which is engaged in the sale of piped gas (including natural gas) and the construction, maintenance and operation of gas pipeline network in Sichuan Province, the PRC	9.19	6.66
Town Gas China Co Ltd (1083) (as vendor)	2-Apr-09	327	414	100% equity interest in Panva LPG, the operating entities of which are engaged in the sales and distribution of LPG in various cities of the PRC	15.81	1.27
China Resources Gas Group Ltd (1193) (as purchaser)	28-Aug-09	323	31	6% interest in Zhenjiang China Resources Gas Co. Ltd., which is engaged in the provision of natural gas related products and services	5.75	1.60
Minimum					**5.75**	**1.27**
Maximum					**61.48**	**9.37**
Average					**23.06**	**4.73**
The Acquisition				**2008 PER**	**14.95**	
				2009 PER	**12.90**	**2.72**

As noted from the table above, both the 2008 PER and the 2009 PER as implied under the Consideration is lower than the average of the Comparable Transactions. The PBR as implied under the Consideration is also lower than the average PBR 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) **Possible financial effects of the Acquisition**

Earnings

Upon Completion, the results of Top Steed will be consolidated by the Company. For the year ended 31 December 2008, the consolidated profit for the year of the Group from continuing operation was approximately HK$302 million. Assuming 1 January 2008 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 2008 will be enhanced to approximately HK$374million.

Net asset value

As noted from the unaudited pro forma financial information of the Enlarged Group set out in Appendix I to the Circular which assumes that the Acquisition had been completed on 30 June 2009, the unaudited pro forma combined net asset value of the Enlarged Group attributable to the Shareholders immediately upon Completion would have amounted to approximately HK$1,250 million as compared to the consolidated net asset value of the Company as at 30 June 2009 of approximately HK$2,175 million as stated in the Company's interim report for the six months ended 30 June 2009 (the "Interim Report"). The decrease of approximately HK$925 million represents the difference between the consideration of the Acquisition and the net asset value of the Target Group, which are to be booked as merger reserve in the balance sheet of the Group in accordance with the accounting guideline issued by Hong Kong Institute of Certified Public Accountants. As we consider the consideration is fair and reasonable (as explained above with PER and PBR analysis), we consider such decrease which arises from accounting treatment acceptable.

Working capital

The consideration will be satisfied by cash and payable within 12 months from the date of Completion. The Company is proposing that the consideration be funded by internal resources of the Company and other financings to be arranged by the Company. As noted from the Company's interim report for the six months ended 30 June 2009, the Company had bank balances and cash of approximately HK$1,410 million as at 30 June 2009. As noted from the announcements of the Company dated 26 March 2009 and 8 September 2009, the Company has obtained term loan facilities of up to an aggregate amount of HK$1.6 billion (representing HK$0.8 billion pursuant to a 2-year term loan facility agreement and up to an aggregate amount of HK$0.8 billion pursuant to a 5-year term loan facility agreement), about HK$800 million of which is still un-utilised as confirmed by the management of the Company. We noted that the Directors have confirmed that the Company will have sufficient working capital for its present requirements for the next twelve months from the date of the Circular after taking into account the internal resources available to the Company. In this regard, in view of the current cash position of the Company, the available term loan facilities to the Company, the terms of the Share Purchase Agreement that the consideration is payable within 12 months from the date of Completion, and the confirmation from the Directors that the Company will have sufficient working capital for its present requirements for the next twelve months from the date of the Circular, we consider that the Acquisition will not have an immediate material adverse impact to the working capital position of the Company.

RECOMMENDATION

Having considered the principal factors and reasons referred to the above, we consider that the Share Purchase Agreement is entered into within the usual and ordinary course of business of the Company and the terms thereof are of normal commercial terms and fair and reasonable so far as the Company and the Independent Shareholders are concerned. Accordingly, we consider that the Share Repurchase Agreement is in the interests of the Company and the Shareholders as a whole. We advise the Independent Board Committee to recommend, and ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Share Purchase Agreement and the Acquisition.

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

Alex Lau	**Heidi Cheng**
Director	*Director*
Head of Corporate Finance	

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 unaudited financial information of the Enlarged Group.

Deloitte.
德勤

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Hong Kong

ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF CHINA RESOURCES GAS GROUP LIMITED

We report on the unaudited pro forma financial information of China Resources Gas Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") and Top Steed Limited ("Top Steed") and its subsidiaries and jointly controlled entities (the "Target Group", together with the Group hereinafter collectively referred to as the "Enlarged Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the major acquisition of the entire issued share capital of Top Steed by the Company might have affected the financial information presented, for inclusion in Appendix I of the circular dated 2 October 2009 (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 (the "HKICPA").

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 HKICPA. 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 Group as at 30 June 2009 or any future date.

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
2 October 2009

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The accompanying unaudited pro forma statement of assets and liabilities of the Enlarged Group has been prepared giving effect to the proposed acquisition of the Target Group from Powerfaith Enterprises Limited ("Powerfaith"), a fellow subsidiary of the Company, (the "Acquisition").

The unaudited pro forma statement of assets and liabilities of the Enlarged Group has been prepared by the directors in accordance with rule 4.29 of the Listing Rules to illustrate how the Acquisition might have affected the assets and liabilities of the Group had such transaction been completed on 30 June 2009.

The unaudited pro forma statement of assets and liabilities of the Enlarged Group is prepared by the directors based upon (i) the unaudited consolidated statement of financial position of the Group as at 30 June 2009, which has been extracted from the interim report of the Company for the six months ended 30 June 2009; and (ii) the consolidated statement of financial position of Target Group as at 30 June 2009, which has been extracted from the accountant's report on Target Group for each of the two years ended 31 December 2008 and the six months ended 30 June 2009 as set out in Appendix II to the Circular, after making pro forma adjustments relating to the Acquisition that are (i) directly attributable to the transaction; and (ii) factually supportable, as if the Acquisition has been completed on 30 June 2009.

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

Unaudited pro forma statement of assets and liabilities of the Enlarged Group at 30 June 2009

	The Group	Pro forma adjustments: Target Group	Pro forma adjustments: Other adjustment	Pro forma adjusted total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
		Note 1		
Non-current assets				
Property, plant and equipment	1,630,555	711,720	—	2,342,275
Prepaid lease payments	108,020	28,967	—	136,987
Investment properties	7,750	—	—	7,750
Interests in associates	12,779	3,514	—	16,293
Available-for-sale investments	8,290	9,895	—	18,185
Goodwill	290,374	23,089	—	313,463
Exclusive operating rights	628,130	1,004	—	629,134
Deferred tax assets	—	11,524	—	11,524
Deposits for investment in subsidiaries	18,619	—	—	18,619
	2,704,517	789,713	—	3,494,230
Current assets				
Inventories	93,925	20,896	—	114,821
Trade and other receivables	324,556	192,625	—	517,181
Prepaid lease payments	3,817	920	—	4,737
Amounts due from customers for contract work	142,111	74,638	—	216,749
Amounts due from group companies	—	43,441	—	43,441
Amount due from a minority shareholder of a subsidiary	24,241	—	—	24,241
Tax recoverable	—	351	—	351
Pledged bank deposit	740	2,555	—	3,295
Bank balances and cash	1,410,091	234,851	(1,600,000)	44,942
	1,999,481	570,277	(1,600,000)	969,758
Assets classified as held for sale	10,221	—		10,221
	2,009,702	570,277	(1,600,000)	979,979
Current liabilities				
Trade and other payables	1,224,115	324,922	—	1,549,037
Amounts due to customers for contract work	423,172	262,107	—	685,279
Amounts due to group companies	—	13,459	—	13,459
Bank and other borrowings - amount due within one year	152,484	45,386	—	197,870
Dividend payable to an intermediate holding company	—	6,369	—	6,369
Taxation payable	1,481	6,465	—	7,946
	1,801,252	658,708	—	2,459,960

		Pro forma adjustments		
	The Group	Target Group	Other adjustment	Pro forma adjusted total
	HK$'000	*HK$'000* *Note 1*	*HK$'000*	*HK$'000*
Net current assets (liabilities)	208,450	(88,431)	(1,600,000)	(1,479,981)
Total assets less current liabilities	2,912,967	701,282	(1,600,000)	2,014,249
Non-current liabilities				
Bank and other borrowings - amount due after one year	518,541	25,529	—	544,070
Other long-term liabilities	78,877	—	—	78,877
Deferred tax liabilities	140,692	364	—	141,056
	738,110	25,893	—	764,003
	2,174,857	675,389	(1,600,000)	1,250,246

Notes to the unaudited pro forma statement of assets and liabilities

1. Adjustment to combine the assets and liabilities of the Target Group, in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants as the Group and Target Group are ultimately controlled by the same party before and after the Acquisition, on the assumption that the Acquisition had been completed on 30 June 2009. The cash consideration for the Acquisition of HK$1,600,000,000 would be charged against shareholders' equity as an adjustment arising from the group reorganisation.

2. The reorganisation and other expenses attributable to the Acquisition have not been accounted for in the preparation of the unaudited pro forma statement of assets and liabilities as such expenses cannot be reliably 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 the Target Group

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2 October 2009

The Directors
China Resources Gas Group Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") relating to Top Steed Limited (the "Top Steed") and its subsidiaries and jointly controlled entities (hereinafter collectively referred to as the "Target Group") for each of the two years ended 31 December 2007 and 2008 and for the six months ended 30 June 2009 (the "Relevant Periods"), for the inclusion in the circular of China Resources Gas Group Limited dated 2 October 2009 (the "Circular") in connection with the major acquisition of the entire issued share capital of Top Steed by China Resources Gas Group Limited.

Top Steed was incorporated on 11 June 2009 in the British Virgin Islands as an exempted company with limited liability. Top Steed has become the holding company of the Target Group on 30 June 2009.

Particulars of Top Steed's subsidiaries, jointly controlled entities and associate of a jointly controlled entity , all of which are directly or indirectly held by Top Steed are as follows:

	Place and date of incorporation/ establishment	Issued and fully paid shares/ registered capital	Attributable equity interest of the Target Group At 31 December 2007	2008	At 30 June 2009 and at the date of this report	Principal activities
Subsidiaries						
Cherish Hope Limited * 珍望有限公司	British Virgin Islands 3 April 2009	USD1	N/A	N/A	100%	Investment holding
Cosmic Revival Limited * 振宇有限公司	British Virgin Islands 3 April 2009	USD1	N/A	N/A	100%	Investment holding

	Place and date of incorporation/ establishment	Issued and fully paid shares/ registered capital	Attributable equity interest of the Target Group At 31 December 2007	2008	At 30 June 2009 and at the date of this report	Principal activities
Energy Sino Limited * 量華有限公司	British Virgin Islands 3 April 2009	USD1	N/A	N/A	100%	Investment holding
Excel Max Limited * 卓萬有限公司	British Virgin Islands 6 April 2009	USD1	N/A	N/A	100%	Investment holding
Favor Sea Investments Limited * 喜洋投資有限公司	British Virgin Islands 21 May 2008	USD1	N/A	100%	100%	Investment holding
Port Time Limited * 港泰有限公司	British Virgin Islands 3 April 2009	USD1	N/A	N/A	100%	Investment holding
Source Magic Limited * 妙源有限公司	British Virgin Islands 3 April 2009	USD1	N/A	N/A	100%	Investment holding
Datong China Resources Gas (Hong Kong) Limited 大同華潤燃氣(香港)有限公司	Hong Kong 27 May 2009	HK$1	N/A	N/A	100%	Investment holding
Profit Dash Limited 麒凱有限公司	Hong Kong 23 April 2008	HK$1	N/A	100%	100%	Investment holding
Qianjiang China Resources Gas (Hong Kong) Limited 潛江華潤燃氣(香港)有限公司	Hong Kong 27 May 2009	HK$1	N/A	N/A	100%	Investment holding
Xiangfan China Resources Gas (Hong Kong) Limited 襄樊華潤燃氣(香港)有限公司	Hong Kong 27 May 2009	HK$1	N/A	N/A	100%	Investment holding
Yangquan China Resources Gas (Hong Kong) Limited 陽泉華潤燃氣(香港)有限公司	Hong Kong 27 May 2009	HK$1	N/A	N/A	100%	Investment holding
Yicheng China Resources Gas (Hong Kong) Limited 宜城華潤燃氣(香港)有限公司	Hong Kong 27 May 2009	HK$1	N/A	N/A	100%	Investment holding
Zibo China Resources Gas (Hong Kong) Limited 淄博華潤燃氣(香港)有限公司	Hong Kong 27 May 2009	HK$1	N/A	N/A	100%	Investment holding

	Place and date of incorporation/ establishment	Issued and fully paid shares/ registered capital	Attributable equity interest of the Target Group At 31 December 2007	2008	At 30 June 2009 and at the date of this report	Principal activities
大同華潤燃氣有限公司 [1]	People's Republic of China ("PRC") 11 February 2004	RMB44,000,000	75%	75%	75%	Sales of liquefied gas and connection of gas pipelines
陽泉華潤燃氣有限公司 [1]	PRC 25 September 2007	RMB50,000,000	75%	75%	75%	Sales of liquefied gas and connection of gas pipelines
潛江華潤燃氣有限公司 [2]	PRC 16 January 2003	RMB10,000,000	N/A	100%	100%	Sales of liquefied gas and connection of gas pipelines
襄樊華潤燃氣有限公司 [1]	PRC 25 March 2002	RMB70,000,000	N/A	71.43%	71.43%	Sales of liquefied gas and connection of gas pipelines
襄樊大明設計咨詢有限公司 [1 +]	PRC 10 October 2003	RMB100,000	N/A	77.14%	77.14%	Design of gas pipelines
宜城華潤燃氣有限公司 [2]	PRC 30 December 2002	RMB10,000,000	N/A	100%	100%	Sales of liquefied gas and connection of gas pipelines
Jointly controlled entities						
淄博華潤燃氣有限公司 [3]	PRC 5 November 2002	RMB186,000,000	N/A	N/A	46%	Sales of liquefied gas and connection of gas pipelines
淄博廣爍燃氣銷售有限公司[#]	PRC 29 April 2007	RMB500,000	N/A	N/A	46%	Sales of liquefied gas appliances
淄博信創燃氣工程設計有限公司[#]	PRC 10 June 2005	RMB500,000	N/A	N/A	40.5%	Design and connection of gas pipelines

	Place and date of incorporation/ establishment	Issued and fully paid shares/ registered capital	Attributable equity interest of the Target Group At 31 December 2007	2008	At 30 June 2009 and at the date of this report	Principal activities
鎮江華潤燃氣有限公司 [3]	PRC 7 September 2006	RMB150,000,000	N/A	N/A	45%	Sales of liquefied gas and connection of gas pipelines
鎮江藍焰燃氣工程有限公司[##]	PRC 18 April 2008	RMB20,000,000	N/A	N/A	45%	Connection of gas pipelines
鎮江藍焰燃氣設計有限公司[##]	PRC 10 May 2007	RMB1,100,000	N/A	N/A	45%	Connection of gas pipelines
鎮江藍焰燃氣物資經營有限公司[##]	PRC 2 March 2007	RMB10,000,000	N/A	N/A	45%	Sales of construction materials for connection of gas pipelines
鎮江市煤氣總公司燃氣工程公司[##]	PRC 9 August 2004	RMB20,000,000	N/A	N/A	45%	Connection of gas pipelines
句容華潤燃氣有限公司[##]	PRC 6 August 2008	RMB20,000,000	N/A	N/A	45%	Sales of liquefied gas
Associate of a jointly controlled entity						
鎮江東源壓縮天然氣有限公司 [1###]	PRC 7 May 2007	RMB16,500,000	N/A	N/A	11.25%	Sales of liquefied gas

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 Top Steed.

+ Directly held by襄樊華潤燃氣有限公司 and 宜城華潤燃氣有限公司, the Target Group's subsidiaries.

Directly held by淄博華潤燃氣有限公司, the Target Group's jointly controlled entity.

Directly held by 鎮江華潤燃氣有限公司, the Target Group's jointly controlled entity.

Directly held by 鎮江華潤燃氣有限公司, the Group's jointly controlled entity. The Target Group is able to exercise significant influence on the associate through the joint control on 鎮江華潤燃氣有限公司 for which a director was appointed to participate in the board of that associate.

All of the above subsidiaries, jointly controlled entities and associate of a jointly controlled entity 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 Top Steed and Profit Dash Limited since the date of incorporation. No statutory audited financial statements have been prepared for Top Steed and the subsidiaries incorporated in British Virgin Islands, as these companies were incorporated in a jurisdiction where there was no statutory audit requirement. In addition, except for Profit Dash Limited, no statutory audited financial statements have been prepared for subsidiaries incorporated in Hong Kong as they have not reached their first financial reporting requirement during the Relevant Periods. For the purpose of this report, we have reviewed the relevant transactions of Top Steed and the subsidiaries incorporated in British Virgin Islands and Hong Kong, 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 associate of a jointly controlled entity 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**
大同華潤燃氣有限公司	For each of the two years ended 31 December 2007 and 2008 (Note a)	山西東正會計師事務所
陽泉華潤燃氣有限公司	For the period from 25 September 2007 (date of establishment) to 31 December 2007 and the year ended 31 December 2008	山西科盛會計師事務有限公司
潛江華潤燃氣有限公司	For the year ended 31 December 2008 (Note b)	潛江公正會計師事務有限公司
襄樊華潤燃氣有限公司	For the year ended 31 December 2008 (Note b)	襄樊華炬會計師事務有限公司
襄樊大明設計咨詢有限公司	For the year ended 31 December 2008 (Note b)	襄樊華炬會計師事務有限公司
宜城華潤燃氣有限公司	For the year ended 31 December 2008 (Note b)	襄樊遠達會計師事務有限公司
淄博華潤燃氣有限公司	(Note c)	N/A
淄博廣爍燃氣銷售有限公司	(Note c)	N/A
淄博信創燃氣工程設計有限公司	(Note c)	N/A
鎮江華潤燃氣有限公司	(Note c)	N/A

Name	Financial period	Name of auditors
鎮江藍焰燃氣工程有限公司	(Note c)	N/A
鎮江藍焰燃氣設計有限公司	(Note c)	N/A
鎮江藍焰燃氣物資經營有限公司	(Note c)	N/A
鎮江市煤氣總公司燃氣工程公司	(Note c)	N/A
句容華潤燃氣有限公司	(Note c)	N/A
鎮江東源壓縮天然氣有限公司	(Note c)	N/A

Notes:

(a) The subsidiary was newly acquired during the year ended 31 December 2007.

(b) These subsidiaries were newly acquired during the year ended 31 December 2008.

(c) These jointly controlled entities and associate of a jointly controlled entity were newly acquired during the six months ended 30 June 2009. No statutory financial statements of these jointly controlled entities and associate of a jointly controlled entity have been prepared as they are not required to prepare financial statements for the Relevant Periods.

For the purpose of this report, the directors of Top Steed have prepared the consolidated financial statements of the Target Group for the two years ended 31 December 2007 and 2008 and the six months ended 30 June 2009 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 Top Steed 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 Target Group as at 31 December 2007 and 2008 and 30 June 2009 and the state of affairs of Top Steed as at 30 June 2009 and of the consolidated results and cash flows of the Target Group for the Relevant Periods.

The comparative consolidated statement of comprehensive income, consolidated statement of cash flow and consolidated statement of changes in equity of the Target Group for the six months ended 30 June 2008 together with the notes thereon have been extracted from the Target Group's consolidated financial information for the same period (the "30 June 2008 Financial Information") which were prepared by the directors of Top Steed 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 2008 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 STATEMENTS OF COMPREHENSIVE INCOME

		Year ended 31 December		Six months ended 30 June	
	Notes	**2007**	**2008**	**2008**	**2009**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Turnover	8	82,874	381,015	54,698	353,245
Cost of sales		(59,952)	(247,715)	(39,783)	(245,237)
Gross profit		22,922	133,300	14,915	108,008
Other income		159	3,137	523	2,671
Selling and distribution expenses		(3,565)	(29,015)	(208)	(19,671)
Administrative expenses		(9,474)	(37,774)	(9,307)	(22,715)
Finance costs	9	(3,297)	(3,646)	(1,470)	(1,178)
Discount on acquisition of subsidiaries	33	—	22,104	—	—
Profit before taxation	10	6,745	88,106	4,453	67,115
Taxation	12	(2,948)	(16,775)	(1,713)	(20,787)
Profit for the year/period		3,797	71,331	2,740	46,328
Other comprehensive income					
Exchange difference arising on translation		1,469	7,612	6,680	(1,582)
Total comprehensive income for the year/period		5,266	78,943	9,420	44,746
Profit for the year/period attributable to:					
Owner of Top Steed		2,553	60,191	2,055	36,148
Minority interests		1,244	11,140	685	10,180
		3,797	71,331	2,740	46,328
Total comprehensive income attributable to:					
Owner of the Company		3,953	66,032	6,950	34,651
Minority interests		1,313	12,911	2,470	10,095
		5,266	78,943	9,420	44,746
Earnings per share	13	2,553	60,191	2,055	36,148

II. STATEMENTS OF FINANCIAL POSITION

		THE TARGET GROUP			TOP STEED
		At 31 December		At 30 June	At 30 June
	Notes	**2007**	**2008**	**2009**	**2009**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets					
Property, plant and equipment	14	110,846	397,552	711,720	—
Prepaid lease payments	15	—	19,428	28,967	—
Interests in subsidiaries	19	—	—	—	475,073
Interest in an associate	20	—	—	3,514	—
Goodwill	16	21,880	23,089	23,089	—
Exclusive operating rights	17	—	—	1,004	—
Available-for-sale investments	18	—	1,141	9,895	—
Deferred tax assets	30	—	1,312	11,524	—
		132,726	442,522	789,713	475,073
Current assets					
Inventories	21	347	6,246	20,896	—
Trade and other receivables	22	7,723	123,065	192,625	—
Amounts due from customers for contract work	23	20,964	61,923	74,638	—
Prepaid lease payments	15	—	68	920	—
Amounts due from fellow subsidiaries	25	—	25,699	43,441	—
Taxation recoverable		330	—	351	—
Pledged bank deposit	26	—	—	2,555	—
Bank balances and cash	26	62,071	161,684	234,851	—
		91,435	378,685	570,277	—

		THE TARGET GROUP			TOP STEED
		At 31 December		At 30 June	At 30 June
	Notes	2007	2008	2009	2009
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current liabilities					
Trade and other payables	27	21,211	301,259	324,922	—
Amounts due to customers for contract work	23	29,570	96,938	262,107	—
Amount due to an intermediate holding company	24	—	17,039	11,343	—
Amounts due to fellow subsidiaries	25	—	—	2,116	—
Bank and other borrowings - amount due within one year	28	64,068	39,757	45,386	—
Dividend payable to intermediate holding companies	29	—	—	6,369	—
Taxation payable		—	9,847	6,465	—
		114,849	464,840	658,708	—
Net current liabilities		(23,414)	(86,155)	(88,431)	—
		109,312	356,367	701,282	475,073
Capital and reserves					
Share capital	31	—	—	—	—
Reserves		87,457	280,266	589,115	475,073
Equity attributable to owner of Top Steed		87,457	280,266	589,115	475,073
Minority interests		21,855	76,101	86,274	—
		109,312	356,367	675,389	475,073
Non-current liabilities					
Bank and other borrowings - amount due after one year	28	—	—	25,529	—
Deferred tax liabilities	30	—	—	364	—
		—	—	25,893	—
		109,312	356,367	701,282	475,073

III. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Equity attributable to owner of Top Steed									
	Share capital	**Share premium**	**Capital reserve**	**General reserves**	**Exchange reserve**	**Merger reserve**	**Accumulated profits**	**Total**	**Minority interests**	**Total equity**
	HK$'000	*HK$'000*	*HK$'000* *(note a)*	*HK$'000* *(note b)*	*HK$'000*	*HK$'000* *(note c)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Exchange differences on translation to presentation currency	—	—	—	—	1,400	—	—	1,400	69	1,469
Profit for the year	—	—	—	—	—	—	2,553	2,553	1,244	3,797
Total comprehensive income for the year	—	—	—	—	1,400	—	2,553	3,953	1,313	5,266
Arising from group reorganisation	—	—	—	—	—	83,504	—	83,504	—	83,504
Acquisition of a subsidiary	—	—	—	—	—	—	—	—	7,626	7,626
Contributions from minority shareholders of subsidiaries	—	—	—	—	—	—	—	—	12,916	12,916
At 31 December 2007	—	—	—	—	1,400	83,504	2,553	87,457	21,855	109,312
Exchange differences on translation to presentation currency	—	—	—	—	5,841	—	—	5,841	1,771	7,612
Profit for the year	—	—	—	—	—	—	60,191	60,191	11,140	71,331
Total comprehensive income for the year	—	—	—	—	5,841	—	60,191	66,032	12,911	78,943
Arising from group reorganisation	—	—	—	—	—	126,777	—	126,777	—	126,777
Acquisition of subsidiaries	—	—	—	—	—	—	—	—	36,610	36,610
Contributions from minority shareholders of subsidiaries	—	—	—	—	—	—	—	—	4,725	4,725
Transfers	—	—	—	3,429	—	—	(3,429)	—	—	—
At 31 December 2008	—	—	—	3,429	7,241	210,281	59,315	280,266	76,101	356,367
Exchange differences on translation to presentation currency	—	—	—	—	(1,497)	—	—	(1,497)	(85)	(1,582)
Profit for the period	—	—	—	—	—	—	36,148	36,148	10,180	46,328
Total comprehensive income for the period	—	—	—	—	(1,497)	—	36,148	34,651	10,095	44,746
Share issued at premium	—	475,073	—	—	—	—	—	475,073	—	475,073
Arising from group reorganisation	—	—	—	—	—	(310,969)	—	(310,969)	—	(310,969)
Acquisition of jointly controlled entities	—	—	110,094	—	—	—	—	110,094	78	110,172
At 30 June 2009	—	475,073	110,094	3,429	5,744	(100,688)	95,463	589,115	86,274	657,389
At 1 January 2008 (audited)	—	—	—	—	1,400	83,504	2,553	87,457	21,855	109,312
Exchange differences on translation to presentation currency	—	—	—	—	4,895	—	—	4,895	1,785	6,680
Profit for the period	—	—	—	—	—	—	2,055	2,055	685	2,740
Total comprehensive income for the period	—	—	—	—	4,895	—	2,055	6,950	2,470	9,420
Arising from group reorganisation	—	—	—	—	—	15,844	—	15,844	—	15,844
Contributions from minority shareholders of subsidiaries	—	—	—	—	—	—	—	—	4,725	4,725
At 30 June 2008 (unaudited)	—	—	—	—	6,295	99,348	4,608	110,251	29,050	139,301

Notes:

(a) The capital reserve as at 30 June 2009 represented the discount on acquisition of 淄博華潤燃氣有限公司 and 鎮江華潤燃氣有限公司 from an intermediate holding company.

