THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in **China Resources Gas Group Limited** (the "Company"), 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 TRANSACTIONS

POTENTIAL COOPERATION BETWEEN CHINA RESOURCES GAS GROUP LIMITED AND THE CONTROLLING SHAREHOLDER OF ZHENGZHOU GAS COMPANY LIMITED INVOLVING THE FORMATION OF A JOINT VENTURE, ACQUISITION OF ASSETS BY THE JOINT VENTURE FOR ITS PIPED GAS BUSINESS AND ACQUISITION OF CONTROLLING INTEREST IN ZHENGZHOU GAS COMPANY LIMITED

Financial Adviser

ANGLO CHINESE 英高
CORPORATE FINANCE, LIMITED

A letter from the board of directors of the Company is set out on pages 4 to 27 of this circular.

29 January 2010

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

"%"	per cent
"acting in concert"	has the meaning ascribed to it in the Takeovers Code
"associate"	has the meaning ascribed to it in the Takeovers Code
"Board"	board of directors of the Company
"connected person(s)"	has the meaning ascribed to it in the Listing Rules
"controlling shareholders"	has the meaning ascribed to it in the Listing Rules
"Completion"	completion of the acquisition by the Joint Venture of the Sale Shares from Zhengzhou SASAC
"CR Gas" or "Company"	China Resources Gas Group Limited (華潤燃氣控股有限公司), a company incorporated in Bermuda with limited liability whose shares are listed on the Stock Exchange (Stock code: 1193)
"CR Gas Group" or "Group"	CR Gas and its subsidiaries
"CR Gas Investment"	China Resources Gas (China) Investment Limited (華潤燃氣(中國)投資有限公司), a wholly-owned subsidiary of the Company and the offeror of the Offers
"CRGH"	China Resources Gas (Holdings) Limited (華潤燃氣(集團)有限公司), a non-listed wholly-owned subsidiary of CR Holdings
"CR Holdings"	China Resources (Holdings) Company Limited (華潤(集團)有限公司), the parent company of the Company and CRGH. CR Holdings is a company incorporated in Hong Kong and its ultimate holding company is China Resources National Corp.* (中國華潤總公司), a company established in the PRC
"Directors"	directors of the Company
"Domestic Share(s)"	ordinary non-listed shares in the share capital of Zhengzhou Gas, with a nominal value of RMB1.00 each, which are subscribed for in RMB
"Enlarged Group"	the Group and the Nanyang Zhengran Group
"H Share(s)"	overseas listed foreign invested shares with a nominal value of RMB 1.00 each in the share capital of Zhengzhou Gas, which are traded on the Stock Exchange in HK$

"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Joint Venture"	Zhengzhou China Resources Gas Co., Ltd.* (鄭州華潤燃氣有限公司), a joint venture company established as a limited liability company in the PRC by CR Gas Investment and Zhengzhou SASAC
"Last Trading Day"	23 October 2009, being the last trading day of the H Shares on the Stock Exchange prior to the publication of the announcement dated 25 November 2009 in relation to the Offers
"Latest Practicable Date"	27 January 2010, being the latest practicable date for the purpose of ascertaining certain information contained in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"MOFCOM"	the Ministry of Commerce
"Nanyang Zhengran"	Nanyang Zhengran Natural Gas Co., Ltd. (南陽鄭燃燃氣有限公司), a company established in the PRC, which is currently a wholly-owned subsidiary of Zhengzhou GGCL
"Nanyang Zhengran Group"	Nanyang Zhengran and its subsidiaries
"NDRC"	the National Development and Reform Commission
"Offers"	possible mandatory cash offers by CR Gas Investment, or its representative, for all the Domestic Shares and H Shares other than those owned or agreed to be acquired by it and parties acting in concert with it
"Other Assets"	certain assets and liabilities to be transferred from Zhengzhou SASAC to the Joint Venture, for a total consideration of approximately RMB13.4 million
"PRC"	the People's Republic of China and for the purpose of this circular, excluding Hong Kong, Macau and Taiwan
"RMB"	Renminbi, the lawful currency of the PRC
"Sale Shares"	54,041,510 Domestic Shares which represent approximately 43.18% of the total issued share capital of Zhengzhou Gas as at the Latest Practicable Date
"SASAC"	the State-owned Asset Supervision and Administration Commission

"SFC"	the Securities and Futures Commission
"SFO"	Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong
"Shares"	the ordinary shares of the Company with nominal value of HK$0.10 each
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers, as amended, supplemented or otherwise modified from time to time
"Zhengzhou Gas"	Zhengzhou Gas Company Limited* (鄭州燃氣股份有限公司), a joint stock limited company incorporated in the PRC whose H Shares are listed on the Stock Exchange (Stock code: 3928)
"Zhengzhou Gas Design"	Zhengzhou City Zhengran Gas Design Development Co., Ltd. (鄭州市鄭燃燃氣設計開發有限公司), a company incorporated in the PRC and is 17.37% owned by Zhengzhou GGCL
"Zhengzhou Gas Group"	Zhengzhou Gas and its subsidiaries
"Zhengzhou GGCL"	Zhengzhou Gas Group Co. Ltd., (鄭州燃氣集團有限公司), (formerly Zhengzhou Municipal Gas Company Limited (鄭州市燃氣責任有限公司) which changed to its present name in December 2000), a State-owned company incorporated in the PRC with limited liability
"Zhengzhou SASAC"	the State-owned Assets Supervision and Administration Commission of Zhengzhou Municipality (鄭州市國有資產監督管理委員會), the sole shareholder of Zhengzhou GGCL
"Zhengzhou Shares"	Domestic Shares and H Shares

Note: The figures in RMB are converted into HK$ at the rate of RMB0.88:HK$1 throughout this circular for illustration purpose only.

* *Name translated for reference purposes only in this circular.*

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
Mr. MA Guoan *(Chairman)*
Mr. WANG Chuandong *(Managing Director)*
Mr. ONG Thiam Kin, Ken *(Chief Financial Officer)*

Non-executive Directors
Mr. LI Fuzuo
Mr. DU Wenmin
Mr. WEI Bin

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

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Bermuda

Principal place of business
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26 Harbour Road
Wanchai
Hong Kong

29 January 2010

To the shareholders of the Company

Dear Sir and Madam,

MAJOR TRANSACTIONS

POTENTIAL COOPERATION BETWEEN CHINA RESOURCES GAS GROUP LIMITED AND THE CONTROLLING SHAREHOLDER OF ZHENGZHOU GAS COMPANY LIMITED INVOLVING THE FORMATION OF A JOINT VENTURE, ACQUISITION OF ASSETS BY THE JOINT VENTURE FOR ITS PIPED GAS BUSINESS AND ACQUISITION OF CONTROLLING INTEREST IN ZHENGZHOU GAS COMPANY LIMITED

INTRODUCTION

As announced on 25 November 2009, CR Gas Investment and Zhengzhou SASAC have entered into various agreements on 25 November 2009 which relate to the formation of the Joint Venture between CR Gas Investment and Zhengzhou SASAC, the increase in its registered capital, and the acquisitions by the Joint Venture of the Sale Shares which represent 43.18% of the total issued share capital of Zhengzhou Gas and the Other Assets from Zhengzhou SASAC. The Joint Venture has been established. On 11 January 2010, Zhengzhou SASAC, CR Gas Investment, the Joint Venture and Zhengzhou GGCL entered into a supplemental agreement in which the Joint Venture has confirmed its obligations in respect of the acquisition of the Sale Shares and the Other Assets under the various agreements entered into between Zhengzhou SASAC and CR Gas Investment on 25 November 2009. When the initial registered capital of the Joint Venture is fully paid up and following the increase in its registered capital, the Joint Venture will be held as to 80% by CR Gas Investment and as to 20% by Zhengzhou SASAC. The Joint Venture and Zhengzhou SASAC have also agreed to enter into a lease agreement pursuant to which Zhengzhou SASAC will grant the Joint Venture the right to use a parcel of land for a term of 30 years at an annual leasing fee of approximately RMB1.3 million.

If the conditions to which the formation of the Joint Venture and the completion of the acquisition of Sale Shares are subject have been fulfilled, the Joint Venture will acquire the Sale Shares from Zhengzhou SASAC. This will lead to a change in control of Zhengzhou Gas under the Takeovers Code and, therefore, a mandatory general offer will be made to the shareholders of Zhengzhou Gas. As disclosed in the joint announcement of the Company and Zhengzhou Gas dated 11 December 2009, the offer price under the Offers has been revised such that the contribution of assets by Zhengzhou SASAC for the formation of the Joint Venture, the acquisition of the Other Assets and the leasing of a parcel of land by the Joint Venture will no longer constitute a special deal under Rule 25 of the Takeovers Code. The formation of the Joint Venture for acquiring the Sale Shares and the Other Assets, together with the Offers, constitute major transactions of the Company under the Listing Rules.

The purpose of this circular is to provide the shareholders of the Company with further details on the terms of the potential cooperation between the Company and Zhengzhou SASAC, including the financial information of the companies to be transferred to or acquired by the Joint Venture.

THE POTENTIAL COOPERATION

CR Gas Investment and Zhengzhou SASAC entered into various agreements on 25 November 2009 under which the parties have primarily agreed the following:

— the establishment by CR Gas Investment and Zhengzhou SASAC of the Joint Venture to which CR Gas Investment will contribute RMB490 million in cash equivalent in foreign currency and Zhengzhou SASAC will contribute RMB190 million through the injection of assets relating to its piped gas business including land use rights, machinery and equity interests in two PRC companies, namely Nanyang Zhengran and Zhengzhou Gas Design;

— the contribution by CR Gas Investment to the Joint Venture of a further RMB270 million in cash equivalent in foreign currency after obtaining the relevant approvals for the increase in the registered capital of the Joint Venture;

— the acquisition by the Joint Venture from Zhengzhou SASAC of the Sale Shares and the agreement by CR Gas Investment to bear the compensation for the staff of Zhengzhou Gas and Zhengzhou GGCL for a total consideration of approximately RMB456.7 million, equivalent to approximately RMB 8.45 per Domestic Share; and

— the acquisition by the Joint Venture of the Other Assets, comprising principally buildings and equipment for its piped gas operation, from Zhengzhou SASAC for a total consideration of approximately RMB13.4 million.

Upon completion of all of the above arrangements, the piped gas business currently conducted or supervised by Zhengzhou SASAC or its subsidiaries and associated companies, including Zhengzhou Gas, Nanyang Zhengran and Zhengzhou Gas Design will be effectively transferred to the Joint Venture.

To the best knowledge, information and belief of the Directors, having made all reasonable inquiries, Zhengzhou SASAC is not a connected person of the Company as at the Latest Practicable Date.

STRUCTURE OF THE JOINT VENTURE

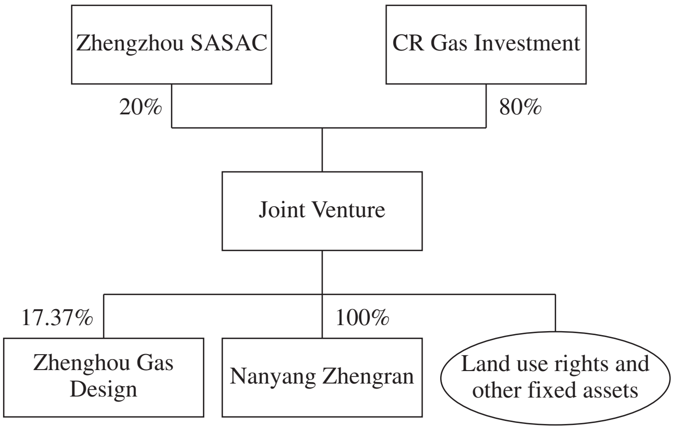
The Joint Venture had been established with initial registered capital of RMB680 million. Out of such initial registered capital, CR Gas Investment will make a cash contribution of RMB490 million in its equivalent in foreign currency within six months of the effective date of the agreement for the establishment of the Joint Venture, while Zhengzhou SASAC will contribute RMB190 million through the injection of assets based on their appraised values as set out in the table below:

Assets to be injected by Zhengzhou SASAC into the Joint Venture	**Appraised value** *(RMB million)*
Investments including 100% equity interest in Nanyang Zhengran and 17.37% equity interest in Zhengzhou Gas Design	43.6
Fixed assets including structures, miscellaneous properties and machinery	51.3
Land use rights and other assets	95.1
Total	190.0

The appraised values of assets to be injected into the Joint Venture from Zhengzhou SASAC as at 30 June 2009 have been determined based on the independent valuation performed by an independent valuer in the PRC using an asset-based approach. The final valuation is also required to be approved by the State-owned asset administration authorities and contribution will only be made by Zhengzhou SASAC after all relevant approvals have been obtained. The assets to be contributed by Zhengzhou SASAC include equity interests of two PRC companies, namely Nanyang Zhengran and Zhengzhou Gas Design. Financial information of these two PRC companies are set out in Appendix III and Appendix IV to this circular respectively.

The contribution of assets by Zhengzhou SASAC as the registered capital of the Joint Venture will be subject to the approvals from the NDRC, Municipal Government of Zhengzhou City, Zhengzhou SASAC and Henan Provincial SASAC.

Pursuant to the agreement governing the increase in the registered capital of the Joint Venture, CR Gas Investment will make a further cash contribution to the Joint Venture in the amount of RMB270 million in its equivalent in foreign currency within 30 days of obtaining all the requisite approvals for the increase of registered capital of the Joint Venture from RMB680 million to RMB950 million. The Joint Venture will then be effectively held as to approximately 20% by Zhengzhou SASAC and 80% by CR Gas Investment, thereby being constituted as a non-wholly owned subsidiary of the Company. CR Gas Group intends to use its internal resources and bank borrowings to contribute RMB760 million in cash for the formation of the Joint Venture and the increase in its registered capital. The ownership structure of the Joint Venture immediately after the increase in its registered capital will be as follows:



As at the Latest Practicable Date, the Joint Venture has been duly formed and established, and CR Gas Investment has made a cash contribution of RMB490 million as the registered capital of the Joint Venture. It is proposed that the Joint Venture, with the assets to be injected by Zhengzhou SASAC and through its equity interests in Zhengzhou Gas as further described below, will be principally engaged in the management of gas enterprises.

The board of directors of the Joint Venture will comprise five directors, one of whom will be appointed by Zhengzhou SASAC and four of whom will be appointed by CR Gas Investment. The chairman of the board will be nominated by CR Gas Investment.

ACQUISITION OF OTHER ASSETS BY THE JOINT VENTURE

The Joint Venture also intends to acquire the Other Assets from Zhengzhou SASAC for a total consideration of approximately RMB13.4 million. The Other Assets principally consist of buildings and equipment that will be used by the Joint Venture for conducting its piped gas business and the consideration was determined after arm's length negotiation with reference to the appraised values as at 30 June 2009 based on the independent valuation performed by an independent valuer in the PRC using an asset-based approach as set out in the table below:

	Appraised value *(RMB million)*
Inventory and others	0.1
Fixed assets including structures, miscellaneous properties and equipment	22.2
Less: Assumption of payables to creditors and staff	(8.9)
Total	13.4

No profit or loss is directly attributable to the Other Assets and there is no material change in the appraised value compared to the unaudited book value of the Other Assets as at 31 October 2009. The acquisition of the Other Assets by the Joint Venture from Zhengzhou SASAC is subject to, among others, the approvals of Henan Provincial SASAC, Zhengzhou SASAC, and the consents of the creditors of Zhengzhou SASAC for the assumption of payables. The final valuation of the Other Assets is also required to be approved by the State-owned asset administration authorities and the consideration will be paid by the Joint Venture within 10 business days after obtaining the requisite approvals relating to the transfer of the Other Assets and completion of the transfer of the Sale Shares to the Joint Venture.

Upon full implementation of the potential cooperation between the Company and Zhengzhou SASAC, it is agreed that the Joint Venture and Zhengzhou SASAC shall also enter into a lease agreement pursuant to which Zhengzhou SASAC will grant the Joint Venture the right to use a parcel of land with restricted usage for conducting its piped gas business in the PRC. The proposed term of lease will be 30 years with a leasing fee payable by the Joint Venture of approximately RMB1.3 million per annum, subject to the terms and conditions in the lease agreement which will be entered into separately upon or after the Completion. The proposed lease agreement, if entered into, will constitute a continuing connected transaction for CR Gas and CR Gas will comply with the relevant reporting, announcement and approval requirements under the Listing Rules as and when appropriate.

ACQUISITION OF CONTROLLING INTERESTS IN ZHENGZHOU GAS

The Joint Venture will acquire the Sale Shares from Zhengzhou SASAC for a consideration of approximately RMB421.7 million and CR Gas Investment will be responsible for the compensation of RMB35 million payable to the staff of Zhengzhou GGCL and Zhengzhou Gas upon Completion. The total consideration is RMB456.7 million, equivalent to approximately RMB8.45 per Domestic Share. Such consideration was determined after arm's length negotiation with reference to, among others, the net assets value of Zhengzhou Gas, its future prospects and the staff compensation if Zhengzhou Gas were changed from a State-owned enterprise to a foreign-owned enterprise upon Completion. Zhengzhou Gas will become an associate of the Company immediately after the Completion. The Sale Shares are currently held under Zhengzhou GGCL and it is the intention of Zhengzhou GGCL to transfer such shares to Zhengzhou SASAC to facilitate the acquisition by the Joint Venture. An application has been made to the SFC to waive the general offer obligation which would otherwise arise under the Takeovers Code upon the transfer of the Sale Shares held by Zhengzhou GGCL to Zhengzhou SASAC. If such waiver is not granted, Zhengzhou SASAC will procure Zhengzhou GGCL to transfer the Sale Shares to the Joint Venture upon Completion.

The acquisition of the Sale Shares by the Joint Venture from Zhengzhou SASAC is subject to the approvals of, among others, MOFCOM, NDRC, Henan Provincial SASAC and SASAC of the State Council and payment will be made within 10 business days after obtaining the requisite approvals. It is the intention of CR Gas Investment and Zhengzhou SASAC that the completion of the transfer of the Sale Shares will take place within 3 months from the establishment of the Joint Venture, or such longer time as the parties may agree. Within 30 days from the payment of the consideration of the Sale Shares, registration of the Sale Shares in the name of the Joint Venture at the China Securities Depository and Clearing Corporation Limited and filing with the Henan Provincial Administration for Industry and Commerce will be made. The acquisition of the Sale Shares by the Joint Venture will lead to a change in control of Zhengzhou Gas under the Takeovers Code. In accordance with Rule 26.1 of the Takeovers Code, if such acquisition is completed, the Joint Venture and parties acting in concert with it will be required to make the Offers for all the outstanding Zhengzhou Shares other than those already owned or agreed to be acquired by the Joint Venture and parties acting in concert with it. CR Gas Investment will be the offeror for the Offers.

Offer price

CR Gas Investment will make the Offers in compliance with the Takeovers Code upon Completion. The price of the Offers to be made by CR Gas Investment to the shareholders of Zhengzhou Gas pursuant to the announcement dated 25 November 2009 was RMB8.45 per Domestic Share and the Hong Kong dollar equivalent of HK$9.60 per H Share, determined after arm's length negotiation with reference to, among others, the net assets value of Zhengzhou Gas, its future prospects and the staff compensation if Zhengzhou Gas were changed from a State-owned enterprise to a foreign-owned enterprise upon Completion. As disclosed in the joint announcement of the Company and Zhengzhou Gas dated 11 December 2009, in order to extend the same favourable conditions which will be extended to Zhengzhou SASAC under the potential cooperation to all other shareholders of Zhengzhou Gas, the board of CR Gas resolved to increase the offer price under the Offers to RMB12.96 per Domestic Share, or equivalent to HK$14.73 per H Share based on the current exchange rate.

Pre-conditions for the Offers

Based on the representation of the Board, as at the Latest Practicable Date, the Offers for Zhengzhou Shares will only be made if the following pre-conditions are fulfilled:

— regulatory approvals or consents as described above for the formation of the Joint Venture being obtained; and

— regulatory approvals, clearance or consents as described above for the acquisition and transfer of the Sale Shares by the Joint Venture being obtained.

Subject to the fulfilment of the above pre-conditions, the Completion shall take place within 10 business days, or such later date as CR Gas Investment and Zhengzhou SASAC may agree in writing, after fulfilment of all the above pre-conditions. As at the Latest Practicable Date, the pre-condition in respect of the formation of the Joint Venture has been fulfilled. Subject to the Completion, it is intended that the offer document and the circular from the offeree board will be combined into a composite offer document containing, among others, details of the Offers including its timetable, which will then be despatched to the shareholders of the Company.

In addition, as required by Rule 26.2 of the Takeovers Code, the Offers, if they are made, will be conditional only upon CR Gas Investment having received acceptances in respect of voting rights acquired or agreed to be acquired before or during the Offers which will result in CR Gas Investment or any person acting in concert with it holding more than 50% of the voting rights attaching to Zhengzhou Shares.

Value of the Offers and financial resources sufficiency

As at the Latest Practicable Date, there are 70,084,000 Domestic Shares and 55,066,000 H Shares in issue. Zhengzhou Gas does not have any outstanding share options, warrants, derivatives or other convertible securities. Upon completion of the acquisition of the Sale Shares by the Joint Venture, there will be 16,042,490 Domestic Shares and 55,066,000 H Shares subject to the Offers and based on an offer price of RMB12.96 per Domestic Share and estimated offer price of approximately HK$14.73 per H Share using the current exchange rate, the Offers are valued at approximately HK$1,047.4 million. Anglo Chinese Corporate Finance, Limited, the financial adviser of the Company, is satisfied that sufficient financial resources are available to CR Gas Investment to fulfill the obligation under the Offers and it will make an offer on behalf of CR Gas Investment for all the H Shares other than those owned or agreed to be acquired by CR Gas Investment or parties acting in concert with it. CR Gas Investment will make an offer for all the Domestic Shares, other than those owned or agreed to be acquired by CR Gas Investment or parties acting in concert with it.