(b) 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.

(c) The merger reserve at 31 December 2007 represented the deemed contribution from China Resources Gas (Holdings) Limited ("CR Gas Holdings"), an intermediate holding company, upon its acquisition of 大同華潤燃氣有限公司 and 陽泉華潤燃氣有限公司, which were later injected to the Target Group upon Group Reorganisation as defined in note 2. During the year ended 31 December 2008, the amount represented the share capital of Profit Dash Limited, Favor Sea Investments Limited, and deemed contribution from CR Gas Holdings upon its acquisition of, 濳江華潤燃氣有限公司, 襄樊華潤燃氣有限公司 and 宜城華潤燃氣有限公司, which were later injected to the Target Group upon Group Reorganisation as defined in note 2. The amount as at 30 June 2009 represented deemed distribution to CR Gas Holdings, calculated based on the difference between the cash consideration paid by the Target Group and the total amount of share capital of the subsidiaries incorporated in the British Virgin Islands.

IV. CONSOLIDATED STATEMENTS OF CASH FLOW

	Year ended 31 December		Six months ended 30 June	
	2007	**2008**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
			(unaudited)	
Cash flows from operating activities				
Profit before taxation	6,745	88,106	4,453	67,115
Adjustments for:				
Interest income	(113)	(2,607)	(339)	(1,860)
Interest expense	3,297	3,646	1,470	1,178
Release from prepaid lease payments	—	68	—	349
Depreciation of property, plant and equipment	4,295	13,751	3,018	12,293
Gain on disposal of property, plant and equipment	—	(3)	—	—
Impairment loss on trade receivables	—	3,612	—	—
Discount on acquisition of subsidiaries	—	(22,104)	—	—
Operating cash flows before movements in working capital	14,224	84,469	8,602	79,075
Decrease (increase) in inventories	37,739	15,917	(17,352)	(4,707)
(Increase) decrease in trade and other receivables	(2,151)	(64,760)	(19,981)	412
(Increase) decrease in amounts due from customers for contract work	(20,964)	(37,106)	20,964	(5,959)
(Decrease) increase in trade and other payables	(41,049)	88,382	73,105	(94,935)
Increase (decrease) in amounts due to customers for contract work	29,570	34,914	(29,570)	116,326
Cash from operations	17,369	121,816	35,768	90,212
PRC Enterprise Income Tax paid	(3,278)	(12,399)	(1,060)	(28,542)
Net cash from operating activities	14,091	109,417	34,708	61,670

	Notes	Year ended 31 December 2007 HK$'000	Year ended 31 December 2008 HK$'000	Six months ended 30 June 2008 HK$'000 (unaudited)	Six months ended 30 June 2009 HK$'000
Cash flows from investing activities					
Acquisition of subsidiaries	33	5,468	125,855	—	—
Interest received		113	2,607	339	1,860
Proceeds from disposal of property, plant and equipment		—	20,202	—	—
Acquisition of jointly controlled entities	34	—	—	—	77,297
Purchase of property, plant and equipment		(7,438)	(81,768)	(17,119)	(50,818)
Advances to fellow subsidiaries		—	(25,700)	—	(15,528)
Additions of prepaid lease payments		—	(19,078)	—	—
Net cash (used in) from investing activities		(1,857)	22,118	(16,780)	12,811
Cash flows from financing activities					
Advance from (repayment to) an intermediate holding company		38,747	31,674	14,635	(4,364)
Contributions from minority shareholders of subsidiaries		12,916	4,725	4,725	—
New bank and other borrowings raised		—	—	—	35,175
Interest paid		(3,297)	(3,646)	(1,470)	(1,178)
Repayment of bank and other borrowings		—	(69,628)	(68,256)	(29,496)
Net cash from (used in) financing activities		48,366	(36,875)	(50,366)	137
Net increase (decrease) in cash and cash equivalents		60,600	94,660	(32,438)	74,618
Effect on foreign exchange rate changes		1,471	4,953	4,110	(1,451)
Cash and cash equivalents at beginning of the year/period		—	62,071	62,071	161,684
Cash and cash equivalents at end of the year/period, representing bank balances and cash		62,071	161,684	33,743	234,851

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL

Top Steed was incorporated on 11 June 2009 in the British Virgin Islands as a limited liability company and acts as investment holding company. Top Steed's immediate holding company and intermediate holding company as at 30 June 2009 are Powerfaith Enterprises Limited, a company incorporated in the British Virgin Islands, and CR Gas Holdings, a company incorporated in Hong Kong, respectively. The directors of Top Steed regard the ultimate holding company to be China Resources National Corporation ("CRNC"), a company established in the PRC. 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 Target Group is Renminbi ("RMB") while the Financial Information is presented in Hong Kong dollars ("HK$"), which the management of Top Steed 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 Target Group, Top Steed became the holding company of the Target Group on 30 June 2009. In June 2009, the Target Group acquired all the subsidiaries forming Target Group from the intermediate holding company for a cash consideration of HK$310,969,000.

Top Steed and the subsidiaries forming the Target Group are ultimately controlled by CRNC before and after the Group Reorganisation, and that control is not transitory. Top Steed and the subsidiaries forming the Target Group are regarded as continuing entities as at the dates of business combinations and the acquisitions have been accounted for as combinations of entities under common control by applying the principles of merger accounting in accordance with the Accounting Guideline 5 "Merger Accounting under Common Control Combination" ("AG 5") issued by the HKICPA. As Top Steed and its subsidiaries were either incorporated, established or acquired by the Target Group headed by CRNC in 2007 and beyond, as a result, the Financial Information only incorporated financial information of the Target Group since 2007. Accordingly, the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flow of the Target Group for the two years ended 31 December 2007 and 2008 and the six months ended 30 June 2009 include the results of operations, changes in equity and cash flows of the subsidiaries forming the Target Group as if the current group structure upon the completion of the Group Reorganisation had been in existence throughout the two years ended 31 December 2007 and 2008 and the six months ended 30 June 2009, or since their respective dates of incorporation or establishment where this is a shorter period, except for the subsidiaries acquired from independent third parties during the two years ended 31 December 2007 and 2008 as disclosed in note 33, which are included in the consolidated financial statements since their respective dates of acquisitions. The consolidated statements of financial position of the Target Group as at 31 December 2007 and 2008 have been prepared to present the assets and liabilities of the subsidiaries forming the Target Group as if current group structure had been in existence as at the respective date, except for the subsidiaries acquired from independent third parties by CR Gas Holdings during the two years ended 31 December 2007 and 2008 as disclosed in note 33, which are combined since their respective dates of acquisitions.

As the subsidiaries forming the Target Group were established or acquired from independent third parties by CR Gas Holdings during the two years ended 31 December 2007 and 2008 and the jointly controlled entities were acquired by the Target Group during the six months ended 30 June 2009, no financial information of the Target Group for the year ended 31 December 2006 can be presented.

The Target Group had net current liabilities of HK$23,414,000, HK$86,155,000 and HK$88,431,000 at 31 December 2007, 31 December 2008 and 30 June 2009, respectively. The Financial Information has been prepared on a going concern basis because the intermediate holding company has agreed to provide adequate funds to enable the Target 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

The Target Group has adopted all of the Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for the Target Group's financial period beginning on or prior to 1 January 2009 in the preparation of the Financial Information throughout the Relevant Periods.

The Target Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendements)	Amendment to HKFRS 5 as part of improvements to HKFRSs issued in 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009[1]
HKAS 27 (Revised)	Consolidated and separate financial statements[2]
HKAS 39 (Amendment)	Eligible hedged items[2]
HKFRS 1 (Amendment)	Additional exemptions for first-time adopters[3]
HKFRS 2 (Amendment)	Group cash-settled share-based payment transactions[3]
HKFRS 3 (Revised)	Business combinations[1]
HK(IFRIC) - INT 17	Distributions of non-cash assets to owners[1]
HK(IFRIC) - INT 18	Transfers of assets from customers[4]

1 Effective for annual periods beginning on or after 1 July 2009.

2 Amendments that are effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate.

3 Effective for annual periods beginning on or after 1 January 2010.

4 Effective for transfers on or after 1 July 2009.

The application of HKFRS 3 (Revised) may affect the Target Group's accounting treatment for non-common control business combination for which the acquisition date is on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for change in the Target Group's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

HK(IFRIC) - INT 18 applies to agreements in which an entity receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant and equipment and the entity must then use the item of property, plant and equipment either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both. The directors of Top Steed anticipate that the application of HK(IFRIC) - INT 18 will have no financial impact to the Target Group's operating results nor financial positions.

The directors of Top Steed anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and financial position of the Target Group.

4. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared under the historical cost basis and in accordance with the following accounting policies 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.

Basis of consolidation

The Financial Information incorporated the financial information of Top Steed and entities controlled by Top Steed (its subsidiaries). Control is achieved where Top Steed 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 statement of comprehensive income 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 the Target 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 Target 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 interests in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Target Group except to the extent that the minority shareholders has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations not involving entities under common control

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 Target 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 Target Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Target 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 business combinations involving entities under common control

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

The net assets of the combining entities or businesses are consolidated 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 statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses 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 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 Target 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 statement of financial position.

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 at the end of each reporting period, 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 statement of comprehensive income and 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 stated at cost less any identified impairment loss in Top Steed's statement of financial position.

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 jointly controlled entity.

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 statement of financial position at cost as adjusted for post-acquisition changes in the Target Group's share of the net assets of the associates, less any identified impairment loss. When the Target 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 Target Group's net investment in the associate), the Target 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 Target 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 Target Group, profits and losses are eliminated to the extent of the Target Group's interest in the relevant associate.

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

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

Any excess of the Target 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 Target Group, profits or losses are eliminated to the extent of the Target 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 construction of gas pipelines is recognised when the outcome of a construction contract for gas connection can be estimated reliably and the stage of completion at the end of each reporting period can be measured reliably. Revenue from and expenses on construction contracts for gas connection are recognised using the percentage of completion method, measured by reference to the contract costs incurred to date relative to the estimated total costs of the contract. When the outcome of a construction contract for gas connection 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.

Revenue from 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.

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 statement of comprehensive income 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).

Construction contracts

When the outcome of a construction contract for gas connection can be estimated reliably and the stage of contract completion at the end of the reporting period can be measured reliably, contract costs are charged to the consolidated statement of comprehensive income by reference to the stage of completion of the contract activity at the end of each reporting period on the same basis as contract revenue is recognised.

When the outcome of a construction contract for gas connection 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.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

Intangible assets

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

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 consolidated statement of financial position 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.

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.

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 the end of each reporting period subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from group companies, pledged bank deposit and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy of impairment loss on financial assets below).

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.

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 ("FVTPL"), loans and receivables or held-to-maturity investments.

At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. 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).

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 the end of each reporting period 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 the end of each reporting period. 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
- when it becomes probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade 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 Target 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, 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 and other receivables, where the carrying amount is reduced through the use of an allowance account. When a trade and other receivable is considered uncollectible, it is written off against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. 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.

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 Target Group after deducting all of its liabilities. The Target Group's financial liabilities are generally classified into financial liabilities other than those at FVTPL.

Financial liabilities

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

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.

Equity instruments

Equity instruments issued by Top Steed 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 Target 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 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 the end of each reporting period, the Target 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.

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 Target Group as lessee

Rental expenses arising from operating leases is charged to the consolidated statement of comprehensive income 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.

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 the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of each reporting period.

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 Financial Information, the assets and liabilities of the Target Group's operations are translated into the presentation currency of the Target Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of each reporting period, 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.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalized 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 as and included in finance costs in the consolidated statement of comprehensive income 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 (the "MPF 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 statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes income and expense items that are never taxable or deductible. The Target Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the Financial Information 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 profit 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, associate and joint controlled entities, except where the Target 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 the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the 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

The Target 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 following financial year from each reporting date are discussed below.

Estimation of useful lives of property, plant and equipment

Management estimates the useful lives of property, plant and equipment 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 amounts of property, plant and equipment at 31 December 2007, 31 December 2008 and 30 June 2009 are HK$110,846,000, HK$397,552,000 and HK$711,720,000, respectively.

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 Target 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. At 31 December 2007, 31 December 2008 and 30 June 2009, the carrying amounts of goodwill are HK$21,880,000, HK$23,089,000 and HK$23,089,000, respectively. Details of the recoverable amount calculation are disclosed in note 16.

Allowance for doubtful debts

The Target Group makes allowance for doubtful debts based on an assessment of the recoverability of trade and other debtors. Allowances are made on trade and other debtors whenever there is any objective evidence that the balances may not be collectible. The Target Group makes judgment in assessing the collectability based on observable data including creditworthiness and payment history of the customers and other debtors. 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 trade and other debtors and doubtful debt expenses in the periods in which such estimate has been changed. At 31 December 2007, 31 December 2008 and 30 June 2009, the carrying amounts of trade receivables, net of allowance, are HK$1,440,000, HK$7,925,000 and HK$11,948,000, respectively. At 31 December 2007, 31 December 2008 and 30 June 2009, the carrying amounts of other receivables, net of allowance are HK$471,000, HK$8,138,000 and HK$5,602,000, respectively.

6. CAPITAL RISK MANAGEMENT

The Target Group manages its capital to maintain a balance between continuity of cash flows from operating activities and the flexibility through the use of bank and other borrowings. The Target 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 Target Group consists of bank and other borrowings disclosed in note 28, bank balances and equity attributable to owner of Top Steed, comprising share capital, accumulated profits and other reserves.

The management of the Target 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 Target Group's capital structure through the payment of dividends, new share issues as well as the issue of new debts or the redemption of existing debts.

7. FINANCIAL INSTRUMENTS

Categories of financial instruments

THE TARGET GROUP

	At 31 December		At 30 June
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Financial assets			
Loans and receivables (including cash and cash equivalents)			
- trade and other receivables	1,911	16,063	17,550
- amounts due from fellow subsidiaries	—	25,699	43,441
- pledged bank deposit	—	—	2,555
- bank balances and cash	62,071	161,684	234,851
	63,982	203,446	298,397
Available-for-sale investments	—	1,141	9,895
Financial liabilities			
At amortised cost			
- trade and other payables	14,422	63,531	103,509
- amount due to an intermediate holding company	—	17,039	11,343
- amounts due to fellow subsidiaries	—	—	2,116
- bank and other borrowings	64,068	39,757	70,915
	78,490	120,327	187,883

TOP STEED

	At 30 June 2009
	HK$'000
Financial assets	
Loans and receivables (including cash and cash equivalents)	
- amounts due from subsidiaries	374,385

Financial risk management objectives and policies

The major financial instruments of the Target Group and Top Steed include available-for-sale investments, trade and other receivables, amounts due from (to) group companies, pledged bank deposit, bank balances and cash, trade and other payables and bank and other borrowings. 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 Target Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Foreign currency risk

The Target Group's and Top Steed's currency risk refers to the risk that movement in foreign currency exchange rate which will affect the Target Group's and the Top Steed's financial results and cash flows. The management considers the Target Group and Top Steed does not expose to significant foreign currency risk as majority of its operations and business are transacted in functional currency of Top Steed and its subsidiaries.

Interest rate risk

The Target Group is exposed to cash flow interest rate risk in relation to floating-rate bank and other borrowings (see note 28 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 Target Group is also exposed to fair value interest rate risk in relation to fixed-rate bank and other borrowings (see note 28 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 Target Group'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 Top Steed consider the Target Group'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.

Interest rate sensitivity analysis

The sensitivity analysis has been determined based on the exposure to interest rates for interest bearing bank balances and bank and other borrowings. The analysis is prepared assuming the bank and other borrowings outstanding at the end of each reporting period were outstanding for the whole year. A 50 basis increase or decrease which represents management's assessment of the reasonably possible change in interest rates is used.

If the interest rate on bank balances carried at variable rates and floating-rate bank and other borrowings had been 50 basis points higher/lower and all other variables were held constant, the Target Group's profit for the two years ended 31 December 2007 and 2008 and six months ended 30 June 2009 would increase/decrease by approximately HK$310,000, HK$808,000 and HK$508,000, respectively. This is mainly attributable to the Target Group's exposure to interest rates on its bank balances with variable rates and floating-rate bank and other borrowings.

Credit risk

The Target Group's and Top Steed'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 statement of financial position. In order to minimise the credit risk, the Target 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 Target 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 Target Group reviews the recoverability of each individual trade debt on a regular basis to ensure that adequate impairment losses are made for irrecoverable amounts. For deposits paid to suppliers, the Target Group assesses the credit quality of the suppliers before payments and reviews the recoverability on a regular basis. In this regard, the Target 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.

At 31 December 2007, 31 December 2008 and 30 June 2009, the Target Group has concentration of credit risk in relation to the amounts due from fellow subsidiaries amounting to nil, HK$25,699,000 and HK$43,441,000, respectively. In addition, Top Steed has concentration of credit risk in relation to the amounts due from subsidiaries amounting to HK$374,385,000 at 30 June 2009. In order to minimise the credit risk, the management has reviewed the recoverable amount of each receivable from fellow subsidiaries and subsidiaries at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of Top Steed consider that the Target Group's and Top Steed's credit risk is significantly reduced.

The credit risk on deposits paid to suppliers in the PRC gas industry is concentrated on certain well-known suppliers. The directors of the Company have considered the strong financial background and good creditability of those suppliers and believe there is no significant credit risk.

Liquidity risk

In the management of the liquidity risk, the Target Group and Top Steed monitor and maintain a level of cash and cash equivalents deemed adequate by the management to finance the Target Group's and Top Steed's operations and mitigate the effects of fluctuations in cash flows. The management also monitors the utilisation of bank and other borrowings and ensures compliance with loan covenants, if any.

The Target Group relies on financial support from the intermediate holding company which has agreed to provide adequate funds for the Target Group as a significant source of liquidity.

The following table details the Target Group's remaining contractual maturity for its 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 Target Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average interest rate	On demand	Less than 1 year	Over 1 year but not more than 2 years	Total undiscounted cash flows	Carrying amounts
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 December 2007						
Trade and other payables	N/A	8,653	5,769	—	14,422	14,422
Bank and other borrowings						
- fixed-rate borrowings	6.12%	—	67,989	—	67,989	64,068
		8,653	73,758	—	82,411	78,490
As at 31 December 2008						
Trade and other payables	N/A	38,416	25,115	—	63,531	63,531
Amount due to an intermediate holding company	N/A	17,039	—	—	17,039	17,039
Bank and other borrowings						
- fixed-rate borrowings	5.65%	—	42,003	—	42,003	39,757
		55,455	67,118	—	122,573	120,327
As at 30 June 2009						
Trade and other payables	N/A	62,415	41,094	—	103,509	103,509
Amount due to an intermediate holding company	N/A	11,343	—	—	11,343	11,343
Amounts due to fellow subsidiaries	N/A	2,116	—	—	2,116	2,116
Bank and other borrowings						
- fixed-rate borrowings	6.64%	—	12,100	29,032	41,132	36,876
- floating-rate borrowing	4.78%	—	35,666	—	35,666	34,039
		75,874	88,860	29,032	193,766	187,883

Fair value

The fair values 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 Top Steed consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated statement of financial position approximate their fair values.

8. TURNOVER AND SEGMENT INFORMATION

Segment information has been identified on the basis of internal management reports which are prepared in accordance with accounting policies which conform with HKFRSs, that are regularly reviewed by the executive directors of the intermediate holding company in order to allocate resources to the reportable segments and to assess their performance.

The Target Group's reportable segments are as follows:

Sale and distribution of gas fuel and related products	—	sale of liquefied petroleum gas and natural gas for residential, commercial and industrial use
Gas connection	—	Construction of gas pipelines

Segment results represent the profit before taxation earned by each segment, excluding sundry income, interest income, finance costs, central administration costs, release from prepaid lease payments and discount on acquisition of subsidiaries. This is the measure reported to the executive directors of the intermediate holding company for the purpose of resource allocation and assessment of segment performance.

The information of segment results, segment assets and segment liabilities are as follows:

For the year ended 31 December 2007

Segment results

	Sale and distribution of gas fuel and related products	Gas connection	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
TURNOVER			
External sales	25,144	57,730	82,874
RESULTS			
Segment results	(1,368)	16,039	14,671
Finance costs			(3,297)
Unallocated income			159
Unallocated expenses			(4,788)
Profit before taxation			6,745
Taxation			(2,948)
Profit for the year			3,797

Segment assets and liabilities

	Sale and distribution of gas fuel and related products	Gas connection	Total
	HK$'000	*HK$'000*	*HK$'000*
ASSETS			
Segment assets	104,302	34,711	139,013
Taxation recoverable			330
Unallocated corporate assets (Note a)			84,818
			224,161
LIABILITIES			
Segment liabilities	14,342	36,033	50,375
Unallocated corporate liabilities (Note b)			64,474
			114,849

Other information

	Sale and distribution of gas fuel and related products	Gas connection	Unallocated	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Capital additions	7,438	—	—	7,438
Depreciation of property, plant and equipment	4,295	—	—	4,295

For the year ended 31 December 2008

Segment results

	Sale and distribution of gas fuel and related products	Gas connection	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
TURNOVER			
External sales	233,081	147,934	381,015
RESULTS			
Segment results	23,625	60,756	84,381
Finance costs			(3,646)
Unallocated income			25,241
Unallocated expenses			(17,870)
Profit before taxation			88,106
Taxation			(16,775)
Profit for the year			71,331

Segment assets and liabilities

	Sale and distribution of gas fuel and related products	Gas connection	Total
	HK$'000	*HK$'000*	*HK$'000*
ASSETS			
Segment assets	444,557	133,183	577,740
Deferred tax assets			1,312
Unallocated corporate assets (Note a)			242,155
			821,207
LIABILITIES			
Segment liabilities	110,697	246,261	356,958
Taxation payable			9,847
Unallocated corporate liabilities (Note b)			98,035
			464,840

Other information

	Sale and distribution of gas fuel and related products	Gas connection	Unallocated	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Capital additions	81,768	—	—	81,768
Depreciation of property, plant and equipment	13,751	—	—	13,751
Gain on disposal of property, plant and equipment, net	(3)	—	—	(3)

For the six months ended 30 June 2009

Segment results

	Sale and distribution of gas fuel and related products	Gas connection	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
TURNOVER			
External sales	285,820	67,425	353,245
RESULTS			
Segment results	42,138	33,048	75,186
Finance costs			(1,178)
Unallocated income			2,671
Unallocated expenses			(9,564)
Profit before taxation			67,115
Taxation			(20,787)
Profit for the period			46,328

Segment assets and liabilities

	Sale and distribution of gas fuel and related products	Gas connection	Total
	HK$'000	*HK$'000*	*HK$'000*
ASSETS			
Segment assets	732,736	256,778	989,514
Taxation recoverable			351
Deferred tax assets			11,524
Unallocated corporate assets (Note a)			358,601
			1,359,990
LIABILITIES			
Segment liabilities	178,009	351,315	529,324
Taxation payable			6,465
Deferred tax liabilities			364
Unallocated corporate liabilities (Note b)			148,448
			684,601

Other information

	Sale and distribution of gas fuel and related products	Gas connection	Unallocated	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Capital additions	50,818	—	—	50,818
Depreciation of property, plant and equipment	12,293	—	—	12,293

For the six months ended 30 June 2008 (unaudited)

Segment results

	Sale and distribution of gas fuel and related products	Gas connection	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
TURNOVER			
External sales	32,027	22,671	54,698
RESULTS			
Segment results	(1,017)	10,611	9,594
Finance costs			(1,470)
Unallocated income			523
Unallocated expenses			(4,194)
Profit before taxation			4,453
Taxation			(1,713)
Profit for the period			2,740

Other information

	Sale and distribution of gas fuel and related products	Gas connection	Unallocated	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Capital additions	17,119	—	—	17,119
Depreciation of property, plant and equipment	3,018	—	—	3,018

No analysis on turnover and non-current assets by location is shown as the Target Group's operating businesses are solely carried out in the country of domicile of the operating entities, namely, the PRC and the assets are solely located in the PRC.

No single external customer contributed revenue from transactions amounting to 10% or more of the revenue of the Target Group during the Relevant Periods.

Notes:

(a) Unallocated corporate assets represent prepaid lease payments, goodwill arising on acquisition of subsidiaries which are engaged in sale and distribution of gas fuel and related products and gas connection, available-for-sale investments, other receivables, amounts due from group companies, pledged bank deposit and bank balances and cash.

(b) Unallocated corporate liabilities represent other payables, amounts due to group companies and bank and other borrowings. The amounts due to group companies and bank and other borrowings are classified as unallocated corporate liabilities because they are managed centrally by the treasury function of the Target Group.

9. FINANCE COSTS

	Year ended 31 December		Six months ended 30 June	
	2007	**2008**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
			(unaudited)	
Interest on bank and other borrowings wholly repayable within five years	3,297	3,646	1,470	1,178

10. PROFIT BEFORE TAXATION

	Year ended 31 December		Six months ended 30 June	
	2007	**2008**	**2008**	**2009**
	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	2,946	25,308	3,273	10,919
Retirement benefit schemes contributions	45	464	33	2,211
Total staff costs	2,991	25,772	3,306	13,130
Auditor's remuneration	—	132	6	248
Depreciation of property, plant and equipment	4,295	13,751	3,018	12,293
Allowance for other receivables	—	3,612	—	—
Operating lease rentals in respect of land and buildings	458	974	259	570
Release from prepaid lease payments	—	68	—	349
and after crediting:				
Gain on disposal of property, plant and equipment, net	—	3	—	—
Interest income	113	2,607	339	1,860
Discount on acquisition of subsidiaries	—	22,104	—	—

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The five highest paid individuals included solely the employees of the Target 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	
	2007	**2008**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
			(unaudited)	
Basic salaries and allowances	130	699	441	438
Bonus	142	1,247	—	—
Retirement benefit schemes contributions	23	192	24	128
	295	2,138	465	566

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 Target Group to any of the five highest paid individuals as an inducement to join or upon joining the Target 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	
	2007	**2008**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
			(unaudited)	
PRC Enterprise Income Tax				
Current tax	2,948	18,087	1,713	18,748
Underprovision in prior years	—	—	—	3,322
	2,948	18,087	1,713	22,070
Deferred tax (note 30)				
Credit for the year/period	—	(1,312)	—	(1,283)
Taxation charge for the year/period	2,948	16,775	1,713	20,787

No provision for Hong Kong Profits Tax has been made for each of the two years ended 31 December 2007 and 2008 and the six months ended 30 June 2008 and 2009 as the Target Group has no assessable profit in Hong Kong for those 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 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 6 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 Target Group's subsidiaries and jointly controlled entities from 1 January 2008.

鎮江華潤燃氣有限公司, the Target Group's jointly controlled entity, was exempted from income tax applicable in the PRC for two years starting from the first profit making year after utilisation of the tax losses brought forward which was 2007, and was granted a 50% relief for the following three years starting from 2009.

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 New Law and Article 91 of its Detailed Implementation Rules. No deferred tax liability on the undistributed profits earned by PRC subsidiaries during the year ended 31 December 2008 and the six months ended 30 June 2009 has been accrued as the directors of Top Steed expect that no dividends will be distributed by Top Steed's subsidiaries to Top Steed in the foreseeable future.

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

	Year ended 31 December		Six months ended 30 June	
	2007	**2008**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000* *(unaudited)*	*HK$'000*
Profit before taxation	6,745	88,106	4,453	67,115
Taxation charge at the applicable income tax rate (note)	2,226	22,027	1,113	16,779
Tax effect of expenses not deductible for tax purposes	389	2,078	103	230
Tax effect of income not taxable for tax purposes	(128)	(7,330)	—	—
Tax effect of tax losses not recognised	461	—	497	456
Underprovision of taxation in prior years	—	—	—	3,322
Taxation charge for the year/period	2,948	16,775	1,713	20,787

Note: The applicable income tax rate represents PRC Enterprise Income Tax rate of 33% for the year ended 31 December 2007 and 25% for the year ended 31 December 2008 and the six months ended 30 June 2008 and 2009, of which the Target Group's operations are substantially based.

13. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the consolidated profit attributable to the owner of Top Steed for each of the Relevant Periods and on the assumption that 1 share was deemed to have been issued for the two years ended 31 December 2007 and 2008 and six months ended 30 June 2008, representing 1 ordinary share of Top Steed in issue on incorporation, and the weighted average number of 1 share for the six months ended 30 June 2009.

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

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings held for own use	Plant and machinery	Furniture and fixtures	Motor vehicles	Construction in progress	Gas pipelines	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
THE TARGET GROUP							
Cost							
Additions	—	45	420	2,267	4,706	—	7,438
Acquisition of a subsidiary	—	2,148	139	882	5,991	98,543	107,703
At 31 December 2007	—	2,193	559	3,149	10,697	98,543	115,141
Exchange realignment	—	393	51	336	665	6,296	7,741
Additions	9,696	5,141	814	10,072	48,130	7,915	81,768
Acquisition of subsidiaries	23,409	21,193	5,529	6,982	23,392	151,109	231,614
Transfers	519	34,296	75	—	(44,467)	9,577	—
Disposals	(18,825)	(19)	(71)	(94)	(1,915)	—	(20,924)
At 31 December 2008	14,799	63,197	6,957	20,445	36,502	273,440	415,340
Exchange realignment	(22)	(74)	(12)	(25)	(52)	(320)	(505)
Additions	20	8,887	961	5,146	34,087	1,717	50,818
Acquisition of jointly controlled entities	17,920	10,452	1,137	2,800	35,778	208,010	276,097
Transfers	3,076	16	36	2,792	(7,496)	1,576	—
At 30 June 2009	35,793	82,478	9,079	31,158	98,819	484,423	741,750
Accumulated depreciation							
Charge for the year ended 31 December 2007 and balance at 31 December 2007	—	201	42	506	—	3,546	4,295
Exchange realignment	—	107	5	17	—	338	467
Charge for the year	603	3,291	329	635	—	8,893	13,751
Eliminated on disposals	—	(6)	(57)	(44)	—	(618)	(725)
At 31 December 2008	603	3,593	319	1,114	—	12,159	17,788
Exchange realignment	(7)	(8)	(3)	(4)	—	(29)	(51)
Charge for the period	711	3,449	863	1,629	—	5,641	12,293
At 30 June 2009	1,307	7,034	1,179	2,739	—	17,771	30,030
Carrying values							
At 30 June 2009	34,486	75,444	7,900	28,419	98,819	466,652	711,720
At 31 December 2008	14,196	59,604	6,638	19,331	36,502	261,281	397,552
At 31 December 2007	—	1,992	517	2,643	10,697	94,997	110,846

The above items of property, plant and equipment are depreciated on a straight line basis over their estimated useful lives, which are as follows.

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

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

15. PREPAID LEASE PAYMENTS

	At 31 December		At 30 June
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
THE TARGET GROUP			
Balance at beginning of the year/period	—	—	19,496
Exchange realignment	—	—	(22)
Acquisition of subsidiaries	—	486	—
Acquisition of a jointly controlled entity	—	—	10,762
Additions	—	19,078	—
Release for the year/period	—	(68)	(349)
Balance at end of the year/period	—	19,496	29,887
Analysed for reporting purposes:			
Non-current assets	—	19,428	28,967
Current assets	—	68	920
	—	19,496	29,887

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

16. GOODWILL

	THE TARGET GROUP
	HK$'000
Acquisition of a subsidiary during the year ended 31 December 2007 and balance at 31 December 2007	21,880
Exchange realignment	1,209
At 31 December 2008 and 30 June 2009	23,089

The Target 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 Target 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 range of rates used to discount the forecast cash flows for the CGUs are 8.8% - 9.7%. In the opinion of the directors, no material impairment loss of goodwill is identified as at 31 December 2007, 31 December 2008 and 30 June 2009.

17. EXCLUSIVE OPERATING RIGHTS

	THE TARGET GROUP
	HK$'000
Cost	
Acquisition of a jointly controlled entity during the six months ended 30 June 2009 and balance at 30 June 2009	1,004
Accumulated amortisation	
At 30 June 2009	—
Carrying values	
At 30 June 2009	1,004

The exclusive operating rights for city pipeline network are amortised over the useful life of 30 years on a straight line basis. No amortisation is charged during the six months ended 30 June 2009 as the jointly controlled entity was acquired on 30 June 2009.

18. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprises:

	At 31 December		At 30 June
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
THE TARGET GROUP			
Listed shares in the PRC, at fair value	—	—	8,625
Unlisted equity investments in the PRC, at cost	—	1,141	1,270
	—	1,141	9,895

The above unlisted investments represent investments in unlisted equity securities issued by private entities incorporated in the PRC. They are measured at cost less impairment at the end of each reporting period because the range of reasonable fair value estimates is so significant that the directors of Top Steed are of the opinion that the fair value of the investments cannot be measured reliably.

19. INTERESTS IN SUBSIDIARIES

	At 30 June
	2009
	HK$'000
TOP STEED	
Unlisted investments, at cost	100,688
Amounts due from subsidiaries	374,385
At 30 June 2009	475,073

Amounts due from subsidiaries are unsecured, interest-free and repayable on demand. In the opinion of the directors of Top Steed, the amounts will not be repayable within twelve months from 30 June 2009 and are therefore classified as non-current.

20. INTEREST IN AN ASSOCIATE

	At 31 December		At 30 June
	2007	2008	2009
	HK$'000	*HK$'000*	*HK$'000*
THE TARGET GROUP			
Unlisted shares, at cost	—	—	3,514

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

	At 31 December		At 30 June
	2007	2008	2009
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets	N/A	N/A	31,012
Current assets	N/A	N/A	4,792
Current liabilities	N/A	N/A	4,568
Net assets	N/A	N/A	31,236
Income	N/A	N/A	—
Expenses	N/A	N/A	—
Profit for the year/period	N/A	N/A	—
Target Group's share of results of an associate for the year/period	N/A	N/A	—

The associate is directly held by 鎮江華潤燃氣有限公司, a jointly controlled entity of the Target Group which was acquired on 30 June 2009, accordingly, no share of results for the period is made by the Target Group.

21. INVENTORIES

	At 31 December		At 30 June
	2007	2008	2009
	HK$'000	*HK$'000*	*HK$'000*
THE TARGET GROUP			
Construction materials	347	6,246	19,814
Finished goods	—	—	1,082
	347	6,246	20,896

22. TRADE AND OTHER RECEIVABLES

	At 31 December		At 30 June
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
THE TARGET GROUP			
Trade receivables	1,440	7,925	11,948
Deposits paid to suppliers	5,416	104,094	166,798
Other receivables	471	8,138	5,602
Prepayments	396	2,908	8,277
	7,723	123,065	192,625

The Target 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 end of each reporting period:

	At 31 December		At 30 June
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
0 to 90 days	1,440	6,872	10,827
91 to 180 days	—	826	421
181 to 360 days	—	227	495
Over 360 days	—	—	205
	1,440	7,925	11,948

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

	At 31 December		At 30 June
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
91 to 180 days	—	826	421
181 to 360 days	—	227	495
Over 360 days	—	—	205
Total	—	1,053	1,121

The Target Group does not hold any collateral over these balances that are past due. The Target 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
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Balance at beginning of the year/period	—	—	—
Allowance recognised	—	3,612	—
Written off during the year/period	—	(3,612)	—
Balance at end of the year/period	—	—	—

In determining the recoverability of the trade and other receivables, the Target Group considers any change in the credit quality of the trade and other receivables from the date credit was initially granted up to the reporting date. Accordingly, the directors believe that there is no further allowance required in excess of the current amount in allowance for doubtful debts.

23. AMOUNTS DUE FROM/(TO) CUSTOMERS FOR CONTRACT WORK

	At 31 December		At 30 June
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
THE TARGET GROUP			
Contract costs incurred plus profits recognised	31,446	92,885	111,957
Less: Progress billings	(40,052)	(127,900)	(299,426)
	(8,606)	(35,015)	(187,469)
Analysed for reporting purposes:			
Amounts due from customers for contract work	20,964	61,923	74,638
Amounts due to customers for contract work	(29,570)	(96,938)	(262,107)
	(8,606)	(35,015)	(187,469)

24. AMOUNT DUE TO AN INTERMEDIATE HOLDING COMPANY

THE TARGET GROUP

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

25. AMOUNTS DUE FROM/(TO) FELLOW SUBSIDIARIES

THE TARGET GROUP

The amounts are unsecured and repayable on demand. As at 31 December 2008 and 30 June 2009, the amounts due from fellow subsidiaries of HK$20,288,000 and HK$41,755,000 are interest bearing at a range from 5.80% - 6.57% per annum and 3.78% - 6.57% per annum, respectively. The remaining balances are interest-free.

26. PLEDGED BANK DEPOSIT/BANK BALANCES AND CASH

Pledged bank deposit of the Target Group represents a bank deposit pledged as securities for trade payable to a supplier of natural gas.

	At 31 December		At 30 June
	2007	**2008**	**2009**
	%	%	%
Interest rate of the pledged bank deposit	—	—	2.25

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

	At 31 December		At 30 June
	2007	**2008**	**2009**
	%	%	%
Interest rates of the bank deposits	1.98-3.33	0-1.4	0-1.98

27. TRADE AND OTHER PAYABLES

	At 31 December		At 30 June
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
THE TARGET GROUP			
Trade payables	14,342	63,142	100,061
Advances from customers	6,463	196,878	167,156
Other payables	80	389	3,448
Accrued expenses	326	40,850	54,257
	21,211	301,259	324,922

The following is an aged analysis of trade payables at the end of each reporting period:

	At 31 December		At 30 June
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
0 to 90 days	3,459	45,089	55,094
91 to 180 days	—	8,803	22,288
181 to 360 days	10,883	7,923	16,732
Over 360 days	—	1,327	5,947
	14,342	63,142	100,061

The average credit period on purchases of goods ranges from 7 to 180 days. The trade payables from purchase of construction materials are subject to retention period within one year after completion of the construction projects. The Target Group has financial risk management policies in place to ensure that all payables are within the credit timeframe.

28. BANK AND OTHER BORROWINGS

	At 31 December		At 30 June
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
THE TARGET GROUP			
Bank loans	64,068	10,223	70,915
Other loans	—	29,534	—
	64,068	39,757	70,915
Unsecured	64,068	39,757	70,915

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

	At 31 December		At 30 June
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
On demand or within one year	64,068	39,757	45,386
More than one year but not exceeding two years	—	—	25,529
	64,068	39,757	70,915
Less: Amount due within one year shown as current liabilities	(64,068)	(39,757)	(45,386)
Amount due after one year shown as non-current liabilities	—	—	25,529

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

	Effective interest rate per annum	Carrying amount At 31 December		At 30 June
		2007	**2008**	**2009**
		HK$'000	*HK$'000*	*HK$'000*
Fixed-rate borrowings:				
Unsecured RMB bank loans	4.78%-7.47%	64,068	10,223	36,876
Unsecured RMB other loans	4.78%	—	29,534	—
Total fixed-rate borrowings		64,068	39,757	36,876
Floating-rate borrowing:				
Unsecured RMB bank loan at 1% below the People's Bank of China Base Rate	4.78%	—	—	34,039
Total floating-rate borrowing		—	—	34,039
Total borrowings		64,068	39,757	70,915

29. DIVIDEND PAYABLE TO INTERMEDIATE HOLDING COMPANIES

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

30. DEFERRED TAX

The followings are the major deferred tax assets recognised and movements thereon during the Relevant Periods:

	HK$'000
THE TARGET GROUP	
Credit for the year (note 12) and balance at 31 December 2008	1,312
Credit for the period (note 12)	1,283
Acquisition of a jointly controlled entity	8,565
At 30 June 2009	11,160

The amount represents the temporary difference between the carrying amounts of the sub-pipelines and the corresponding tax base. The cost of sub-pipelines were recognised as cost of sales by the Target Group but recognised as depreciable assets according to local authority.

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	At 31 December		**At 30 June**
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Deferred tax assets	—	1,312	11,524
Deferred tax liabilities	—	—	(364)
	—	1,312	11,160

At 31 December 2007, 31 December 2008 and 30 June 2009, the Target Group had unused tax losses of approximately HK$1,844,000, HK$1,844,000 and HK$3,668,000, respectively available to offset against future profits. No deferred tax asset has been recognised during the Relevant Periods due to the unpredictability of future profit streams.

Deferred taxation amounting to HK$13,240,000 and HK$22,286,000 have not been provided for in the Financial Information in respect of the temporary differences attributable to the undistributed retained profits earned by the subsidiaries established in the PRC during the year ended 31 December 2008 and the six months ended 30 June 2009, respectively, as the Target Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

31. SHARE CAPITAL

	At 30 June 2009
TOP STEED	
Authorised	
Ordinary shares of US$1 each	USD50,000
Issued and fully paid	
Ordinary share of US$1 each	USD2
Shown in the Financial Information	HK$16

Top Steed was incorporated on 11 June 2009 with an authorised share capital of US$50,000 divided into 50,000 ordinary shares of US$1 each. At the time of incorporation, 1 ordinary share of US$1 was issued for cash at par to provide for the initial capital. On 30 June 2009, one ordinary share of US$1 was issued by Top Steed by capitalisation of an amount due to immediate holding company amounting to HK$475,073,000.

32. RETIREMENT BENEFITS SCHEME

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

33. ACQUISITION OF SUBSIDIARIES

During the year ended 31 December 2007, CR Gas Holdings acquired 75% of the registered capital of 大同華潤燃氣有限公司, which is engaged in sales of liquefied gas and connection of gas pipelines, from an independent third party for a cash consideration of HK$44,757,000. This transaction has been accounted for using the purchase method of accounting and the fair value of assets and liabilities of the acquiree at the date of acquisition is set out as follows:

	Acquiree's carrying amount before combination and fair value
	HK$'000
Net assets acquired on acquisition of a subsidiary:	
Property, plant and equipment	107,703
Inventories	38,086
Trade and other receivables	5,573
Bank balances and cash	5,468
Trade and other payables	(62,259)
Bank and other borrowings	(64,068)
	30,503
Minority interests	(7,626)
Goodwill	21,880
	44,757
Total consideration paid by CR Gas Holdings	44,757
Analysis of net inflow of cash and cash equivalents in respect of acquisition of a subsidiary:	
Bank balances and cash acquired	5,468

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

The goodwill arising on the acquisition is attributable to the high profitability of the subsidiary and the anticipated future operating synergies from the acquisition.

The results of operations and financial position of the subsidiary have been included in the Financial Information throughout the Relevant Periods since the date of its acquisition by CR Gas Holdings as the Financial Information is prepared in accordance with AG 5 as disclosed in note 2.

大同華潤燃氣有限公司 contributed HK$6,373,000 to the Target Group's profit for the period between the date of acquisition and 31 December 2007.

During the year ended 31 December 2008, CR Gas Holdings acquired 71.43%, 100% and 100% of the registered capital of 襄樊華潤燃氣有限公司, 宜城華潤燃氣有限公司 and 潛江華潤燃氣有限公司, respectively, which are engaged in sales of liquefied gas and connection of gas pipelines, from independent third parties for a total consideration of HK$112,140,000. These transactions have been accounted for using the purchase method of accounting and the fair value of assets and liabilities of the acquirees at the date of acquisition is set out as follows:

	Acquirees' carrying amount before combination and fair value
	HK$'000
Net assets acquired on acquisition of subsidiaries:	
Property, plant and equipment	231,614
Prepaid lease payments	486
Available-for-sale investments	1,143
Inventories	21,792
Trade and other receivables	53,666
Amounts due from customers for contract work	2,426
Bank balances and cash	125,855
Trade and other payables	(190,222)
Amounts due to customers to contract work	(30,440)
Taxation payable	(4,512)
Bank and other borrowings	(40,954)
	170,854
Minority interests	(36,610)
Discount on acquisition	(22,104)
	112,140
Total consideration paid by CR Gas Holdings	112,140
Analysis of net inflow of cash and cash equivalents in respect of acquisition of subsidiaries:	
Bank balances and cash acquired	125,855

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

The results of operations and financial position of the subsidiaries have been included in the Financial Information in the Relevant Periods since the date of acquisition by CR Gas Holdings as the Financial Information is prepared in accordance with AG 5 as disclosed in note 2.

The acquirees contributed HK$27,545,000 to the Target Group's profit for the period between the date of acquisition and 31 December 2008.

34. ACQUISITION OF JOINTLY CONTROLLED ENTITIES

During the six months ended 30 June 2009, Zibo China Resources Gas (Hong Kong) Limited, a wholly-owned subsidiary of the Target Group, acquired 46% of the registered capital of 淄博華潤燃氣有限公司, which is engaged in sales of liquefied gas and connection of gas pipelines, from CR Gas Holdings for a total consideration of HK$95,395,000. The transaction has been accounted for using the purchase method of accounting and the Target Group's share of the carrying value of assets and liabilities of the jointly controlled entity and its subsidiaries at the date of acquisition is set out as follows:

	Acquiree's carrying amount before combination
	HK$'000
Target Group's share of the net assets of jointly controlled entity acquired:	
Property, plant and equipment	84,608
Inventories	3,254
Trade and other receivables	19,652
Amounts due from customers for contract work	510
Amounts due from fellow subsidiaries	98
Bank balances and cash	34,489
Trade and other payables	(9,208)
Amounts due to customers for contract work	(25,325)
Dividend payable to an intermediate holding company	(2,233)
Taxation payable	(1,000)
	104,845
Minority interests	(78)
Discount on acquisition	(9,372)
Total consideration (Note 39(b))	95,395
Analysis of net inflow of cash and cash equivalents in respect of acquisition of a jointly controlled entity:	
Bank balances and cash acquired	34,489

The discount on acquisition arose from a bargain purchase from an intermediate holding company, accordingly, the discount was accounted for as a deemed capital contribution and the acquisition is considered as an equity transaction.

No contribution to the Target Group's profit was made by the Target Group's jointly controlled entity during the six months ended 30 June 2009 as the acquisition was completed on 30 June 2009.

The fair values of the assets and liabilities acquired have been determined on a provisional basis, awaiting the completion of the identification of separable assets and valuation of the assets and liabilities.