Comparison of value

Based on the Hong Kong dollar equivalent offer price of approximately HK$14.73 per H Share using the current exchange rate, it represents:

(a) a discount of approximately 5.58% to the closing price of HK$15.60 per H Share as quoted on the Stock Exchange on the Latest Practicable Date;

(b) a premium of approximately 1.17% to the closing price of HK$14.56 per H Share as quoted on the Stock Exchange on 10 December 2009, being the last trading day prior to the publication of the joint announcement dated 11 December 2009 relating to the revision of the offer price under the Offers;

(c) a discount of approximately 14.26% to the closing price of HK$17.18 per H Share as quoted on the Stock Exchange on the Last Trading Day;

(d) a discount of approximately 12.32% to the average closing price of HK$16.80 per H Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day;

(e) a discount of approximately 10.40% to the average closing price of HK$16.44 per H Share as quoted on the Stock Exchange for the last 30 consecutive trading days up to and including the Last Trading Day;

(f) a premium of approximately 41.91% over the closing price of HK$10.38 per H Share as quoted on the Stock Exchange on 6 July 2009, being the last trading day prior to the announcement of potential cooperation with CRGH and Zhengzhou SASAC on 9 July 2009;

(g) a premium of approximately 56.37% over the average closing price of HK$9.42 per H Share as quoted on the Stock Exchange for the last 10 trading days up to and including 6 July 2009;

(h) a premium of approximately 54.24% over the average closing price of HK$9.55 per H Share as quoted on the Stock Exchange for the last 30 trading days up to and including 6 July 2009; and

(i) a premium of approximately 106.01% over the unaudited consolidated net asset value of approximately RMB6.29 or equivalent to approximately HK$7.15 per H Share as at 30 June 2009, being the latest date of publication of the net asset value of Zhengzhou Gas prior to the Latest Practicable Date.

Shareholding structure

The table below sets out the shareholding structure of Zhengzhou Gas as at the Latest Practicable Date, upon completion of the acquisition of the Sale Shares by the Joint Venture from Zhengzhou SASAC and immediately following the completion of the Offers assuming full acceptances of the Offers by the shareholders of Zhengzhou Gas:

	As at the Latest Practicable Date		On completion of acquisition of the Sale Shares by the Joint Venture from Zhengzhou SASAC		Immediately following the close of the Offers assuming full acceptances by the shareholders of Zhengzhou Gas	
Shareholders	**Number of shares**	**% of issued share capital**	**Number of shares**	**% of issued share capital**	**Number of shares**	**% of issued share capital**
Domestic Shares						
Zhengzhou GGCL	54,041,510	43.18	—	—	—	—
Joint Venture and parties acting in concert with it	—	—	54,041,510	43.18	70,084,000	56.00
Other shareholders	16,042,490	12.82	16,042,490	12.82	—	—
H Shares						
Joint Venture and parties acting in concert with it	—	—	—	—	55,066,000	44.00
Public shareholders	55,066,000	44.00	55,066,000	44.00	—	—
Total number of Zhengzhou Shares	125,150,000	100.00	125,150,000	100.00	125,150,000	100.00

Other information regarding the Offers

The highest and lowest closing prices of the H Shares quoted on the Stock Exchange during the six-month period preceding the Latest Practicable Date were HK$17.52 per H Share on 19 October 2009 and HK$13.78 per H Share on 19 August 2009.

By accepting the Offers, if made, shareholders of Zhengzhou Gas will sell their Zhengzhou Shares to CR Gas Investment free from all encumbrances and together with all rights attaching to the Zhengzhou Shares, including the rights to receive all dividends and other distributions declared. The making of the Offers for Domestic Shares or H Shares to a person with a registered address in a jurisdiction outside Hong Kong may be affected by the applicable laws of the relevant jurisdiction. Shareholders with registered addresses in jurisdictions outside Hong Kong should inform themselves about and observe any applicable legal requirements in their own jurisdictions. Payment in cash in respect of acceptances of the Offers will be made as soon as practicable but in any event within 10 days of the later of the date on which the Offers become, or declared, unconditional and the relevant documents of title are received by CR Gas Investment to render each such acceptance complete and valid.

No Hong Kong stamp duty will arise on acceptance for the offer of the Domestic Share. Seller's ad valorem stamp duty at a rate of 0.1% of the market value of the H Shares or consideration payable by CR Gas Investment in respect of the relevant acceptances for the offer of H Share, whichever is higher, will be deducted from the amount payable to the relevant shareholder of Zhengzhou Gas on acceptance of the offer for H Share.

Save for the proposed acquisition of the Sale Shares by the Joint Venture, none of CR Gas, CR Gas Investment or parties acting in concert with any of them has dealt in Zhengzhou Shares, outstanding options, derivatives, warrants or other securities convertible into Zhengzhou Shares in the six-month period prior to and as at the Latest Practicable Date. The Company, CR Gas Investment and parties acting in concert with any of them have not entered into any arrangements or contracts in relation to the outstanding derivatives in respect of securities in Zhengzhou Gas nor have any of them borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in Zhengzhou Gas. As at the Latest Practicable Date, the Company, CR Gas Investment and parties acting in concert with any of them do not hold, own or control any Zhengzhou Shares, outstanding options, derivatives, warrants or other securities convertible into Zhengzhou Shares.

As at the Latest Practicable Date, there is no arrangement whether by way of option, indemnity or otherwise in relation to the shares of the Company, CR Gas Investment or Zhengzhou Gas which might be material to the Offers. There is no agreement or arrangement to which CR Gas Investment as the offeror is a party which relate to circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Offers. As at the Latest Practicable Date, none of CR Gas Investment or parties acting in concert with it has received any irrevocable commitment to accept the Offers.

It is the current intention of the Company and CR Gas Investment to maintain the listing of H Shares on the Stock Exchange after the close of the Offers and appropriate steps will be taken to ensure that there will be at least the minimum prescribed percentage of H Shares held by the public as required by the Listing Rules. Zhengzhou SASAC, the Company and CR Gas Investment do not intend to, through their interests in the Joint Venture, procure any change to the existing composition of the board of directors of Zhengzhou Gas for the time being, nor do they have any agreement, arrangement, understanding, negotiation or intention to dispose of or downsize the existing business of Zhengzhou Gas upon Completion. Further announcements will be made by Zhengzhou Gas in compliance with the requirements of the Listing Rules whenever there are changes in the composition of its board of directors.

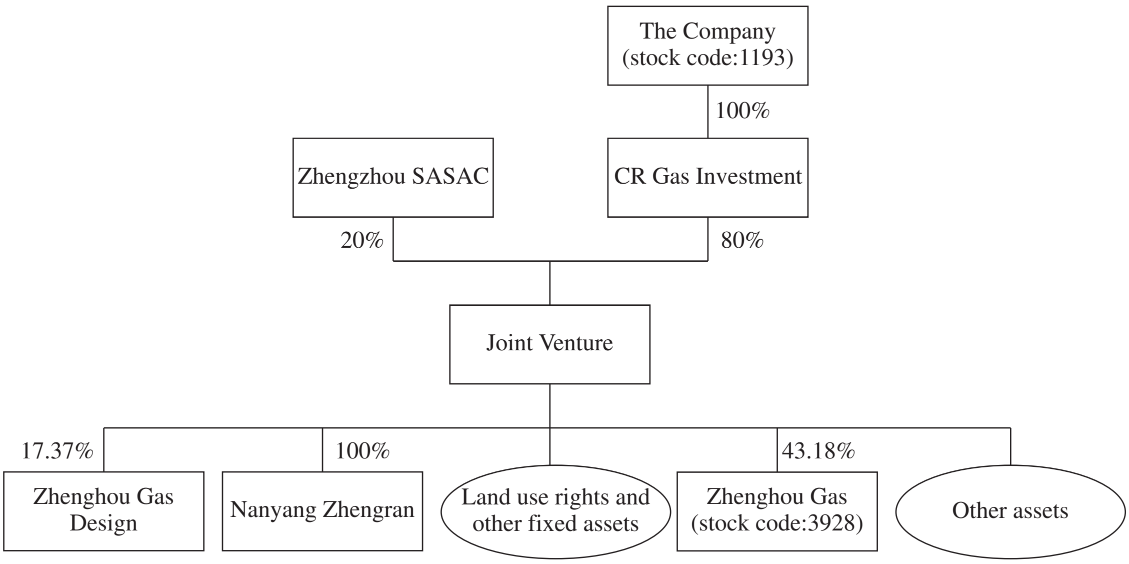
WARNING:

THE OFFERS WILL ONLY BE MADE IF THE ACQUISITION OF THE SALE SHARES BY THE JOINT VENTURE TAKES PLACE. COMPLETION IS SUBJECT TO THE FULFILMENT OF THE PRE-CONDITIONS AS SET OUT IN THIS CIRCULAR. THEREFORE, THE OFFERS MAY OR MAY NOT BE MADE AND SHAREHOLDERS AND, OR, POTENTIAL INVESTORS ARE ADVISED TO EXERCISE CAUTION WHEN DEALING IN THE SHARES OF THE COMPANY AND ZHENGZHOU GAS.

REASONS FOR THE POTENTIAL COOPERATION WITH ZHENGZHOU SASAC

On 21 August 2008, the Company announced the acquisition of its first city gas distribution business in the PRC with the intention to expand rapidly into this sector and to capture the increase in domestic demand for natural gas. This acquisition has provided stable cash flows as well as a platform with growth potential for the Group. Since then the Group has been actively seeking investment opportunities to increase the return from its investment portfolio, enhance the market coverage and further explore market opportunities for gas and gas-related products and services in the PRC. Leveraging the market coverage of the Company and Zhengzhou Gas in the gas industry in the PRC, the Directors believe that the potential cooperation through establishment of the Joint Venture with Zhengzhou SASAC is a step forward in further expanding its market share into the downstream gas industry and strengthening its customer and earning base into different regions in the PRC, particularly in Henan Province.

The ownership structure of the Joint Venture upon full implementation of the potential cooperation between the Company and Zhengzhou SASAC is shown below:



The Board believes that the Group as one of the leading gas distributors in the PRC, through the potential cooperation with Zhengzhou SASAC, will be able to expand its geographic coverage and products, which will place both the Group and Zhengzhou Gas Group in a better position to exploit new opportunities and growth potential in the gas industry in the PRC. The Directors consider that the terms and conditions of the proposed cooperation are fair and reasonable, on normal commercial terms and are in the interest of the Company and its shareholders as a whole.

FINANCIAL EFFECTS ON THE GROUP

Set out in Appendix V to this circular is the unaudited pro forma financial information of the Group which illustrates the financial impact on the assets and liabilities of the Group, pursuant to the potential cooperation with Zhengzhou SASAC. The potential cooperation involves the Joint Venture acquiring 43.18% equity interest in Zhengzhou Gas, which is currently accounted for as an associate in the unaudited pro forma financial information of the Group. The Directors note that after the mandatory conditional cash offers for all H Shares and Domestic Shares are completed, there will be a possibility that Zhengzhou Gas will become a subsidiary of the Group. The Company will make appropriate disclosures and publish unaudited pro forma financial information in due course showing the financial effects of the Group on the basis that Zhengzhou Gas becomes a subsidiary of the Group.

Assets

As at 30 June 2009, the consolidated assets of the Group and Top Steed Group attributable to the shareholders were approximately HK$4,474 million. As set out in the section headed "Unaudited pro forma financial information of the Enlarged Group" in Appendix V of this circular, assuming 30 June 2009 is the date of Completion, the unaudited pro forma combined assets of the Enlarged Group attributable to the shareholders will be increased by approximately HK$865 million to approximately HK$5,339 million.

Liabilities

As at 30 June 2009, the consolidated liabilities of the Group and Top Steed Group attributable to the shareholders were approximately HK$3,224 million. As set out in the section headed "Unaudited pro forma financial information of the Enlarged Group" in Appendix V of this circular, assuming 30 June 2009 is the date of Completion, the unaudited pro forma combined assets of the Enlarged Group attributable to the shareholders will be increased by approximately HK$651 million to approximately HK$3,875 million.

Net Assets

As at 30 June 2009, the consolidated net assets of the Group and Top Steed Group attributable to the shareholders were approximately HK$1,250 million. As set out in the section headed "Unaudited pro forma financial information of the Enlarged Group" in Appendix V 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 increased by approximately HK$214 million to approximately HK$1,464 million.

Net Current Liabilities

As at 30 June 2009, the consolidated net current liabilities of the Group and Top Steed Group attributable to the shareholders were approximately HK$1,480 million. As set out in the section headed "Unaudited pro forma financial information of the Enlarged Group" in Appendix V of this circular, assuming 30 June 2009 is the date of Completion, the unaudited pro forma combined net current liabilities of the Enlarged Group attributable to the shareholders will be increased by approximately HK$624 million and resulting in consolidated net current liabilities of approximately HK$2,104 million.

Profits

For the year ended 31 December 2008, the consolidated profit for the year of the Group from continuing operations 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 operations for the year ended 31 December 2008 would have increased given Zhengzhou Gas and Zhengzhou Gas Design were profitable despite Nanyang Zhengran being loss making.

FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The continued economic growth and the rapid industrialisation and urbanisation of China have increased 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 the BP Statistical Review of World Energy June 2009, natural gas only accounted for 3.63% of China's total primary energy consumption in 2008, 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 rationalise 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 gas-rich 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 opportunities for future growth in the natural gas industry in China. The Company will seek to take advantage of these favourable industry fundamentals and its strong and experienced management team to achieve continued growth both organically and through acquisition. The Board believes that through the cooperation with Zhengzhou SASAC, it will be able to expand its geographic coverage and products, and will be strategically positioned to explore new opportunities and to capture further growth opportunities in the gas industry in China.

INFORMATION ON THE GROUP

The Company is a limited liability company incorporated in Bermuda and its shares have been listed on the Stock Exchange since 7 November 1994. The Group is principally engaged in the sale and distribution of gas fuel and related products and gas connection operations in the PRC. Its piped natural gas operations are strategically located in areas of the PRC 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. CR Gas Investment is an investment holding company incorporated in Hong Kong and is a wholly-owned subsidiary of the Company.

INFORMATION ON ZHENGZHOU SASAC

Zhengzhou SASAC is a governmental authority responsible for the administration of state assets owned or contributed by authorities, institutions and State-owned enterprises in Zhengzhou.

INFORMATION ON ZHENGZHOU GAS

Zhengzhou Gas is a joint stock limited company established in the PRC whose H Shares are listed on the Stock Exchange since 29 June 2007. Zhengzhou Gas Group is principally engaged in the sale of natural gas, pressure control equipment and gas appliances, the construction of gas pipelines and the provision of gas pipelines renovation services. Set out below is the key financial information of Zhengzhou Gas based on its published financial statements:

	Year ended 31 December		Six months ended
	2007	**2008**	**30 June 2009**
	(RMB million)	*(RMB million)*	*(RMB million)*
	(audited)	*(audited)*	*(unaudited)*
Turnover	862.2	1,028.8	615.4
Net profit before taxation	196.4	203.7	153.9
Net profit after taxation	129.7	152.2	115.9
Net assets value	664.1	784.9	787.6

Financial information of Zhengzhou Gas is set out in Appendix II to this circular.

MANAGEMENT DISCUSSION AND ANALYSIS OF ZHENGZHOU GAS

Set out below is the management discussion and analysis of results of Zhengzhou Gas for each of the three years ended 31 December 2006, 2007 and 2008.

For the year ended 31 December 2006

Results and business review

Zhengzhou Gas Group recorded total revenue of approximately RMB732 million, representing an increase of 17.9% as compared with the corresponding period of last year. Gross profit for the period was approximately RMB242 million, representing an increase of 15.3% year-on-year. For the year ended 31 December 2006, revenue was mainly attributable to the sale of natural gas and connection and construction work for gas pipelines.

Capital structure

As at 31 December 2006, the issued and fully paid share capital of Zhengzhou Gas Group amounted to approximately RMB125.2 million.

Liquidity and financial resources

As at 31 December 2006, the audited total assets and net current liabilities of Zhengzhou Gas Group were RMB945.7 million and RMB51.4 million respectively. It had current assets of RMB323.4 million, comprising mainly cash and cash equivalents and trade receivables. It had current liabilities of RMB374.8 million, comprising mainly advanced payments received. The gearing ratio, being total liabilities over total equity and expressed in percentage, was approximately 65.7%.

Capital commitments

As at 31 December 2006, the Zhengzhou Gas Group had capital commitments of RMB54 million in respect of property, plant and equipment.

Employees and remuneration policy

As at 31 December 2006, the Zhengzhou Gas Group had 1,518 employees.

The salaries of the Zhengzhou Gas Group's employees were determined by reference to the performance, qualifications and experience of the individual staff. A discretionary incentive bonus based on individual performance during the year was paid to reward their contributions to the group. Other employee benefits include retirement benefits, medical insurance and housing fund contributions. During the financial year, the total staff costs of Zhengzhou Gas Group amounted to approximately RMB66.9 million.

Segmental information

Zhengzhou Gas Group currently organises its operations into two business segments, namely sale of natural gas and other related products, and gas pipeline construction. For the year ended 31 December 2006, sales of natural gas and other related products was RMB524.0 million. Revenue from gas pipeline construction was RMB284.0 million. No geographical segment analysis is shown as the group's operating business is solely carried out in Zhengzhou, Henan Province, the PRC.

Significant investments, material acquisition and disposals

In the year ended 31 December 2006, the Zhengzhou Gas Group made no material acquisitions or disposals of subsidiaries and associated companies.

Charges on assets

As at 31 December 2006, the assets of the Zhengzhou Gas Group were not under any charge.

Exposure to foreign currency risk

The Zhengzhou Gas Group operates in the PRC and its principal activities are conducted in RMB. Therefore, the Zhengzhou Gas Group's exposure to market risk for changes in foreign currency exchange rate is not significant.

Significant contingent liabilities

As at 31 December 2006, the Zhengzhou Gas Group did not have any significant contingent liabilities.

For the year ended 31 December 2007

Results and business review

Zhengzhou Gas Group recorded total revenue of approximately RMB862.1 million, representing an increase of 17.8% as compared with the corresponding period of last year. Gross profit for the period was approximately RMB299.0 million, representing an increase of 23.6% year-on-year. For the year ended 31 December 2007, revenue was mainly attributable to the sale of natural gas and connection and construction work for gas pipelines.

Capital structure

As at 31 December 2007, the issued and fully paid share capital of Zhengzhou Gas Group amounted to approximately RMB125.2 million.

Liquidity and financial resources

As at 31 December 2007, the audited total assets and net current liabilities of Zhengzhou Gas Group were RMB1,105.5 million and RMB40.9 million respectively. It had current assets of RMB400.5 million, comprising mainly cash and cash equivalents, and trade and notes receivables. It had current liabilities of RMB441.4 million, comprising mainly advanced payments received. The gearing ratio, being total liabilities over total equity and expressed in percentage, was approximately 66.5%.

Capital commitments

As at 31 December 2007, the Zhengzhou Gas Group had capital commitments of RMB376.3 million in respect of property, plant and equipment.

Employees and remuneration policy

As at 31 December 2007, the Zhengzhou Gas Group had 1,537 employees.

The salaries of the Zhengzhou Gas Group's employees were determined by reference to the performance, qualifications and experience of the individual staff. A discretionary incentive bonus based on individual performance during the year was paid to reward their contributions to the group. Other employee benefits include retirement benefits, medical insurance and housing fund contributions. During the financial year, the total staff costs of Zhengzhou Gas Group amounted to approximately RMB76.5 million.

Segmental information

Zhengzhou Gas Group currently organises its operations into two business segments, namely sale of natural gas and other related products and gas pipeline construction. For the year ended 31 December 2007, sales of natural gas and other related products was RMB634.4 million. Revenue from gas pipeline construction was RMB245.7 million. No geographical segment analysis is shown as the group's operating business is solely carried out in Zhengzhou, Henan Province, the PRC.

Significant investments, material acquisition and disposals

In the year ended 31 December 2007, the Zhengzhou Gas Group made no material acquisitions or disposals of subsidiaries and associated companies.

Charges on assets

As at 31 December 2007, the assets of the Zhengzhou Gas Group were not under any charge.

Exposure to foreign currency risk

The Zhengzhou Gas Group operates in the PRC and its principal activities are conducted in RMB. Therefore, the Zhengzhou Gas Group's exposure to market risk for changes in foreign currency exchange rate is not significant.

Significant contingent liabilities

As at 31 December 2007, the Zhengzhou Gas Group did not have any significant contingent liabilities.

For the year ended 31 December 2008

Results and business review

Zhengzhou Gas Group recorded total revenue of approximately RMB1,028.8 million, representing an increase of 19.3% as compared with the corresponding period of last year. Gross profit for the period was approximately RMB311.8 million, representing an increase of 4.4% year-on-year. For the year ended 31 December 2008, revenue was mainly attributable to the sale of natural gas and connection and construction work for gas pipelines.

Capital structure

As at 31 December 2008, the issued and fully paid share capital of Zhengzhou Gas Group amounted to approximately RMB125.2 million.

Liquidity and financial resources

As at 31 December 2008, the audited total assets and net current liabilities of Zhengzhou Gas Group were RMB1,374.9 million and RMB34.6 million respectively. It had current assets of RMB555.4 million, comprising mainly cash and cash equivalents and trade receivables. It had current liabilities of RMB590.1 million, comprising mainly advance payments received. The gearing ratio, being total liabilities over total equity and expressed in percentage, was approximately 75.2%.

Capital commitments

As at 31 December 2008, the Zhengzhou Gas Group had capital commitments of RMB646.8 million in respect of property, plant and equipment.

Employees and remuneration policy

As at 31 December 2008, the Zhengzhou Gas Group had 1,554 employees.

The salaries of the Zhengzhou Gas Group's employees were determined by reference to the performance, qualifications and experience of the individual staff. A discretionary incentive bonus based on individual performance during the year was paid to reward their contributions to the group. Other employee benefits include retirement benefits, medical insurance and housing fund contributions. During the financial year, the total staff costs of Zhengzhou Gas Group amounted to approximately RMB94.1 million.

Segmental information

Zhengzhou Gas Group currently organises its operations into two business segments, namely sale of natural gas and other related products and gas pipeline construction. For the year ended 31 December 2008, sales of natural gas and other related products was RMB774.2 million. Revenue from gas pipeline construction was RMB286.1 million. No geographical segment analysis is shown as the group's operating business is solely carried out in Zhengzhou, Henan Province, the PRC.

Significant investments, material acquisitions and disposals

In the year ended 31 December 2008, the Zhengzhou Gas Group had no material acquisitions or disposals of subsidiaries and associated companies.

Charges on assets

As at 31 December 2008, the assets of the Zhengzhou Gas Group were not under any charge.

Exposure to foreign currency risk

The Zhengzhou Gas Group operates in the PRC and its principal activities are conducted in RMB. Therefore, the Zhengzhou Gas Group's exposure to market risk for changes in foreign currency exchange rate is not significant.

Significant contingent liabilities

As at 31 December 2008, the Zhengzhou Gas Group did not have any significant contingent liabilities.

For the six months ended 30 June 2009

Results and business review

Zhengzhou Gas Group recorded total revenue of approximately RMB615.4 million, representing an increase of 17.1% as compared with the corresponding period of last year. Gross profit for the period was approximately RMB210.4 million, representing an increase of 27.4% year-on-year. For the six months ended 30 June 2009, revenue was mainly attributable to the sale of natural gas and connection and construction work for gas pipelines.