During the six months ended 30 June 2009, Profit Dash Limited, a wholly-owned subsidiary of the Target Group, acquired 45% of the registered capital of 鎮江華潤燃氣有限公司, which is engaged in sales of liquefied gas and connection of gas pipelines, from China Resources Holdings Company Limited, Top Steed's intermediate holding company, for a cash consideration of HK$67,398,000. This transaction has been accounted for using the purchase method of accounting and the Target Group's share of the carrying value of assets and liabilities of the jointly controlled entity and its subsidiaries at the date of acquisition is set out as follows:

	Acquiree's carrying amount before combination
	HK$'000
Target Group's share of the net assets of jointly controlled entity acquired:	
Property, plant and equipment	191,489
Prepaid lease payments	10,762
Exclusive operating rights	1,004
Interest in an associate	3,514
Available-for-sale investments	8,755
Deferred tax assets	8,929
Inventories	6,697
Trade and other receivables	50,472
Amounts due from customers for contract work	6,324
Pledged bank deposit	2,555
Bank balances and cash	42,808
Trade and other payables	(109,768)
Amounts due to customers for contract work	(23,641)
Taxation payable	(1,751)
Dividend payable to an intermediate holding company	(4,136)
Bank borrowings	(25,529)
Deferred tax liabilities	(364)
	168,120
Discount on acquisition	(100,722)
Total consideration (Note 39(b))	67,398
Analysis of net inflow of cash and cash equivalents in respect of acquisition of a jointly controlled entity:	
Bank balances and cash acquired	42,808

The discount on acquisition arose from a bargain purchase from an intermediate holding company, accordingly, the discount was accounted for as a deemed capital contribution and the acquisition is considered as an equity transaction.

No contribution to the Target Group's profit was made by the Target Group's jointly controlled entity during the six months ended 30 June 2009 as the acquisition was completed on 30 June 2009.

The fair values of the assets and liabilities acquired have been determined on a provisional basis, awaiting the completion of the identification of separable assets and valuation of the assets and liabilities.

35. OPERATING LEASE COMMITMENTS

At the end of each reporting period, the Target 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:

	At 31 December		At 30 June
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Within one year	419	1,239	1,387
In the second to fifth year inclusive	630	2,724	2,219
After five years	—	—	1,267
	1,049	3,963	4,873

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

Top Steed does not have any lease commitment at the end of each reporting period.

36. CAPITAL COMMITMENTS

	At 31 December		At 30 June
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Capital expenditure in respect of acquisition of property, plant and equipment contracted but not provided in the Financial Information	9,104	1,761	—

37. PLEDGE OF ASSETS

At the end of each reporting period, the Target Group pledged the following assets as securities for a bank borrowing and a trade payable to a supplier of natural gas as follows:

	At 31 December		At 30 June
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Trade receivables	—	—	1,265
Pledged bank deposit	—	—	2,555
	—	—	3,820

Top Steed has no pledge of assets at the end of each reporting period.

38. RELATED PARTY TRANSACTIONS

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

	Year ended 31 December		Six months ended 30 June	
	2007	**2008**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000* *(unaudited)*	*HK$'000*
THE TARGET GROUP				
Interest income from fellow subsidiaries	—	482	—	662
Sales to fellow subsidiaries	—	—	—	3,411

Compensation of key management personnel

The remuneration of directors and other members of key management during the Relevant Periods were borne by an intermediate holding company of Top Steed.

39. MAJOR NON-CASH TRANSACTIONS

(a) In June 2009, the Target Group acquired all subsidiaries of the Target Group, which were incorporated in British Virgin Islands and Hong Kong and are holding the Target Group's operating subsidiaries and jointly controlled entities, from CR Gas Holdings for a total consideration of HK$310,969,000. As a result of these acquisitions, the Target Group's amount due to immediate holding company was increased by HK$310,969,000.

(b) In June 2009, the Target Group acquired two jointly controlled entities from intermediate holding companies for an aggregate consideration of HK$162,793,000. As a result of the above transactions, the Target Group's amount due to intermediate holding company was increased by HK$162,793,000.

(c) On 30 June 2009, Top Steed issued one ordinary share of US$1 to immediate holding company for HK$475,073,000, settled by capitalisation of amount due to the immediate holding company to the same amount.

40. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

The summarised financial information in respect of the Target 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
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets	N/A	N/A	308,568
Current assets	N/A	N/A	170,393
Current liabilities	N/A	N/A	180,103
Non-current liabilities	N/A	N/A	25,893
Net assets	N/A	N/A	272,965
Income	N/A	N/A	—
Expenses	N/A	N/A	—

Note: No contribution to the Target Group's income and expenses were made by the jointly controlled entities during the six months ended 30 June 2009 as the acquisitions were completed on 30 June 2009.

B. ULTIMATE HOLDING COMPANY AND IMMEDIATE HOLDING COMPANY

At 30 June 2009, the directors of Top Steed regard Top Steed's ultimate holding company and immediate holding company to be China Resources National Corporation, a company established in the PRC, and Powerfaith Enterprises Limited, a company incorporated in the British Virgin Islands, respectively.

C. DIRECTORS' EMOLUMENTS

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

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Top Steed or any of the companies of the Target Group subsequent to 30 June 2009.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

1. INDEBTEDNESS

Borrowings

The borrowings of the Enlarged Group as at 31 July 2009 are as follows:

	HK$'000
Bank and other borrowings	
Secured	78,754
Unsecured	784,532
	863,286
Bank and other borrowings payable:	
On demand or within one year	278,015
More than two years, but not exceeding five years	568,153
Over five years	17,118
	863,286
Pledged assets	
Property, plant and equipment	103,258
Trade receivables	3,867
Bank deposits	3,295
	110,420

Foreign currency amounts have been translated at the approximate exchange rates prevailing at the close of business on 31 July 2009.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Enlarged Group did not have outstanding at the close of business on 31 July 2009 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

2. WORKING CAPITAL

Taking into account the financial resources of the Enlarged Group, including internally generated funds and credit facilities available to the Enlarged Group on completion of acquisition of the Target 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.

3. INFORMATION FOR THE LAST THREE FINANCIAL YEARS

SUMMARY OF FINANCIAL INFORMATION FOR EACH OF THE THREE YEARS ENDED 31 DECEMBER 2006, 2007 AND 2008

The following is a summary of the financial results of the CR Gas Group for each of the three years ended 31 December 2006, 2007 and 2008 as extracted from the published annual reports of China Resources Gas Group.

Consolidated Income Statement

	For the year end 31 December		
	2008	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
			(Note)
Turnover			
Continuing operations	2,144,567	1,537,244	2,086,396
Discontinued operations	841,531	4,630,969	1,364,263
	2,986,098	6,168,213	3,450,659
Cost of sales	(2,111,671)	(4,586,276)	(2,602,462)
Gross profit	874,427	1,581,937	848,197
Other income	76,984	154,209	104,199
Selling and distribution expenses	(190,041)	(303,063)	(129,972)
Administrative expenses	(341,072)	(578,836)	(301,962)
Other expenses	(74,890)	(233,239)	(161,255)
	345,408	621,008	359,207
Finance costs	(27,565)	(113,368)	(89,601)
Share of results of associates	3,387	2,439	1,103
Gain on disposal of discontinued operations	—	61,864	—
Loss on closure of a production plant	—	(69,868)	—
Gain on deemed disposal of an associate	—	—	1,590
Discount on acquisition of subsidiaries	—	—	41,296
Profit before taxation			
Continuing operations	335,972	132,215	208,660
Discontinued operations	(14,742)	369,860	104,935
	321,230	502,075	313,595
Taxation			
Continuing operations	(33,668)	34,728	(21,552)
Discontinued operations	(14,893)	(59,945)	(11,647)
	(48,561)	(25,217)	(33,199)

	For the year end 31 December		
	2008	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
			(Note)
Profit for the year			
Continuing operations	302,304	166,943	187,108
Discontinued operations	(29,635)	309,915	93,288
	272,669	476,858	280,396
Attributable to:			
Equity holders of the Company			
Continuing operations	260,338	136,118	171,992
Discontinued operations	(23,561)	263,408	60,425
	236,777	399,526	232,417
Minority interests	35,892	77,332	47,979
	272,669	476,858	280,396
Dividends recognised as distribution			
Interim dividend paid	—	1,629,937	27,667
Final dividend paid	—	27,671	53,406
Distribution by way of dividend in specie	2,731,463	—	—
	2,731,463	1,657,608	81,073
	HK$	*HK$*	*HK cents*
Earnings per share			
From continuing operations			
Basic	0.55	0.49	8.57
Diluted	0.54	0.48	8.49
From continuing and discontinued operations			
Basic	0.5	1.44	6.34
Diluted	0.5	1.41	6.28

Consolidated Balance Sheet

	As at 31 December		
	2008	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
			(Note)
Non-current assets			
Property, plant and equipment	1,244,440	5,276,940	4,217,639
Prepaid lease payments	110,514	259,986	172,559
Investment properties	7,909	7,119	—
Interest in associates	10,272	7,987	—
Available-for-sale investments	8,299	23,933	10,105
Goodwill	18,836	42,443	152,777
Exclusive operating rights	637,030	652,368	—
Technical know-how	—	35,678	53,663
Deferred tax assets	—	15,767	16,416
Deposit for acquisition of property, plant and equipment	—	17,011	63,205
Deposit for investment in a subsidiary	84,940	—	—
	2,122,240	6,339,232	4,686,364
Current assets			
Inventories	45,252	886,505	1,068,568
Trade and other receivables	205,247	1,256,376	1,622,459
Amounts due from customers for contract work	131,997	68,104	—
Prepaid lease payments	3,760	8,090	4,625
Amounts due from fellow subsidiaries	11,636	1,797	—
Amounts due from minority shareholders	—	—	2,164
Taxation recoverable	—	4,172	10,057
Pledged bank deposits	740	6,030	7,642
Bank balances and cash	1,185,086	1,715,382	521,250
	1,583,718	3,946,456	3,236,765
Assets classified as held for sale	—	46,708	—
	1,583,718	3,993,164	3,236,765

	As at 31 December		
	2008	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
			(Note)
Current liabilities			
Trade and other payables	873,913	2,076,301	1,595,098
Amounts due to customers for contract work	316,885	236,896	—
Amounts due to fellow subsidiaries	239	1,233,487	—
Amounts due to minority shareholders	—	—	85,213
Government grants	—	13,221	10,520
Bank and other borrowings	68,033	744,695	1,706,617
Provisions	—	42,183	77,111
Taxation payable	7,961	18,266	8,133
	1,267,031	4,365,049	3,482,692
Net current assets (liabilities)	316,687	(371,885)	(245,927)
	2,438,927	5,967,347	4,440,437
Capital and reserves			
Share capital	141,442	281,215	276,580
Reserves	1,807,139	3,245,062	2,478,511
Equity attributable to equity holders of the Company	1,948,581	3,526,277	2,755,091
Share option reserve of a listed subsidiary	—	10,840	5,805
Minority interests	234,442	713,229	1,048,727
	2,183,023	4,250,346	3,809,623
Non-current liabilities			
Government grants	—	98,746	42,483
Bank and other borrowings	39,494	1,311,660	522,306
Long-term payables	—	66,026	66,025
Other long-term liabilities	73,309	62,385	—
Deferred tax liabilities	143,101	178,184	—
	255,904	1,717,001	630,814
	2,438,927	5,967,347	4,440,437

Note: *The figures for the year ended 31 December 2006 were extracted from 2007 published annual report of CR Gas Group and hence not restated for the acquisition of China Resources Gas during the year ended 31 Deember 2008 under the Accounting Guideline 5 "Merger Accounting under Common Control Combination issued by the Hong Kong Institute of Certificated Public Accountants.*

AUDITED FINANCIAL INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2008

The following is a summary of the audited financial statements of the CR Gas Group for the year ended 31 December 2008 as extracted from the published 2008 annual report of China Resources Gas Group.

Consolidated Income Statement

For the year ended 31st December, 2008

	NOTES	2008 HK$'000	2007 HK$'000 (Restated)
Turnover	8		
Continuing operations		2,144,567	1,537,244
Discontinued operations	11	841,531	4,630,969
		2,986,098	6,168,213
Cost of sales		(2,111,671)	(4,586,276)
Gross profit		874,427	1,581,937
Other income		76,984	154,209
Selling and distribution expenses		(190,041)	(303,063)
Administrative expenses		(341,072)	(578,836)
Other expenses		(74,890)	(233,239)
		345,408	621,008
Finance costs	9	(27,565)	(113,368)
Share of results of associates		3,387	2,439
Gain on disposal of discontinued operations	11	—	61,864
Loss on closure of a production plant	13	—	(69,868)
Profit before taxation			
Continuing operations		335,972	132,215
Discontinued operations	11	(14,742)	369,860
		321,230	502,075
Taxation	10		
Continuing operations		(33,668)	34,728
Discontinued operations	11	(14,893)	(59,945)
		(48,561)	(25,217)
Profit for the year	13		
Continuing operations		302,304	166,943
Discontinued operations	11	(29,635)	309,915
		272,669	476,858

	NOTES	2008 HK$'000	2007 HK$'000 (Restated)
Attributable to:			
Equity holders of the Company			
Continuing operations		260,338	136,118
Discontinued operations	11	(23,561)	263,408
		236,777	399,526
Minority interests		35,892	77,332
		272,669	476,858
Dividends recognised as distribution	15		
Interim dividend paid		—	1,629,937
Final dividend paid		—	27,671
Distribution by way of dividend in specie		2,731,463	—
		2,731,463	1,657,608
		HK$	HK$ (Restated)
Earnings per share	16		
From continuing operations			
Basic		0.55	0.49
Diluted		0.54	0.48
From continuing and discontinued operations			
Basic		0.50	1.44
Diluted		0.50	1.41

Consolidated Balance Sheet

At 31st December, 2008

	NOTES	2008 *HK$'000*	2007 *HK$'000* *(Restated)*
Non-current assets			
Property, plant and equipment	17	1,244,440	5,276,940
Prepaid lease payments	18	110,514	259,986
Investment properties	19	7,909	7,119
Interest in associates	20	10,272	7,987
Available-for-sale investments	21	8,299	23,933
Goodwill	22	18,836	42,443
Exclusive operating rights	23	637,030	652,368
Technical know-how	24	—	35,678
Deferred tax assets	36	—	15,767
Deposit for acquisition of property, plant and equipment		—	17,011
Deposit for investment in a subsidiary	46	84,940	—
		2,122,240	6,339,232
Current assets			
Inventories	25	45,252	886,505
Trade and other receivables	26	205,247	1,256,376
Amounts due from customers for contract work	27	131,997	68,104
Prepaid lease payments	18	3,760	8,090
Amounts due from fellow subsidiaries	28	11,636	1,797
Taxation recoverable		—	4,172
Pledged bank deposits	29	740	6,030
Bank balances and cash	29	1,185,086	1,715,382
		1,583,718	3,946,456
Assets classified as held for sale	12	—	46,708
		1,583,718	3,993,164
Current liabilities			
Trade and other payables	30	873,913	2,076,301
Amounts due to customers for contract work	27	316,885	236,896
Amounts due to fellow subsidiaries	28	239	1,233,487
Government grants	31	—	13,221
Bank and other borrowings	32	68,033	744,695
Provisions	33	—	42,183
Taxation payable		7,961	18,266
		1,267,031	4,365,049

	NOTES	2008 *HK$'000*	2007 *HK$'000* *(Restated)*
Net current assets (liabilities)		316,687	(371,885)
		2,438,927	5,967,347
Capital and reserves			
Share capital	37	141,442	281,215
Reserves		1,807,139	3,245,062
Equity attributable to equity holders of the Company		1,948,581	3,526,277
Share option reserve of a listed subsidiary		—	10,840
Minority interests		234,442	713,229
		2,183,023	4,250,346
Non-current liabilities			
Government grants	31	—	98,746
Bank and other borrowings	32	39,494	1,311,660
Long-term payables	34	—	66,026
Other long-term liabilities	35	73,309	62,385
Deferred tax liabilities	36	143,101	178,184
		255,904	1,717,001
		2,438,927	5,967,347

Consolidated Statement of Changes in Equity

For the year ended 31st December, 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, 2007, as previously stated	281,215	1,015,332	—	356,244	13,436	109,015	—	1,276,689	3,051,931	10,840	515,041	3,577,812
Effect of combination under common control	(4,635)	(27,345)	3,816	(137,263)	(910)	33,899	1,250,300	355,075	1,472,937	(5,035)	701,825	2,169,727
At 1st January, 2007 (restated)	276,580	987,987	3,816	218,981	12,526	142,914	1,250,300	1,631,764	4,524,868	5,805	1,216,866	5,747,539
Exchange differences (Note a)	—	—	—	319,057	—	—	—	—	319,057	—	71,410	390,467
Share of changes in reserve of associates	—	—	—	494	—	—	—	—	494	—	—	494
Net income recognised directly in equity	—	—	—	319,551	—	—	—	—	319,551	—	71,410	390,961
Profit for the year	—	—	—	—	—	—	—	399,526	399,526	—	77,332	476,858
Disposal of subsidiaries	—	—	—	(92,950)	—	(53,100)	—	53,100	(92,950)	—	(609,778)	(702,728)
Total recognised income (expense) for the year	—	—	—	226,601	—	(53,100)	—	452,626	626,127	—	(461,036)	165,091
	276,580	987,987	3,816	445,582	12,526	89,814	1,250,300	2,084,390	5,150,995	5,805	755,830	5,912,630
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	—	—	—	—	—	65,828	—	(65,828)	—	—	—	—
Dividends paid	—	—	—	—	—	—	(1,200,000)	(457,608)	(1,657,608)	—	—	(1,657,608)
Dividends paid to minority interests	—	—	—	—	—	—	—	—	—	—	(44,519)	(44,519)
At 31st December, 2007	281,215	1,015,332	3,816	445,582	13,436	155,642	50,300	1,560,954	3,526,277	10,840	713,229	4,250,346
Exchange differences (Note a)	—	—	—	60,821	—	—	—	—	60,821	—	12,794	73,615
Share of changes in reserve of associates	—	—	—	524	—	—	—	—	524	—	—	524
Net income recognised directly in equity	—	—	—	61,345	—	—	—	—	61,345	—	12,794	74,139
Profit for the year	—	—	—	—	—	—	—	236,777	236,777	—	35,892	272,669
Total recognised income for the year	—	—	—	61,345	—	—	—	236,777	298,122	—	48,686	346,808
	281,215	1,015,332	3,816	506,927	13,436	155,642	50,300	1,797,731	3,824,399	10,840	761,915	4,597,154
Shares issued at premium upon exercise of share options	1,668	10,720	—	—	—	—	—	—	12,388	—	—	12,388
Capital reduction	(254,595)	(1,026,052)	—	—	—	—	—	1,280,647	—	—	—	—
Rights issue	113,154	3,756,691	—	—	—	—	—	—	3,869,845	—	—	3,869,845
Rights issue expense	—	(6,000)	—	—	—	—	—	—	(6,000)	—	—	(6,000)
Recognition of equity-settled share-based payments	—	—	—	—	—	—	—	—	—	1,129	430	1,559
Consideration paid for acquiring subsidiaries under common control (Note c)	—	—	—	—	—	—	(4,032,557)	—	(4,032,557)	—	—	(4,032,557)
Shares issued by a subsidiary under common control (Note d)	—	—	—	—	—	—	1,000,000	—	1,000,000	—	—	1,000,000
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)	—	—
Disposal of subsidiaries (Note 40)	—	—	(3,816)	—	—	—	217,457	(213,641)	—	—	—	—
Transfers between categories	—	—	—	—	—	29,041	—	(29,041)	—	—	—	—
Dividends paid to minority interests	—	—	—	—	—	—	—	—	—	—	(18,391)	(18,391)
At 31st December, 2008	141,442	3,750,691	—	150,539	13,436	75,668	(2,764,800)	581,605	1,948,581	—	234,442	2,183,023

Notes:

(a) The exchange differences arise 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 People's Republic of China (the "PRC").

General reserve is 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.

(c) On 5th March, 2008, the Group acquired 100% equity interest in Redland Concrete Limited ("Redland Concrete") from China Resources Concrete Limited ("CR Concrete"), a fellow subsidiary of the Company, for a cash consideration of HK$217,757,000. On 30th October, 2008, the Group also acquired 100% equity interest in China Resources Gas Limited ("China Resources Gas") from Powerfaith Enterprises Limited ("Powerfaith"), another fellow subsidiary of the Company, for a cash consideration of HK$3,814,800,000. These are business combinations that involve entities under common control as explained in Note 2. These transactions are 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 and Powerfaith of HK$217,757,000 and HK$3,814,800,000, respectively, were included in merger reserve.

(d) Merger reserve as at 1st January, 2007 and 31st December, 2007 represented the amount of the issued capital and premium of Redland Concrete and China Resources Gas. During the year ended 31st December, 2007, China Resources Gas paid an interim dividend of HK$1,500,000,000, in which HK$1,200,000,000 was paid out from share premium. During the year ended 31st December, 2008, China Resources Gas issued one additional ordinary share of US$1 each at HK$1,000,000,000. The amount as at 31st December, 2008 represented the difference between the cash consideration paid by the Group of HK$3,814,800,000 and the amount of the issued capital and premium of China Resources Gas of HK$1,050,000,000.

Consolidated Cash Flow Statement

For the year ended 31st December, 2008

	2008	2007
	HK$'000	*HK$'000*
		(Restated)
OPERATING ACTIVITIES		
Profit before taxation	321,230	502,075
Adjustments for:		
Interest expense	27,565	113,368
Interest income	(14,952)	(30,077)
Government grants recognised	(13,215)	(10,520)
Share of results of associates	(3,387)	(2,439)
Dividend income from available-for-sale investments	(10,163)	—
Loss (gain) on disposal of property, plant and equipment, net	2,231	(2,623)
Gain on disposal of discontinued operations	—	(61,864)
Gain on disposal of prepaid lease payments	—	(10,697)
Gain on disposal of available-for-sale investments	—	(3,586)
Release from prepaid lease payments	4,390	7,808
Amortisation of technical know-how	657	5,915
Amortisation of exclusive operating rights	23,276	24,756
Depreciation of property, plant and equipment	125,363	515,925
Depreciation of investment properties	866	178
Impairment loss on goodwill	3,036	—
Impairment loss on property, plant and equipment	38,980	13,654
Impairment loss on available-for-sale investments	15,683	2,734
(Net reversal of impairment loss) impairment loss on trade receivables	(1,573)	18,931
Impairment loss on other receivables	—	10,990
Write down of inventories to net realisable value	8,793	83,677
Write off of property, plant and equipment	—	10,981
Provision for product liabilities	4,500	3,000
Write back of provisions	—	(25,858)
Share-based payment expense	1,559	7,863
Operating cash flows before movements in working capital	534,839	1,174,191
Increase in inventories	(34,964)	(202,136)
Decrease (increase) in trade and other receivables	186,312	(731,467)
(Increase) decrease in amounts due from customers for contract work	(59,255)	2,948
Decrease in amount due from an associate	—	24
Increase in amounts due from minority shareholders	—	(7,330)
Increase in trade and other payables	4,248	831,257

		2008	2007
		HK$'000	*HK$'000*
			(Restated)
Increase in amounts due to customers for contract work		63,856	44,426
Increase in amounts due to minority shareholders		—	25,975
Utilisation of provisions		(212)	(10,066)
Cash generated from operations		694,824	1,127,822
Hong Kong Profits Tax paid		(34,257)	(16,009)
PRC Enterprise Income Tax paid		(32,621)	(60,881)
Net cash from operating activities		627,946	1,050,932
Investing activities	8		
Government grants received		21,208	69,484
Proceeds from disposal of property, plant and equipment		19,542	30,745
Interest received		14,952	30,077
Dividend received from associates		1,977	1,090
Decrease in pledged bank deposits		1,335	1,612
Proceeds from disposal of prepaid lease payments		1,195	16,211
Payments and deposits for acquisition of property, plant and equipment		(347,554)	(1,115,153)
Disposal of subsidiaries	40	(330,272)	1,004,155
Deposit for investment in a subsidiary		(84,940)	—
Advances to fellow subsidiaries		(18,536)	(1,649)
Repayment of long term payables		(7,738)	(9,087)
Prepaid lease payments made		(3,210)	(4,643)
Payments for exclusive operating rights		(1,351)	(4,759)
Payments for acquisition of investment properties		(748)	—
Investment in associates		(399)	—
Payments for acquisition of available-for-sale investments		(122)	(7,257)
Repayment from fellow subsidiaries		—	20,000
Proceeds from disposal of available-for-sale investments		—	3,842
Payments for technical know-how		—	(595)
Net cash (used in) from investing activities		(734,661)	34,073
Financing activities			
Deemed distribution in relation to the acquisition of China Resources Gas		(3,814,800)	—
Repayment of advances from fellow subsidiaries		(1,221,948)	(195,787)
Deemed distribution in relation to the acquisition of Redland Concrete		(217,757)	—
Repayments of bank and other borrowings		(104,861)	(3,328,683)
Interest paid on bank borrowings		(25,186)	(107,878)

	2008	2007
	HK$'000	*HK$'000*
		(Restated)
Dividends paid to minority shareholders of subsidiaries	(18,391)	(44,519)
Expenses paid in relation to rights issue	(6,000)	—
Rights issue	3,869,845	—
Shares issued by a subsidiary under common control	1,000,000	—
New bank and other borrowings raised	41,479	3,137,128
Exercise of share options	12,388	31,980
Dividends received from available- for-sale investments	10,163	—
Advance from fellow subsidiaries	—	1,678
Dividends paid	—	(157,608)
Net cash used in financing activities	(475,068)	(663,689)
Net (decrease) increase in cash and cash equivalents	(581,783)	421,316
Cash and cash equivalents at beginning of the year	1,715,382	1,220,161
Effect of foreign exchange rate changes	51,487	73,905
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, representing bank balances and cash	1,185,086	1,715,382

Notes to the Consolidated Financial Statements
For the year ended 31st December, 2008

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 ("China Resources Holdings"), a company incorporated in Hong Kong and its ultimate holding company is China Resources National Corp. ("CRNC"), a company established in the PRC. The addresses of registered office and principal place of business of the Company are disclosed in the Corporate Information in the annual report.