Capital structure

As at 30 June 2009, the issued and fully paid share capital of Zhengzhou Gas Group amounted to approximately RMB125.2 million.

Liquidity and financial resources

As at 30 June 2009, the unaudited total assets and net current liabilities of Zhengzhou Gas Group were RMB1,401.3 million and RMB33.6 million respectively. It had current assets of RMB580.0 million, comprising mainly cash and cash equivalents and trade receivables. It had current liabilities of RMB613.7 million, comprising mainly advance payments received. The gearing ratio, being total liabilities over total equity and expressed in percentage, was approximately 77.9%.

Capital commitments

As at 30 June 2009, the Zhengzhou Gas Group had capital commitments of RMB627.8 million in respect of property, plant and equipment.

Employees and remuneration policy

As at 30 June 2009, there was no significant change in the number of employees and remuneration policy compared to that disclosed in the annual report for the year ended 31 December 2008. During the six months ended 30 June 2009, the total staff costs of Zhengzhou Gas Group amounted to approximately RMB53.9 million.

Segmental information

Zhengzhou Gas Group currently organises its operations into two business segments, namely sale of natural gas and other related products and gas pipeline construction. For the six months ended 30 June 2009, sales of natural gas and other related products was RMB468.1 million. Revenue from gas pipeline construction was RMB163.8 million. No geographical segment analysis is shown as the group's operating business is solely carried out in Zhengzhou, Henan Province, the PRC.

Significant investments, material acquisitions and disposals

In the six months ended 30 June 2009, the Zhengzhou Gas Group made no material acquisitions or disposals of subsidiaries and associated companies.

Charges on assets

As at 30 June 2009, the assets of the Zhengzhou Gas Group were not under any charge.

Exposure to foreign currency risk

The Zhengzhou Gas Group operates in the PRC and its principal activities are conducted in RMB. Therefore, the Zhengzhou Gas Group's exposure to market risk for changes in foreign currency exchange rate is not significant.

Significant contingent liabilities

As at 30 June 2009, the Zhengzhou Gas Group did not have any significant contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS OF NANYANG ZHENGRAN

Set out below is the management discussion and analysis of results of Nanyang Zhengran for each of the periods ended 31 December 2007 (from 9 June 2007), 31 December 2008 and the ten months ended 31 October 2009.

Nanyang Zhengran was established in the PRC on 9 June 2007 and is principally engaged in the sale of liquefied gas and connection of gas pipeline. Since its establishment, Nanyang Zhengran has been loss making for each of the periods ended 31 December 2007, 31 December 2008 and 31 October 2009. Investment in Nanyang Zhengran by the Joint Venture enables the CR Gas Group to exploit new opportunities and growth potential in the gas industry in Zhengzhou, PRC.

Results and business review

Nanyang Zhengran Group recorded revenue of HK$23.8 million, HK$97.6 million and HK$83.5 million respectively for the period ended 31 December 2007, 31 December 2008 and the ten months ended 31 October 2009. Revenue was attributed to sale and distribution of gas fuel and related products, gas connection and petroleum filling stations. In each of the corresponding periods, gross profit was HK$0.4 million, HK$13.4 million and HK$15.6 million respectively.

Capital structure

The registered and paid-in capital of Nanyang Zhengran Group was RMB123.2 million, RMB123.2 million and RMB214.0 million as at 31 December 2007, 31 December 2008 and 31 October 2009.

Liquidity and financial resources

The net current liabilities of Nanyang Zhengran as at 31 December 2007, 31 December 2008 and 31 October 2009 were RMB104.3 million, RMB149.7 million and RMB85.8 million respectively. The current liabilities for each of the corresponding periods were mainly trade and other payables. The gearing ratio, being total liabilities over total equity and expressed in percentage, was approximately 396.5% as at 31 October 2009. (Note: Gearing ratios for 2007 and 2008 were not applicable as total equity was a negative number for these two periods).

Capital commitments

Nanyang Zhengran had significant capital commitments in 2009, for the period ended 31 October 2009, of HK$96.0 million. There was no significant capital commitment for the periods ended 31 December 2007 and 31 December 2008.

Employment and remuneration policy

Remuneration of the staff comprised mainly basic salaries and allowances, retirement benefit scheme contributions. The employees of Nanyang Zhengran Group in the PRC are members of state-managed retirement benefit schemes operated by the local government in the PRC. The Nanyang Zhengran Group is required to contribute a specified percentage of basic payroll costs to the retirement benefit schemes to fund the benefits. The total staff costs of Nanyang Zhengran Group for the periods ended 31 December 2007, 31 December 2008 and 31 October 2009 were HK$7.4 million, HK$21.3 million and HK$18.7 million respectively.

Segmental information

Reportable segments of Nanyang Zhengran are the sale and distribution of gas and fuel related products, gas connection, and petroleum filling stations. Segmental assets for the business of sale and distribution of gas and fuel related products amounted to HK$119.8 million, HK$127.2 million and HK$135.4 million respectively as at 31 December 2007, 31 December 2008 and 31 October 2009.

Significant investments, material acquisitions and disposals

Nanyang Zhengran Group made no material acquisitions or disposals of subsidiaries and associated companies for each of the periods ended 31 December 2007, 31 December 2008 and 31 October 2009, except the group restructuring in connection with the establishment of Nanyang Zhengran which is detailed in Appendix III to this circular.

Charges on assets

Nanyang Zhengran did not have any assets pledged as at 31 December 2007, 31 December 2008 and 31 October 2009.

Exposure to foreign currency risk

The trading activities of Nanyang Zhengran were dominated in RMB and there was no foreign currency exposure for each of the periods ended 31 December 2007, 31 December 2008 and 31 October 2009.

Contingent liabilities

As at 31 December 2007 and 2008 and 31 October 2009, the Nanyang Zhengran Group had given guarantees amounting to HK$15.7 million, HK$16.5 million and HK$4.2 million, respectively, to banks in respect of banking facilities granted to other state-controlled entities. The fair values of the guarantees as at 31 December 2007, 31 December 2008 and 31 October 2009 are not significant as there is a low risk of default by state-controlled entities and, therefore, no amount has been recognised in the statements of financial position as liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS OF ZHENGZHOU GAS DESIGN

Set out below is the management discussion and analysis of results of Zhengzhou Gas Design for each of the three years ended 31 December 2006, 2007 and 2008 and the ten months ended 31 October 2009.

Zhengzhou Gas Design was established in the PRC on 18 December 2000 and is principally engaged in gas pipeline design.

Results and business review

Zhengzhou Gas Design group recorded revenue of HK$7.6 million, HK$9.3 million, HK$13.2 million and HK$15.4 million respectively for the financial year ended 31 December 2006, 31 December 2007, 31 December 2008 and the ten months ended 31 October 2009. Revenue was mainly service income. In each of the corresponding periods, gross profit was HK$5.4 million, HK$6.3 million, HK$8.8 million and HK$11.6 million respectively.

Capital structure

The registered and paid-in capital of Zhengzhou Gas Design group was RMB1.3 million, RMB1.3 million, RMB4.3 million and RMB4.3 million as at 31 December 2006, 31 December 2007, 31 December 2008 and 31 October 2009.

Liquidity and financial resources

Zhengzhou Gas Design had no borrowings as at 31 December 2006, 31 December 2007, 31 December 2008 and 31 October 2009. The net current assets of Zhengzhou Gas Design as at each of the accounting dates were respectively HK$20.7 million, HK$4.9 million, HK$16.0 million and HK$23.1 million.

Capital commitments

Zhengzhou Gas Design did not have any significant capital commitments as at 31 December 2006, 31 December 2007, 31 December 2008 and 31 October 2009.

Employment and remuneration policy

Remuneration of the staff comprised mainly basic salaries and allowances, retirement benefit scheme contributions. The total staff costs of Zhengzhou Gas Design for the periods ended 31 December 2006, 31 December 2007, 31 December 2008 and 31 October 2009 were HK$1.5 million, HK$1.9 million, HK$3.2 million and HK$3.0 million respectively.

Segmental information

The operation of Zhengzhou Gas Design constitutes one single reportable segment and, accordingly, no separate segmental information was prepared.

Significant investments, material acquisitions and disposals

Zhengzhou Gas Design did not make any significant investments, material acquisitions or disposals for each of the periods under review.

Charges on assets

Zhengzhou Gas Design did not have any assets pledged as at 31 December 2006, 31 December 2007, 31 December 2008 and 31 October 2009.

Exposure to foreign currency risk

The trading activities of Zhengzhou Gas Design were dominated in RMB and there was no foreign currency exposure for each of the periods ended 31 December 2006, 31 December 2007, 31 December 2008 and 31 October 2009.

Contingent liabilities

Zhengzhou Gas Design did not have any significant contingent liabilities as at 31 December 2006, 31 December 2007, 31 December 2008 and 31 October 2009.

IMPLICATIONS UNDER THE LISTING RULES

The formation of the Joint Venture, the acquisition by the Joint Venture of a 43.18% equity interest in Zhengzhou Gas and the Other Assets, together with the Offers, constitute major transactions of the Company under the Listing Rules and are subject to reporting, announcement and approval of the shareholders of CR Gas under the Listing Rules. To the best knowledge, information and belief of the Directors, having made all reasonable inquiries, no shareholder of the Company is required from abstain from voting if a special general meeting were to be convened.

The Company has obtained a written approval from its controlling shareholder, Splendid Time Investment Inc., a wholly-owned subsidiary of CR Holdings holding approximately 74.9% of the shares of the Company as at the Latest Practicable Date, for entering into agreements with Zhengzhou SASAC in relation to the potential cooperation. Such written approval is accepted in lieu of holding a physical shareholders' meeting pursuant to Rule 14.44 of the Listing Rules, and, accordingly, a physical shareholders' meeting will not be convened.

RECOMMENDATION

The Directors consider that the terms of the potential cooperation between CR Gas and Zhengzhou SASAC are fair and reasonable and in the interests of the Company and its shareholders as a whole.

GENERAL

Your attention is drawn to the additional information set out in the appendices to this circular, including the financial information on the Group, Zhengzhou Gas, Nanyang Zhengran, Zhengzhou Gas Design and the pro forma financial information of the Group.

Yours faithfully
For and on behalf of
China Resources Gas Group Limited
MA Guoan
Chairman

1. INDEBTEDNESS STATEMENT

Borrowings

The borrowings of the Enlarged Group as at 30 November 2009 are as follows:

	HK$'000
Bank and other borrowings	
Secured	91,959
Unsecured	1,359,636
	1,451,595
Bank and other borrowings repayable:	
On demand or within one year	349,142
More than one year but not exceeding two years	574,349
More than two years but not exceeding five years	507,225
Over five years	20,879
	1,451,595
Amount due to a fellow subsidiary, unsecured and repayable within one year	1,600,000
Pledged assets	
Property, plant and equipment	102,143
Trade receivables	4,419
Bank deposits	8,273
	114,835

Contingent liabilities

As at 30 November 2009, the Nanyang Zhengran Group and Nanyang Zhengran have given guarantees amounting to HK$4,198,000 to banks in respect of banking facilities granted to other state-controlled entities.

Foreign currency amounts have been translated at the approximate exchange rates prevailing at the close of business on 30 November 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 30 November 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 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, 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 Group for each of the three years ended 31 December 2006, 2007 and 2008 as extracted from the published annual reports of the Company.

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	0.50	1.44	6.34
Diluted	0.50	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

	NOTES	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

	Notes	2008 HK$'000	2007 HK$'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)
Dividends paid to minority shareholders of subsidiaries		(18,391)	(44,519)

	2008	2007
	HK$'000	*HK$'000*
		(Restated)
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 *HK$'000*	2007 *HK$'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:

Date of grant	Exercise price HK$	Number of share options: 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.

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

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 *HK$'000*	2007 *HK$'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

The following is a summary of the financial results of Zhengzhou Gas for the six months ended 30 June 2009 and for each of the three years ended 31 December 2006, 2007 and 2008 as extracted from the published annual reports of Zhengzhou Gas Company Limited.

Consolidated Income Statement

	For the six months ended 30 June 2009 *RMB'000* *(Unaudited)*	For the year ended 31 December 2008 *RMB'000*	For the year ended 31 December 2007 *RMB'000*	For the year ended 31 December 2006 *RMB'000*
REVENUE	615,425	1,028,846	862,161	731,637
Cost of sales	(405,032)	(717,039)	(563,562)	(489,986)
Gross profit	210,393	311,807	298,599	241,651
Other income and gains	2,366	6,187	4,199	3,555
Selling and distribution costs	(20,345)	(41,082)	(35,338)	(33,294)
Administrative expenses	(35,070)	(67,502)	(60,963)	(66,335)
Other expenses	(8,277)	(5,714)	(10,092)	(10,407)
Share of profits of an associate	4,795	—	—	—
PROFIT BEFORE TAX	153,862	203,696	196,405	135,170
Tax	(37,964)	(51,528)	(66,722)	(9,513)
PROFIT FOR THE YEAR	115,898	152,168	129,683	125,657
Attributable to:				
Equity holders of the Company	115,394	151,216	128,462	111,485
Minority interests	504	952	1,221	14,172
	115,898	152,168	129,683	125,657
DIVIDENDS				
Proposed final	—	13,016	30,286	35,668
Proposed conditional special dividend	—	100,120	—	—
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY				
Basic				
— For profit for the period (RMB Yuan)	0.922	0.121	0.103	0.089

Consolidated Balance Statement

	For the six months ended 30 June 2009 *RMB'000* *(Unaudited)*	For the year ended 31 December 2008 *RMB'000*	For the year ended 31 December 2007 *RMB'000*	For the year ended 31 December 2006 *RMB'000*
NON-CURRENT ASSETS				
Property, plant and equipment	665,538	666,115	632,477	595,412
Prepaid land lease payments	113,586	113,949	66,697	18,288
Interests in an associate	32,895	32,025	—	—
Deferred tax assets	9,233	7,398	5,842	8,514
Available-for-sale investment	—	—	—	50
Total non-current assets	821,252	819,487	705,016	622,264
CURRENT ASSETS				
Inventories	14,296	15,460	6,186	4,639
Construction contract work in progress	1,611	954	1,515	1,417
Trade and notes receivables	80,695	104,926	116,993	95,131
Prepayments, deposits and other receivables	41,775	40,536	37,364	28,577
Restricted cash deposits	25,250	25,250	19,200	16,000
Cash and cash equivalents	415,984	368,169	219,091	177,496
Due from the holding company	—	—	21	—
Due from fellow subsidiaries	414	143	96	136
Total current assets	580,025	555,438	400,466	323,396
CURRENT LIABILITIES				
Trade payables	64,108	56,174	64,491	65,291
Other payables and accruals	124,801	123,594	94,947	92,325
Advance payments received	358,523	356,468	255,710	209,382
Interest-bearing bank borrowings	40,000	40,000	—	—
Tax payable	26,219	13,826	20,480	6,887
Due to fellow subsidiaries	—	—	5,746	947
Total current liabilities	613,651	590,062	441,374	374,832
NET CURRENT LIABILITIES	(33,626)	(34,624)	(40,908)	(51,436)
NET ASSETS	787,626	784,863	664,108	570,828
EQUITY				
Equity attributable to equity holders of the Company				
Issued capital	125,150	125,150	125,150	125,150
Reserves	658,059	655,800	534,870	442,076
	783,209	780,950	660,020	567,226
Minority interests	4,417	3,913	4,088	3,602
Total equity	787,626	784,863	664,108	570,828

The following is a summary of the unaudited financial statements of Zhengzhou Gas for the six months ended 30 June 2009 as extracted from the published 2009 interim report of Zhengzhou Gas Company Limited.

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 June	
		2009	**2008**
	Notes	*RMB'000*	*RMB'000*
		(Unaudited)	*(Unaudited)*
Revenue	4	615,425	525,440
Cost of sales		(405,032)	(360,252)
Gross profit		210,393	165,188
Other income and gains	4	2,366	2,658
Selling and distribution costs		(20,345)	(17,775)
Administrative expenses		(35,070)	(30,437)
Other expenses		(8,277)	(2,607)
Share of profits of an associate		4,795	—
Profit before tax	5	153,862	117,027
Tax	6	(37,964)	(29,514)
Profit for the period		115,898	87,513
Attributable to:			
Equity holders of the Company		115,394	87,378
Minority interests		504	135
		115,898	87,513
Dividends:			
Proposed interim	7	—	—
Earnings per share attributable to ordinary equity holders of the Company			
Basic			
— For profit for the period *(RMB Yuan)*	8	0.922	0.700

"Profit for the period" represents the "total comprehensive income" for the period presented, accordingly, no consolidated statement of comprehensive income is presented.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 June 2009 RMB'000 (Unaudited)	31 December 2008 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	665,538	666,115
Prepaid land lease prepayments	10	113,586	113,949
Interests in an associate		32,895	32,025
Deferred tax assets		9,233	7,398
Total non-current assets		821,252	819,487
CURRENT ASSETS			
Inventories		14,296	15,460
Construction contract work in progress	11	1,611	954
Trade and notes receivables	12	80,695	104,926
Prepayments, deposits and other receivables	13	41,775	40,536
Due from a fellow subsidiary		414	143
Restricted cash deposits		25,250	25,250
Cash and cash equivalents		415,984	368,169
Total current assets		580,025	555,438
CURRENT LIABILITIES			
Trade payables	14	64,108	56,174
Other payables and accruals	15	124,801	123,594
Advance payments received	11	358,523	356,468
Interest-bearing bank borrowings		40,000	40,000
Tax payable		26,219	13,826
Total current liabilities		613,651	590,062
NET CURRENT LIABILITIES		(33,626)	(34,624)
NET ASSETS		787,626	784,863

	Notes	30 June 2009 RMB'000 (Unaudited)	31 December 2008 RMB'000 (Audited)
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	16	125,150	125,150
Reserves		658,059	655,800
		783,209	780,950
Minority interests		4,417	3,913
Total equity		787,626	784,863

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2009

	Attributable to equity holders of the Company								
	Issued capital	Share premium account	Statutory surplus reserve	General surplus reserve	Retained profits	Reserve arising from acquisition of a minority interest	Total	Minority interests	Total equity
	RMB'000 (note 16)	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2009	125,150	101,026	134,293	51,582	340,749	28,150	780,950	3,913	784,863
Profit for the period	—	—	—	—	115,394	—	115,394	504	115,898
Dividends paid	—	—	—	—	(113,135)	—	(113,135)	—	(113,135)
Appropriation to surplus reserves	—	—	—	13,009	(13,009)	—	—	—	—
At 30 June 2009 (Unaudited)	125,150	101,026	134,293	64,591	329,999	28,150	783,209	4,417	787,626
At 1 January 2008	125,150	101,026	121,284	41,456	242,954	28,150	660,020	4,088	664,108
Profit for the period	—	—	—	—	87,378	—	87,378	135	87,513
Dividends paid	—	—	—	—	(30,286)	—	(30,286)	—	(30,286)
Appropriation to surplus reserves	—	—	—	10,126	(10,126)	—	—	—	—
At 30 June 2008 (Unaudited)	125,150	101,026	121,284	51,582	289,920	28,150	717,112	4,223	721,335

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended 30 June	
	2009	**2008**
	RMB'000	*RMB'000*
	(unaudited)	*(Unaudited)*
NET CASH INFLOW FROM OPERATING ACTIVITIES	182,700	114,710
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(20,311)	(69,592)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES	(114,574)	(30,286)
NET INCREASES IN CASH AND CASH EQUIVALENTS	47,815	14,832
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	368,169	219,091
CASH AND CASH EQUIVALENTS AT END OF PERIOD	415,984	233,923
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	441,234	253,123
Less: Restricted cash deposits	25,250	19,200
Cash and cash equivalents	415,984	233,923

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The Company was established in the People's Republic of China (the "PRC") on 18 December 2000 as a joint stock limited company under the Company Law of the PRC. The Company's H shares were listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 29 October 2002. On 29 June 2007, the Company's H shares were migrated to the Main Board of the Stock Exchange.

The Group is principally engaged in the sale of natural gas, pressure control equipment and gas appliances, the construction of gas pipelines and the provision of gas pipelines renovation services. The registered office and principal place of business of the Company is located at 352 Longhai Road West, Zhengzhou, Henan Province, the PRC 450006.

In the opinion of the directors, the holding company of the Group is Zhengzhou Gas Group Company Limited, which is established in the PRC.

2.1 BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2009 have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting".

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2008.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and basis of preparation adopted in the preparation of the interim condensed consolidated financial statements are consistent with those used in the preparation of the Group's annual financial statements for the year ended 31 December 2008, except for the adoption of certain new and revised International Financial Reporting Standards ("IFRSs", which also include IASs and Interpretations), as set out in note 2.3.

2.3 ADOPTION OF NEW AND REVISED IFRSS

During the six months ended 30 June 2009, the following new and revised IFRSs came into effect.

IFRS 1* & IAS 27 Amendments	Amendments to IFRS 1 *First time Adoption of IFRSs* and IAS 27 *Consolidated and Separate Financial Statements — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment — Vesting Conditions and Cancellations*
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures — Improving Disclosures about Financial Instruments*
IFRS 8	*Operating Segments*
IAS 1 (Revised)	*Presentation of Financial Statements*
IAS 23 (Revised)	*Borrowing Costs*
IAS 32 & IAS 1 Amendments	Amendments to IAS 32 Financial Instruments: *Presentation and IAS 1 Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising on Liquidation*
IFRIC 9 & IAS 39 Amendments	Amendments to IFRIC 9 *Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement — Embedded Derivatives*
IFRIC 13	*Customer Loyalty Programmes*
IFRIC 15	*Agreements for the Construction of Real Estate*
IFRIC 16	*Hedges of a Net Investment in a Foreign Operation*

* On 1 January 2009, the Group adopted the revised IAS 1 “Presentation of Financial Statements”. The revised standard aims to improve users’ ability to analyse and compare information given in financial statements. The adoption of this revised standard has no effect on the results reported in the Group’s interim condensed consolidated financial statements. It does, however, result in certain presentational changes in the Group’s primary financial statements, including:

— the adoption of the revised title “Statement of financial position” for the “Balance sheet”; and

— the presentation of all items of income and expenditure in two financial statements, the “Income statement” and “Statement of comprehensive income”.

In May 2008, the IASB issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. Except for IAS 1 (Revised) which affected the presentation of the interim condensed consolidated financial statements, the Group expects that the adoption of these new and revised IFRSs is unlikely to have a significant impact on the accounting policies of the Group and the method of computation in the interim condensed consolidated financial statements.

2.4 IMPACT OF ISSUED BUT NOT YET EFFECTIVE IFRSS

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective, in the interim condensed consolidated financial statements.

IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of IFRSs — Additional Exemptions for First-time Adopters*[2]
IFRS 2 Amendments	*Share-based Payment — Group Cash-settled Share-based Payment Transactions*[2]
IFRS 3 (Revised)	*Business Combinations*[1]
IAS 27 (Revised)	*Consolidated and Separate Financial Statements*[1]
IAS 39 Amendment	Amendment to IAS 39 *Financial Instruments: Recognition and Measurement — Eligible Hedged Items*[1]
IFRIC 17	*Distribution of Non-cash Assets to Owners* [1]
IFRIC 18	*Transfers of Assets from Customers*[1]

Apart from the above, the IASB has issued *Improvements to IFRSs** which sets out amendments to a number of IFRSs with a view to removing inconsistencies and clarifying wording. Except for the amendments to IFRS 2, IFRIC 9, IFRIC 16 and certain amended paragraphs of IAS 38, which are effective for annual periods beginning on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2010.

1 Effective for financial years beginning on or after 1 July 2009

2 Effective for financial years beginning on or after 1 January 2010

* Improvements to IFRSs include amendments to IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRIC 16.

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application.

3. SEGMENTAL INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has two reportable segments as follows:

Sales of natural gas and other related products	Sales of natural gas and other related products, including pressure control equipment, gas appliances and provision of pipelines renovation work
Gas pipeline connection and constructions	Connection and construction of gas pipeline

Management monitors the operating results of its business units separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in the table below, is measured differently from operating profit or loss in the consolidated financial statements. Group corporate expense, other income, and income tax expense are managed on a group basis and are not allocated to operating segments.

These reportable segments are the basis on which the Group reports its segment information and no operating segments have been aggregated to form the above reportable segments.

Intersegment revenue is eliminated on consolidation. Intersegment sales and transactions are conducted in accordance with the terms mutually agreed between the parties.

No further geographical segment information is presented as the Group's operating business is solely carried out in Henan Province, the PRC.

The following tables present revenue and profit information regarding the Group's operating segments for the six months ended 30 June 2009 and 2008:

	Sales of natural gas and other related products	Gas pipeline connection and construction	Eliminations	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Period ended 30 June 2009 (Unaudited)				
Segment revenue				
Sales to external customers	462,950	152,475	—	615,425
Intersegment sales	5,168	11,286	(16,454)	—
Total	468,118	163,761	(16,454)	615,425
Share of profit of an associate	4,795	—	—	4,795
Segment results	63,413	127,720	(730)	190,403
Other income and gains				2,366
Unallocated corporate expense				(38,907)
Profit before tax				153,862
Tax				(37,964)
Profit for the period				115,898

	Sales of natural gas and other related products	Gas pipeline connection and construction	Eliminations	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Period ended 30 June 2008 (Unaudited)				
Segment revenue				
Sales to external customers	388,614	136,826	—	525,440
Intersegment sales	2,990	11,269	(14,259)	—
Total	391,604	148,095	(14,259)	525,440
Segment results	36,973	110,761	134	147,868
Other income and gains				2,658
Unallocated corporate expense				(33,499)
Profit before tax				117,027
Tax				(29,514)
Profit for the period				87,513

Segment assets

The following table compares the total segment assets as at 30 June 2009 and as at the date of the last annual financial statements (31 December 2008).

	30 June 2009	**31 December 2008**
	RMB'000	*RMB'000*
	(Unaudited)	*(Audited)*
Sales of natural gas and other related products	1,188,037	1,231,046
Gas pipeline connection and construction	326,934	346,554
Segment assets	1,514,971	1,577,600
Eliminations	(113,694)	(202,675)
Total consolidated assets	1,401,277	1,374,925

4. REVENUE AND OTHER INCOME AND GAINS

An analysis of revenue and other income and gains is as follows:

	For the six months ended 30 June	
	2009	**2008**
	RMB'000	*RMB'000*
	(unaudited)	*(Unaudited)*
Revenue		
Natural gas	458,924	382,439
Gas appliances	5,507	3,525
Pressure control equipments	259	214
Gas pipelines:		
Connection and construction	155,538	142,153
Provision of renovation work	537	2,110
Others	38	34
	620,803	530,475
Less: Business tax and government surcharges	(5,378)	(5,035)
	615,425	525,440
Other income and gains		
Bank interest income	1,614	1,937
Rental income	221	195
Others	531	526
	2,366	2,658
Total revenue and other income and gains	617,791	528,098

5. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2009	**2008**
	RMB'000	*RMB'000*
	(unaudited)	*(Unaudited)*
Cost of inventories sold	356,004	316,801
Depreciation	20,049	18,815
Amortisation of prepaid land lease prepayments	914	810
Minimum lease payments under operating leases:		
Land and buildings	4,926	4,958
Equipment	2,701	2,636
Trademarks	195	390
	7,822	7,984
Employee benefits expense (including directors', supervisors' remuneration):		
Wages and salaries	45,725	36,560
Pension scheme contributions (defined contribution scheme)	5,113	4,185
Accommodation benefits (defined contribution scheme)	3,058	2,508
	53,896	43,253
Impairment of trade receivables	816	182
Reversal of write-down of inventories	(101)	(454)
Impairment of property, plant and equipment	3,725	—

6. TAX

In accordance with the PRC Corporate Income Tax Law (the "New CIT Law") which was approved and became effective on 1 January 2008, the provision for PRC current income tax has been based on a statutory rate of 25% of the assessable profit of the Group for the six months ended 30 June 2009.

Major components of the Group's income tax expense for the periods are as follows:

	For the six months ended 30 June	
	2009	**2008**
	RMB'000	*RMB'000*
	(unaudited)	*(Unaudited)*
Current:		
Charge for the period	39,799	29,555
Deferred:		
Related to recognition and reversal of temporary differences	(1,835)	(41)
Total tax charge for the period	37,964	29,514

7. DIVIDENDS

(a) Dividends attributable to the interim period

The board of directors does not propose an interim dividend for the six months ended 30 June 2009.

(b) Dividends attributable to the previous financial year, declared and paid during the interim period

	For the six months ended 30 June	
	2009	**2008**
	RMB'000	*RMB'000*
	(Unaudited)	*(Unaudited)*
Dividend in respect of financial year ended 31 December 2008 of RMB0.904* per share (2007: RMB0.242* per share):		
Declared during the period:		
Final dividend	13,015	30,286
Special dividend	100,120	—
	113,135	30,286
Paid during the period	113,135	30,286

* *Restated after the Share Consolidation which sets out in note 16 below.*

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The basic earnings per share amount for the six months ended 30 June 2009 is computed by dividing the profit attributable to equity holders of the Company of approximately RMB115,394,000 (six months ended 30 June 2008: approximately RMB87,378,000) by the weighted average of 125,150,000 ordinary shares (six months ended 30 June 2008: 125,150,000* ordinary shares) in issue during the period ended 30 June 2009.

* *Represents the number of shares after the Share Consolidation which sets out in note 16 below.*

Diluted earnings per share amounts for the periods ended 30 June 2009 and 2008 have not been calculated as no diluting events existed during those periods.

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2009, the Group acquired property, plant and equipment with a cost of RMB23,197,000 (six months ended 30 June 2008: RMB27,822,000). No property, plant and equipment were acquired through a business combination.

No fixed assets were disposed of by the Group during the six months ended 30 June 2009 (six months ended 30 June 2008: Nil).

10. PREPAID LAND LEASE PREPAYMENTS

	30 June 2009	**31 December 2008**
	RMB'000	*RMB'000*
	(Unaudited)	*(Audited)*
Carrying amount at 1 January	115,698	68,277
Additions	1,145	49,096
Recognised during the year	(914)	(1,675)
Carrying amount at 30 June/31 December	115,929	115,698
Current portion included in prepayments, deposits and other receivables	(2,343)	(1,749)
Non-current portion	113,586	113,949

The prepaid land lease prepayments represent payments for medium term leases situated in Mainland China.

As at 30 June 2009, the Group was in process of applying for the land certificates, with a net book value of RMB22,274,000 (31 December 2008: RMB44,981,000).

11. CONSTRUCTION CONTRACT WORK IN PROGRESS/ADVANCE PAYMENTS RECEIVED

	30 June 2009	31 December 2008
	RMB'000	*RMB'000*
	(unaudited)	*(Audited)*
Construction contract work in progress		
Contract costs incurred to date	1,611	954
Advance payments received		
Progress payments received	413,743	402,206
Less: Contract costs incurred to date	(55,220)	(45,738)
	358,523	356,468

12. TRADE AND NOTES RECEIVABLES

	30 June 2009	31 December 2008
	RMB'000	*RMB'000*
	(unaudited)	*(Audited)*
Trade receivables	76,379	105,035
Notes receivable	7,441	2,200
Impairment	(3,125)	(2,309)
	80,695	104,926

Trade and notes receviables of a nominal value of RMB1,750,000 as at 30 June 2009 (31 December 2008: RMB1,296,000) were impaired and fully provided for. The movement in the provision for impairment of receivables during the period is as follows:

	RMB'000
At 1 January 2009	2,309
Impairment losses recognised	816
At 30 June 2009	3,125

An aged analysis of the trade and notes receivables as at the statement of financial position date, based on the due date and net of provision, is as follows:

	30 June 2009 *RMB'000* *(unaudited)*	31 December 2008 *RMB'000* *(Audited)*
Neither past due nor impaired	70,678	101,972
Less than 1 month past due	3,746	1,800
1 to 3 months past due	5,167	217
3 to 6 months past due	667	207
6 to 12 moths past due	363	260
Over 12 months past due	74	470
	80,695	104,926

The above balances are unsecured, interest-free and are generally on 30 to 60 days' terms. The Group's trade receivables relate to a large number of diversified customers. There is no significant concentration of credit risk.

13. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2009 *RMB'000* *(unaudited)*	31 December 2008 *RMB'000* *(Audited)*
Prepayments	36,580	36,833
Deposits and other receivables	5,195	3,703
	41,775	40,536

The prepayments, deposits and other receivables are unsecured and interest-free.

14. TRADE PAYABLES

An aged analysis of the trade payables as at the statement of financial position date, based on the invoice date, is as follows:

	30 June 2009	31 December 2008
	RMB'000	*RMB'000*
	(Unaudited)	*(Audited)*
Within 30 days	27,919	36,732
Between 31 days and 90 days	27,340	12,034
Between 91 days and 180 days	2,746	2,498
Between 181 days and 365 days	2,386	1,795
Over 365 days	3,717	3,115
	64,108	56,174

The above balances are unsecured, interest-free and are generally on 7 to 365 days' terms.

15. OTHER PAYABLES AND ACCRUALS

	30 June 2009	31 December 2008
	RMB'000	*RMB'000*
	(Unaudited)	*(Audited)*
Advances from customers	40,671	55,594
Other payables	59,797	45,601
Accruals	1,814	1,470
Payroll payables	22,519	20,929
	124,801	123,594

Other payables and accruals are unsecured, non-interest-bearing and have no fixed terms of repayment.

16. ISSUED CAPITAL

	30 June 2009 (unaudited)		31 December 2008 (Audited)	
	Number of shares	Nominal value	Number of shares	Nominal value
	'000	*RMB'000*	*'000*	*RMB'000*
Registered	125,150	125,150	1,251,500	125,150
Issued and fully paid:				
Domestic shares of RMB1.00* each (2008: RMB0.10 each)	70,084	70,084	700,840	70,084
H shares of RMB1.00* each (2008: RMB0.10 each)	55,066	55,066	550,660	55,066
	125,150	125,150	1,251,500	125,150

* *Pursuant to the approval by the shareholders of the Company at the annual general meeting and class meetings of the holders of H shares and domestic shares of the Company dated 21 May 2009, the board is authorised to effect the following terms: every ten issued ordinary shares of RMB0.10 each in the share capital of the Company be consolidated into one share of RMB1.00 each (the "Consolidated Share"), such Consolidated Shares shall rank pari passu in all respects with each other (the "Share Consolidation").*

As at 30 June 2009, the Share Consolidation mentioned above became effective, while the related application and registration procedures were still in progress.

17. OPERATING LEASE ARRANGEMENTS

As lessee

At the statement of financial position date, the Group had total future minimum lease payments under non-cancellable operating leases in respect of land and buildings falling due as follows:

	30 June 2009	31 December 2008
	RMB'000	*RMB'000*
	(Unaudited)	*(Audited)*
Within one year	10,019	12,940
In the second to fifth years, inclusive	8,252	12,934
Over five years	7,455	8,132
	25,726	34,006

The Group has entered into commercial leases on certain of land and buildings operating lease arrangements. Leases for land and buildings are negotiated for terms ranging from three to thirteen years. There were no purchase options and escalation clauses included in the contracts. The Group was given priority in renewing the lease of land and buildings upon expiry of the lease term at the terms and conditions agreed by both parties.

18. COMMITMENTS

	30 June 2009	31 December 2008
	RMB'000	*RMB'000*
	(Unaudited)	*(Audited)*
Capital commitments		
In respect of property, plant and equipment:		
Contracted, but not provided for	155,814	123,916
Authorised, but not contracted for	472,015	522,930
	627,829	646,846

19. CONTINGENCIES

At the statement of financial position date, the Group had no significant contingencies.

20. RELATED PARTY TRANSACTIONS

(i) Transactions with the Group's fellow subsidiaries and the holding company

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following significant transactions with their related parties:

Name of related parties	Nature of transactions	For the six months ended 30 June 2009 RMB'000 (unaudited)	2008 RMB'000 (unaudited)
Group			
Recurring transactions			
Zhengzhou Gas Group Co., Ltd. *(note (a))*	Operating lease of vehicles and land and buildings from the related company *(note (c))*	5,148	5,114
	Trademark fees *(note (d))*	195	390
Non-recurring transactions			
Zhengzhou Gas Group Co., Ltd. *(note (a))*	Purchase of land use rights and buildings *(note (e))*	—	7,354
Nanyang Zhengran Nature Gas Co., Ltd. *(note (b))*	Sales of goods to the related company	278	—

Notes:

(a) Zhengzhou Gas Group Co., Ltd. is the holding company of the Company.

(b) Nanyang Zhengran Nature Gas Co., Ltd. is a fellow subsidiary of the Company.

(c) In accordance with the property lease agreements, the land use rights lease agreements, and the vehicles lease agreement entered into between the Company and Zhengzhou Gas Group Co., Ltd., Zhengzhou Gas Group Co., Ltd. leased certain vehicles and land and buildings to the Company for its office and operational uses. In the opinion of the directors, these transactions were carried out based on normal commercial terms and determined by agreement of parties with reference to valuation of an independent appraiser.

(d) On 1 April 2006, the Company and Zhengzhou Gas Group Co., Ltd. entered into a trademark licence agreement. Pursuant to the trademark licence agreement, Zhengzhou Gas Group Co., Ltd. has agreed to grant the Group the right to use these trademarks at a trademark fee of RMB780,000 per annum for the period from 1 April 2006 to 31 March 2009.

These transactions were carried out in accordance with the terms of the underlying agreements.

On 28 April 2009, the Company and Zhengzhou Gas Group Co., Ltd. entered into a transfer agreement in connection with the trademark licence. Pursuant to the transfer agreement, Zhengzhou Gas Group Co., Ltd. has agreed to grant the Company the trademark licence without consideration from 1 April 2009.

(e) On 30 November 2007, the Company entered into a property purchase agreement with Zhengzhou Gas Group Co., Ltd. To acquire a parcel of land situated at the junction of Juyuan Road East and Hongtu Road South, Jinshui District, Zhengzhou City, Henan Province, the PRC, at an aggregate consideration of RMB6,690,000 and certain buildings erected there at a consideration of RMB664,000.

As at 30 June 2008, the acquisition of the parcel of land has been completed. This transaction was carried out based on the transacted price with reference to valuation of an independent appraiser.

In the opinion of the directors, the above transactions were conducted in the ordinary course of business.

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

	30 June 2009	**30 June 2008**
	RMB'000	*RMB'000*
	(Unaudited)	*(Unaudited)*
Short term employee benefits	2,421	2,058
Retirement benefits	47	45
Total compensation paid to key management personnel	2,468	2,103

(iii) Transactions with other State-Owned Enterprises in Mainland China

The Group operates in an economic environment predominated by enterprises directly or indirectly owned or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively "State-owned Enterprises"). During the periods, the Group had transactions with State-owned Enterprises including, but not limited to, the provision of construction services, operating leases of equipment, land and buildings, purchases of gas metres and the use of trademarks.

The directors consider that the transactions with other State-owned Enterprises were conducted in the ordinary course of the Group's business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those State-Owned Enterprises are ultimately controlled or owned by the PRC government. The Group has established pricing policies for products and services, and such pricing policies do not depend on whether or not the customers are State- Owned Enterprises.

The directors have confirmed that these transactions were carried out on terms similar to those that wouldbe entered into with non-state-owned enterprises and have been reflected in the financial statements. The directors are of the opinion that the transactions with other State-Owned Enterprises were fair and reasonable.

Having due regard to the substance of the relationships, the directors are of the opinion that meaningful information relating to related party disclosures has been adequately disclosed.

21. EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

The Group had no significant events subsequent to 30 June 2009, except for the following:

Pursuant to the cooperation agreement (the "Cooperation Agreement") signed between the State-owned Assets Supervision and Administration Commission of Zhengzhou Municipal, who is on behalf of Zhengzhou Municipal People's Government and China Resources Gas (Holdings) Limited ("CRGH"), on 11 August 2009, CRGH and Zhengzhou Gas Group Co., Ltd agreed to establish a joint venture (the "JV") which shall own 80% and 20% of the equity interests of the JV respectively. Zhengzhou Gas Group Co., Ltd will finance its share of contribution in the JV by the shares of the Company and Nanyang Zhengran Nature Gas Co., Ltd. while CRGH will finance its share of contribution by cash. The registered capital of the JV shall be within the range between RMB600 million and RMB1,000 million (subject to final determination by both parties after the release of the assets valuation result). The board was of the view that if the Cooperation Agreement is fully implemented, the JV may own a 43.18% equity interest of the Company and CRGH may indirectly own a 34.5% equity interest of the Company.

As at the date of approval of and authorised to issue these interim condensed consolidated financial statements, the establishment of JV mentioned above was still on going.

22. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 25 August 2009.

The following is a summary of the audited financial statements of Zhengzhou Gas for the year ended 31 December 2008 as extracted from the published 2008 annual report of Zhengzhou Gas Company Limited.

Consolidated Income Statement
Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
REVENUE	5	1,028,846	862,161
Cost of sales		(717,039)	(563,562)
Gross profit		311,807	298,599
Other income and gains	5	6,187	4,199
Selling and distribution costs		(41,082)	(35,338)
Administrative expenses		(67,502)	(60,963)
Other expenses		(5,714)	(10,092)
PROFIT BEFORE TAX	6	203,696	196,405
Tax	9	(51,528)	(66,722)
PROFIT FOR THE YEAR		152,168	129,683
Attributable to:			
Equity holders of the Company		151,216	128,462
Minority interests		952	1,221
		152,168	129,683
DIVIDENDS	11		
Proposed final		13,016	30,286
Proposed conditional special dividend		100,120	—
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS Of THE COMPANY	12		
Basic			
— For profit for the year (RMB Yuan)		0.121	0.103

Consolidated Balance Statement
31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	666,115	632,477
Prepaid land lease payments	15	113,949	66,697
Interests in an associate	17	32,025	—
Deferred tax assets	18	7,398	5,842
Total non-current assets		819,487	705,016
CURRENT ASSETS			
Inventories	19	15,460	6,186
Construction contract work in progress	20	954	1,515
Trade and notes receivables	21	104,926	116,993
Prepayments, deposits and other receivables	22	40,536	37,364
Restricted cash deposits	23	25,250	19,200
Cash and cash equivalents	23	368,169	219,091
Due from the holding company		—	21
Due from fellow subsidiaries	28	143	96
Total current assets		555,438	400,466
CURRENT LIABILITIES			
Trade payables	24	56,174	64,491
Other payables and accruals	25	123,594	94,947
Advance payments received	20	356,468	255,710
Interest-bearing bank borrowings	26	40,000	—
Tax payable		13,826	20,480
Due to fellow subsidiaries	28	—	5,746
Total current liabilities		590,062	441,374
NET CURRENT LIABILITIES		(34,624)	(40,908)
NET ASSETS		784,863	664,108
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	29	125,150	125,150
Reserves	30	655,800	534,870
		780,950	660,020
Minority interests		3,913	4,088
Total equity		784,863	664,108

Consolidated Statement of Changes in Equity

Year ended 31 December 2008

		Attributable to equity holders of the Company								
	Note	**Issued capital** RMB'000 (note 29)	**Share premium account** RMB'000	**Statutory surplus reserve** RMB'000 (note 30)	**General surplus reserve** RMB'000 (note 30)	**Retained profits** RMB'000 (note 30)	**Reserve arising from acquisition of a minority interest** RMB'000	**Total** RMB'000	**Minority interests** RMB'000	**Total equity** RMB'000
At 1 January 2007		125,150	101,026	111,158	29,952	171,790	28,150	567,226	3,602	570,828
Profit for the year		—	—	—	—	128,462	—	128,462	1,221	129,683
Proposed final 2006 dividend		—	—	—	—	(35,668)	—	(35,668)	—	(35,668)
Dividend paid to minority shareholders		—	—	—	—	—	—	—	(735)	(735)
Transfer from retained profits		—	—	10,126	11,504	(21,630)	—	—	—	—
At 31 December 2007		125,150	101,026*	121,284*	41,456*	242,954*	28,150*	660,020	4,088	664,108
At 1 January 2008		125,150	101,026	121,284	41,456	242,954	28,150	660,020	4,088	664,108
Profit for the year		—	—	—	—	151,216	—	151,216	952	152,168
Proposed final 2007 dividend	11	—	—	—	—	(30,286)	—	(30,286)	—	(30,286)
Dividend paid to minority shareholders		—	—	—	—	—	—	—	(1,127)	(1,127)
Transfer from retained profits		—	—	13,009	10,126	(23,135)	—	—	—	—
At 31 December 2008		125,150	101,026*	134,293*	51,582*	340,749*	28,150*	780,950	3,913	784,863

* These reserve accounts comprise the consolidated reserves of RMB655,800,000 (2007: RMB534,870,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
CASH LOWS FROM OPERATING ACTIVITIES			
Profit before tax		203,696	196,405
Adjustments for:			
Interest income	5,6	(4,498)	(2,624)
Dividend income from an available-for-sale investment		—	(10)
Loss/(gain) on disposal of items of property, plant and equipment	6	57	(113)
Gain on disposal of an available-for-sale investment		—	(13)
Depreciation	6	38,013	30,179
Amortisation of prepaid land lease payments	6	1,675	1,535
Impairment of trade receivables	6	542	262
Write-down of inventories to net realisable value	6	438	1,195
		239,923	226,816
Increase in inventories		(9,712)	(2,742)
Decrease/(increase) in construction contracts		561	(98)
Decrease/(increase) in trade and notes receivables		11,525	(22,124)
Decrease/(increase) in prepayments		(1,917)	(7,535)
Increase in deposits and other receivables		4,879	(140)
Increase in restricted cash deposits		(6,050)	(3,200)
Decrease/(increase) in an amount due from the holding company		21	(21)
(Increase)/decrease in amounts due from fellow subsidiaries		(47)	40
(Decrease)/increase in trade payables		(10,852)	15,946
Increase in advanced payments received		100,758	46,328
Increase/(decrease) in other payables		35,931	(5,077)
Increase/(decrease) in accruals		120	(1,238)
(Decrease)/increase in amounts due to fellow subsidiaries		(5,746)	4,799
Cash generated from operations		359,394	251,754
Tax paid		(59,738)	(50,457)
Net cash inflow from operating activities		299,656	201,297

	Notes	2008 RMB'000	2007 RMB'000
CASH LOWS FROM INVESTING ACTIVITIES			
Interest received		4,498	2,624
Dividend from an available-for-sale investment		—	10
Purchases of items of property, plant and equipment and prepaid land lease payments		(125,676)	(126,741)
Acquisition of an associate		(32,025)	—
Proceeds from disposal of items of property, plant and equipment		3	745
Disposal of an available-for-sale investment		—	63
Net cash outflow from investing activities		(153,200)	(123,299)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		40,000	—
Dividends paid		(30,286)	(35,668)
Dividends paid to minority shareholders		(1,127)	(735)
Paid for other financing activities		(5,965)	—
Net cash inflow/(outflow) from financing activities		2,622	(36,403)
NET INCREASE IN CASH AND CASH EQUIVALENTS		149,078	41,595
Cash and cash equivalents at beginning of year		219,091	177,496
CASH AND CASH EQUIVALENTS AT END OF YEAR		368,169	219,091
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		393,419	238,291
Less: Restricted cash deposits		(25,250)	(19,200)
Cash and cash equivalents	23	368,169	219,091

The Group has established restricted cash deposits in a bank to secure natural gas supplies from its gas supplier.