The Company is an investment holding company. The activities of its principal subsidiaries, associates and jointly controlled entities are set out in notes 47, 48 and 49, respectively.

2. BASIS OF PREPARATION

As part of the group reorganisation (the "Group Reorganisation"), Rich Team Resources Limited ("Rich Team"), a wholly-owned subsidiary of the Company which was incorporated on 30th October, 2007, acquired 100% equity interests in Redland Concrete from CR Concrete for a cash consideration of approximately HK$217,757,000 on 5th March, 2008. On 30th October, 2008, the Company acquired 100% equity interests in China Resources Gas from Powerfaith for a cash consideration of HK$3,814,800,000. On 31st December, 2008, the Company disposed of 100% equity interests in Rich Team and a shareholder's loan due to the Company to China Resources Cement Holdings Company Limited, a fellow subsidiary of the Company, for a cash consideration which was the face value of such loan plus the consolidated net asset value of Rich Team as at 31st October, 2008, and adjusted based on any profit or loss after taxation attributable to its shareholders between 1st November, 2008 and 31st December, 2008. The final consideration was approximately HK$304,698,000. Details of the Group Reorganisation are set out in the Company's circulars dated 16th January, 2008, 19th September, 2008 and 12th December, 2008. Upon completion of the Group Reorganisation, the Group is engaged in sales of liquefied gas and connection of gas pipelines in the PRC.

The Group, Redland Concrete and its subsidiaries ("Redland Concrete Group") and China Resources Gas and its subsidiaries ("CR Gas (BVI) Group") are ultimately controlled by CRNC before and after the Group Reorganisation, and that control is not transitory. The Group, Redland Concrete Group and CR Gas (BVI) Group are regarded as continuing entities as at the dates of business combinations and hence the acquisitions have been accounted for as combinations of entities under common control by applying the principles of merger accounting in accordance with AG 5 issued by the HKICPA. Accordingly, the consolidated income statement, consolidated statement of changes in equity and the consolidated cash flow statement of the Group for the two years ended 31st December, 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 two years ended 31st December, 2007 and 2008, or since their respective dates of incorporation or establishment where this is a shorter period. The 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.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the HKICPA, which are or have become effective. The adoption of the new HKFRSs 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 39 & HKFRS 7 (Amendments)	Reclassification of financial assets
HK(IFRIC)* — INT 11	HKFRS2: Group and treasury share transactions
HK(IFRIC) — INT 12	Service concession arrangements
HK(IFRIC) — INT 14	HKAS19 — The limit on a defined benefit asset, minimum funding requirements and their interaction

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of financial statements[2]
HKAS 23 (Revised)	Borrowing costs[2]
HKAS 27 (Revised)	Consolidated and separate financial statements[3]
HKAS 32 & HKAS 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation[2]
HKAS 39 (Amendment)	Eligible hedge items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate[2]
HKFRS 2 (Amendment)	Vesting conditions and cancellations[2]
HKFRS 3 (Revised)	Business combinations[3]
HKFRS 7 (Amendment)	Improving disclosures about financial instruments[2]
HKFRS 8	Operating segments[2]
HK(IFRIC) — INT 13	Customer loyalty programmes[4]
HK(IFRIC) — INT 15	Agreements for the construction of real estate[2]

HK(IFRIC) — INT 16	Hedges of a net investment in a foreign operation[5]
HK(IFRIC) — INT 17	Distributions of non-cash assets to owners[3]
HK(IFRIC) — INT 18	Transfer of assets from customers[6]

1 Effective for annual periods beginning on or after 1st January, 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1st July, 2009.

2 Effective for annual periods beginning on or after 1st January, 2009.

3 Effective for annual periods beginning on or after 1st July, 2009.

4 Effective for annual periods beginning on or after 1st July, 2008.

5 Effective for annual periods beginning on or after 1st October, 2008.

6 Effective for transfers on or after 1st July, 2009.

* IFRIC represents the International Financial Reporting Interpretations Committee.

The adoption of HKFRS 3 (Revised) may affect the accounting treatment 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 parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

HK(IFRIC) — INT 18 applies to agreements in which an entity receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant and equipment and the entity must then use the item of property, plant and equipment either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both. This may affect the accounting treatment for property, plant and equipment and revenue recognition for which the transfer of cash is received on or after 1st July, 2009.

The directors of the Company anticipate that the application of other new or revised standards, amendments or interpretations will have no material impact on the results or financial position of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair values at initial recognition, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards 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 and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company. 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.

Merger accounting for business combinations involving entities under common control

The consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's 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 or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

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 of net assets and operations of another entity after 1st January, 2001, the Group has discontinued amortisation from 1st 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 1st 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 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 or a 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 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 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 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 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 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.

Investments in 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 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 consolidated financial statements.

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.

Distribution in specie

The amount recognised as distribution in respect of a distribution in specie is measured at the carrying value of the net assets of subsidiaries distributed at the date of the distribution.

Non-current assets held for sale

Non-current assets or 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 (or 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.

If an asset or disposal group has been classified as held for sale, but the criteria are no longer met, the Group ceases to classify the asset or disposal group as held for sale. Such non-current asset that ceases to be classified as held for sale (or ceases to be included in a disposal group classified as held for sale) is measured at the lower of: (i) its carrying amount before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset (or disposal group) not been classified as held for sale, and (ii) its recoverable amount at the date of the subsequent decision not 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.

Income from construction of gas pipelines is recognised when the outcome of a construction contract for gas connection can be estimated reliably and the stage of completion at the balance sheet date can be measured reliably. Revenue from and expenses on construction contracts for gas connection are recognised using the percentage of completion method, measured by reference to the value of work carried out during the year relative to the estimated total costs of the contract. When the outcome of a construction contract for gas connection 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.

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.

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 their estimated residual values using the straight-line method.

Construction in progress includes 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 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 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 stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method.

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 for gas connection 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 for gas connection 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.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated balance sheet, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated balance sheet under trade and other receivables.

Intangible assets

Intangible assets refer to the exclusive operating rights for city pipeline network and technical know-how.

Technical know-how comprises the acquired rights to use certain technologies for the manufacture of air-conditioner compressors and wafer products.

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.

An intangible asset 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 from derecognition of an intangible asset 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.

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 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

The Group's financial assets are classified into one of the two categories, including loans and receivables and available-for-sale financial assets.

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 fellow subsidiaries, pledged bank deposits 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).

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 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. Interest income is recognised on an effective interest basis for debt instrument.

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. The Group designated listed and unlisted equity securities 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 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 affected.

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
- when it becomes probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade 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 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, 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. 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. 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 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 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.

Financial liabilities and equity

Financial liabilities, including trade and other payables, bank and other borrowings, amounts due to fellow subsidiaries, long-term payables and other long-term liabilities, 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.

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.

As lessor

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

As 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.

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.

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 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. 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 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 profit 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 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 year 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.

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 (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.

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 (i.e. Hong Kong dollars) 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 of a foreign operation on or after 1st 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 translation reserve.

Equity-settled share-based payment transactions

Share options and 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 option 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 during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share option reserve.

At the time when the share options are exercised, the amount previously recognised in share option 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 option reserve will continue to be held in share option reserve.

At the time when new share options/equity instruments are granted to employees and they are identified, on the date when they are granted, as replacement for the cancelled share options, this is accounted for as a modification of the original share options. The incremental fair value granted is the difference between the fair value of the replacement share options/equity instruments and the net fair value of the cancelled share options at the date the replacement share options/equity instruments are granted. The net fair value of the cancelled share options is the fair value, immediately before the cancellation, less the amount of any payment made to the employees that is accounted for as a repurchase of an equity interest (i.e. as a deduction from equity).

Share options and 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 share 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 share 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 lapse 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.

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Critical judgement in applying the Group's acounting policies

The following is the critical judgement, apart from those involving estimations (see below), that the directors have made in the process of applying the Group's accounting policies and that has the most significant effect on the amounts recognised in the financial statements.

Application of principles of merger accounting

The acquisitions of Redland Concrete and China Resources Gas are accounted for as combinations of entities under common control by applying principles of merger accounting in accordance with AG 5 issued by the HKICPA. The management considers merger accounting can reflect the economic substance of the acquisitions of Redland Concrete and China Resources Gas, not merely the legal form, in the absence of a standard or an interpretation that specifically applies to common control combination.

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 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, 2008 is HK$1,244,440,000 (2007: HK$5,276,940,000).

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. In case where the recoverable amounts of property, plant and equipment assessed are less than expected, a material recognition of impairment of property, plant and equipment may arise, which would be recognised in profit or loss in the period in which such recognition takes place.

Impairment loss on property, plant and equipment of HK$38,980,000 (2007: HK$13,654,000) was charged to consolidated income statement during the year.

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 31st December, 2008, the carrying amount of goodwill is HK$18,836,000 (2007: HK$42,443,000). Details of the recoverable amount calculation are disclosed in Note 22.

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 amount at 31st December, 2008 is HK$637,030,000 (2007: HK$652,368,000). Recoverability analysis has been carried out by the management annually and details of the recoverable amount calculation are disclosed in Note 23. 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.

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 26). 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, net of allowance, at 31st December, 2008 is HK$56,858,000 (2007: HK$1,039,802,000).

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. In case where the net realisable value of inventories assessed are less than expected, a material recognition of allowance for inventories may arise, which would be recognised in profit or loss in the period in which such recognition takes place.

At 31st December, 2008, the carrying amount of inventories is HK$45,252,000 (2007: HK$886,505,000).

6. 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 and other 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 bank and other 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 redemption of existing debts.

7. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2008	2007
	HK$'000	*HK$'000*
		(Restated)
Financial assets		
Loans and receivables (including cash and cash equivalents)	1,341,604	2,813,577
Available-for-sale investments	8,299	23,933
Financial liabilities		
At amortised cost	425,587	4,611,166

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 fellow subsidiaries, pledged bank deposits, bank balances and cash, trade and other payables, bank and other borrowings, long-term payables and other long-term liabilities. 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.

Foreign currency risk

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 amounts due from/to fellow subsidiaries, pledged bank deposits, bank balances and cash, trade and other payables and bank and other borrowings, at the balance sheet dates are as follows:

	2008	**2007**
	HK$'000	*HK$'000*
		(Restated)
Assets		
United States dollars	29,008	162,740
Hong Kong dollars	301,149	37,451
Japanese Yen	—	7
	330,157	200,198
Liabilities		
United States dollars	—	400,555
Hong Kong dollars	29,672	5
Japanese Yen	—	374
Euro	20,926	23,145
	50,598	424,079

Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 5% increase and decrease in Renminbi ("RMB"), the functional currency of the subsidiaries operating in the PRC, against relevant foreign currencies. 5% is the sensitivity rate which 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 RMB strengthens 5% against the relevant foreign currencies. For a 5% weakening of RMB against the relevant currency, there would be an equal but opposite impact on the profit for the year.

	2008	2007
	HK$'000	*HK$'000*
		(Restated)
United States dollars		
Profit for the year	(1,450)	11,891
Hong Kong dollars		
Profit for the year	(13,574)	(1,872)
Japanese Yen		
Profit for the year	—	18
Euro		
Profit for the year	1,046	1,157

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to floating-rate bank and other borrowings (see Note 32 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 32 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.

Interest rate sensitivity analysis

The sensitivity analyses have been determined based on the exposure to interest rates for bank and other borrowings. The analysis is prepared assuming the bank and other borrowings outstanding at the balance sheet date were outstanding for the whole year. A 100 basis point (2007: 50 basis point) increase or decrease which represents management's assessment of the reasonably possible change in interest rates is used.

The management adjusted the sensitivity rate from 50 basis points to 100 basis points to assess interest rate risk after considering the impact of the volatile financial market conditions after the third quarter of 2008.

If the interest rate had been 100 basis points (2007: 50 basis points) higher/lower and all other variables were held constant, the profit for the year ended 31st December, 2008 would decrease/increase by approximately HK$323,000 (2007: HK$8,563,000). This is mainly attributable to the Group's exposure to interest rates on its floating-rate bank and other borrowings.

The Group's exposure to cash flow interest rate risk is mainly concentrated on the fluctuation of Hong Kong Interbank Offered Rate ("HIBOR") arising from the Group's borrowings denominated in Hong Kong dollars and People's Bank of China Base Rate arising from the Group's borrowings denominated in RMB and EURO. 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

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 and the amount of contingent liabilities in relation to guarantees given to a bank in respect of staff mortgage loans. 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.

At 31st December, 2008, the Group has concentration of credit risk in relation to the receivables from fellow subsidiaries amounting to HK$11,636,000 (2007: HK$1,797,000). In order to minimise the credit risk, the management has reviewed the recoverable amount of each receivable from its fellow subsidiaries 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.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group'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 following table details the Group's 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 can be required to pay. The table includes both interest and principal cash flows.

	Weighted average 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 amounts
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31st December, 2008							
Trade and other payables	—	—	181,761	15,363	47,388	244,512	244,512
Amounts due to fellow subsidiaries	—	239	—	—	—	239	239
Bank and other borrowings	4.6%	—	71,550	24,612	24,311	120,473	107,527
Other long-term liabilities	—	—	9,690	11,460	102,752	123,902	73,309
		239	263,001	51,435	174,451	489,126	425,587
At 31st December, 2007 (Restated)							
Trade and other payables	—	—	1,187,122	—	—	1,187,122	1,187,122
Amounts due to fellow subsidiaries	—	1,233,487	—	—	—	1,233,487	1,233,487
Bank and other borrowings	5.3%	—	822,915	1,460,318	8,565	2,291,798	2,056,355
Other long-term liabilities	—	—	3,078	9,920	93,277	106,275	62,385
Long-term payables	—	—	9,402	39,836	43,620	92,858	71,817
		1,233,487	2,022,517	1,510,074	145,462	4,911,540	4,611,166

Fair value

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices for observable current market transactions.

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 purposes, the Group is organised into four business segments — semiconductor, concrete, 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 activities of these divisions are as follows:

Semiconductor — design, fabrication and packaging of integrated circuits and discrete devices

Concrete — manufacture and sale of concrete

Sale and distribution of gas fuel and related products — sale of liquefied petroleum gas and natural gas for residential, commercial and industrial use

Gas connection — construction of gas pipelines

During the year ended 31st December, 2008, the Group disposed of all of its equity interests held in China Resources Microelectronics Limited (formerly known as CSMC Technologies Corporation) ("CR Microelectronics"), which is engaged in semiconductor operation, by way of a distribution in specie. The Group also disposed of the entire equity interest in Rich Team, which is engaged in concrete operation, and a shareholder's loan due to the Company. Details of the disposals are set out in Note 40. Upon completion of the disposals, the Group is principally engaged in the gas operation.

The Group was also involved in the compressor operation, representing manufacture of compressor for air-conditioners, which was discontinued on 16th August, 2007.

Results for the year ended 31st December, 2008

	Continuing operations			**Discontinued operations**			
	Sale and distribution of gas fuel and related products	**Gas connection**	**Total**	**Semi-conductor**	**Concrete**	**Total**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover							
External sales	1,669,741	474,826	2,144,567	439,685	401,846	841,531	2,986,098
Result							
Segment results	166,165	153,929	320,094	(75,907)	89,565	13,658	333,752
Unallocated income			56,558			1,189	57,747
Unallocated expenses			(31,091)			(15,000)	(46,091)
Finance costs			(12,977)			(14,588)	(27,565)
Share of results of associates	3,388	—	3,388	—	(1)	(1)	3,387
Profit before taxation			335,972			(14,742)	321,230
Taxation			(33,668)			(14,893)	(48,561)
Profit for the year			302,304			(29,635)	272,669

At 31st December, 2008

Consolidated assets and liabilities

	Sale and distribution of gas fuel and related products	Gas connection	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
ASSETS			
Segment assets	1,978,766	442,667	2,421,433
Interest in associates	10,272	—	10,272
Unallocated corporate assets			1,274,253
Consolidated total assets			3,705,958
LIABILITIES			
Segment liabilities	135,477	901,940	1,037,417
Unallocated corporate liabilities			485,518
Consolidated total liabilities			1,522,935

For the year ended 31st December, 2008

Other information

	Continuing operations				Discontinued operations			
	Sale and distribution of gas fuel and related products	**Gas connection**	**Unallocated**	**Total**	**Semi-conductor**	**Concrete**	**Total**	**Con-solidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Capital expenditure	153,770	—	109	153,879	190,014	392	190,406	344,285
Depreciation and amortisation	96,430	—	3	96,433	44,820	8,909	53,729	150,162
Write down of inventories	—	—	—	—	8,793	—	8,793	8,793
Impairment loss on goodwill	—	—	3,036	3,036	—	—	—	3,036
Impairment loss (reversal of impairment loss) on trade receivables	417	—	—	417	2,203	(4,193)	(1,990)	(1,573)
Impairment loss on property, plant and equipment	4,044	—	—	4,044	34,936	—	34,936	38,980
Loss on disposal of property, plant and equipment	1,476	—	754	2,230	—	1	1	2,231

Results for the year ended 31st December, 2007

	Continuing operations			Discontinued operations				
	Sale and distribution of gas fuel and related products	**Gas connection**	**Total**	**Semi-conductor**	**Concrete**	**Compressor**	**Total**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Restated)	*(Restated)*	*(Restated)*	*(Restated)*	*(Restated)*	*(Restated)*	*(Restated)*	*(Restated)*
Turnover								
External sales	1,326,406	210,838	1,537,244	3,016,902	366,837	1,247,230	4,630,969	6,168,213
Result								
Segment results	98,805	77,961	176,766	324,854	64,639	59,290	448,783	625,549
Unallocated income			28,318				12,690	41,008
Unallocated expenses			(35,947)				(9,602)	(45,549)
Finance costs			(39,367)				(74,001)	(113,368)
Share of results of associates	2,445	—	2,445	—	(6)	—	(6)	2,439
Gain on disposal of discontinued operations			—	—	—	61,864	61,864	61,864
Loss on closure of a production plant			—	(69,868)	—	—	(69,868)	(69,868)
Profit before taxation			132,215				369,860	502,075
Taxation			34,728				(59,945)	(25,217)
Profit for the year			166,943				309,915	476,858

At 31st December, 2007

Consolidated assets and liabilities

	Continuing operations			Discontinued operations				
	Sale and distribution of gas fuel and related products	Gas connection	Total	Semi-conductor	Concrete	Compressor	Total	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Restated)	*(Restated)*	*(Restated)*	*(Restated)*	*(Restated)*	*(Restated)*	*(Restated)*	*(Restated)*
ASSETS								
Segment assets	1,991,278	373,570	2,364,848	6,408,422	294,017	—	6,702,439	9,067,287
Interest in associates	7,939	—	7,939	—	48	—	48	7,987
Unallocated corporate assets			665,356				591,766	1,257,122
Consolidated total assets			3,038,143				7,294,253	10,332,396
LIABILITIES								
Segment liabilities	167,321	725,679	893,000	1,516,620	49,806	—	1,566,426	2,459,426
Unallocated corporate liabilities			1,701,198				1,921,426	3,622,624
Consolidated total liabilities			2,594,198				3,487,852	6,082,050

For the year ended 31st December, 2007

Other information

	Continuing operations				Discontinued operations				
	Sale and distribution of gas fuel and related products	Gas connection	Unallocated	Total	Semi-conductor	Concrete	Compressor	Total	Con-solidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Restated)	*(Restated)*	*(Restated)*	*(Restated)*	*(Restated)*	*(Restated)*	*(Restated)*	*(Restated)*	*(Restated)*
Capital expenditure	170,420	—	5,806	176,226	1,077,209	5,306	12,432	1,094,947	1,271,173
Depreciation and amortisation	90,331	—	357	90,688	363,502	12,906	79,678	456,086	546,774
Write down of inventories	—	—	—	—	70,955	—	12,722	83,677	83,677
Impairment loss on trade receivables	775	—	—	775	5,660	12,496	—	18,156	18,931
Impairment loss on property, plant and equipment	—	—	—	—	13,654	—	—	13,654	13,654
Write off of property, plant and equipment	10,981	—	—	10,981	—	—	—	—	10,981

Geographical segments

The activities of the semiconductor operation are carried out in Hong Kong and other regions in the PRC, those of the concrete operation are carried out in Hong Kong and those of the gas and compressor operations are carried out in the PRC.

The following table provides an analysis of the Group's sales by geographical markets:

	2008	2007
	HK$'000	*HK$'000*
		(Restated)
PRC	2,385,074	5,178,808
Hong Kong	523,259	575,387
United States of America	23,784	105,302
Europe	3,410	27,446
Others	50,571	281,270
	2,986,098	6,168,213

The following is an analysis of the carrying amounts of segment assets and additions to property, plant and equipment and intangible assets, analysed by the geographical areas in which the assets are located:

	Carrying amounts of segment assets		Additions to property, plant and equipment and intangible assets	
	At 31st December,		For the year ended 31st December,	
	2008	2007	2008	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
		(Restated)		*(Restated)*
PRC	2,421,433	8,634,486	343,893	1,260,151
Hong Kong	—	432,801	392	11,022
	2,421,433	9,067,287	344,285	1,271,173

9. FINANCE COSTS

	2008	2007
	HK$'000	*HK$'000*
		(Restated)
Interests on:		
Bank and other borrowings wholly repayable within five years	24,544	107,418
Bank and other borrowings not wholly repayable within five years	642	460
Long-term payables	900	4,186
Other long-term liabilities	1,479	1,304
	27,565	113,368

10. TAXATION

	2008	2007
	HK$'000	*HK$'000*
		(Restated)
The tax charge (credit) comprises:		
Current taxation		
Hong Kong Profits Tax	16,357	17,195
PRC Enterprise Income Tax	37,155	75,659
Under(over)provision in prior year	3,116	(7,578)
	56,628	85,276
Deferred taxation (Note 36)		
Credit for the year	(6,633)	(10,928)
Attributable to a change in tax rate	(1,434)	(49,131)
	(8,067)	(60,059)
	48,561	25,217

Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) on the estimated assessable profits for the 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 year ended 31st December, 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.

Certain subsidiaries operating in the PRC are exempted from income tax applicable in the PRC 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 PRC 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 Law) would be subject to a tax rate of 15%. These subsidiaries have been disposed of by the Group on 5th March, 2008.

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 1st 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 New Law and Article 91 of its Detailed Implementation Rules. No deferred tax liability on the undistributed profits earned during the year ended 31st December, 2008 has been recognised as the directors of the Company consider the amount is insignificant.

The tax charge for the year can be reconciled to the profit before taxation as follows:

	2008	2007
	HK$'000	*HK$'000*
		(Restated)
Profit before taxation	321,230	502,075
Tax at the applicable income tax rate of 25% (2007: 33%) (Note)	80,308	165,685
Tax effect of expenses not deductible for tax purposes	12,829	43,291
Tax effect of income not taxable for tax purposes	(9,486)	(49,986)
Tax effect of share of results of associates	847	805
Tax effect of tax losses not recognised	9,482	101,446
Utilisation of tax losses previously not recognised	(632)	(2,345)
Tax effect of deferred tax asset not recognised	4,449	7,509
Effect of tax exemptions granted to subsidiaries operating in the PRC	(30,812)	(59,059)
Income tax on concessionary rates	—	(35,893)
Effect of different tax rates of subsidiaries	(22,140)	(91,373)
Under(over)provision in prior year	3,116	(7,578)
Decrease in opening deferred tax liabilities resulting from a decrease in applicable tax rate	(1,434)	(49,131)
Others	2,034	1,846
Tax charge for the year	48,561	25,217

Note: The applicable income tax rate represents PRC Enterprise Income Tax rate of 33% for the year ended 31st December, 2007 and 25% for the year ended 31st December, 2008, of which the Group's operations are substantially based.

11. DISCONTINUED OPERATIONS

On 21st June, 2007, the Group entered into an agreement with Gradison Limited ("Gradison"), 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, for 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 period from 1st January, 2007 to 16th August, 2007, which have been included in the consolidated income statement, were as follows:

	Period from 1.1.2007 to 16.8.2007
	HK$'000
Turnover	1,247,230
Cost of sales	(1,058,348)
Gross profit	188,882
Other income	2,190
Selling and distribution expenses	(77,845)
Administrative expenses	(38,572)
Other expenses	(13,684)
Finance costs	(7,081)
Gain on disposal of compressor operation	61,864
Profit before taxation	115,754
Taxation	(6,696)
Profit for the year	109,058
Profit of compressor operation	47,194
Gain on disposal of compressor operation	61,864
	109,058
Attributable to:	
Equity holders of the Company	91,950
Minority interests	17,108
	109,058

The net cash flows of the compressor operation for the period from 1st January, 2007 to 16th August, 2007, were as follows:

	Period from 1.1.2007 to 16.8.2007
	HK$'000
Net cash from operating activities	46,668
Net cash used in investing activities	(10,747)
Net cash used in financing activities	(94,002)
Effect of foreign exchange rate changes	21,751
Net decrease in cash and cash equivalents	(36,330)

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 approximately 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 TP Semiconductors Limited (formerly known as China Resources Semiconductor Company Limited) ("TP Semiconductors"), a wholly-owned subsidiary of the Company which was engaged in manufacture and sales of integrated circuit design and wafer packaging. As the Group ceased the semiconductor operation during the year, the semiconductor operation is presented as a discontinued operation.

The results of the semiconductor operation for the two years ended 31st December, 2008 and 2007, which have been included in the consolidated income statement, were as follows:

	2008	**2007**
	HK$'000	*HK$'000*
Turnover	439,685	3,016,902
Cost of sales	(346,512)	(2,209,236)
Gross profit	93,173	807,666
Other income	8,977	98,599
Selling and distribution expenses	(13,936)	(78,492)
Administrative expenses	(111,230)	(285,144)
Other expenses	(56,067)	(218,341)
Finance costs	(14,588)	(66,920)
Loss on closure of a production plant	—	(69,868)
(Loss) profit before taxation	(93,671)	187,500
Taxation	(617)	(41,102)
(Loss) profit for the year	(94,288)	146,398
Attributable to:		
Equity holders of the Company	(88,214)	116,999
Minority interests	(6,074)	29,399
	(94,288)	146,398

The net cash flows of the semiconductor operation for the two years ended 31st December, 2008 and 2007, were as follows:

	2008	2007
	HK$'000	*HK$'000*
Net cash from operating activities	42,413	506,941
Net cash used in investing activities (including cash flow from disposal of CR Microelectronics)	(697,064)	(895,508)
Net cash from financing activities	25,931	917,378
Effect of foreign exchange rate changes	259	6,702
Net (decrease) increase in cash and cash equivalents	(628,461)	535,513

On 1st December, 2008, the Group entered into an agreement with China Resources Holdings to dispose of the entire issued share capital of Rich Team, together with a shareholder's loan due to the Company, to China Resources Holdings or any of its subsidiary nominated by it for a consideration which was the face value of such loan plus the consolidated net asset value of Rich Team as at 31st October, 2008, and adjusted based on any profit or loss after taxation attributable to its shareholders between 1st November, 2008 and 31st December, 2008. The final consideration was approximately HK$304,698,000. Rich Team was a holding company and its subsidiary was Redland Concrete which was engaged principally in the manufacture and sale of concrete business, through its subsidiaries. The disposal was completed on 31st December, 2008.

At the time of entering into the acquisition of Redland Concrete and China Resources Gas during the year, it was the stated intention of the directors of the Company for the Group to maintain its interest in Redland Concrete. Since then, the economic prospects in Hong Kong declined drastically and the medium term outlook for the construction industry in Hong Kong, on which Redland Concrete Group's fortunes depend, worsened considerably. These conditions were considered by the directors of the Company to be likely to have an adverse impact on its contribution to the Group's cash flows and profits, and hence management believed that greater resources should be directed towards the gas operation. Accordingly, the Group disposed of its entire equity interest in Rich Team, the holding company of Redland Concrete Group on 31st December, 2008. More details of the disposal of Rich Team are disclosed in the circular of the Company dated 12th December, 2008.

The results of the concrete operation for the two years ended 31st December, 2008 and 2007, which have been included in the consolidated income statement, were as follows:

	2008	**2007**
	HK$'000	*HK$'000*
Turnover	401,846	366,837
Cost of sales	(245,239)	(212,570)
Gross profit	156,607	154,267
Other income	6,649	3,943
Selling and distribution expenses	(40,079)	(37,703)
Administrative expenses	(44,247)	(53,895)
Share of results of associates	(1)	(6)
Profit before taxation	78,929	66,606
Taxation	(14,276)	(12,147)
Profit for the year	64,653	54,459
Attributable to:		
Equity holders of the Company	64,653	54,459

The net cash flows of the concrete operation for the two years ended 31st December, 2008 and 2007, were as follows:

	2008	**2007**
	HK$'000	*HK$'000*
Net cash from operating activities	99,697	84,832
Net cash from investing activities	33	9,689
Net cash used in financing activities	—	(102,000)
Net increase (decrease) in cash and cash equivalents	99,730	(7,479)

The turnover and profit of the concrete operation for the period from 5th March, 2008 (date of acquisition of Redland Concrete) to 31st December, 2008 were HK$333,521,000 and HK$50,059,000, respectively.

The net assets of the concrete operations at 31st December, 2007 were as follows:

	HK$'000
Property, plant and equipment	218,127
Interest in associates	48
Available-for-sale investments	6,227
Deferred tax assets	4,881
Inventories	2,006
Trade and other receivables	67,657
Bank balances and cash	15,635
Trade and other payables	(49,806)
Taxation payable	(6,208)
Deferred tax liabilities	(29,978)
Net assets	228,589

The total results of the above discontinued operations for the two years ended 31st December, 2008 and 2007 are summarised as follows:

	2008	**2007**
	HK$'000	*HK$'000*
Turnover	841,531	4,630,969
Cost of sales	(591,751)	(3,480,154)
Gross profit	249,780	1,150,815
Other income	15,626	104,732
Selling and distribution expenses	(54,015)	(194,040)
Administrative expenses	(155,477)	(377,611)
Other expenses	(56,067)	(232,025)
Finance costs	(14,588)	(74,001)
Loss on closure of a production plant	—	(69,868)
Gain on disposal of compressor operation	—	61,864
Share of results of associates	(1)	(6)
(Loss) profit before taxation	(14,742)	369,860
Taxation	(14,893)	(59,945)
(Loss) profit for the year	(29,635)	309,915
(Loss) profit of discontinued operations for the year	(29,635)	248,051
Gain on disposal of compressor operation	—	61,864
	(29,635)	309,915
Attributable to:		
Equity holders of the Company	(23,561)	263,408
Minority interests	(6,074)	46,507
	(29,635)	309,915

The total net cash flows of the above discontinued operations for the two years ended 31st December, 2008 and 2007, are summarised as follows:

	2008	2007
	HK$'000	*HK$'000*
Net cash from operating activities	142,110	638,441
Net cash used in investing activities (including cash flow from disposal of CR Microelectronics)	(697,031)	(896,566)
Net cash from financing activities	25,931	721,376
Effect of foreign exchange rate changes	259	28,453
Net (decrease) increase in cash and cash equivalents	(528,731)	491,704

12. ASSETS CLASSIFIED AS HELD FOR SALE

As mentioned in Note 11, the management had an intention to dispose of the entire equity interest in TP Semiconductors as at 31st December, 2007. The assets attributable to the production plant, which is expected to be sold within twelve months, had been classified as disposal group held for sale and were presented separately in the consolidated balance sheets as at 31st December, 2007. The Letter of Intent was cancelled subsequently and the management was unable to locate a buyer and no longer committed to a plan to sell these assets. Accordingly, these assets classified as held for sale were reclassified to respective categories of assets as at 31st December, 2008. As the Group ceased the semiconductor operation during the year, impairment loss was recognized to write off the carrying values of plant, machinery and equipment.

The major classes of assets classified as held for sale are as follows:

	2008	2007
	HK$'000	*HK$'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

	2008	2007
	HK$'000	*HK$'000*
		(Restated)
Profit for the year has been arrived at after charging:		
Staff costs		
Directors' emoluments (Note 14)	4,537	8,421
Other staff		
— Salaries and other benefits	275,197	528,550
— Retirement benefits schemes contributions	22,621	46,417
Share-based payment expense	1,559	7,863
Total staff costs	303,914	591,251
Auditor's remuneration	4,797	6,188
Depreciation of property, plant and equipment	125,363	515,925
Depreciation of investment properties	866	178
Amortisation of exclusive operating rights (included in administrative expenses)	23,276	24,756
Amortisation of technical know-how (included in administrative expenses)	657	5,915
Release from prepaid lease payments	4,390	7,808
Research, design and development expenses (included in other expenses)	22,660	143,734
Reorganisation expenses	14,148	11,000
Impairment loss on goodwill (included in administrative expenses)	3,036	—
Impairment loss on trade receivables	—	18,931
Impairment loss on property, plant and equipment	38,980	2,844
Impairment loss on available-for-sale investments	15,683	2,734
Write down of inventories to net realisable value (included in other expenses)	8,793	46,209
Write off of property, plant and equipment, net	—	10,981
Operating lease rentals in respect of rented premises	14,743	11,189
Provision for product liabilities	4,500	3,000
Loss on disposal of property, plant and equipment	2,231	—
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
and after crediting:		
Dividend income from available-for-sale investments	10,163	—
Gain on disposal of property, plant and equipment, net	—	2,623
Gain on disposal of available-for-sale investments	—	3,586
Gain on disposal of prepaid lease payments	—	10,697
Government grants	13,215	10,520
Interest on bank deposits	14,952	30,077
Net reversal of impairment loss on trade receivables	1,573	—
Rental income from investment properties (net of negligible outgoings)	6,880	2,062
Tax refund on re-investment of profit of PRC subsidiaries	—	9,566
Write back of provisions (Note 33)	—	25,858

14. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES

Directors

The emoluments paid or payable to the directors are as follows:

		2008					
		Fees	Salaries and other benefits	Performance Related Incentive payments	Retirement Benefit Schemes contributions	Total	2007 Total
Name of Director	*Notes*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Zhu Jinkun	a	45	132	—	12	189	2,120
Zhou Longshan	a, b	24	407	—	66	497	—
Ma Guoan	b	—	—	—	—	—	—
Wang Chuandong	c	—	—	—	—	—	—
Wang Guoping	d	45	201	—	—	246	1,335
Ong Thiam Kin, Ken		60	1,560	450	173	2,243	2,166
Chen Cheng-Yu, Peter	d	143	403	297	—	843	2,202
Jiang Wei	e	30	—	—	—	30	30
Wei Bin	e	—	—	—	—	—	—
Liu Yanjie	d	15	—	—	—	15	15
Li Fuzuo		30	—	—	—	30	30
Du Wenmin	d, f	24	—	—	—	24	—
Wong Tak Sing	f	120	—	—	—	120	120
Luk Chi Cheong	f	120	—	—	—	120	120
Ko Ping Keung	d	60	—	—	—	60	120
Yang Chonghe, Howard		120	—	—	—	120	163
		836	2,703	747	251	4,537	8,421

Notes:

(a) Mr. Zhu Jinkun had resigned as Chairman and executive director of the Company on 21st March, 2008. Mr. Zhou Longshan was appointed as Chairman, Chief Executive Officer and executive director on the same date.

(b) Mr. Zhou Longshan had resigned as Chairman, Chief Executive Officer and executive director of the Company on 3rd November, 2008. Mr. Ma Guoan was appointed as Chairman and executive director on the same date.

(c) Mr. Wang Chuandong was appointed as Managing Director and executive director on 3rd November, 2008.

(d) Mr. Wang Guoping, Mr. Cheng Cheng-Yu, Peter, Mr. Liu Yanjie and Mr. Ko Ping Keung had resigned on 21st March, 2008. Mr. Du Wenmin were appointed as non-executive director of the Company on the same date.

(e) Mr. Jiang Wei had resigned as non-executive director of the Company on 3rd November, 2008. Mr. Wei Bin was appointed as non-executive director on the same date.

(f) Being independent non-executive directors and members of the Audit Committee.

(g) 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 for both years.

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 two (2007: three) executive directors, details of whose emoluments are set out above. The emoluments of the remaining three (2007: two) highest paid employees of the Group are as follows:

	2008	**2007**
	HK$'000	*HK$'000*
Salaries and other benefits	1,909	4,025
Performance related incentive payments	1,101	687
Retirement benefit scheme contributions	69	—
	3,079	4,712

The emoluments of the above employees are within the following bands:

	2008	**2007**
	Number of employees	*Number of employees*
Nil to HK$1,000,000	1	—
HK$1,000,001 to HK$1,500,000	2	—
HK$2,000,001 to HK$2,500,000	—	1
HK$2,500,001 to HK$3,000,000	—	1

15. DIVIDENDS

	2008	2007
	HK$'000	*HK$'000*
		(Restated)
Dividends recognised as distribution during the year:		
Interim dividend paid for 2007	—	1,629,937
Final dividend paid for 2006	—	27,671
Distribution by way of dividend in specie	2,731,463	—
	2,731,463	1,657,608

Pursuant to an ordinary resolution passed at a special general meeting held on 13th February, 2008, the Company distributed all of its holding of 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.

The directors recommend the payment of a final dividend of 4 HK cents per share for the year ended 31st December, 2008.

The directors did not propose the payment of a final dividend for the year ended 31st December, 2007.

During the year ended 31st December, 2007,

— a dividend of 1.0 HK cent per share, totalling HK$27,671,000, was paid by the Company to its shareholders as the final dividend for the year ended 31st December, 2006.

— a dividend of 1.0 HK cent per share, totalling HK$27,937,000, was paid by the Company to its shareholders as an interim dividend for the year ended 31st December, 2007.

— a dividend of HK$102,000,000 was paid by Redland Concrete to its shareholders as an interim dividend for the year ended 31st December, 2007.

— a dividend of HK$1,500,000,000 was paid by China Resources Gas to its shareholders as an interim dividend for the year ended 31st December, 2007, of which HK$1,200,000,000 was paid out of share premium and HK$300,000,000 was paid out of retained profits.

16. EARNINGS PER SHARE

For both continuing and discontinued operations

The calculation of the basic and diluted earnings per share is based on the following data:

	2008	**2007**
	HK$'000	*HK$'000*
		(Restated)
Earnings:		
Earnings for the purpose of basic earnings per share (profit for the year attributable to equity holders of the Company)	236,777	399,526
Effect of dilutive potential shares of subsidiaries on their earnings attributable to the Group's discontinued operations	—	(992)
Earnings for the purpose of diluted earnings per share	236,777	398,534

	2008	**2007**
		(Restated)
Number of shares:		
Weighted average number of shares for the purpose of basic earnings per share	477,539,087	278,170,364
Effect of dilutive potential shares Share options	754,697	3,752,793
Weighted average number of shares for the purpose of diluted earnings per share	478,293,784	281,923,157

For the years ended 31st December, 2008 and 2007, 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 37. No retrospective adjustment has been made for rights issue since the rights issue price is higher than the market price on the date of rights issue.

The computation of diluted earnings per share for the year ended 31st December, 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 year.

From continuing operations

The calculation of the basic and diluted earnings per share from continuing operations is based on the following data:

	2008	2007
	HK$'000	*HK$'000*
		(Restated)
Earnings for the purposes of basic earnings per share (profit for the year attributable to equity holders of the Company)	236,777	399,526
Less: Loss (profit) for the year from discontinued operations attributable to equity holders of the Company	23,561	(263,408)
Earnings for the purpose of basic earnings per share from continuing operations	260,338	136,118

The denominators used are the same as those detailed above for both basic and diluted earnings per share.

For discontinued operations

Basic and diluted losses per share for the discontinued operations for the year ended 31st December, 2008 are HK$0.05 per share (2007: earnings of HK$0.95 per share) and HK$0.04 per share (2007: earnings of HK$0.93 per share), respectively, based on the loss or profit from the discontinued operations and the denominators presented above.

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold properties HK$'000	Plant, machinery and equipment HK$'000	Gas pipelines HK$'000	Furniture and fixtures HK$'000	Logistics equipment HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
COST									
At 1st January, 2007 (restated)	854,282	3,951,576	597,523	221,887	57,913	8,705	78,803	1,127,731	6,898,420
Exchange adjustments	39,996	239,127	41,962	10,768	—	386	5,978	87,290	425,507
Additions	5,954	113,948	—	5,840	5,176	634	7,114	1,127,153	1,265,819
Reclassified as assets held for sale	(6,500)	(12,529)	—	—	—	—	—	(26,024)	(45,053)
Disposals	(7,810)	(36,878)	—	(1,645)	—	(4,539)	(6,855)	(1,052)	(58,779)
Disposal of subsidiaries	(136,978)	(1,489,363)	—	(75,109)	—	—	(7,002)	(21,822)	(1,730,274)
Write-off	—	—	(25,231)	—	—	—	—	—	(25,231)
Transfers between categories	21,792	613,825	108,394	31,645	—	235	11,669	(787,560)	—
At 31st December, 2007	770,736	3,379,706	722,648	193,386	63,089	5,421	89,707	1,505,716	6,730,409
Exchange adjustments	7,522	6,288	54,980	1,672	—	267	2,849	16,445	90,023
Additions	3,494	17,285	540	9,398	—	—	4,770	308,798	344,285
Reclassified from assets held for sale	6,500	12,529	—	—	—	—	—	26,024	45,053
Disposals	(1,425)	(34,261)	(1,637)	(9,863)	—	(1,451)	(4,275)	—	(52,912)
Disposal of subsidiaries	(634,363)	(3,299,320)	—	(172,467)	(63,089)	(2,879)	(50,486)	(1,425,389)	(5,647,993)
Transfer to investment properties	(24,471)	—	—	—	—	—	—	—	(24,471)
Transfers between categories	12,877	27,798	69,586	4,193	—	—	12,812	(127,266)	—
At 31st December, 2008	140,870	110,025	846,117	26,319	—	1,358	55,377	304,328	1,484,394
DEPRECIATION AND IMPAIRMENT									
At 1st January, 2007 (restated)	132,798	1,165,860	37,650	73,071	56,390	3,694	31,184	—	1,500,647
Exchange adjustments	6,042	80,704	2,933	3,072	—	40	2,573	—	95,364
Provided for the year	32,595	393,388	46,055	31,112	2,074	471	10,230	—	515,925
Impairment loss recognised	—	12,130	—	717	—	—	—	807	13,654
Reclassified as asset held for sale	(1,725)	(4,459)	—	—	—	—	—	—	(6,184)
Eliminated on disposals	(2,222)	(22,545)	—	(1,547)	—	(456)	(4,951)	—	(31,721)
Eliminated on disposal of subsidiaries	(30,593)	(564,403)	—	(21,901)	—	—	(3,069)	—	(619,966)
Eliminated on write-off	—	—	(14,250)	—	—	—	—	—	(14,250)
At 31st December, 2007	136,895	1,060,675	72,388	84,524	58,464	3,749	35,967	807	1,453,469
Exchange adjustments	2,250	3,996	14,150	969	—	85	809	—	22,259
Provided for the year	8,579	54,894	48,380	6,641	894	382	5,593	—	125,363
Impairment loss recognised	—	8,070	4,044	842	—	—	—	26,024	38,980
Reclassified from assets held for sale	1,725	4,459	—	—	—	—	—	—	6,184
Eliminated on disposals	(587)	(23,112)	(52)	(4,566)	—	—	(2,822)	—	(31,139)
Eliminated on disposal of subsidiaries	(131,140)	(1,069,916)	—	(76,946)	(59,358)	(2,879)	(28,642)	—	(1,368,881)
Transfer to investment properties	(6,281)	—	—	—	—	—	—	—	(6,281)
Transfers between categories	—	(72)	—	33	—	—	39	—	—
At 31st December, 2008	11,441	38,994	138,910	11,497	—	1,337	10,944	26,831	239,954
CARRYING VALUES									
At 31st December, 2008	129,429	71,031	707,207	14,822	—	21	44,433	277,497	1,244,440
At 31st December, 2007	633,841	2,319,031	650,260	108,862	4,625	1,672	53,740	1,504,909	5,276,940

Impairment loss for the year was mainly made to write off the carrying values of plant, machinery and equipment and furniture and fixtures upon cessation of semiconductor operation.

The above items of property, plant and equipment, other than construction in progress, are depreciated over their estimated useful lives and after taking into account their estimated residual values, ranging from 0% to 10%, using the straight-line method, as follows:

Leasehold properties	25 to 40 years or over the relevant lease terms, if shorter
Plant, machinery and equipment	5 to 20 years
Gas pipelines	20 to 30 years
Furniture and fixtures	3 to 12 years
Logistics equipment	10 to 40 years
Leasehold improvements	3 to 5 years
Motor vehicles	$3^1/3$ to 10 years

The Group's leasehold properties are situated on land:

	2008	**2007**
	HK$'000	*HK$'000*
		(Restated)
Outside Hong Kong on medium-term lease	124,711	426,508
In Hong Kong on		
— long lease	—	189,102
— medium-term lease	4,718	18,231
	129,429	633,841

At 31st December, 2008, property, plant and equipment with an aggregate carrying value of nil (2007: HK$15,358,000) are pledged to secure the bank borrowings granted to the Group (Note 32).

18. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise of land situated:

	2008	**2007**
	HK$'000	*HK$'000*
		(Restated)
Outside Hong Kong on medium-term lease	108,771	266,086
In Hong Kong on medium-term lease	5,503	1,990
	114,274	268,076
Analysed for reporting purposes as		
Non-current assets	110,514	259,986
Current assets	3,760	8,090
	114,274	268,076

At 31st December, 2008, land use rights with an aggregate carrying amount of nil (2007: HK$4,572,000) are pledged to secure the bank borrowings granted to the Group (Note 32).

19. INVESTMENT PROPERTIES

	HK$'000 *(Restated)*
COST	
At 1st January, 2007 (restated)	6,607
Exchange adjustments	860
At 31st December, 2007	7,467
Transfer from property, plant and equipment	18,190
Exchange adjustments	518
Additions	748
Disposal of subsidiaries	(18,190)
At 31st December, 2008	8,733
DEPRECIATION	
At 1st January, 2007 (restated)	169
Exchange adjustments	1
Provided for the year	178
At 31st December, 2007	348
Exchange adjustments	59
Provided for the year	866
Eliminated on disposal of subsidiaries	(449)
At 31st December, 2008	824
CARRYING VALUES	
At 31st December, 2008	7,909
At 31st December, 2007	7,119

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using cost model and are classified and accounted for as investment properties. Depreciation is provided to write off the cost of investment properties using straight-line method over the remaining terms of the leases.

At the balance sheet date, all of the Group's investment properties are situated in the PRC with medium terms of leases.

20. INTEREST IN ASSOCIATES

	2008	2007
	HK$'000	*HK$'000*
	(Restated)	
Unlisted shares, at cost	5,207	49,808
Less: Impairment loss recognised	—	(45,000)
Share of post-acquisition profits, net of dividend received	3,863	2,501
Share of translation reserve	1,202	678
	10,272	7,987

Details of the Group's associates at the balance sheet date are set out in Note 48.

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

	2008	2007
	HK$'000	*HK$'000*
		(Restated)
Total assets	131,407	87,771
Total liabilities	(65,582)	(44,699)
Net assets	65,825	43,072
Group's share of net assets of associates	10,272	7,987
Income	150,368	101,291
Expenses	130,938	87,794
Profit for the year	19,430	13,497
Group's share of results of associates	3,387	2,439

Impairment loss was recognised in 2007 in respect of interest in an associate based on its recoverable amount which was determined by the estimated discounted net cash flow from that associate. The carrying amount of interest in that associate was reduced to the respective recoverable amount.