Balance Sheet
31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	660,715	625,864
Prepaid land lease payments	15	109,351	62,001
Investments in subsidiaries	16	52,350	52,350
Interests in an associate	17	32,025	—
Deferred tax assets	18	5,107	4,218
Total non-current assets		859,548	744,433
CURRENT ASSETS			
Inventories	19	7,961	4,036
Trade and notes receivables	21	103,576	110,946
Prepayments, deposits and other receivables	22	32,901	27,143
Restricted cash deposits	23	25,250	19,200
Cash and cash equivalents	23	230,985	34,703
Due from the holding company		—	21
Due from fellow subsidiaries	28	7	52
Total current assets		400,680	196,101
CURRENT LIABILITIES			
Trade payables	24	31,405	39,148
Other payables and accruals	25	116,564	91,163
Advance payments received	20	217,274	9,722
Interest-bearing bank borrowings	26	40,000	—
Tax payable		3,191	927
Due to subsidiaries	27	172,185	214,020
Due to fellow subsidiaries	28	—	5,746
Total current liabilities		580,619	360,726
NET CURRENT LIABILITIES		(179,939)	(164,625)
NET ASSETS		679,609	579,808
EQUITY			
Issued capital	29	125,150	125,150
Reserves	30	554,459	454,658
Total equity		679,609	579,808

Notes to Financial Statements
31 December 2008

1. **Corporate information**

The Company was established in the People's Republic of China (the "PRC") on 18 December 2000 as a joint stock limited company under the Company Law of the PRC. The Company's H shares have been listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM" of the "Stock Exchange") on 29 October 2002 and migrated to the Main Board of the Stock Exchange of Hong Kong Limited (the "Main Board" of the "Stock Exchange") on 29 June 2007.

The Company and its subsidiaries are principally engaged in the sale of natural gas, pressure control equipment and gas appliances, the construction of gas pipelines and the provision of renovation services of gas pipelines. The registered office and principal place of business of the Company is located at 352 Longhai Road West, Zhengzhou, Henan Province, the PRC 450006.

In the opinion of the directors, the holding company of the Group is Zhengzhou Gas Group Co., Ltd., which is established in the PRC.

2.1 **Basis of preparation**

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which comprise standards and interpretations approved by the International Accounting Standards Board ("IASB"), and International Accounting Standards ("IASs") and Interpretations of the Standing Interpretations Committee approved by the International Accounting Standards Committee that remain in effect, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. They have been prepared under the historical cost convention. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2008. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. An acquisition of minority interests is accounted for using the entity concept method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as an equity transaction.

2.2 **Impact of new and revised IFRSs**

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

IAS 39 and IFRS 7 Amendments	Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures — Reclassification of Financial Assets*
IFRIC 11	*IFRS 2 — Group and Treasury Share Transactions*
IFRIC 12	*Service Concession Arrangements*
IFRIC 14	*IAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

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

(a) Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures — Reclassification of Financial Assets*

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

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

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

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

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

(b) **IFRIC 11** ***IFRS 2 — Group and Treasury Share Transactions***

IFRIC 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments to be accounted for as an equity-settled scheme, even if the Group buys the instruments from another party, or the shareholders provide the equity instruments needed. IFRIC 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation has had no impact on the financial position or results of operations of the Group.

(c) **IFRIC 12** ***Service Concession Arrangements***

IFRIC 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. IFRIC 12 also addresses how an operator shall apply existing IFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services. After assessing the terms in the concession agreement, the directors are of the opinion that the Group controls and retains the rights on the residual interest of the infrastructure relating to service concession arrangements. Thus, the interpretation has had no financial impact on the Group.

(d) **IFRIC 14** ***IAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction***

IFRIC 14 addresses how to assess the limit under IAS 19 Employee Benefits, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, including situations when a minimum funding requirement exists. As the Group has no defined benefit scheme, the interpretation has had no financial impact on the Group.

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

2.3 **Impact of issued but not yet effective IFRSs**

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

IFRS 1 and IAS 27 Amendments	Amendments to IFRS 1 *First-time Adoption of IFRSs and IAS 27 Consolidated and Separate Financial Statements — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*[1]
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment — Vesting Conditions and Cancellations*[1]
IFRS 3 (Revised)	*Business Combinations*[2]
IFRS 8	*Operating Segments*[1]
IAS 1 (Revised)	*Presentation of Financial Statements*[1]
IAS 23 (Revised)	*Borrowing Costs*[1]
IAS 27 (Revised)	*Consolidated and Separate Financial Statements*[2]
IAS 32 and IAS[1] Amendments	Amendments to IAS 32 *Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising on Liquidation*[1]
IAS 39 Amendment	Amendment to IAS 39 *Financial Instruments: Recognition and Measurement — Eligible Hedged Items*[2]
IFRIC 13	*Customer Loyalty Programmes*[3]
IFRIC 15	*Agreements for the Construction of Real Estate*[1]
IFRIC 16	*Hedges of a Net Investment in a Foreign Operation*[4]
IFRIC 17	*Distribution of Non-cash Assets to Owners*[2]
IFRIC 18	*Transfers of Assets from Customers*[2]

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

1 Effective for annual periods beginning on or after 1 January 2009

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

3 Effective for annual periods beginning on or after 1 July 2008

[4] Effective for annual periods beginning on or after 1 October 2008

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

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application.

2.4 **Summary of significant accounting policies**

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

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

Associates

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

The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's interests in associates. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in associates are treated as non-current assets and are stated at cost less any impairment losses.

Goodwill

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

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

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

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

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

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

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries and associates (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

Impairment of non-financial assets other than goodwill

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

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

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

Related parties

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

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

(b) the party is an associate;

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

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

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

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

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

Property, plant and equipment and depreciation

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

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

Buildings	2.40%-3.84%
Machinery and equipment	3.43%-8.00%
Gas pipelines	4.00%
Office equipment	9.60%-32.00%
Motor vehicles	8.00%-32.00%
Computer software	20.00%
Leasehold improvement	Over the shorter of the lease terms and 20.00%

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

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

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

Construction in progress represents gas station structures, machinery, gas pipelines and other property, plant and equipment under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Operating leases

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

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Financial assets in the scope of IAS 39 are classified as loans and receivables, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

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

Loans and receivables

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

Fair value

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

Impairment of financial assets

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

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

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

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

Derecognition of financial assets

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

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

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

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

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

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the

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

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

Financial liabilities including trade and other payables and an amount due to the subsidiaries and fellow subsidiaries and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance costs" in the income statement.

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

Derecognition of financial liabilities

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

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

Inventories

Inventories, including construction materials, consumables, spare parts and natural gas are stated at the lower of cost and net realisable value. Costs which comprise all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present locations and conditions are calculated using the weighted average method. Net realisable value is based on estimated selling prices less any estimated costs expected to be incurred to completion and disposal.

Construction contract work in progress

Short term construction contract work in progress represents the construction of gas pipeline work in progress, which is stated at cost less foreseeable losses and progress payments received and receivable.

Revenue in respect of the construction of gas pipelines is recognised upon the completion of pipeline construction as further explained in the accounting policy for revenue recognition for the construction of gas pipelines below.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress payments received and receivable on contracts exceed the costs incurred to date less foreseeable losses, the surplus is shown in the balance sheet as advance payments received.

Cash and cash equivalents

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

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, which are not restricted as to use.

Income tax

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

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

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

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

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

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

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

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

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

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

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

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

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Revenue recognition

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

Sale of natural gas, pressure control equipment and gas appliances

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

(i) Natural gas — based on gas consumption derived from metre readings;

(ii) Pressure control equipment and gas appliances sales — upon completion of installation work or when the relevant equipment, materials and parts are delivered to customers and titles have passed.

Connection and construction of gas pipelines

Revenue in respect of the connection and construction of gas pipelines is recognised upon the completion of construction of pipelines for users and connection of the pipelines to the Company's existing gas pipeline network, which, according to industry practice in the region, coincides with the "fire ignition ceremony." The "fire ignition ceremony" is a final and essential step to ascertain that the gas pipeline built is functioning properly and is acceptable to users. Upon the fire ignition ceremony, the significant risks and rewards of ownership will be transferred to the customers and the economic benefits associated with the contracts will be passed to the Company. The average time required for the Company to complete a gas pipeline construction project is approximately one month to six months.

Interest income

Revenue is recognised on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Rental income

Rental income is accounted for on a time proportion basis over the lease terms.

Dividend income

Revenue is recognised when the Group's right to receive payment has been established.

Other employee benefits

Retirement benefits

Obligatory retirement benefits in the form of contributions under a defined contribution retirement scheme administered by local government agencies are charged to the income statement as incurred.

Accommodation benefits

Contributions to an accommodation fund administered by the Public Accumulation Funds Administration Centre of the PRC are charged to the income statement as incurred.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement.

3. **Significant accounting estimates**

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

Estimation uncertainty

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

(a) *Deferred tax assets*

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets at 31 December 2008 was RMB7,398,000 (2007: RMB5,842,000). Further details are given in note 18 to the financial statements.

(b) *Impairment of trade receivables*

Impairment of trade receivables is made based on assessment of the recoverability of trade receivables. The identification of impairment of trade receivables requires management judgement and estimates. Provision is made when there is objective evidence that the Group will not be able to collect the debts. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of the receivables and bad and doubtful debt expenses/write-back in the period in which the estimate has been changed.

(c) *Useful lives of property, plant and equipment*

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

4. **Segment information**

For management purposes, the Group currently organises its operations into two business segments, namely sales of natural gas and other related products and gas pipeline connection and construction. The principal activities of the business segments are as follows:

Sales of natural gas and other related products	Sales of natural gas and other related products, including pressure control equipment, gas appliances and provision of pipeline renovation work
Gas pipeline connection and construction	Connection and construction of gas pipelines

No geographical segment analysis is shown as the Group's operating business is solely carried out in Henan Province, the PRC.

The Group's operations analysed by business segment are as follows:

	Sales of natural gas and other related products	Gas pipeline connection and construction	Eliminations	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2008				
Segment revenue:				
Sales to external customers	766,525	262,321	—	1,028,846
Intersegment sales	7,635	23,738	(31,373)	—
Total	774,160	286,059	(31,373)	1,028,846
Segment results	60,709	209,640	(491)	269,858
Other income and gains				6,074
Unallocated corporate expenses				(72,236)
Profit before tax				203,696
Tax				(51,528)
Profit for the year				152,168
Assets and liabilities				
Total assets	1,231,046	346,554	(202,675)	1,374,925
Total liabilities	582,878	181,052	(173,868)	590,062
Other segment information:				
Depreciation of items of property, plant and equipment	37,156	2,206	(1,349)	38,013
Capital expenditure	122,773	415	(2,381)	120,807
Impairment of trade receivables	82	460	—	542
Other non-cash expenses	2,014	99	—	2,113
Other non-cash revenue	—	—	—	—

	Sales of natural gas and other related products	Gas pipeline connection and construction	Eliminations	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2007				
Segment revenue:				
Sales to external customers	624,360	237,801	—	862,161
Intersegment sales	9,993	7,906	(17,899)	—
Total	634,353	245,707	(17,899)	862,161
Segment results	77,127	185,857	(1,180)	261,804
Other income and gains				4,199
Unallocated corporate expenses				(69,598)
Profit before tax				196,405
Tax				(66,722)
Profit for the year				129,683
Assets and liabilities				
Total assets	910,962	437,175	(242,655)	1,105,482
Total liabilities	363,715	292,430	(214,771)	441,374
Other segment information:				
Depreciation of items of property, plant and equipment	29,478	1,974	(1,273)	30,179
Capital expenditure	295,741	9,694	(8,662)	296,773
Impairment of trade receivables	262	—	—	262
Other non-cash expenses	2,730	—	—	2,730
Other non-cash revenue	(526)	—	—	(526)

5. Revenue and other income and gains

	Note	2008 RMB'000	2007 RMB'000
Revenue			
Natural gas		747,413	604,610
Gas appliances		11,348	5,898
Pressure control equipments		1,530	3,070
Gas pipelines:			
Connection and construction		271,339	246,227
Provision of renovation work		7,008	11,163
Others		86	55
		1,038,724	871,023
Less: Business tax and government surcharges		(9,878)	(8,862)
		1,028,846	862,161
Other income and gains			
Bank interest income		4,498	2,624
Rental income		487	300
Government grants	(a)	600	—
Dividend income from an available-for-sale investment		—	23
Others		602	1,252
		6,187	4,199
		1,035,033	866,360

Note:

(a) The Company received government grants in respect of its contribution and development in Zhengzhou City. There are no unfulfilled conditions or contingencies attaching to these grants.

6. **Profit before tax**

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

		2008	2007
	Notes	*RMB'000*	*RMB'000*
Cost of inventories sold		626,094	490,602
Depreciation	14	38,013	30,179
Amortisation of prepaid land lease payments	15	1,675	1,535
Minimum lease payments under operating leases:			
Land and buildings		9,955	9,119
Equipment		5,272	4,959
Trademarks		780	780
		16,007	14,858
Auditors' remuneration		4,853	1,770
Employee benefits expense (including directors' and supervisors' remuneration (note 7)):			
Wages and salaries		79,697	66,086
Pension scheme contributions (defined contribution scheme)		8,925	7,903
Accommodation benefits (defined contribution scheme)		5,477	4,793
Less: Amount capitalised		—	(2,322)
		94,099	76,460
Foreign exchange differences, net		(272)	(129)
Impairment of trade receivables	21	542	262
Write-down of inventories to net realisable value	19	438	1,195
Bank interest income	5	(4,498)	(2,624)
Loss/(gain) on disposal of items of property, plant and equipment		57	(113)

7. Directors' and supervisors' remuneration

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

	2008	2007
	RMB'000	*RMB'000*
Fees	220	492
Other emoluments:		
Salaries, allowances and benefits in kind	664	616
Performance related bonuses	400	633
Pension scheme contributions	12	32
	1,076	1,281
	1,296	1,773

(a) Independent non-executive directors

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

	2008	2007
	RMB'000	*RMB'000*
Mr. Zhang Yichun	50	50
Mr. Liu Jianwen	50	50
Ms. Yu Shulian	50	50
Mr. Wong Ping	70	70
	220	220

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

(b) **Executive directors and non-executive directors**

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2008					
Executive directors:					
Mr. Yan Guoqi	—	294	187	6	487
Mr. Li Jinlu	—	196	106	5	307
Mr. Li Hongwei	—	174	107	1	282
	—	664	400	12	1,076
Non-executive directors:					
Mr. Song Jinhui	—	—	—	—	—
Mr. Zhang Wushan	—	—	—	—	—
Mr. Hao Ganjun	—	—	—	—	—
Mr. Ding Ping	—	—	—	—	—
	—	—	—	—	—
	—	664	400	12	1,076
2007					
Executive directors:					
Mr. Yan Guoqi	—	196	196	6	398
Mr. Song Jinhui	—	187	118	6	311
Mr. Li Yantong	—	70	10	4	84
Mr. Li Jinlu	—	163	118	5	286
	—	616	442	21	1,079
Non-executive directors:					
Mr. Yang Degu	133	—	83	6	222
Ms. Bao Hongwei	139	—	108	5	252
Mr. Zhang Wushan	—	—	—	—	—
	272	—	191	11	474
	272	616	633	32	1,553

(c) **Supervisors and independent supervisors**

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2008					
Supervisors:					
Ms. Bao Hongwei	—	177	105	5	287
Mr. Zhao Ruibao	—	126	73	5	204
Ms. Wang Xiaohua	—	70	54	5	129
Ms. Niu Minghua	—	—	—	—	—
Mr. Chen Kun	—	—	—	—	—
	—	373	232	15	620
Independent supervisors:					
Mr. Cai Yuming	50	—	—	—	50
Mr. Yang Guirong	50	—	—	—	50
	100	—	—	—	100
	100	373	232	15	720
2007					
Supervisors:					
Ms. Niu Minghua	—	99	65	4	168
Mr. Ding Ping	—	107	76	5	188
Mr. Chen Kun	—	—	—	—	—
Ms. Zhou Weihua	—	—	—	—	—
Mr. Chang Zongxian	—	—	—	—	—
	—	206	141	9	356
Independent supervisors:					
Mr. Cai Yuming	50	—	—	—	50
Mr. Yang Guirong	50	—	—	—	50
	100	—	—	—	100
	100	206	141	9	456

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

The remuneration package of each director or supervisor of the Company is determined with reference to his duties and responsibilities in the Company. As at the date of this report, the Company has not adopted any share option scheme as an incentive plan.

8. **Five highest paid employees**

The five highest paid employees during the year included three (2007: four) directors. They were Yan Guoqi, Li Jinlu and Bao Hongwei, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining two (2007: one) non-director, highest paid employees for the year are as follows:

	Group	
	2008	**2007**
	RMB'000	*RMB'000*
Basic salaries and other benefits	746	579
Bonuses paid and payable	175	57
Retirement benefit	17	12
	938	648

The non-director, highest paid employees' remuneration fell within the range of nil to HK$1 million.

During the year ended 31 December 2008, no emoluments were paid by the Group to the directors or the other non-director, highest paid employee as an inducement to join or upon joining the Group, or as a compensation for loss of office.

9. **Tax**

In accordance with the PRC Corporate Income Tax Law (the "New CIT Law") which was approved and became effective on 1 January 2008, the provision for PRC current income tax has been based on a statutory rate of 25% of the assessable profit of the Group for the year 2008.

Major components of the Group's income tax expense for the year ended 31 December 2008 are as follows:

	Group	
	2008	**2007**
	RMB'000	*RMB'000*
Current		
Charge for the year	52,988	63,765
Underprovision in prior years	96	285
Deferred (note 18)	(1,556)	2,672
Total tax charge for the year	51,528	66,722

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	2008	**2007**
	RMB'000	*RMB'000*
Profit before tax	203,696	196,405
Tax at the applicable tax rate of 25% (2007: 33%)	50,924	64,813
Tax effect of:		
Reversal of temporary difference not recognised	—	(232)
Adjustments in respect of current tax of previous periods	96	285
Income not subject to tax	—	(63)
Expenses not deductible for tax	361	174
Tax losses utilised from previous years	—	(153)
Unrealised profits	147	77
Effect on opening deferred tax of decrease in rates	—	1,821
Tax charge at the Group's effective tax rate	51,528	66,722

10. **Profit attributable to equity holders of the Company**

The consolidated profit attributable to equity holders of the Company for the year ended 31 December 2008 includes a profit of RMB130,087,000 (2007: RMB101,264,000) which has been dealt with in the financial statements of the Company.

11. **Dividends**

(a) ***Final***

	2008	2007
	RMB'000	*RMB'000*
Proposed final — RMB0.0104 per ordinary share (2007: RMB0.0242)	13,016	30,286

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting ("AGM"). Accordingly, the proposed final dividend has not been incorporated in the consolidated financial statements of the Group for the year ended 31 December 2008.

(b) ***Conditional special dividends***

	2008	2007
	RMB'000	*RMB'000*
Proposed conditional special dividend — RMB0.08 per ordinary share (2007: Nil)	100,120	—

Pursuant to the AGM and class meetings of holders of H shares and domestic shares held on 26 May 2008, subject to the approval from the China Securities Regulatory Commission ("CSRC") and other relevant regulatory authorities ("Conditions") to the Company for allotment, issue and dealing with the A Shares ("A Share issue"), the Board shall declare the special dividend from the audited accumulated undistributed profits of the company to all shareholders prior to the A Share Issue. The conditional special dividend shall be RMB0.08 per share of the Company, which will amount to RMB100,120,000 million in aggregate.

During the board meeting held on 17 March 2009, the directors resolved to approve the proposed distribution of conditional special dividend of RMB0.08 per share of the Company, subject to, inter alia, the waiver of the above Conditions and the resolution in respect of the revised proposed issue of A shares have been approved by shareholders of the Company at the forthcoming AGM and class meetings of holders of H shares and domestic shares of the Company. The proposed conditional special dividend has not been incorporated in the consolidated financial statements of the Group for the year ended 31 December 2008.

Subject to the approval of the shareholders of the Company at the forthcoming AGM and class meetings of holders of H shares and domestic shares of the Company, the Company's accumulated undistributed profits after the distribution of the conditional special dividend and the proposed final dividend for the year ended 31 December 2008 and from 1 January 2009 to the day prior to completion of the A Share Issue shall be shared by all new and existing shareholders of the Company after the A Share Issue.

12. **Earnings per share attributable to ordinary equity holders of the Company**

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the year, as adjusted to reflect the rights issue during the year and the bonus issue after the balance sheet date.