21. AVAILABLE-FOR-SALE INVESTMENTS

	2008	2007
	HK$'000	*HK$'000*
		(Restated)
Unlisted shares in Hong Kong, at cost	9,334	21,701
Unlisted equity investments in PRC	8,299	7,802
	17,633	29,503
Less: Impairment loss recognised	(9,334)	(5,570)
	8,299	23,933

The unlisted investments are measured at cost less impairment losses at the balance sheet date because the range of reasonable fair value estimates is so significant that the management is of the opinion that their fair values cannot be measured reliably.

The management undertook a review of the recoverable amounts of the available-for-sale investments. Impairment loss is recognised to reduce the carrying amount to the recoverable amount.

22. GOODWILL

	HK$'000
CARRYING AMOUNT	
At 1st January, 2007 (Restated)	171,061
Exchange adjustments	99
Eliminated on disposal of subsidiaries	(128,717)
At 31st December, 2007	42,443
Exchange adjustments	453
Eliminated on disposal of subsidiaries	(21,024)
Impairment loss recognised	(3,036)
At 31st December, 2008	18,836

As explained in Note 8, the Group uses business segments as the primary segment for reporting segment information. For the purposes of impairment testing, the goodwill has been allocated, on acquisition, to the relevant individual cash-generating units ("CGUs"), or groups of CGUs, that are expected to benefit from that business combination. The carrying amounts of goodwill as at 31st December, 2008 and 2007 are allocated according to the business segments as follows:

	2008	2007
	HK$'000	*HK$'000*
		(Restated)
Semiconductor operation — CR Microelectronics	—	10,575
Semiconductor operation — Others	—	13,485
Gas operation — Sale and distribution of gas fuel and related products	18,836	18,383
	18,836	42,443

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 business and extrapolates cash flows for the following five years based on the estimated growth rate of 5% (2007: 5%). The rates used to discount the forecast cash flows for the CGUs are 9.7% (2007: 9.7%). In the opinion of the directors, no material impairment loss of goodwill on gas operation is identified at the balance sheet date. For semiconductor operation which was ceased during the year, the management assesses the recoverable amount of the CGU is minimal, accordingly, full impairment loss is recognised in respect of the remaining goodwill of HK$3,036,000.

23. EXCLUSIVE OPERATING RIGHTS

	HK$'000
COST	
At 1st January, 2007 (Restated)	691,131
Exchange adjustments	8,778
Additions	4,759
At 31st December, 2007	704,668
Exchange adjustments	8,577
At 31st December, 2008	713,245
AMORTISATION	
At 1st January, 2007 (Restated)	26,911
Exchange adjustments	633
Provided for the year	24,756
At 31st December, 2007	52,300
Exchange adjustments	639
Provided for the year	23,276
At 31st December, 2008	76,215
CARRYING AMOUNT	
At 31st December, 2008	637,030
At 31st December, 2007	652,368

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 as part of the CGU of sale and distribution of gas fuel and related products as disclosed in Note 22.

24. TECHNICAL KNOW-HOW

	2008	2007
	HK$'000	*HK$'000*
COST		
At 1st January	41,404	70,796
Exchange adjustments	—	3,764
Additions	—	595
Disposal of subsidiaries	(41,404)	(33,751)
At 31st December	—	41,404
AMORTISATION		
At 1st January	5,726	17,133
Exchange adjustments	—	614
Provided for the year	657	5,915
Eliminated on disposal of subsidiaries	(6,383)	(17,936)
At 31st December	—	5,726
CARRYING AMOUNT		
At 31st December	—	35,678

Technical know-how comprises the acquired rights to use certain technologies for the manufacture of air-conditioner compressors and wafer products.

Amortisation is provided on a straight-line basis over their estimated useful lives of ten to twelve years.

25. INVENTORIES

	2008	2007
	HK$'000	*HK$'000*
		(Restated)
Raw materials	—	237,119
Construction materials	33,173	67,774
Work in progress	—	319,033
Finished goods	12,079	262,579
	45,252	886,505

26. TRADE AND OTHER RECEIVABLES

	2008	2007
	HK$'000	*HK$'000*
		(Restated)
Trade receivables from		
— third parties	59,481	1,084,419
— fellow subsidiaries	—	3,589
	59,481	1,088,008
Less: Allowance for doubtful debts	(2,623)	(48,206)
	56,858	1,039,802
Other receivables, deposits and prepayments	148,389	216,574
	205,247	1,256,376

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 receivables, including notes receivables, net of allowance for doubtful debts, is as follows:

	2008	2007
	HK$'000	*HK$'000*
		(Restated)
0 — 90 days	45,777	832,267
91 — 180 days	4,884	190,088
Over 180 days	6,197	17,447
	56,858	1,039,802

Included in the Group's trade receivables are receivables of HK$11,081,000 (2007: HK$130,742,000) 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.

Aging of trade receivables which are past due but not impaired

	2008	2007
	HK$'000	*HK$'000*
		(Restated)
0 — 90 days	—	62,038
91 — 180 days	4,884	51,257
Over 180 days	6,197	17,447
	11,081	130,742

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 of the Company 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 debtors with an aggregate amount of HK$2,623,000 (2007: HK$48,206,000) 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

	2008	2007
	HK$'000	*HK$'000*
		(Restated)
At 1st January	48,206	30,356
Exchange adjustments	484	1,330
Disposal of subsidiaries	(28,986)	(38)
Amounts written off as uncollectible	(15,508)	(2,373)
(Reversal of impairment loss) impairment loss recognised	(1,573)	18,931
At 31st December	2,623	48,206

27. AMOUNTS DUE FROM/TO CUSTOMERS FOR CONTRACT WORK

	2008	2007
	HK$'000	*HK$'000*
		(Restated)
Contract costs incurred plus profits recognised	184,796	102,156
Less: Progress billing	(369,684)	(270,948)
	(184,888)	(168,792)
Analysis for reporting purposes as:		
Amounts due from customers for contract work	131,997	68,104
Amounts due to customers for contract work	(316,885)	(236,896)
	(184,888)	(168,792)

28. AMOUNTS DUE FROM/TO FELLOW SUBSIDIARIES

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

29. BANK BALANCES/PLEDGED BANK DEPOSITS

The bank balances carry interest at market rates ranging from nil to 1.4% (2007: nil to 5.7%).

Bank deposits of HK$740,000 as at 31st December, 2008 are pledged to banks for utility services and HK$6,030,000 as at 31st December, 2007 were pledged to banks for letters of credit issued by those banks for the Group and for employees' mortgage loans. At 31st December, 2008, the pledged bank deposits carry interest at market rates ranging from 0.7% to 1.4% (2007: 1% to 1.2%) per annum.

30. TRADE AND OTHER PAYABLES

The aged analysis of trade payables is as follows:

	2008	2007
	HK$'000	*HK$'000*
		(Restated)
0 — 90 days	61,196	803,495
91 — 180 days	7,891	250,974
Over 180 days	4,754	25,361
	73,841	1,079,830

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 trade payables at 31st December, 2008 is payable of nil (2007: HK$104,473,000) due to a group company of a minority shareholder of a subsidiary of the Company arising from transactions carried out in the ordinary course of business of the Group. The amount was unsecured, interest-free and repayable within the credit periods similar to those offered by the Group's major suppliers.

Included in trade payables as at 31st December, 2008 are trade payables to fellow subsidiaries of nil (2007: HK$5,557,000).

Included in other payables as at 31st December, 2008 are receipt in advance from customers on gas connection projects of HK$585,055,000 (2007: HK$488,783,000).

31. GOVERNMENT GRANTS

At 31st December, 2008, government grants of nil (2007: HK$111,967,000) 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. These government grants were granted to subsidiaries which were disposed of by the Group during the year.

32. BANK AND OTHER BORROWINGS

	2008	2007
	HK$'000	*HK$'000*
		(Restated)
Bank loans	62,474	2,007,000
Other loans	45,053	49,355
	107,527	2,056,355
Secured	—	76,425
Unsecured	107,527	1,979,930
	107,527	2,056,355

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

	2008	2007
On demand or within one year	68,033	744,695
More than one year, but not exceeding two years	5,150	72,227
More than two years, but not exceeding five years	15,449	1,231,256
More than five years	18,895	8,177
	107,527	2,056,355
Less: Amount due within one year shown under current liabilities	(68,033)	(744,695)
Amount due after one year shown as non-current liabilities	39,494	1,311,660

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

	Effective interest rate *per annum*	**2008** *HK$'000*	**2007** *HK$'000* *(Restated)*
Fixed rate borrowings:			
Unsecured RMB bank loans	5.05%-8.02%	51,115	247,196
Unsecured USD bank loans	5.78%-5.88%	—	70,194
Unsecured RMB other loans	4.17%-5%	24,127	26,210
Total fixed rate borrowings		75,242	343,600
Floating rate borrowings:			
Secured USD bank loans at margin plus London Interbank Offered Rate ("LIBOR")	4.7%-5.1%	—	76,425
Unsecured RMB bank loans at the People's Bank of China Base Rate	5.39%-7.87%	11,359	287,434
Unsecured HKD bank loans at margin plus HIBOR	3.83%-5.7%	—	1,164,990
Unsecured USD bank loans at margin plus LIBOR	4.9%-6.73%	—	160,761
Unsecured EURO other loans at 0.3% over the People's Bank of China Base Rate	3.75%	20,926	23,145
Total floating rate borrowings		32,285	1,712,755
Total borrowings		107,527	2,056,355

33. PROVISIONS

	Staff housing benefits *HK$'000* *(Note a)*	Restructuring costs *HK$'000* *(Note b)*	Total *HK$'000*
At 1st January, 2007	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
Utilisation of provisions	—	(212)	(212)
Disposal of subsidiaries	(31,392)	(10,579)	(41,971)
At 31st December, 2008	—	—	—

Notes:

(a) The provision for staff housing benefits represented management's best estimate of the liabilities of certain subsidiaries established in the PRC 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 was expected upon the receipt of application to be submitted by the eligible staff for such allowance.

(b) The amount represented 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 were to be utilised, to meet restructuring expenses, including staff redundancy, in accordance with the restructuring plans adopted when such subsidiaries were acquired. The outflow was expected within the next twelve months from the balance sheet date.

During the year ended 31st December, 2007, 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 was no longer required. Such provision was written back in the consolidated income statement for prior year.

34. LONG-TERM PAYABLES

A subsidiary of the Group had 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 nil (2007: HK$92,858,000), which were non-interest bearing, are as follows:

	2008	**2007**
	HK$'000	*HK$'000*
Within one year	—	5,791
More than one year, but not exceeding five years	—	28,911
More than five years	—	37,115
	—	71,817
Less: Amount due within one year included in trade and other payables shown under current liabilities	—	(5,791)
Amount due after one year shown as non-current liabilities	—	66,026

The present values were based on cash flows discounted using effective interest rate of 5.85% for the terms from 10 to 12 years.

The subsidiary who had entered into the agreement was disposed of by the Group during the year.

35. OTHER LONG-TERM LIABILITIES

Included in other long-term liabilities at 31st December, 2008 is an amount of HK$59,172,000 (2007: HK$54,375,000), representing non-current portion of payables for acquisition of exclusive operating rights for city pipeline network.

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

	2008	2007
	HK$'000	*HK$'000*
		(Restated)
Within one year	3,408	2,830
More than one year, but not exceeding two years	3,408	749
More than two years, but not exceeding five years	10,224	2,899
More than five years	45,540	50,727
	62,580	57,205
Less: Amount due within one year included in trade and other payables shown under currentliabilities	(3,408)	(2,830)
Amount due after one year shown as non-current liabilities	59,172	54,375

The present values were based on cash flows discounted using effective interest rate of 5.9% per annum for the terms from 30 to 50 years.

36. DEFERRED TAXATION

The followings are the major deferred tax assets (liabilities) recognised and movements thereon during the current and prior years:

	Accelerated tax depreciation	Exclusive operating rights	Technology know-how	Impairment of assets	Other temporary differences	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January, 2007 (Restated)	(31,613)	(201,676)	1,081	10,974	5,564	(215,670)
Exchange adjustments	(48)	—	—	421	—	373
Credit (charge) to consolidated income statement for the year	2,114	4,656	(417)	1,535	3,040	10,928
Effect of change in tax rate	240	48,891	—	—	—	49,131
Disposal of subsidiaries	(1,635)	—	(664)	(4,880)	—	(7,179)
At 31st December, 2007	(30,942)	(148,129)	—	8,050	8,604	(162,417)
Exchange adjustments	44	(5)	—	—	—	39
Credit (charge) to consolidated income statement for the year	1,352	4,919	—	920	(558)	6,633
Effect of change in tax rate	1,763	—	—	—	(329)	1,434
Disposal of subsidiaries	27,897	—	—	(8,970)	(7,717)	11,210
At 31st December, 2008	114	(143,215)	—	—	—	(143,101)

Analysed for reporting purpose as:

	2008	2007
	HK$'000	*HK$'000*
		(Restated)
Deferred tax assets	—	15,767
Deferred tax liabilities	(143,101)	(178,184)
	(143,101)	(162,417)

At 31st December, 2008, the Group had unused tax losses of HK$32,664,000 (2007: HK$531,454,000) available to offset against future profits. Tax losses of HK$534,191,000 were eliminated on disposal of subsidiaries during the year. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams.

Certain of the tax losses will expire in the following years:

	2008	2007
	HK$'000	*HK$'000*
		(Restated)
2011	—	110,710
2012	—	118,895
	—	229,605

Other losses may be carried forward indefinitely.

At 31st December, 2008, the Group also had deductible temporary differences of 17,796,000 (2007: HK$66,526,000). Deductible temporary differences of HK$66,526,000 were eliminated on disposal of subsidiaries during the year. No deferred tax asset had been recognised in relation to such deductible temporary differences as it was not probable that taxable profit would be available against which the deductible temporary differences could be utilised.

37. SHARE CAPITAL OF THE COMPANY

	Number of shares		Nominal value	
	2008	2007	2008	2007
			HK$'000	*HK$'000*
Shares of HK$0.10 each				
Authorised:				
At 1st January	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 31st December	10,000,000,000	6,000,000,000	1,000,000	600,000
Issued and fully paid:				
At 1st January	2,812,155,425	2,765,799,425	281,215	276,580
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)	—	—	—
Rights issue	1,131,533,368	—	113,154	—
At 31st December	1,414,416,710	2,812,155,425	141,442	281,215

The new shares issued during the year rank pari passu in all respects with the existing shares in issue.

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 were reduced to nil. The credit arising from the above reduction in capital and share premium was 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 15, 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.

To finance the acquisition of China Resources Gas, the Company raised 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 rights share on the basis of four rights shares for every one existing share. The proceeds from the rights issue were applied towards payment of the consideration for the acquisition of China Resources Gas and the costs and expenses relating to the acquisition and the rights issue.

38. 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. On 5th March, 2008, the Company terminated 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 was 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.

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 CR Microelectronics (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 CR Microelectronics shares were allotted and issued on 6th March, 2008 to the relevant accepting optionholders pursuant to the terms of the Option Cancellation Offer Letter.

There was 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.

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** *HK$*	**Outstanding at 1.1.2008**	**Exercised during the year**	**Lapsed during the year**	**Cancelled during the year**	**Adjustment for share consolidation during the year**	**Outstanding At 31.12.2008**
Old Share Option Scheme							
25.4.2001	0.547	11,150,000	(1,250,000)	(200,000)	(9,700,000)	—	—
New Share Option Scheme							
4.12.2001	0.790	7,500,000	(6,000,000)	—	(1,500,000)	—	—
9.4.2002	0.820	14,216,000	(5,678,000)	(390,000)	(6,048,000)	(1,890,000)	210,000*
22.5.2002	0.920	2,300,000	—	—	(2,300,000)	—	—
2.10.2002	0.570	4,605,000	(2,100,000)	(490,000)	(2,015,000)	—	—
9.4.2003	0.479	11,450,000	(900,000)	—	(10,550,000)	—	—
3.11.2003	0.800	200,000	—	—	(200,000)	—	—
13.1.2004	0.906	22,610,000	(750,000)	(780,000)	(21,060,000)	(18,000)	2,000*
		62,881,000	(15,428,000)	(1,660,000)	(43,673,000)	(1,908,000)	212,000
		74,031,000	(16,678,000)	(1,860,000)	(53,373,000)	(1,908,000)	212,000
Exercisable at the end of the year							212,000
Weighted average exercise price (HK$)		0.74	0.73	0.76	0.73	N/A	8.21*

* The number of shares issuable on the exercise of the share options was adjusted to 210,000 and 2,000 shares and the exercise price was adjusted from HK$0.82 per share and HK$0.906 per share to HK$8.2 per share and HK$9.06 per share, respectively pursuant to the New Share Option Scheme as a result of the share consolidation as mentioned in Note 37.

		Number of share options			
Date of grant	Exercise price *HK$*	Outstanding at 1.1.2007	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2007
Old Share Option Scheme					
21.9.2000	0.590	8,250,000	(8,250,000)	—	—
25.4.2001	0.547	17,200,000	(6,050,000)	—	11,150,000
		25,450,000	(14,300,000)	—	11,150,000
New Share Option Scheme					
4.12.2001	0.790	14,520,000	(7,020,000)	—	7,500,000
9.4.2002	0.820	23,074,000	(8,858,000)	—	14,216,000
22.5.2002	0.920	2,300,000	—	—	2,300,000
2.10.2002	0.570	7,203,000	(2,598,000)	—	4,605,000
9.4.2003	0.479	17,970,000	(6,520,000)	—	11,450,000
3.11.2003	0.800	500,000	(300,000)	—	200,000
13.1.2004	0.906	28,470,000	(5,560,000)	(300,000)	22,610,000
9.6.2005	0.910	500,000	(500,000)	—	—
19.4.2006	0.940	1,000,000	(700,000)	(300,000)	—
		95,537,000	(32,056,000)	(600,000)	62,881,000
		120,987,000	(46,356,000)	(600,000)	74,031,000
Exercisable at the end of the year					74,031,000
Weighted average exercise price (HK$)		0.72	0.69	0.92	0.74

In respect of the share options exercised during the year, the weighted average share price at the date of exercise is HK$1.13 (2007: HK$1.38). The options outstanding at the end of the year have a weighted average remaining contractual life of 3.9 years (2007: 4.8 years).

For the year ended 31st December, 2008, the Group recognised a total expense of nil (2007: HK$910,000) relating to equity-settled share-based payment transactions in respect of the share options granted by the Company.

(ii) On 1st December, 2008, the Company adopted the restricted share award scheme ("Restricted Share Award Scheme") as an incentive to retain and encourage the employees for the continual operation and development of the Group.

Pursuant to the Restricted Share Award Scheme, existing shares of the Company will be purchased by the trustee from the market out of cash contributed by the Group and be held in trust for the selected employees until such shares are vested with the selected employees. No restricted shares will be granted if the aggregate number of restricted shares awarded throughout the duration of the scheme to be in excess of the 5% of the issued share capital of the Company at the adoption date of the scheme. The maximum number of restricted shares which may be awarded to a selected employee under the Restricted Share Award Scheme shall not exceed 0.5% of the issued share capital of the Company from time to time.

For the year ended 31st December, 2008, no shares were purchased by the trustee from the market and no restricted shares were granted to eligible employees pursuant to the Restricted Share Award Scheme.

(iii) **CR Microelectronics equity incentive scheme**

A subsidiary of the Company, CR Microelectronics, 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 CR Microelectronics or any of its subsidiaries. The Plan is valid for 10 years from the date of adoption.

The CR Microelectronic's shares granted on 1st October, 2003, 26th January, 2005, 2nd January, 2006 and 16th May, 2006 under the Plan will vest in equal portions over a period of four years commencing from the date of grant to the participants. CR Microelectronic'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:

	2008	**2007**
Number of CR Microelectronic's shares		
At 1st January	28,238,000	45,883,000
Exercised during the period/year	(6,044,500)	(13,962,000)
Lapsed during the period/year	(29,750)	(3,683,000)
At date of disposal of CR Microelectronics/31st December	22,163,750	28,238,000

(iv) **CR Microelectronics share option scheme**

A subsidiary of the Company, CR Microelectronics, operates a "Share Option Scheme" (the "Scheme") for the purpose of providing the participants with the opportunity to acquire proprietary interests in CR Microelectronics and to encourage the participants to work towards enhancing the value of CR Microelectronics and its shares for the benefit of CR Microelectronics and its shareholders as a whole. The Scheme was approved by its shareholders and adopted on 27th May, 2005. The directors of CR Microelectronics may grant CR Microelectronic's options to eligible participants including any directors and employees of CR Microelectronics 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 CR Microelectronics 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 CR Microelectronics 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 4 years from the commencement of vesting date as approved by CR Microelectronic's Remuneration Committee.

Details of the movements of the share options under the Scheme are as follows:

	2008	**2007**
Number of CR Microelectronic's share options		
At 1st January, 2008	19,928,000	21,291,000
Granted during the period/year	—	1,987,000
Exercised during the period/year	(900,000)	(2,150,000)
Lapsed during the period/year	—	(1,200,000)
At date of disposal of CR Microelectronics/31st December	19,028,000	19,928,000

The estimated fair value of the share options on the date of grant was 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	—	0.09

Expected volatility was based on the volatility return on Hang Seng Index for the past ten years.

For the year ended 31st December, 2008, the Group recognised a total expense of HK$1,559,000 (2007: HK$6,953,000) relating to equity-settled share-based payment transactions in respect of CR Microelectronics.

39. 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 (2007: nil).

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 31st December, 2008 and 2007, the amount of forfeited contributions available to reduce contributions payable in the future years is insignificant.

PRC

The employees of the Group in the PRC are members of state-managed retirement benefit schemes operated by the local government in the PRC. 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.

40. DISPOSAL OF SUBSIDIARIES

On 21st June, 2007, the Group disposed of the compressor operation represented by entire issued share capital of CR Cooling to Gradison for a consideration of HK$1,170,000,000. The disposal was completed on 16th August, 2007.

Net assets of the compressor operation disposed of were 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
Trade and other receivables	1,349,263
Amounts due from minority shareholders	9,494
Bank balances and cash	165,845
Trade and other payables	(1,043,388)
Amounts due to minority shareholders	(111,188)
Bank and other borrowings	(236,049)
Taxation payable	(311)
	1,682,147
Minority interests	(609,778)
Goodwill	128,717
Translation reserve realised	(92,950)
	1,108,136
Gain on disposal	61,864
Total consideration	1,170,000
Net cash inflow arising on disposal:	
Cash consideration received	1,170,000
Bank balances and cash disposed of	(165,845)
	1,004,155

On 4th December, 2007, the Company entered into a conditional agreement with CR Microelectronics for the sale of the entire interests in certain of the Company's subsidiaries engaging principally in the manufacture of semiconductors and the shareholders' loans advanced to these subsidiaries to CR Microelectronics, for an aggregate consideration of approximately HK$1,488,900,000 which would be satisfied by the issue of a minimum of 3,106,932,317 shares in CR Microelectronics to the Company. The disposal of these subsidiaries was completed on 5th March, 2008.

Pursuant to an ordinary resolution passed at a special general meeting held on 13th February, 2008, the Company would distribute its shares in CR Microelectronics including those shares received for disposal of subsidiaries mentioned above, 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 on 5th March, 2008, the equity interests held in CR Microelectronics by the Company were disposed of.

	HK$'000
Net assets 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
Trade and other receivables	842,176
Taxation recoverable	4,937
Pledged bank deposits	3,955
Bank balances and cash	508,688
Trade and other payables	(1,204,710)
Bank and other 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 subsidiaries is considered as an equity transaction and hence no gain or loss was resulted.

On 1st December, 2008, the Group entered into an agreement with China Resources Holdings to dispose of the entire issued share capital of Rich Team, together with a shareholder's loan due to the Company, to China Resources Holdings or any of its subsidiaries nominated by it for a consideration of which was the face value of such loan plus the consolidated net asset value of Rich Team as at 31st October, 2008, and adjusted based on any profit or loss after taxation attributable to its shareholders between 1st November, 2008 and 31st December, 2008. The final consideration was approximately HK$304,698,000. Rich Team was a holding company and was engaged principally in the manufacture and sale of concrete business, through its subsidiaries. Rich Team was disposed of to a subsidiary of China Resources Holdings and was completed on 31st December, 2008.

	HK$'000
Net assets disposed of:	
Property, plant and equipment	191,868
Investment properties	17,741
Interest in associates	48
Inventories	2,221
Trade and other receivables	45,940
Amount due from fellow subsidiaries	8,819
Bank balances and cash	115,366
Trade and other payables	(42,052)
Amount due to fellow subsidiaries	(11,300)
Taxation payable	(937)
Deferred tax liabilities	(23,016)
Total consideration	304,698
Satisfied by:	
Cash	293,782
Consideration receivable (included in trade and other receivables)	10,916
	304,698
Net cash inflow arising on disposal:	
Cash consideration	293,782
Bank balances and cash disposed of	(115,366)
	178,416

Upon disposal of Rich Team, a capital reserve of HK$3,816,000 and a merger reserve of HK$217,457,000 were released to retained profits.