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

	2008	**2007**
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the Company	151,216	128,462

	Number of shares	
	2008	**2007**
	'000	*'000*
Shares		
Weighted average number of ordinary shares in issue during the year	1,251,500	1,251,500

13. **Retirement benefits and accommodation benefits**

Retirement benefits

As stipulated by PRC State regulations, the Company and its subsidiaries participate in a defined contribution retirement plan. All employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount according to the geographical area of their last employment on their retirement date. As the Company and its subsidiaries are operating in Zhengzhou, they are required to make contributions to the Labour and Social Security Bureau of the Zhengzhou Municipal Government at 21% (2007: 21%) of the previous year's average basic salaries of the employees that are under employment with the Company and its subsidiaries. The Company and its subsidiaries have no obligation for the payment of pension benefits beyond the annual contributions to the Labour and Social Security Bureau of the Zhengzhou Municipal Government as set out above.

Accommodation benefits

According to the relevant rules and regulations of the PRC, the Company and its subsidiaries are required to make contributions which are at 12% (2007: 12%) of the previous year's basic salaries and wages of the employees to an accommodation fund administered by the Public Accumulation Funds Administration Centre. There are no further obligations on the part of the Company and its subsidiaries except for these contributions to the accommodation fund.

14. **Property, plant and equipment**

Group

31 December 2008	Buildings	Machinery and equipment	Gas pipelines	Office equipment	Motor vehicles	Computer software	Leasehold improvement	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost									
At 1 January 2008:	48,912	253,201	403,195	16,083	33,931	6,440	532	42,659	804,953
Additions	1,480	1,170	479	1,061	3,245	140	450	63,686	71,711
Transferred from construction in progress	724	6,553	25,279	241	—	769	—	(33,566)	—
Disposals	—	—	—	—	(363)	—	—	—	(363)
At 31 December 2008	51,116	260,924	428,953	17,385	36,813	7,349	982	72,779	876,301
Accumulated depreciation and provision for impairment losses									
At 1 January 2008:	3,786	57,694	89,431	5,408	12,929	3,169	59	—	172,476
Depreciation charge for the year	1,956	12,524	16,856	1,847	3,551	1,121	158	—	38,013
Disposals	—	—	—	—	(303)	—	—	—	(303)
At 31 December 2008	5,742	70,218	106,287	7,255	16,177	4,290	217	—	210,186
Net carrying amount:									
At 31 December 2008	45,374	190,706	322,666	10,130	20,636	3,059	765	72,779	666,115
At 31 December 2007	45,126	195,507	313,764	10,675	21,002	3,271	473	42,659	632,477

31 December 2007	Buildings	Machinery and equipment	Gas pipelines	Office equipment	Motor vehicles	Computer software	Leasehold improvement	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost									
At 1 January 2007:	26,524	187,477	308,016	13,170	27,239	5,355	—	170,990	738,771
Additions	8,601	2,000	1,071	1,000	751	332	532	53,589	67,876
Transferred from construction in progress	13,787	63,724	95,489	1,913	6,254	753	—	(181,920)	—
Disposals	—	—	(1,381)	—	(313)	—	—	—	(1,694)
At 31 December 2007	48,912	253,201	403,195	16,083	33,931	6,440	532	42,659	804,953
Accumulated depreciation and provision for impairment losses									
At 1 January 2007	2,765	47,580	76,893	3,861	10,144	2,116	—	—	143,359
Depreciation charge for the year	1,021	10,114	13,294	1,547	3,091	1,053	59	—	30,179
Disposals	—	—	(756)	—	(306)	—	—	—	(1,062)
At 31 December 2007	3,786	57,694	89,431	5,408	12,929	3,169	59	—	172,476
Net carrying amount:									
At 31 December 2007	45,126	195,507	313,764	10,675	21,002	3,271	473	42,659	632,477
At 31 December 2006	23,759	139,897	231,123	9,309	17,095	3,239	—	170,990	595,412

Company

31 December 2008	Buildings	Machinery and equipment	Gas pipelines	Office equipment	Motor vehicles	Computer software	Leasehold improvement	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost									
At 1 January 2008:	43,671	233,008	422,472	14,925	26,639	6,412	532	43,771	791,430
Additions	1,233	998	—	899	3,245	140	450	64,465	71,430
Transferred from construction in progress	724	6,553	26,255	241	—	769	—	(34,542)	—
Disposals	—	—	—	—	(363)	—	—	—	(363)
At 31 December 2008	45,628	240,559	448,727	16,065	29,521	7,321	982	73,694	862,497
Accumulated depreciation and provision for impairment losses									
At 1 January 2008:	3,559	53,176	91,834	4,894	8,900	3,144	59	—	165,566
Depreciation charge for the year	1,752	11,306	17,678	1,709	2,791	1,120	158	—	36,514
Disposals	—	—	—	—	(298)	—	—	—	(298)
At 31 December 2008	5,311	64,482	109,512	6,603	11,393	4,264	217	—	201,782
Net carrying amount:									
At 31 December 2008	40,317	176,077	339,215	9,462	18,128	3,057	765	73,694	660,715
At 31 December 2007	40,112	179,832	330,638	10,031	17,739	3,268	473	43,771	625,864

31 December 2007	Buildings	Machinery and equipment	Gas pipelines	Office equipment	Motor vehicles	Computer software	Leasehold improvement	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost									
At 1 January 2007:	20,294	169,274	325,355	12,061	19,947	5,330	—	175,692	727,953
Additions	8,478	1,050	484	951	751	329	532	52,596	65,171
Transferred from construction in progress	14,899	62,684	98,014	1,913	6,254	753	—	(184,517)	—
Disposals	—	—	(1,381)	—	(313)	—	—	—	(1,694)
At 31 December 2007	43,671	233,008	422,472	14,925	26,639	6,412	532	43,771	791,430
Accumulated depreciation and provision for impairment losses									
At 1 January 2007:	2,646	44,189	78,338	3,483	7,103	2,091	—	—	137,850
Depreciation charge for the year	913	8,987	14,252	1,411	2,103	1,053	59	—	28,778
Disposals	—	—	(756)	—	(306)	—	—	—	(1,062)
At 31 December 2007	3,559	53,176	91,834	4,894	8,900	3,144	59	—	165,566
Net carrying amount:									
At 31 December 2007	40,112	179,832	330,638	10,031	17,739	3,268	473	43,771	625,864
At 31 December 2006	17,648	125,085	247,017	8,578	12,844	3,239	—	175,692	590,103

15. **Prepaid land lease payments**

	Group		Company	
	2008	**2007**	**2008**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Carrying amount at 1 January	68,277	18,756	63,483	18,756
Additions	49,096	51,056	49,096	46,133
Recognised during the year	(1,675)	(1,535)	1,577	(1,406)
Carrying amount at 31 December	115,698	68,277	111,002	63,483
Current portion included in prepayments, deposits and other receivables	(1,749)	(1,580)	(1,651)	(1,482)
Non-current portion	113,949	66,697	109,351	62,001

The prepaid land lease payments represent payments for medium term leases of land situated in Mainland China.

As at 31 December 2008, the Group is in process of applying for the land certificates, with net book values of RMB44,981,000 (2007: RMB3,043,000).

16. **Investments in subsidiaries**

	Company	
	2008	**2007**
	RMB'000	*RMB'000*
Unlisted investments, at cost	52,350	52,350

Particulars of the Company's subsidiaries are as follows:

Name	Place of registration and operations/date of registration	Nominal value of registered and paid-up capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Zhengzhou Gas Engineering and Construction Co., Ltd. (note (a))	PRC/Mainland China 19 June 2002	RMB40,000,000	100	—	Construction of gas pipelines
Zhengzhou Zhengran Pressure Control Technology Co., Ltd. (note (b))	PRC/Mainland China 14 November 2003	RMB5,000,000	51	—	Manufacture and sale of gas appliances and heating systems
Dengfeng Zhengran Gas Co., Ltd. (note (c))	PRC/Mainland China 17 February 2004	RMB30,000,000	22	78	Sale of natural gas and gas appliances and construction of gas pipelines

Notes:

(a) Zhengzhou Gas Engineering and Construction Co., Ltd. was established by the Company and the Zhengzhou Gas Group Labour Union Committee in Zhengzhou, Henan Province, the PRC, on 19 June 2002. The Zhengzhou Gas Group Labour Union Committee is a social organisation legal person established under the General Principles of the Civil Law and the Labour Union of the PRC. It is accountable to the Labour Union Member Meeting and represents the interests of all the staff members of Zhengzhou Gas Group Co., Ltd., a holding company of the Company.

On 1 July 2006, the Zhengzhou Gas Group Labour Union Committee disposed of all its shareholding in Zhengzhou Gas Engineering and Construction Co., Ltd. to the Company.

(b) Zhengzhou Zhengran Pressure Control Technology Co., Ltd. was established by the Company and 19 individual shareholders in Zhengzhou, Henan Province, the PRC, on 14 November 2003. These individual shareholders are either employees of the Company or employees of the Company's holding company.

(c) Dengfeng Zhengran Gas Co., Ltd. was established by the Company and Zhengzhou Gas Engineering and Construction Co., Ltd. on 17 February 2004.

17. **Interests in an associate**

	Group and Company 2008 *RMB'000*
Share of net assets	29,062
Goodwill on acquisition	2,963
Provision for impairment	—
	32,025

Particulars of the associate are as follows:

Name	Particulars of issued shares held	Place of incorporation	Percentage of ownership interest attributable to the Group	Principal activities
Pingdingshan Gas LLC.	RMB95,590,600	PRC	27%	Sale of natural gas, LPG and gas appliances, construction of gas pipelines and the provision of renovation services of gas pipelines.

The following table illustrates the summarised financial information of the Group's associate extracted from its financial statements:

	2008 *RMB'000*
Assets	446,562
Liabilities	339,348
Revenue	203,207
Profit	10,905

On 6 March 2008, the Company entered into an equity transfer agreement with Pingdingshan State Assets Supervision and Administrative Commission to acquire a 27% equity interest in Pingdingshan Gas LLC. at an aggregate cash consideration of approximately RMB32,025,000 (inclusive of RMB1,525,000 transaction cost).

18. **Deferred tax assets**

Group

	Temporary differences arising from				
	Provision for impairment losses	**Accrued expenses**	**Unrealised intergroup profit**	**Advances from customers aged more than one year and others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2008	1,001	3,025	1,624	192	5,842
Deferred tax credited to the income statement during the year (note 9)	124	1,015	113	304	1,556
At 31 December 2008	1,125	4,040	1,737	496	7,398

	Temporary differences arising from				
	Provision for impairment losses	**Accrued expenses**	**Unrealised intergroup profit**	**Advances from customers aged more than one year and others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2007	490	6,024	1,783	217	8,514
Deferred tax credited/(charged) to the income statement during the year (note 9)	511	(2,999)	(159)	(25)	(2,672)
At 31 December 2007	1,001	3,025	1,624	192	5,842

Company

	Temporary differences arising from			
	Provision for impairment losses	Accrued expenses	Advances from customers aged more than one year	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2008	1,001	3,025	192	4,218
Deferred tax credited to the income statement during the year	9	576	304	889
At 31 December 2008	1,010	3,601	496	5,107

	Temporary differences arising from			
	Provision for impairment losses	Accrued expenses	Advances from customers aged more than one year	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2007	490	6,024	217	6,731
Deferred tax credited/(charged) to the income statement during the year	511	(2,999)	(25)	(2,513)
At 31 December 2007	1,001	3,025	192	4,218

19. **Inventories**

	Group		Company	
	2008	**2007**	**2008**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Natural gas, at net realisable value	4,947	2,491	4,947	2,491
Construction materials and pressure control equipment, at net realisable value	10,513	3,695	3,014	1,545
	15,460	6,186	7,961	4,036

The amounts of the write-down of inventories recognised as expenses for the Group and the Company are RMB438,000 (2007: RMB1,195,000) and RMB438,000 (2007: RMB1,195,000), respectively.

20. **Construction contract work in progress/advance payments received**

	Group		Company	
	2008	**2007**	**2008**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Construction contract work in progress				
Contract costs incurred to date	954	1,515	—	—
Advance payments received				
Progress payments received	402,206	288,360	217,274	10,076
Less: Contract costs incurred to date	(45,738)	(32,650)	—	(354)
	356,468	255,710	217,274	9,722

As at 31 December 2008, retention held by customers for contract work included in trade receivables amounted to approximately RMB262,000 (2007: RMB1,439,000).

21. **Trade and notes receivables**

	Group		Company	
	2008	**2007**	**2008**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	105,035	110,869	103,225	106,722
Notes receivables	2,200	7,891	2,200	5,991
Impairment	(2,309)	(1,767)	(1,849)	(1,767)
	104,926	116,993	103,576	110,946

The Group's trading terms with its customers are mainly on credit. The credit period is generally one to two months. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

	Group		Company	
	2008	**2007**	**2008**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 month	98,704	97,999	98,014	95,930
1 to 3 months	2,813	9,052	2,803	8,733
3 to 6 months	2,398	7,566	2,361	5,265
6 to 12 months	478	1,788	182	860
Over 12 months	533	588	216	158
	104,926	116,993	103,576	110,946

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

	Group		Company	
	2008	**2007**	**2008**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January	1,767	1,505	1,767	1,505
Impairment losses recognised (note 6)	542	262	82	262
At 31 December	2,309	1,767	1,849	1,767

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB1,296,000 (2007: RMB1,276,000) with a carrying amount of RMB1,296,000 (2007: RMB1,276,000). The individually impaired trade receivables relate to customers that are in financial difficulties and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

The aged analysis of the trade and notes receivables is as follows:

	Group		Company	
	2008	**2007**	**2008**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Neither past due nor impaired	101,972	105,959	101,100	101,921
Less than 1 month past due	1,800	6,845	1,759	6,215
1 to 3 months past due	217	1,491	217	1,471
3 to 6 months past due	207	496	145	496
6 to 12 moths past due	260	1,768	228	839
Over 12 months past due	470	434	127	4
	104,926	116,993	103,576	110,946

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

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

22. **Prepayments, deposits and other receivables**

	Group		Company	
	2008	**2007**	**2008**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepayments	36,833	34,747	30,292	24,938
Deposits and other receivables	3,703	2,617	2,609	2,205
	40,536	37,364	32,901	27,143

None of the above assets is impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

23. **Cash and cash equivalents and restricted cash deposits**

	Group		Company	
	2008	**2007**	**2008**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash and bank balances	393,419	238,291	256,235	53,903
Less: Restricted cash deposits	(25,250)	(19,200)	(25,250)	(19,200)
Cash and cash equivalents	368,169	219,091	230,985	34,703

At the balance sheet date, the cash and bank balances of the Group denominated in Hong Kong dollars ("HK$") amounted to HK$936 (2007: HK$927).

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

24. **Trade payables**

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

	Group		Company	
	2008	**2007**	**2008**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 month	36,732	49,121	21,797	30,007
1 to 3 months	12,034	4,033	5,067	1,900
3 to 6 months	2,498	2,937	1,234	1,143
6 to 12 months	1,795	4,286	1,319	4,275
Over 12 months	3,115	4,114	1,988	1,823
	56,174	64,491	31,405	39,148

The above balances are unsecured, non-interest-bearing and are normally settled on 7-365-day terms.

25. **Other payables and accruals**

	Group		Company	
	2008	**2007**	**2008**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Advances from customers	55,594	52,259	55,219	51,941
Other payables	45,601	27,278	40,704	23,826
Accruals	1,470	1,350	1,470	1,350
Payroll payables	20,929	14,060	19,171	14,046
	123,594	94,947	116,564	91,163

Accrued liabilities and other payables are unsecured, non-interest-bearing and have no fixed terms of repayment.

26. **Interest-bearing bank borrowings**

Group and Company

	2008			2007		
	Contractual interest rate (%)	**Maturity**	**RMB'000**	**Contractual interest rate (%)**	**Maturity**	**RMB'000**
Current						
Bank loans — unsecured	4.8-5.0	2009	40,000	—	—	—

	Group		Company	
	2008	**2007**	**2008**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	40,000	—	40,000	—

The Group's banking facilities amount to RMB420,000,000 (2007: RMB260,000,000), of which RMB40,000,000 (2007: Nil) has been utilised as at the balance sheet date.

The carrying amounts of the Group's and the Company's current borrowings approximate to their fair values.

27. **Due to subsidiaries**

		2008	**2007**
	Notes	*RMB'000*	*RMB'000*
Due to subsidiaries:			
Zhengzhou Gas Engineering and Construction Co., Ltd.			
— Entrusted loans	(a)	100,000	100,000
— Accrued interest on entrusted loans		208	—
— Construction fee payables	(b)	71,805	109,148
		172,013	209,148
Zhengzhou Zhengran Pressure Control Technology Co., Ltd.		172	4,872
		172,185	214,020

Notes:

(a) Entrusted loans represent borrowings from Zhengzhou Gas Engineering and Construction Co., Ltd. via a financial institution. The unsecured entrusted loans bear interest at a rate of 6.804% (2007: 6.39%) per annum and are repayable on 24 February 2009.

(b) The balances arise from the provision of construction services by the subsidiary to the Company. These balances are unsecured, interest-free and have no fixed terms of repayment.

28. Due from/to fellow subsidiaries

The amounts due from/to fellow subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

29. Issued capital

	Group and Company			
	2008		**2007**	
	Number of shares	**Nominal value**	**Number of shares**	**Nominal value**
	'000	*RMB'000*	*'000*	*RMB'000*
Registered	1,251,500	125,150	1,251,500	125,150

	2008		**2007**	
	Number of shares	**Nominal value**	**Number of shares**	**Nominal value**
	'000	*RMB'000*	*'000*	*RMB'000*
Issued and fully paid:				
Domestic Shares of RMB0.10 each	700,840	70,084	700,840	70,084
H Shares of RMB0.10 each	550,660	55,066	550,660	55,066
	1,251,500	125,150	1,251,500	125,150

The Domestic Shares and H Shares are both ordinary shares in the issued capital of the Company. The Domestic Shares are not currently listed on any stock exchange. All dividends in respect of H Shares are to be paid by the Company in Hong Kong dollars whereas all dividends in respect of the Domestic Shares are to be paid by the Company in RMB.

Save for the foregoing and in relation to the despatch of notices and financial reports to shareholders, dispute resolution, registration of shares on different parts of the register of shareholders, the method of share transfer and the appointment of dividend receiving agents, the Domestic Shares and the H Shares rank pari passu with each other in all aspects.

There was no movement of the Company's ordinary issued capital during the year.

30. **Reserves**

(a) ***Group***

(i) *Statutory Surplus Reserve (the "SSR")*

In accordance with the Company Law of the PRC and the respective articles of association of the Company and its subsidiaries, each of the Company and its subsidiaries is required to allocate 10% of its profits after tax, as determined in accordance with PRC GAAP applicable to the Company and its subsidiaries, to the SSR until such reserve reaches 50% of its registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the SSR may be converted to increase paid-up capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

(ii) *General Surplus Reserve (the "GSR")*

In addition to the statutory surplus reserve which is required by the Company Law of the PRC and the respective articles of association of the Company and its subsidiaries, the equity holders of the Company resolved on 26 May 2008 to transfer approximately RMB10,126,000 from the Company's retained earnings as at 31 December 2007 to the GSR.

(iii) *Retained profits*

As set out in note 10 to the financial statements, for dividend purposes, the amount which the Company and its subsidiaries can legally distribute by way of a dividend is determined by reference to their profits as reflected in their PRC statutory financial statements which are prepared in accordance with PRC GAAP.

According to the articles of association of the Company, the reserves available for distribution are based on the lower of the Company's profits determined under PRC GAAP and those under IFRSs. Since 2007, profits under IFRS are the same as those under PRC GAAP.

In accordance with the Company Law of the PRC, profits after tax can be distributed as dividends after the transfers to the SSR as set out above.

As at 31 December 2008, the Company's reserves available for distribution were approximately RMB310,443,000 (2007: RMB233,777,000), of which approximately RMB13,016,000 and RMB100,120,000 have been proposed as a final dividend and conditional special dividend, respectively, for the year and approximately RMB13,009,000 has been proposed to be transferred to the GSR.

(b) ***Company***

	Notes	Share premium account RMB'000	Contributed surplus RMB'000	Retained profits RMB'000	Total RMB'000
Balance at 1 January 2007		101,026	98,225	189,811	389,062
Profit for the year		—	—	101,264	101,264
Proposed final 2006 dividend	11	—	—	(35,668)	(35,668)
Transfer from retained profits		—	21,630	(21,630)	—
At 31 December 2007		101,026	119,855	233,777	454,658
Profit for the year		—	—	130,087	130,087
Proposed final 2007 dividend	11	—	—	(30,286)	(30,286)
Transfer from retained profits		—	23,135	(23,135)	—
As 31 December 2008		101,026	142,990	310,443	554,459

31. **Operating lease arrangements**

As lessee

At the balance sheet date, the Group and the Company had total future minimum lease payments under non-cancellable operating leases in respect of equipment, land and buildings falling due as follows:

	Group		Company	
	2008 RMB'000	**2007** RMB'000	**2008** RMB'000	**2007** RMB'000
Within one year	12,940	15,694	12,403	15,157
In the second to fifth years, inclusive	12,934	34,771	12,595	33,894
Over five years	8,132	8,342	8,132	8,342
	34,006	58,807	33,130	57,393

The Group has entered into commercial leases on certain of land, buildings and pipeline equipment under operating lease arrangements. Leases for land and buildings are negotiated for terms ranging from three to thirteen years, and those for pipeline equipment are for terms of about five years. There are no purchase options and escalation clauses included in the contracts. The Group is given priority in renewing the leases of land, buildings and pipeline equipment upon the expiry of the lease terms on the terms and conditions agreed by both parties. There are no restrictions placed upon the Group when entering into these leases.

32. Commitments

In addition to the operating lease commitments detailed in note 31 above, the Group and the Company had the following capital commitments at the balance sheet date:

	Group		Company	
	2008	**2007**	**2008**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Capital commitments				
In respect of items of property, plant and equipment:				
Contracted, but not provided for	123,916	11,779	123,916	11,670
Authorised, but not contracted for	522,930	364,534	522,726	364,534
	646,846	376,313	646,642	376,204

33. Contingencies

At the balance sheet date, neither the Group nor the Company had any significant contingencies.