The impact of CR Cooling, CR Microelectronics and Rich Team on the Group's results and cash flows during the year is disclosed in Note 11.

41. CONTINGENT LIABILITIES

The Group issued guarantees of nil (2007: HK$3,750,000) to a bank in respect of the mortgage loans borrowed by the employees of a subsidiary. Management anticipated that no material liabilities to the Group would arise from the guarantees.

42. 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:

	2008	2007
	HK$'000	*HK$'000*
		(Restated)
Within one year	4,980	11,020
In the second to fifth year inclusive	8,963	12,947
After five years	1,746	4,687
	15,689	28,654

Operating lease payments represent rentals payable by the Group for office and factory premises. Leases are negotiated and rentals are fixed for term ranging from one to seven years (2007: one to ten years).

The Group as lessor

At the balance sheet date, the Group had contracted with lessees for the following future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2008	2007
	HK$'000	*HK$'000*
		(Restated)
Within one year	456	1,844
In the second to fifth year inclusive	421	1,892
After five years	178	493
	1,055	4,229

The investment properties rented during the year have committed tenants for the next six years. No contingent rent was arranged for the above operating lease arrangements.

43. CAPITAL COMMITMENTS

	2008	2007
	HK$'000	*HK$'000*
Capital expenditure in respect of acquisition of property, plant and equipment		
— Authorised but not contracted for	—	2,711,486
— Contracted for but not provided (Note)	143	890,623
	143	3,602,109

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) had been paid and accrued up to 31st December, 2007 in respect of the items delivered. The remaining balance of consideration of US$10,142,000 (equivalent to HK$79,092,000) which was payable by 4 annual instalments, was disclosed as capital commitment at 31st December, 2007. The subsidiary was disposed of during the year ended 31st December, 2008, accordingly, no such commitment existed at 31st December, 2008.

Pursuant to another agreement entered into with the Vendor during the year ended 31st December, 2006, 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. The subsidiary was disposed of during the year ended 31st December, 2008 accordingly, no such commitment existed at 31st December, 2008.

44. 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, the Group entered into the following transactions with related parties during the year:

	2008	2007
	HK$'000	*HK$'000*
		(Restated)
Commission paid to a minority shareholder of a former subsidiary	1,023	1,622
Dividend paid to a fellow subsidiary	—	1,500,000
Dividend received from associate	—	1,090
Interest income from former immediate holding company	—	1,973
License fees paid to minority shareholders of subsidiaries, net	—	10,380
Management fee paid to a former intermediate holding company	—	2,127
Purchases of goods from fellow subsidiaries	110,727	65,836
Rental expenses paid to a fellow subsidiary	443	2,525
Rental income received from a fellow subsidiary	—	595
Royalties paid to minority shareholders of subsidiaries, net	—	37,828
Sales of property, plant and equipment to a fellow subsidiary	5,400	—
Sales to fellow subsidiaries	19,386	20,538
Sales to a joint venture of a fellow subsidiary	22,930	—
Sales to subsidiaries of minority shareholders of subsidiaries	—	143,504
Secondment fee paid to a fellow subsidiary	—	490
Testing fee income from fellow subsidiaries	2,121	2,773

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 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

	2008	**2007**
	HK$'000	*HK$'000*
Short-term benefits	4,286	8,132
Post-employment benefits	251	289
	4,537	8,421

45. MAJOR NON-CASH TRANSACTIONS

During the year ended 31st December, 2007, interim dividend of HK$1,500,000,000 was declared by China Resources Gas and the amount was settled through current account with the Company's fellow subsidiary.

46. POST BALANCE SHEET EVENT

On 9th January, 2009, Kileen Holdings Limited ("Kileen"), a wholly-owned subsidiary of the Company, entered into an equity transfer agreement, together with a supplemental agreement supplementing the terms thereof, with an independent third party (the "Vendor") to acquire 51% interest in 武漢通寶燃氣發展有限公司 (Wuhan Tongbao Gas Development Co., Ltd.) ("Wuhan Tongbao"), a limited liability company established in the PRC. The consideration for the proposed acquisition (subject to the approval of the relevant PRC authorities) is RMB265,000,000 (equivalent to approximately HK$300,669,000). On the same date, Kileen entered into the joint venture contract and articles of association with the Vendor and two other shareholders of Wuhan Tongbao in contemplation of the completion of the proposed acquisition whereupon Kileen will hold a 51% interest and the Vendor and the two other shareholders will hold the remaining 49% interest in the Wuhan Tongbao. Upon completion of the proposed acquisition and hence the formation of the joint venture between Kileen and the original shareholders of Wuhan Tongbao, Wuhan Tongbao is expected to be principally engaged in, among other things, the manufacturing and sale of gas and provision of other gas-related goods and services in Wuhan, Hubei Province of the PRC, subject to the approval of the relevant PRC authorities. The acquisition has not been completed on the date of report.

On 22nd January, 2009, Kileen entered into a joint venture contract with an independent third party to form 昆明華潤燃氣有限公司 (Kunming China Resources Gas Co., Ltd.) ("Kunming CR Gas"). At 31st December, 2008, Kileen paid a deposit of RMB75,000,000 (equivalent to approximately HK$84,940,000) for the formation of Kunming CR Gas. Upon completion of formation of Kunming CR Gas, Kileen will hold 64% interest in it.

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Name of company	Place of incorporation/ establishment	Issued and fully paid share/ registered capital	Attributable equity interest of the Group 2008 %	2007 %	Principal activities
Gas business					
China Resources Gas Limited	British Virgin Islands	Ordinary US$4	100	100	Investment holding
# 南京華潤燃氣有限公司	PRC	RMB50,000,000	80.4	80.4	Sales of liquefied gas
# 蘇州華潤燃氣有限公司	PRC	USD15,000,000	70	70	Sales of liquefied gas and connection of gas pipelines
# 富陽華潤燃氣有限公司	PRC	USD20,000,000	50	50	Sales of liquefied gas and connection of gas pipelines
# 臨海華潤燃氣有限公司	PRC	USD1,000,000	100	100	Sales of liquefied gas and connection of gas pipelines
# 淮北華潤燃氣有限公司	PRC	USD10,000,000	60	60	Sales of liquefiedgas and connection of gas pipelines
Semiconductor business					
HBGJ Company Limited	Hong Kong	US$1	100	—	Sales of integrated circuit design and wafer packaging and became inactive in 2008
TP Semiconductors Limited (formerly known as China Resources Semiconductor Company Limited)	Hong Kong	Ordinary HK$3	100	100	Manufacture and sales of integrated circuit design and wafer packaging and became inactive in 2008
# 深圳華潤矽科微電子有限公司	PRC	US$1,800,000	—	100	Design of wafer
# Semicon Microelectronics (Shen Zhen) Co., Ltd.	PRC	US$7,550,000	—	100	Testing and packaging of wafers

Name of company	Place of incorporation/ establishment	Issued and fully paid share/ registered capital	Attributable equity interest of the Group 2008 %	2007 %	Principal activities
# Wuxi China Resources Microelectronics Co., Ltd.	PRC	RMB570,000,000	—	100	Manufacture and sales of integrated circuit, packaging and testing of integrated circuit, investment holding
# Wuxi China Resources Semico Co., Ltd	PRC	RMB25,000,000	—	100	Design, testing and sale of integrated circuit products and chips
@ Wuxi China Resources Huajing Microelectronics Co., Ltd	PRC	RMB235,000,000	—	99.662	Manufacture and sale of integrated circuit
# Wuxi CR Semiconductor Wafers & Chips Ltd.	PRC	RMB330,348,671	—	100	Manufacture and sales of integrated circuit
# Wuxi CR Micro-Assemb Tech. Ltd.	PRC	RMB320,000,000	—	100	Testing and packaging of wafers
CSMC Technologies Corporation	Cayman Islands	Ordinary US$35,145,000	—	72.41	Investment holding
# CSMC Technologies Fab 1 Co., Ltd	PRC	US$87,436,849	—	72.41	Manufacture and sale of integrated circuit and related products
# CSMC Technologies Fab 2 Co., Ltd	PRC	US$50,000,000	—	72.41	Manufacture and sale of integrated circuit and related products
# CSMC Technologies Fab 3 Co., Ltd.	PRC	US$18,800,000	—	72.41	Manufacture and sale of integrated circuit and related products
Concrete business					
First Route Limited	Hong Kong	HK$2	—	100	Property holding
General Perfect Limited	Hong Kong	HK$2	—	100	Property holding
Hasing Limited	Hong Kong	HK$2	—	100	Investment holding
Profit Success Development Limited	Hong Kong	HK$10,000	—	100	Property holding
Prosper Supreme Limited	Hong Kong	HK$2	—	100	Investment holding

Name of company	Place of incorporation/ establishment	Issued and fully paid share/ registered capital	Attributable equity interest of the Group 2008 %	2007 %	Principal activities
Quality Control Consultants Limited	Hong Kong	HK$200,000	—	100	Concrete testing and consultancy services
Redland Ash Limited	Hong Kong	HK$2	—	100	Trading of fly ash
Redland Cement Connections Limited	Hong Kong	HK$2	—	100	Trading of cements
Redland Concrete Limited	Hong Kong	HK$10	—	100	Manufacture and sale of concrete
Redland Construction Materials Limited	Hong Kong	HK$2	—	100	Trading of construction materials
Redland Mortars Limited	Hong Kong	HK$2	—	100	Trading of mortars
Redland Shotcrete Limited	Hong Kong	HK$2	—	100	Trading of shotcrete
Standard Wealth Investment Limited	Hong Kong	HK$2	—	100	Property holding

All the above principal subsidiaries 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, 2008 or at any time during the year.

The above table lists the subsidiaries of the Group which, in the opinion of the directors of the Company, principally affected the results or assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

@ Equity joint venture

\# Wholly foreign owned enterprises

48. PARTICULARS OF PRINCIPAL ASSOCIATES

Name of company	Place of incorporation/ establishment	Issued and fully paid share/ registered capital	Attributable equity interest of the Group 2008 %	2007 %	Principal activities
四川聯發天然氣有限責任公司	PRC	RMB10,000,000	17.64	17.64	Sales of liquefied gas
成都榮和天然氣有限責任公司	PRC	RMB3,000,000	17.64	17.64	Sales of liquefied gas
成都世紀源通燃氣有限責任公司	PRC	RMB10,000,000	16.2	16.2	Sales of natural gas and connection of gas pipelines

The above table lists the associates of the Group which, in the opinion of the directors of the Company, principally affected the results or assets and liabilities of the Group. To give details of other associates would, in the opinion of the directors of the Company, result in particulars of excessive length.

49. PARTICULARS OF PRINCIPAL JOINTLY CONTROLLED ENTITIES

Name of company	Place of incorporation/ establishment	Issued and fully paid share/ registered capital	Attributable equity interest of the Group 2008 %	2007 %	Principal activities
成都城市燃氣有限責任公司	PRC	RMB800,000,000	36	36	Sales of liquefied gas and connection of gas pipelines
無錫華潤燃氣有限公司	PRC	USD29,980,000	50	50	Sales of liquefied gas and connection of gas pipelines

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

The summarised financial information in respect of the interests in jointly controlled entities held by the Group is set out below:

	2008	**2007**
	HK$'000	*HK$'000*
Non-current assets	1,446,435	1,409,986
Current assets	787,045	599,295
Current liabilities	938,201	739,099
Non-current liabilities	266,294	326,537
Net assets	1,028,985	943,645
Income	1,170,142	974,279
Expenses	1,112,868	823,841

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 the omission of which would make any statement herein misleading.

2. MORTGAGES AND CHARGES OF THE GROUP

As at the Latest Practicable Date, property, plant and equipment and a bank deposit of HK$102,148,000 and HK$740,000 were pledged to banks for a bank facility and a guarantee for utility usage, respectively.

3. TOTAL AMOUNT OF ANY CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at the Latest Practicable Date.

4. DISCLOSURE OF INTERESTS OF DIRECTORS

a. As at the Latest Practicable Date, the interests and the short positions (within the meaning of the SFO) of the Directors and the chief executives of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning 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 and short positions which they are 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 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:

i *Interest in the Shares and underlying Shares of the Company*

Name	Capacity	Long or short position	Number of Shares	Number of share options[1]	Approximate percentage of interest[2]
Mr. Li Fuzuo	Beneficial owner	Long position	51,000	—	0.0036%
Mr. Du Wenmin	Beneficial owner	Long position	54,000	—	0.0038%
Mr. Wong Tak Shing	Beneficial owner	Long position	40,000	—	0.0028%

Notes:

1. This refers to the number of underlying shares of the Company covered by its share option scheme.

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.

ii. *Interest in the issued ordinary shares and underlying shares of China Resources Enterprise, Limited ("CRE"), an associated corporation of the Company*

Name	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. Wang Chuandong	Beneficial owner	Long position	—	100,000[3]	9.720	14/01/2004	0.0251%
	Beneficial owner	Long position	—	500,000[4]	10.350	04/10/2004	
Mr. Du Wenmin	Beneficial owner	Long position	100,000	—	—	—	0.0042%

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 exercisable period during which the share options may be exercised is from 1st January 2007 to 13th January 2014.

4. The exercisable period during which the share options may be exercised is from 4th October 2004 to 3rd October 2014.

5. In each case, HK$1.00 is payable upon acceptance of the share options granted.

iii. *Interest in the issued ordinary shares and underlying shares of China Resources Power Holdings Company Limited ("CRP"), an associated corporation of the Company*

Name	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. Ma Guoan	Interest of spouse	Long position	22,000	—	—	—	0.0005%
Mr. Wang Chuandong	Beneficial owner	Long position	—	101,800[3]	2.750	06/10/2003	0.0022%
Mr. Li Fuzuo	Beneficial owner	Long position	741,780	61,080[4]	3.919	18/03/2005	0.0172%
Mr. Du Wenmin	Beneficial owner	Long position	297,000	183,240[5]	2.750	12/11/2003	0.0103%
Mr. Wei Bin	Beneficial owner	Long position	121,000	—	—	—	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 in 5 tranches of 20% each, from 6th October, 2004, 2005, 2006, 2007 and 2008 to 5th October, 2013.

4. The share options are exercisable from 18th March, 2010 to 17th March, 2015.

5. The share options are exercisable in 2 tranches, from 6th October, 2007 and 2008 to 5th October, 2013.

6. In each case, HK$1.00 is payable upon acceptance of the share options granted.

iv. *Interest in the issued ordinary shares and underlying shares of China Resources Land Limited ("CRL"), an associated corporation of the Company*

Name	**Capacity**	**Long or short position**	**Number of shares**	**Number of share options**[1]	**Exercise price per share**	**Date of grant**	**Aggregate percentage of interest**[2]
					HK$		
Mr. Li Fuzuo	Beneficial owner	Long position	1,000,000	—	—	—	0.0199%
Mr. Du Wenmin	Beneficial owner	Long position	790,000	250,000[3]	1.230	01/06/2005	0.0207%

Notes:

1. This refers to the number of underlying shares of CRL 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 CRL to the total issued share capital of CRL as at the Latest Practicable Date.

3. The share options are exercisable in 2 tranches, from 1st June, 2008 and 2009 to 31st May, 2015.

4. In each case, HK$1.00 is payable upon acceptance of the share options granted.

v. *Interest in the issued ordinary shares and underlying shares of China Resources Microelectronics Limited ("CRM"), an associated corporation of the Company*

Name	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, Ken	Beneficial owner	Long position	1,971,767	—	—	—	0.0224%
Mr. Li Fuzuo	Beneficial owner	Long position	918,000	—	—	—	0.0104%
Mr. Du Wenmin	Beneficial owner	Long position	1,458,000	—	—	—	0.0166%
Mr. Wei Bin	Beneficial owner	Long position	324,000	—	—	—	0.0037%
Mr. Luk Chi Cheong	Beneficial owner	Long position	1,165,912	—	—	—	0.0133%

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 in this circular, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had or was deemed to have any interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning 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 and short positions which they are 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 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.

b. As at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which have since 31 December 2008 (being the date to which the latest published audited consolidated accounts of the Group were made up) been acquired or disposed of by or leased to or by the Company or any of its subsidiaries, or are proposed to be acquired or disposed of by or leased to or by the Company or any of its subsidiaries.

c. As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by the Company or any of its subsidiaries, which was subsisting and was significant in relation to the business of the Group.

d. None of the Directors has any service contracts with the Company or any of its subsidiaries which does not expire or is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

5. SUBSTANTIAL SHAREHOLDERS

So far as was known to any Director or chief executive of the Company, as at the Latest Practicable Date, the following persons, other than a Director or chief executive of the Company, had an interest or short position in the Shares or underlying Shares which fell to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or 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 meetings of any member of the Enlarged Group:

Name of shareholder	Capacity	Nature of interest	Number of Shares	Percentage of the aggregate long position in Shares to the issued share capital of the Company as at the Latest Practicable Date
Splendid Time Investments Inc. ("Splendid Time")[1]	Beneficial owner	Beneficial interest	1,059,999,983	74.94%
China Resources Holdings[1]	Controlled company's interest	Corporate interest	1,059,999,983	74.94%
CRC Bluesky Limited ("CRC Bluesky")[1]	Controlled company's interest	Corporate interest	1,059,999,983	74.94%
China Resources Co., Limited ("CRCL")[1]	Controlled company's interest	Corporate interest	1,059,999,983	74.94%
China Resources National Corp. ("CRN")	Controlled company's interest	Corporate interest	1,059,999,983	74.94%

Note:

1. Splendid Time directly holds 1,059,999,983 Shares in the Company and is a wholly-owned subsidiary of China Resources Holdings, which is therefore deemed to interested in 1,059,999,983 Shares of the Company under Part XV of the SFO. 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 1,059,999,983 Shares of the Company under Part XV of the SFO.

(a) Save as aforesaid, as at the Latest Practicable Date, no other person had any interest in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register kept by the Company under section 336 of the SFO.

(b) Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person (other than a Director or chief executive of the Company) who has an interest or short position in the shares and underlying shares of the issuer which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in ten per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Enlarged Group (including any options in respect of such capital), or who were recorded in the register required to be kept by the Company under section 336 of the SFO.

6. SERVICE CONTRACTS

As at the date of this circular, none of the Directors has entered or proposed to enter into a service contract with any member of the Enlarged Group which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

7. DIRECTORS' INTERESTS IN CONTRACTS

As at the date of this circular, none of the Directors has any interest, direct or indirect, in any asset which since 31st December 2008, the date to which the latest published audited financial statements of the Group were made up, have been acquired or disposed of by or leased to any member of the Enlarged Group or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

As at the date of this circular, none of the Directors was materially interested in any contract or arrangement which is significant in relation to the businesses of the Enlarged Group.

8. QUALIFICATIONS AND CONSENTS OF EXPERTS

CIMB, the independent financial adviser, is a corporation licensed to carry on types 1 (dealing in securities), 4 (advising on securities) and 6 (advising on corporate finance) of the regulated activities as set out in Schedule 5 to the SFO. Deloitte Touche Tohmatsu, the Certified Public Accountant, is the reporting accountant of the Company.

Each of CIMB and Deloitte Touche Tohmatsu has given and has not withdrawn its written consent to the issue of this circular with copies of its letter, reports and opinion in this circular and the references to its name included in the form and context in which they respectively appear.

As at the Latest Practicable Date, each of CIMB and Deloitte Touche Tohmatsu was not interested in any Share or share in any member of the Group, nor does it have any right (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any Share or share in any member of the Group.

As at the Latest Practicable Date, none of the aforesaid experts had any direct or indirect interests in any assets which have since 31 December 2008 (being the date to which the latest published audited consolidated accounts of the Group were made up) been acquired or disposed of by or leased to or by the Company or any of its subsidiaries, or are proposed to be acquired or disposed of by or leased to or by the Company or any of its subsidiaries.

9. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2008, being the date to which the latest published audited consolidated accounts of the Group have been made up.

10. COMPETING INTEREST

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 Enlarged Group other than those businesses to which the Directors and his Associates were appointed to represent the interests of the Company and/or the Enlarged Group.

11. LITIGATION

Neither the Company nor any member of the Enlarged Group is engaged in any litigation or arbitration or claim of material importance and, so far as the Directors are aware, no litigation, arbitration or claim of material importance is pending or threatened against any member of the Enlarged Group.

12. GENERAL

The company secretary of the Company 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.

The registered office of the Company is situated at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda and the principal place of business of the Company is situated at Room 1901-05, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong.

The Company's Hong Kong branch share registrar is Tricor Secretaries Limited, which is situated at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

The English text of this circular and the accompanying form of proxy shall prevail over the Chinese text.

13. 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) a sale and purchase agreement dated 4 December 2007 and entered into among the Company, China Resources Microelectronics (Holdings) Limited, China Resources Semiconductor (International) Limited and CSMC Technologies Corporation (presently known as CRM) where the Company sold its semiconductor business for approximately HK$1,488,900,000;

(b) a sale and purchase agreement dated 4 December 2007 and entered into between China Resources Concrete Limited and the Company where the Company sold its entire equity interests in Redland Concreted Limited for HK$217,757,665;

(c) a share purchase agreement dated 21 August 2008 and entered into between the Company and China Resources Holdings in relation to the acquisition of the entire issued share capital of China Resources Gas Limited for a consideration of HK$3,814,800,000;

(d) an underwriting agreement dated 21 August 2008 entered into between the Company, Splendid Time Investments Inc. (as the underwriter) and China Resources Holdings in relation to the rights issue announced on the same date;

(e) a sale and purchase agreement dated 3 November 2008 and entered into by among other, China Resources Microelectronics (Holdings) Limited and Twin-Peaks International Group Limited where the Company sold its entire equity interests in China Resources Semiconductor (International) Limited for US$3,200,000;

(f) a sale and purchase agreement dated 1 December 2008 and entered into between the Company and China Resources Holdings where the Company sold its entire equity interest in Rich Team Resources Limited together with the shareholder loan for approximately HK$304,700,000; and

(g) the Share Purchase 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.

14. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours on any weekday (public holidays excepted) at the head office of the Company at Room 1901-05, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong from the date of this circular up to and including 19 October 2009 and at the SGM:

a. the Memorandum of Association and Bye-laws of the Company;

b. the annual reports of the Company for each of the financial years ended 31 December 2007 and 31 December 2008 and the interim report of the Company for the six months ended 30 June 2009;

c. the unaudited pro forma financial information on the Enlarged Group set out in Appendix I to this circular;

d. the Material Contracts referred to in the paragraph headed "Material Contracts" of this appendix;

e. the Share Purchase Agreement;

f. Letter from the Independent Board Committee as set out on pages 21 to 22 of this circular;

g. the letter from CIMB to the Independent Board Committee and the Independent Shareholders as set out on pages 23 to 33 of this circular;

h. the accountants' report on Target Group as set out in Appendix II to this circular;

i. the written consents referred to in the section headed "Qualifications and Consents of Experts" in this appendix; and

j. this circular.

华潤燃氣控股有限公司
China Resources Gas Group Limited

(Incorporated in Bermuda with limited liability)

(Stock code: 1193)

NOTICE IS HEREBY GIVEN that a special general meeting of China Resources Gas Group Limited (the "**Company**") will be held at Room 1901-05, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong on Monday, the 19th day of October 2009 at 4:15 p.m. to consider and, if thought fit, pass (with or without amendments) the following resolution:

ORDINARY RESOLUTION

"**THAT** the conditional share purchase agreement dated 8 September 2009 entered into between (i) Powerfaith Enterprises Limited ("**Powerfaith**"), an indirectly wholly-owned subsidiary of China Resources (Holdings) Company Limited ("**China Resources Holdings**"), as vendor; (ii) the Company as purchaser; and (iii) China Resources Gas (Holdings) Limited, a wholly-owned subsidiary of China Resources Holdings as guarantor of all obligations and liabilities of Powerfaith to the Company under the agreement, in relation to the sale and purchase of the entire issued share capital of Top Steed Limited, an indirectly wholly-owned subsidiary of China Resources Holdings, at a consideration of HK$1,600 million (the "**Share Purchase Agreement**"), 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."

By order of the Board
MA Guoan
Chairman

Hong Kong, 2 October 2009

Principal Place of Business in Hong Kong:
Room 1901-05
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 26th Floor, 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.