34. **Related party transactions**

(i) ***Transactions with the Group's and Company's fellow subsidiaries/subsidiaries and the holding company***

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group and the Company had the following significant transactions with their related parties:

Name of related parties	Nature of transactions	**2008** *RMB'000*	**2007** *RMB'000*
Group			
Recurring transactions			
Zhengzhou Gas Group Co., Ltd. (note (a))	Operating lease of equipment, land and buildings from the related company (note (d))	10,196	8,930
	Trademark fees (note (e))	780	780
Zhengzhou Zhengran Property Management Co., Ltd. (note (b))	Provision of property management services by the related company in relation to the Group's leased equipment, land and buildings (note (f))	—	946
Non-recurring transactions			
Zhengzhou Gas Group Co., Ltd. (note (a))	Purchase of land and buildings (note (g))	7,354	17,000
Zhengzhou Gas Group LPG Co., Ltd. (note (b))	Purchases of items of property, plant and equipment and land (note (h))	—	27,606
NanYang Zhengran Natural Gas Co., Ltd. (note (b))	Provision of construction services to the related company	—	884
	Sales of goods to the related company	136	—

Name of related parties	Nature of transactions	2008 RMB'000	2007 RMB'000
Company			
Recurring transactions			
Zhengzhou Gas Group Co., Ltd. (note (a))	Operating lease of equipment, land and buildings from the related company (note (d))	9,659	8,296
	Trademark fees (note (e))	780	780
Zhengzhou Zhengran Property Management Co., Ltd. (note (b))	Provision of property management services by the related company in relation to the Company's leased equipment, land and buildings (note (f))	—	790
Zhengzhou Gas Engineering and Construction Co., Ltd. (note (c))	Provision of construction services by the related company (note (i))	24,284	7,567
	Advances from the related company (note (j))	71,805	109,148
	Entrusted loans from the related company (note (k))	80,000	100,000
	Interest expense to the related company (note (k))	9,355	8,535
	Sales of construction materials to the related company	546	—
Zhengzhou Zhengran Pressure Control Technology Co., Ltd. (note (c))	Purchases of construction materials from the related company (note (l))	2,871	8,092

Name of related parties	Nature of transactions	2008 *RMB'000*	2007 *RMB'000*
Non-recurring transactions			
Zhengzhou Gas Group Co., Ltd. (note (a))	Purchases of land and buildings (note (g))	7,354	17,000
Zhengzhou Gas Group LPG Co., Ltd. (note (b))	Purchases of property, plant and equipment (note (h))	—	27,606

Notes:

(a) Zhengzhou Gas Group Co., Ltd. is the holding company of the Company.

(b) Zhengzhou Zhengran Property Management Co., Ltd., Zhengzhou Gas Group LPG Co., Ltd. and Nanyang Zhengran Natural Gas Co., Ltd are fellow subsidiaries of the Company.

(c) Zhengzhou Gas Engineering and Construction Co., Ltd. and Zhengzhou Zhengran Pressure Control Technology Co., Ltd. are subsidiaries of the Company.

(d) In accordance with the property lease agreements, the land lease agreements, the equipment lease agreement, and vehicle lease agreements entered into between the Company and Zhengzhou Gas Group Co., Ltd., Zhengzhou Gas Group Co., Ltd. leased certain equipment, vehicle and land and buildings to the Company for its office and operational uses. In the opinion of the directors, these transactions were determined by agreement of parties based on the valuation of an independent appraiser.

(e) On 1 April 2006, the Company and Zhengzhou Gas Group Co., Ltd. entered into a trademark licence agreement (the "trademark licence agreement"). Pursuant to the trademark licence agreement, Zhengzhou Gas Group Co., Ltd. has agreed to grant the Group the right to use these trademarks at a trademark fee of RMB780,000 per annum for the period from 1 April 2006 to 31 March 2009.

These transactions were carried out in accordance with the terms of the underlying agreements.

(f) On 26 July 2006, the Company and Zhengzhou Gas Engineering and Construction Co., Ltd. entered into an property management service agreement with Zhengzhou Zhengran Property Management Co., Ltd.. According to the agreement, Zhengzhou Zhengran Property Management Co., Ltd. provided property management services in relation to the leased equipment, land and buildings at the fee of RMB790,000 and RMB156,000 per annum, respectively. The agreement was expired at 31 December 2007.

(g) On 30 November 2007, the Company entered into a property purchase agreement with Zhengzhou Gas Group Co., Ltd. to acquire a parcel of land situated at the junction of Juyuan Road East and Hongtu Road South, at an aggregate consideration of RMB6,690,000 and certain buildings erected there at a consideration of RMB664,000.

As at 31 December 2008, the acquisition of the parcel of land had been completed. These transactions were carried out based on normal commercial terms and the transacted prices were based on the valuation of independent appraiser.

(h) On 8 September 2006, the Company entered into an LPG asset purchase agreement with Zhengzhou Gas Group LPG Co., Ltd. (the "LPG Company"). The LPG Company is owned as to 44% by Zhengzhou Gas Group Co., Ltd. ("Zhengzhou Gas Group"), the controlling shareholder of the Company. Pursuant to the LPG asset purchase agreement, the Company has conditionally agreed to acquire a parcel of land and certain gas storage structures, real estate and equipment erected on the land (the "LPG Assets") from the LPG Company at an aggregate consideration of approximately RMB63.24 million. Pursuant to another supplementary contract entered between the Company and the LPG Company, the actual purchase amount arrived at approximately RMB62.99 million. The consideration was determined after negotiation between the Company and LPG Company with reference to the valuation of an independent valuer. The main purpose of the acquisition of the LPG Assets is to increase the Group's natural gas storage capacity.

The Company has completed the whole acquisition of LPG Assets as at 31 December 2007.

(i) The gas pipeline construction fee paid to Zhengzhou Gas Engineering and Construction Co., Ltd. was determined by reference to the base prices of Municipal Construction Projects in Henan Province regulated by the Base Prices Standardisation Office, Henan Province.

(j) Apart from the entrusted loans advanced by Zhengzhou Gas Engineering and Construction Co., Ltd. as set out in note 27 all advances from Zhengzhou Gas Engineering and Construction Co., Ltd. are unsecured, interest-free and have no fixed terms of repayment.

Had interest been charged on the outstanding amounts due to the subsidiary during the year, based on the official lending rate quoted by the People's Bank of China of approximately 5.58% per annum (2007: 7.47% per annum) for the year ended 31 December 2008, the Company would have borne interest expense, net of tax, of approximately RMB4,452,000 (2007: RMB6,136,000) for the year ended 31 December 2008.

In the opinion of the directors, the transactions were conducted in the ordinary course of business.

(k) On 22 February 2008 and 27 February 2008, the Company entered into two agreements with Zhengzhou Gas Engineering and Construction Co., Ltd. and Everbright Bank Zhongyuan Branch ("Everbright") for two entrusted loan, both of which were with amount of RMB40,000,000 at interest rate of 5.913% per annum, including bank commission charge at a rate of 0.1% per annum. The repayment of RMB40,000,000 was made by the Company on 21 August 2008, and the other on 26 August 2008.

The directors of the Company are of the opinion that the above transactions with Zhengzhou Gas Engineering and Construction Co., Ltd. were carried out based on normal commercial terms in the ordinary course of business and were fair and reasonable.

(l) These transactions were carried out based on the agreement of both parties.

The transactions were conducted by both parties based on the negotiation by reference to market price.

(ii) ***Compensation of key management personnel of the Group***

	2008	**2007**
	RMB'000	*RMB'000*
Short term employee benefits	4,570	4,435
Retirement benefits	90	109
Total compensation paid to key management personnel	4,660	4,544

Further details of the directors' remuneration are included in note 7 to the financial statements.

(iii) ***Transactions with other State-Owned Enterprises in Mainland China***

The Group operates in an economic environment predominated by enterprises directly or indirectly owned or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively "State-Owned Enterprises"). During the Relevant Periods, the Group had transactions with State-Owned Enterprises including, but not limited to, the provision of construction services, operating leases of equipment, land and buildings, purchases of gas metres and the use of trademarks.

The directors consider that the transactions with other State-Owned Enterprises are conducted in the ordinary course of the Group's business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those State-Owned Enterprises are ultimately controlled or owned by the PRC government. The Group has established pricing policies for products and services, and such pricing policies do not depend on whether or not the customers are State-Owned enterprises. The directors have confirmed that these transactions are carried out on terms similar to those that would be entered into with non-state-owned Enterprises and have been reflected in the financial statements. The directors are of the opinion that the transactions with other State-Owned Enterprises are fair and reasonable.

Having due regard to the substance of the relationships, the directors are of the opinion that meaningful information relating to related party disclosures has been adequately disclosed.

35. **Financial instruments by category**

Group

Financial assets

	Notes	2008 Loans and receivables RMB'000	2007 Loans and receivables RMB'000
Cash and cash equivalents	23	368,169	219,091
Trade and notes receivables	21	104,926	116,993
Due from the holding company		—	21
Due from fellow subsidiaries	28	143	96
Financial assets included in prepayments, deposits and other receivables	22	3,703	1,115
		476,941	337,316

Financial liabilities

	Notes	2008 Financial liabilities at amortised cost RMB'000	2007 Financial liabilities at amortised cost RMB'000
Interest-bearing bank borrowings	26	40,000	—
Trade payables	24	56,174	64,491
Due to fellow subsidiaries	28	—	5,746
Financial liabilities included in other payables and accruals	25	45,601	27,278
		141,775	97,515

Company

Financial assets

	Notes	2008 Loans and receivables RMB'000	2007 Loans and receivables RMB'000
Investments in subsidiaries	16	52,350	52,350
Trade and notes receivables	21	103,576	110,946
Cash and cash equivalents	23	230,985	34,703
Due from the holding company		—	21
Due from fellow subsidiaries	28	7	52
Financial assets included in prepayments, deposits and other receivables	22	2,609	705
		389,527	198,777

Financial liabilities

	Notes	2008 Financial liabilities at amortised cost RMB'000	2007 Financial liabilities at amortised cost RMB'000
Interest-bearing bank borrowings	26	40,000	—
Trade payables	24	31,405	39,148
Due to subsidiaries	27	172,185	214,020
Due to fellow subsidiaries	28	—	5,746
Financial liabilities included in other payables and accruals	25	40,704	23,826
		284,294	282,740

36. **Financial risk management objectives and policies**

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

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate due to changes in market interest rates. The Group is not exposed to material interest rate risks as the interest-bearing bank borrowings of the Group are short term with fixed interest rates.

Foreign currency risk

The Group operates in Mainland China and its principal activities are conducted in RMB. Therefore, the Group's exposure to market risk for changes in foreign currency exchange rate is not significant.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, amounts due from the holding company and fellow subsidiaries and other receivables.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer. There are no significant concentrations of credit risk within the Group.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and notes receivables are disclosed in note 21 to the financial statements.

Liquidity risk

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

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

Group

	2008					
	On demand	**Less than 90 days**	**91 to 180 days**	**181 to 365 days**	**Over 365 days**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing bank borrowings	—	—	—	40,000	—	40,000
Trade payables	36,539	11,719	1,096	6,820	—	56,174
Other payables	3,755	13,245	4,084	23,760	757	45,601
	40,294	24,964	5,180	70,580	757	141,775

	2007					
	On demand	**Less than 90 days**	**91 to 180 days**	**181 to 365 days**	**Over 365 days**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	59,757	4,734	—	—	—	64,491
Other payables	7,475	12,118	962	4,658	4,078	29,291
Due to fellow subsidiaries	—	—	—	5,746	—	5,746
	67,232	16,852	962	10,404	4,078	99,528

Company

	2008					
	On demand	**Less than 90 days**	**91 to 180 days**	**181 to 365 days**	**Over 365 days**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing bank borrowings	—	—	—	40,000	—	40,000
Trade payables	23,374	115	1,096	6,820	—	31,405
Other payables	1,780	10,662	4,045	23,760	457	40,704
Due to subsidiaries	—	100,000	—	595	71,590	172,185
	25,154	110,777	5,141	71,175	72,047	284,294

	2007					
	On demand	**Less than 90 days**	**91 to 180 days**	**181 to 365 days**	**Over 365 days**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	34,414	4,734	—	—	—	39,148
Other payables	6,476	11,919	861	4,167	4,078	27,501
Due to subsidiaries	—	—	100,000	4,871	109,149	214,020
Due to fellow subsidiaries	—	—	—	5,746	—	5,746
	40,890	16,653	100,861	14,784	113,227	286,415

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and a healthy capital ratio in order to support its business and maximise shareholder value.

The capital structure of the Group comprised share capital and reserves. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2008 and 31 December 2007. As at 31 December 2008 and 2007, the details of the capital structure of the Group are as follows:

	2008	**2007**
	RMB'000	*RMB'000*
Issued capital	125,150	125,150
Reserves	655,800	534,870
Total capital	780,950	660,020

The Group monitors capital using a gearing ratio, which is net debt divided by the capital plus net debt. The Group's policy is to maintain the gearing ratio at or below 30%. Net debt includes interest-bearing bank borrowings, trade and other payables, accruals, advance payments received, an amount due to fellow subsidiaries, less cash and cash equivalents. Capital includes share capital and reserves. The gearing ratios as at the balance sheet dates were as follows:

Group

	2008	2007
	RMB'000	*RMB'000*
Interest-bearing bank borrowings	40,000	—
Trade payables	56,174	64,491
Other payables and accruals	123,594	94,947
Advance payments received	356,468	255,710
Due to fellow subsidiaries	—	5,746
Less: Cash and cash equivalents	(368,169)	(219,091)
Net debt	208,067	201,803
Issued capital	125,150	125,150
Reserves	655,800	534,870
Capital	780,950	660,020
Capital and net debt	989,017	861,823
Gearing ratio	21%	23%

37. **Post balance sheet events**

The following significant events took place subsequent to 31 December 2008:

(a) Subsequent to 31 December 2008, the directors proposed a final dividend of RMB0.0104 per ordinary share, totalling approximately RMB13,016,000 pertaining to 2008 for payment in 2009. The proposed final dividend is subject to the approval of the Company's shareholders at the forthcoming AGM. The proposed final dividend has not been incorporated in the consolidated financial statements of the Group for the year ended 31 December 2008.

(b) Subsequent to 31 December 2008, the directors proposed to transfer 10%, totalling approximately RMB13,009,000 of the Company's profit after tax for the year ended 31 December 2008 to the GSR. The proposed transfer to the GSR is subject to the approval of the Company's shareholders at the forthcoming AGM. The proposed transfer to the GSR has not been incorporated in the consolidated financial statements of the Group for the year ended 31 December 2008.

(c) Subsequent to 31 December 2008, the directors proposed to declare the conditional special dividend, as set out in note 11(b).

(d) Currently, the domestic shares and H shares of the Company are at a par value of RMB0.10 each and the Company will also propose to apply to the CSRC and the relevant authorities to issue A shares at RMB0.10 each. However, as it is the practice that A shares listed on the Shenzhen Stock Exchange are at a par value of RMB1.00 each and the relevant laws, rules and regulations and the relevant authorities may require the Company to consolidate its issued domestic shares and H shares in order to increase the par value from RMB0.10 each to RMB1.00 each as a condition of granting the approval of the A Shares Issue ("Share Consolidation"), therefore the Board is authorised to decide that if required by the relevant laws, rules and regulations and the relevant authorities ("the Conditions of Share Consolidation"), the Company will effect the Share Consolidation in order to facilitate the proposed A Share Issue.

Subsequent to 31 December 2008, the directors proposes to seek Shareholders' approval of waiver of the Conditions of Share Consolidation at the forthcoming 2008 AGM and Class Meetings and the implementation of the Share Consolidation after the forthcoming 2008 AGM and Class Meetings.

(e) Pursuant to the 2009 first board meeting held on 17 March 2009, the Company proposed the A Share Issue with a maximum of 42,000,000 A Shares of RMB1.00 each on the Shenzhen Stock Exchange. The final number of A shares to be issued and the structure of the issue is subject to the approval by CSRC and other relevant authorities and adjustments (if any) made by the Board as authorised by the shareholders at the AGM and the class meetings.

38. **Comparative figures**

Certain comparative figures have been reclassified to conform with the current year's presentation.

39. **Approval of the financial statements**

The financial statements were approved and authorised for issue by the board of directors on 17 March 2009.

The following is a summary of the audited financial statements of Zhengzhou Gas for the year ended 31 December 2007 as extracted from the published 2007 annual report of Zhengzhou Gas Company Limited.

Consolidated Income Statement
Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
REVENUE	5	862,161	731,637
Cost of sales		(563,562)	(489,986)
Gross profit		298,599	241,651
Other income and gains	5	4,199	3,555
Selling and distribution costs		(35,338)	(33,294)
Administrative expenses		(60,963)	(66,335)
Other expenses		(10,092)	(10,407)
PROFIT BEFORE TAX	6	196,405	135,170
Income tax expense	8	(66,722)	(9,513)
PROFIT FOR THE YEAR		129,683	125,657
Attributable to:			
Equity holders of the Company		128,462	111,485
Minority interests		1,221	14,172
		129,683	125,657
DIVIDENDS	10		
Proposed final		30,286	35,668
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	11		
Basic			
- For profit for the year (RMB Yuan)		0.103	0.089

Balance Sheets

31 December 2007

		Group		Company	
		2007	**2006**	**2007**	**2006**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS					
Investments in subsidiaries	13	—	—	52,350	52,350
Property, plant and equipment	14	632,477	595,412	625,864	590,103
Available-for-sale investment	15	—	50	—	50
Land lease prepayments	16	66,697	18,288	62,001	18,288
Deferred tax assets	17	5,842	8,514	4,218	6,731
Total non-current assets		705,016	622,264	744,433	667,522
CURRENT ASSETS					
Cash and cash equivalents	23	219,091	177,496	34,703	105,819
Restricted cash deposits		19,200	16,000	19,200	16,000
Trade and notes receivables	18	116,993	95,131	110,946	93,277
Inventories	19	6,186	4,639	4,036	2,097
Construction contract work in progress	22	1,515	1,417	—	—
Prepayments, deposits and other receivables	20	37,364	28,577	27,143	15,068
Due from the holding company	21	—	21	—	
Due from a subsidiary	25	—	—	—	3,000
Due from fellow subsidiaries	26	96	136	52	136
Total current assets		400,466	323,396	196,101	235,397
TOTAL ASSETS		1,105,482	945,660	940,534	902,919
CURRENT LIABILITIES					
Trade payables	21	64,491	65,291	39,148	26,155
Advance payments received	22	255,710	209,382	9,722	6,566
Accrued liabilities and other payables	24	94,947	92,325	91,163	85,146
Tax payable		20,480	6,887	927	2,067
Due to subsidiaries	25	—	—	214,020	267,826
Due to fellow subsidiaries	26	5,746	947	5,746	947
Total current liabilities		441,374	374,832	360,726	388,707
NET CURRENT LIABILITIES		(40,908)	(51,436)	(164,625)	(153,310)
NET ASSETS		664,108	570,828	579,808	514,212

		Group		Company	
		2007	**2006**	**2007**	**2006**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
EQUITY					
Equity attributable to equity holders of the Company					
Issued capital	27	125,150	125,150	125,150	125,150
Reserves	28	534,870	442,076	454,658	389,062
		660,020	567,226	579,808	514,212
Minority interests		4,088	3,602	—	—
Total equity		664,108	570,828	579,808	514,212

Consolidated Statement of Changes in Equity

Year ended 31 December 2007

Group

		Attributable to equity holders of the Company									
		Issued capital	Share premium account	Statutory surplus reserve	Statutory public welfare fund	General surplus reserve	Retained earnings	Reserve arising from acquisition of a minority interest	Total	Minority interests	Total equity
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(note 27)		(note 28(a))	(note 28(b))	(note 28(c))	(note 28(d))				
At 1 January 2006		125,150	101,026	43,564	43,564	19,905	111,653	—	444,862	27,945	472,807
Profit for the year		—	—	—	—	—	111,485	—	111,485	14,172	125,657
Acquisition of a minority interest		—	—	—	—	—	—	28,150	28,150	(38,049)	(9,899)
Dividends paid		—	—	—	—	—	(17,271)	—	(17,271)	—	(17,271)
Dividends paid to minority shareholders		—	—	—	—	—	—	—	—	(466)	(466)
Transfer from statutory public welfare fund to statutory surplus reserve		—	—	43,564	(43,564)	—	—	—	—	—	—
Appropriation to statutory reserves		—	—	24,030	—	10,047	(34,077)	—	—	—	—
At 31 December 2006		125,150	101,026	111,158	—	29,952	171,790	28,150	567,226	3,602	570,828
At 1 January 2007		125,150	101,026	111,158	—	29,952	171,790	28,150	567,226	3,602	570,828
Profit for the year		—	—	—	—	—	128,462	—	128,462	1,221	129,683
Dividends paid	10	—	—	—	—	—	(35,668)	—	(35,668)	—	(35,668)
Dividends paid to minority shareholders		—	—	—	—	—	—	—	—	(735)	(735)
Appropriation to statutory reserves		—	—	10,126	—	11,504	(21,630)	—	—	—	—
At 31 December 2007		125,150	101,026*	121,284*	—	41,456*	242,954*	28,150*	660,020	4,088	664,108

* *These reserve accounts comprise the consolidated reserves of RMB534,870,000 (2006: RMB442,076,000) in the consolidated balance sheet.*

Statement of Changes in Equity
Year ended 31 December 2007

Company

	Note	Issued capital	Share premium account	Statutory surplus reserve	Statutory public welfare fund	General surplus reserve	Retained earnings	Total equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(note 27)		(note 28(a))	(note 28(b))	(note 28(c))	(note 28(d))	
At 1 January 2006		125,150	101,026	28,907	28,907	18,860	67,677	370,527
Profit for the year		—	—	—	—	—	160,956	160,956
Dividends paid		—	—	—	—	—	(17,271)	(17,271)
Transfer from statutory public welfare fund to statutory surplus reserve		—	—	28,907	(28,907)	—	—	—
Appropriation to statutory reserves		—	—	11,504	—	10,047	(21,551)	—
At 31 December 2006		125,150	101,026	69,318	—	28,907	189,811	514,212
At 1 January 2007		125,150	101,026	69,318	—	28,907	189,811	514,212
Profit for the year		—	—	—	—	—	101,264	101,264
Dividends paid	10	—	—	—	—	—	(35,668)	(35,668)
Appropriation to statutory reserves		—	—	10,126	—	11,504	(21,630)	—
At 31 December 2007		125,150	101,026*	79,444*	—	40,411*	233,777*	579,808

* *These reserve accounts comprise the company reserves of RMB454,658,000 (2006: RMB389,062,000) in the company balance sheet.*

Consolidated Cash Flow Statement
Year ended 31 December 2007

	Note	2007 RMB'000	2006 RMB'000
Cash flows from operating activities			
Profit before income tax		196,405	135,170
Adjustments for:			
Depreciation of items of property, plant and equipment		30,179	26,112
Amortisation of land lease prepayments		1,535	403
Impairment of items of property, plant and equipment		—	586
(Gain)/loss on disposal of items of property, plant and equipment		(113)	1,181
Gain on disposal of an available-for-sale investment		(13)	—
Dividend income from an available-for-sale investment		(10)	—
Interest income from bank balances		(2,624)	(2,096)
Impairment of trade receivables		262	232
Write-down of inventories		1,195	655
Write-off of construction in progress		—	1,963
Operation profit before working capital changes		226,816	164,206
Increase in trade receivables		(22,124)	(21,015)
Increase in inventories		(2,742)	(1,408)
Increase in construction contract work in progress		(98)	(506)
Increase in prepayments, deposits and other receivables		(7,675)	(12,471)
Increase in an amount due from the holding company		(21)	—
Increase in amounts due from fellow subsidiaries		40	(25)
Increase in restricted cash deposits		(3,200)	(16,000)
Increase in trade payables		15,946	2,621
Increase in advance payments received		46,328	47,175
(Decrease)/increase in accrued liabilities and other payables		(6,315)	28,236
Decrease in an amount due to the holding company		—	(2,877)
Increase in amounts due to fellow subsidiaries		4,799	847
Cash generated from operations		251,754	188,783
Income tax paid		(50,457)	(14,850)
Net cash inflow from operating activities		201,297	173,933

	Note	2007 RMB'000	2006 RMB'000
Cash flows from investing activities			
Interest income from bank balances		2,624	2,096
Proceeds from disposal of items of property, plant and equipment		745	678
Dividend from an available-for-sale investment		10	—
Proceeds from disposal of an available-for-sale investment		63	150
Acquisitions of property, plant and equipment, construction in progress and land lease prepayments		(126,741)	(156,616)
Acquisition of a minority interest		—	(9,900)
Net cash outflow from investing activities		(123,299)	(163,592)
Cash flows from financing activities			
Dividends paid		(35,668)	(17,271)
Dividends paid to minority shareholders		(735)	(466)
Net cash outflow from financing activities		(36,403)	(17,737)
Net increase/(decrease) in cash and cash equivalents		41,595	(7,396)
Cash and cash equivalents at beginning of year		177,496	184,892
Cash and cash equivalents at end of year		219,091	177,496
Analysis of balances of cash and cash equivalents			
Cash and bank balances		238,291	193,496
Less: Restricted cash deposits		(19,200)	(16,000)
Cash and cash equivalents	23	219,091	177,496

The Group has established restricted cash deposits in a bank to secure natural gas supplies from its gas supplier.

Notes to Financial Statements
31 December 2007

1. **Corporation information**

The Company was established in the People's Republic of China (the "PRC") on 18 December 2000 as a joint stock limited company under the Company Law of the PRC. The Company's H shares have been listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM" of the "Stock Exchange") on 29 October 2002 and migrated to the Main Board of the Stock Exchange of Hong Kong Limited (the "Main Board" of the "Stock Exchange") on 29 June 2007.

The Company and its subsidiaries are principally engaged in the sale of natural gas, pressure control equipment and gas appliances, the construction of gas pipelines and the provision of renovation services of gas pipelines. The registered office and principal place of business of the Company is located at 352 Longhai Road West, Zhengzhou, Henan Province, the PRC 450006.

In the opinion of the directors, the ultimate holding company of the Group is Zhengzhou Gas Group Co., Ltd., which is established in the PRC.

2.1 **Basis of preparation**

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which comprise standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards ("IASs") and Interpretations of the Standing Interpretations Committee approved by the International Accounting Standards Committee that remain in effect, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. They have been prepared under the historical cost convention, except for investment properties, certain buildings, derivative financial instruments and equity investments, which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2007. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. An acquisition of minority interests is accounted for using entity concept method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as an equity transaction.

2.2 **Impact of new and revised International Financial Reporting Standards ("IFRSs")**

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

IFRS 7	*Financial Instruments: Disclosures*
IAS 1 Amendment	*Capital Disclosures*
IFRIC 8	*Scope of IFRS 2*
IFRIC 9	*Reassessment of Embedded Derivatives*
IFRIC 10	*Interim Financial Reporting and Impairment*

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

(a) *IFRS 7 Financial Instruments: Disclosures*

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/revised where appropriate.

(b) *Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures*

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 33 to the financial statements.

(c) *IFRIC 8 Scope of IFRS 2*

This interpretation requires IFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred.

(d) *IFRIC 9 Reassessment of Embedded Derivatives*

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation has had no effect on these financial statements impact on the financial position or results of operations of the Group.

(e) *IFRIC 10 Interim Financial Reporting and Impairment*

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available for sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

2.3 **Impact of issued but not yet effective IFRSs**

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

IAS 1 (Revised)	Presentation of Financial Statements [1]
IFRS 2 Amendment	Share-based Payment: Vesting Conditions and Cancellations [1]
IFRS 3 (Revised)	Business Combination [5]
IFRS 8	Operating Segments [1]
IAS 23 (Revised)	Borrowing Costs [1]
IAS 27 (Revised)	Consolidated and Separate Financial Statements [5]
IFRIC 11	IFRS 2 - Group and Treasury Share Transactions [2]
IFRIC 12	Service Concession Arrangements [4]
IFRIC 13	Customer Loyalty Programmes [3]
IFRIC 14	IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction [4]

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 March 2007
3 Effective for annual periods beginning on or after 1 July 2008
4 Effective for annual periods beginning on or after 1 January 2008
5 Effective for annual periods beginning on or after 1 July 2009

IAS 1 (Revised) shall be applied for annual periods beginning on or after 1 January 2009. The revised standard will affect the presentation of owner changes in equity and comprehensive income. The revised standard will use "statement of financial position" and "statement of cash flows" to replace the titles "balance sheet" and "cash flow statement", and in making reference to these two statements within a complete set of financial statements.

This amendment to IFRS 2 Share-based payments was published in January 2008 and becomes effective for financial years beginning on or after 1 January 2009. The Standard restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are nonvesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The Group has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, does not expect significant implications on its accounting for share-based payments.

IFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. The changes introduced by IFRS 3 (Revised) must be applied prospectively and will affect future acquisitions and transactions with minority interests.

IFRS 8, which will replace IAS 14 Segment Reporting, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt IFRS 8 from 1 January 2009.

IAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group.

IAS 27 (Revised) requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give raise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by IAS 27 (Revised) must be applied prospectively and will affect future acquisitions and transactions with minority interests.

IFRIC 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed.

IFRIC 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation is unlikely to have any financial impact on the Group.

IFRIC 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements.

IFRIC 12 also addresses how an operator shall apply existing IFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services. The Group generally obtains operating rights for its service concession arrangements without any consideration, and owns the residual interest in the infrastructure relating to service concession arrangements at the end of the concession period. The directors are still in the process in assessing the applicability of the IFRIC 12 to the Group.

IFRIC 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

IFRIC 14 addresses how to assess the limit under IAS 19 Employee Benefits, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists.

As the Group currently has no customer loyalty award credits and defined benefit scheme, IFRIC 13 and IFRIC 14 are not applicable to the Group and therefore are unlikely to have any financial impact on the Group.

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. While pending the assessment of applicability of the IFRIC 12 to the Group, so far, it has concluded that while the adoption of IFRS 8 may result in new or amended disclosures, these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 Summary of significant accounting policies

Subsidiaries

Subsidiaries are entities whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

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

Related parties

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

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

(b) the party is an associate;

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

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

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

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

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

Revenue recognition

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

Sale of natural gas, pressure control equipment and gas appliances

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

(i) Natural gas - based on gas consumption derived from metre readings;

(ii) Pressure control equipment and gas appliances sales - upon completion of installation work or when the relevant equipment, materials and parts are delivered to customers and titles have passed.

Construction of gas pipelines

Revenue in respect of the construction of gas pipelines is recognised upon the completion of construction of pipelines for users and connection of the pipelines to the Company's existing gas pipeline network, which, according to industry practice in the region, coincides with the "fire ignition ceremony". The "fire ignition ceremony" is a final and essential step to ascertain that the gas pipeline built is functioning properly and acceptable to users. Upon the fire ignition ceremony, significant risk and rewards of ownership will be transferred to the customers and the economic benefits associated with the contracts will be passed to the Company. The average time required for the Company to complete a gas pipeline construction project is approximately one to three months.

Interest income

Revenue is recognised on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Rental income

Rental income is accounted for on a time proportion basis over the lease terms.

Dividend income

Revenue is recognised when the Group's right to receive payment has been established.

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost less accumulated depreciation and any impairment losses.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of property, plant and equipment, the expenditure is capitalised as an additional cost of the property, plant and equipment.

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

Buildings	2.40%- 3.84%
Machinery and equipment	3.43%- 8.00%
Gas pipelines	4.00%
Office equipment	9.60%- 32.00%
Motor vehicles	8.00%- 32.00%
Computer software	20.00%
Leasehold improvement	Over the shorter of the lease terms and 20.00%

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

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

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

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

Operating leases

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

Land lease prepayments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Impairment of non-financial assets other than goodwill

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

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

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

Investment and other financial assets

Financial assets in the scope of IAS 39 are classified as loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

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

Loans and receivables

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

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity are included in the income statement. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as “Other income” in accordance with the policies set out for “Revenue recognition” above. Losses arising from the impairment of such investments are recognised in the income statement as “Impairment losses on available-for-sale financial assets” and are transferred from the available-for-sale investment revaluation reserve.

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

Fair value

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

Impairment of financial assets

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

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

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

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

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

Derecognition of financial assets

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

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

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

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

Financial liabilities at amortised cost

Financial liabilities including trade and other payables and an amount due to the subsidiaries and fellow subsidiaries are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance costs" in the Company's income statement.

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

Derecognition of financial liabilities

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

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

Inventories

Inventories, including construction materials, consumables, spare parts and natural gas are stated at the lower of cost and net realisable value. Costs which comprise all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present locations and conditions are calculated using the weighted average method.

Net realisable value is based on estimated selling prices less all further costs expected to be incurred to completion and disposal.

Construction contract work in progress

Short term construction contract work in progress represents the construction of gas pipeline work in progress, which is stated at cost less foreseeable losses and progress payments received and receivable.

Revenue in respect of the construction of gas pipelines is recognised upon the completion of pipeline construction as further explained in the accounting policy for revenue recognition for the construction of gas pipelines above.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress payments received and receivable on contracts exceed the costs incurred to date less foreseeable losses, the surplus is shown in the balance sheet as advance payments received.

Cash and cash equivalents

Cash on hand and at banks are carried at cost.

Cash and cash equivalents are defined as cash on hand, demand deposits and short term, highly liquid investments readily convertible into known amounts of cash and subject to an insignificant risk of changes in value and have a short maturity of generally within three months.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash on hand and at banks, including term deposits.

Income tax

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

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

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

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

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

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

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

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

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

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

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

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

Other employee benefits

Retirement benefits

Obligatory retirement benefits in the form of contributions under a defined contribution retirement scheme administered by local government agencies are charged to the income statement as incurred.

Accommodation benefits

Contributions to an accommodation fund administered by the Public Accumulation Funds Administration Centre of the PRC are charged to the income statement as incurred.

Government grants

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

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Foreign currencies

These financial statements are presented in RMB, which is the Group's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement.

3. **Significant accounting estimates**

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

Estimation uncertainty

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

(a) **Estimation of foreseeable losses in respect of construction works**

For construction works, the Group's management estimates the amount of foreseeable losses based on the management budgets prepared for the construction works. Construction income is determined in accordance with the terms set out in the relevant contracts. Budgeted construction terms costs which mainly comprise sub-contracting charges, estimated labour costs and costs of materials are prepared by management according to the quotations provided by the major suppliers/vendors involved from time to time and the experience of management.

(b) **Deferred tax assets**

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets at 31 December 2007 was RMB5,842,000 (2006: RMB8,514,000). Further details are given in note 17 to the financial statements.

(c) **Impairment of trade receivables**

Impairment of trade receivables is made based on assessment of the recoverability of trade receivables. The identification of impairment of trade receivables requires management judgement and estimates. Provision is made when there is objective evidence that the Group will not be able to collect the debts. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of the receivables and bad and doubtful debt expenses/write-back in the period in which such estimate has been changed.

(d) **Useful lives of property, plant and equipment**

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

(e) **Sales of natural gas to prepaid residential gas users**

The Group recognises the revenue for the prepayment made by residential gas users using IC cards ("IC card users") upon consumption of natural gas by the IC card users.

The Group's management estimates the consumption of natural gas by IC card users with reference to the average consumption volume of normal metre-reading residential users. The actual consumption could deviate from those estimates. The total sales of natural gas to IC cards users for the year ended 31 December 2007 amounted to RMB49,518,000 (2006: RMB45,376,000).

4. **Segment information**

For management purposes, the Group currently organises its operations into two business segments, namely sales of natural gas and other related products and gas pipeline construction. The principal activities of the business segments are as follows:

Sale of natural gas and other related products	Sale of natural gas and other related products, including pressure control equipment, gas appliances and provision of pipelines renovation work
Gas pipeline construction	Construction of gas pipelines

No geographical segment analysis is shown as the Group's operating business is solely carried out in Zhengzhou, Henan Province, the PRC.

The Group's operations analysed by business segment are as follows:

	Sales of natural gas and other related products	Gas pipeline construction	Eliminations	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2007				
Segment revenue				
Sales to external customers	624,360	237,801	—	862,161
Intersegment sales	9,993	7,906	(17,899)	—
Total	634,353	245,707	(17,899)	862,161
Segment results	77,127	185,857	(1,180)	261,804
Other income and gains				4,199
Unallocated corporate expenses				(69,598)
Profit before income tax				196,405
Income tax expense				(66,722)
Profit for the year				129,683
Assets and liabilities				
Total assets	910,962	437,175	(242,655)	1,105,482
Total liabilities	363,715	292,430	(214,771)	441,374
Other segment information				
Depreciation of property, plant and equipment	29,478	1,974	(1,273)	30,179
Capital expenditure	295,741	9,694	(8,662)	296,773
Impairment of trade receivables	262	—	—	262
Other non-cash expense	2,730	—	—	2,730
Other non-cash revenue	(526)	—	—	(526)

	Sales of natural gas and other related products	Gas pipeline construction	Eliminations	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2006				
Segment revenue				
Sales to external customers	518,493	213,144	—	731,637
Intersegment sales	5,492	70,870	(76,362)	—
Total	523,985	284,014	(76,362)	731,637
Segment results	59,854	155,036	(8,967)	205,923
Other income and gains				3,350
Unallocated corporate expenses				(74,103)
Profit before income tax				135,170
Income tax expense				(9,513)
Profit for the year				125,657
Assets and liabilities				
Total assets	871,353	378,041	(303,734)	945,660
Total liabilities	394,601	257,420	(277,189)	374,832
Other segment information				
Depreciation of property, plant and equipment	24,898	2,001	(787)	26,112
Capital expenditure	264,357	10,222	(23,250)	251,329
Impairment of trade receivables	232	—	—	232
Impairment of property, plant and equipment	586	—	—	586
Other non-cash expense	4,202	—	—	4,202

5. **Revenue and other income and gains**

	Note	2007 RMB'000	2006 RMB'000
Natural gas		604,610	498,729
Gas appliances		5,898	4,018
Pressure control equipment		3,070	2,962
Gas pipelines:			
Construction of gas pipelines		246,227	222,800
Provision of renovation work		11,163	13,241
Others		55	43
		871,023	741,793
Less: Business tax and government surcharges		(8,862)	(10,156)
Revenue		862,161	731,637
Interest income from bank balances		2,624	2,096
Rental income		300	287
Government grants	(a)	—	403
Dividend income from an available-for-sale investment		23	35
Others		1,252	734
Other income and gains		4,199	3,555
		866,360	735,192

Note:

(a) The Company received government grants in respect of its contribution and development in Zhengzhou City.

There are no unfulfilled conditions or contingencies attaching to these grants.

6. **Profit before income tax**

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

	2007	**2006**
	RMB'000	*RMB'000*
Staff costs (including directors', supervisors' and senior executives' emoluments as set out in note 7):		
Wages and salaries	66,086	57,855
Retirement benefits		
- Defined contribution fund	7,903	6,985
Accommodation benefits		
- Defined contribution fund	4,793	2,089
Less: Amount capitalised	(2,322)	(1,075)
Net staff costs	76,460	65,854
Operating lease rentals in respect of:		
Land and buildings	9,119	11,594
Equipment	4,959	4,959
Trademarks	780	773
Total operating lease rentals	14,858	17,326
Costs of inventories recognised as an expense	490,602	412,004
Auditors' remuneration	1,770	1,180
Depreciation of items of property, plant and equipment	30,179	26,112
Amortisation of land lease prepayments	1,535	403
Impairment of items of property, plant and equipment	—	586
(Gain)/loss on disposal of items of property, plant and equipment	(113)	1,181
Write-down of inventories	1,195	655
Write-off of construction in progress	—	1,963
Impairment of trade receivables	262	232

7. **Directors' and supervisors' emoluments**

(a) **Independent non-executive directors**

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

	2007	**2006**
	RMB'000	*RMB'000*
Mr. Zhang Yichun	50	50
Mr. Liu Jianwen	50	50
Ms. Yu Shulian	50	50
Mr. Wong Ping	70	—
	220	150

There were no other emoluments payable to the independent non-executive directors during the year (2006: Nil).

(b) **Executive directors and non-executive directors**

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2007					
Executive directors:					
Mr. Yan Guoqi	—	196	196	6	398
Mr. Song Jinhui	—	187	118	6	311
Mr. Li Yantong	—	70	10	4	84
Mr. Li Jinlu	—	163	118	5	286
	—	616	442	21	1,079
Non-executive directors:					
Mr. Yang Degu	133	—	83	6	222
Ms. Bao Hongwei	139	—	108	5	252
Mr. Zhang Wushan	—	—	—	—	—
	272	—	191	11	474
	272	616	633	32	1,553
2006					
Executive directors:					
Mr. Yan Guoqi	—	103	370	6	479
Mr. Song Jinhui	—	103	173	6	282
Mr. Li Yantong	—	88	94	6	188
Mr. Li Jinlu	—	87	100	5	192
	—	381	737	23	1,141
Non-executive directors:					
Mr. Yang Degu	88	—	86	6	180
Ms. Bao Hongwei	87	—	97	5	189
Mr. Zhang Wushan	—	—	—	—	—
	175	—	183	11	369
	175	381	920	34	1,510

(c) **Supervisors and independent supervisors**

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2007					
Supervisors:					
Mr. Chang Zongxian	—	—	—	—	—
Mr. Ding Ping	—	107	76	5	188
Mr. Chen Kun	—	—	—	—	—
Ms. Niu Minghua	—	99	65	4	168
Ms. Zhou Weihua	—	—	—	—	—
	—	206	141	9	356
Independent supervisors:					
Mr. Cai Yuming	50	—	—	—	50
Mr. Yang Guirong	50	—	—	—	50
	100	—	—	—	100
	100	206	141	9	456
2006					
Supervisors:					
Mr. Chang Zongxian	—	—	175	—	175
Mr. Ding Ping	—	64	71	6	141
Mr. Chen Kun	—	—	—	—	—
Mr. Li Zizheng	—	28	20	2	50
Ms. Niu Minghua	—	62	70	5	137
Ms. Zhou Weihua	—	34	38	4	76
	—	188	374	17	579
Independent supervisors:					
Mr. Cai Yuming	50	—	—	—	50
Mr. Yang Guirong	50	—	—	—	50
	100	—	—	—	100
	100	188	374	17	679

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

The remuneration package of each director or supervisor of the Company is determined with reference to his duties and responsibilities in the Company. As at the date of this report, the Company has not adopted any share option scheme as an incentive plan.

During the year ended 31 December 2007, the five highest paid individuals of the Group included four (2006: four) directors. They were Yan Guoqi, Song Jinhui, Li Jinlu and Bao Hongwei. Information relating to these directors' emoluments has been disclosed above. Details of the remuneration of the remaining one (2006: one) non-director, highest paid employee for the year are as follows:

	2007	**2006**
	RMB'000	*RMB'000*
Basic salaries and other benefits	579	334
Bonuses paid and payable	57	58
Retirement benefits	12	12
	648	404

The non-director, highest paid employee's remuneration fell within the range of nil to HK$1 million.

During the year ended 31 December 2007, no emoluments were paid by the Group to the directors or the other non-director, highest paid employees as an inducement to join or upon joining the Group, or as a compensation for loss of office.

8. **Income tax expense**

According to the relevant PRC laws and regulations, the Company and its subsidiaries are subject to corporate income tax at a rate of 33% of their taxable profits. Prior to year 2007, as approved by the Zhongyuan District Local Tax Bureau annually, the taxable profit of Zhengzhou Gas Engineering and Construction Co., Ltd. ("ZGEC"), a PRC subsidiary of the Company, was based on 12% of its revenue for corporate income tax filing purpose. The taxable profits calculated at that rate were lower than the taxable profits determined with the reference to its accounting profit. From 1 January 2007, taxable profit of ZGEC is determined based on its accounting profit and relevant tax adjustments rather than the rate of 12% of the revenue.

Major components of the Group's income tax expense for the year ended 31 December 2007 are as follows:

	2007	**2006**
	RMB'000	*RMB'000*
Current		
Charge for the year	63,765	14,758
Underprovision in prior years	285	41
Deferred *(note 17)*	2,672	(5,286)
Total tax charge for the year	66,722	9,513

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	2007	**2006**
	RMB'000	*RMB'000*
Profit before income tax	196,405	135,170
Tax at the applicable tax rate of 33%	64,813	44,606
Tax effect of:		
Non-deductible expenses	174	1,234
Non-taxable profits	(63)	(39,250)
Unrecognised tax losses	—	311
Tax losses utilised from previous years	(153)	—
Underprovision in prior years	285	41
Unrealised profits	77	2,571
Effect on statutory tax rate change	1,821	—
Reversal of temporary difference not recognised	(232)	—
Tax charge at the Group's effective tax rate	66,722	9,513

9. **Profit attributable to equity holders of the Company**

The consolidated profit attributable to equity holders of the Company for the year ended 31 December 2007 includes a profit of RMB101,264,000 (2006: RMB160,956,000) which has been dealt with in the financial statements of the Group.

10. **Dividends**

	2007	**2006**
	RMB'000	*RMB'000*
Proposed final - RMB0.0242 per ordinary share (2006: RMB0.0285)	30,286	35,668

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. Accordingly, the proposed final dividend has not been incorporated in the consolidated financial statements of the Group for the year ended 31 December 2007.

For dividend purpose, the amount which the Company and its subsidiaries can legally distribute by way of a dividend is determined by reference to their profits as reflected in their PRC statutory financial statements which are prepared in accordance with PRC General accepted Accounting Principles (collectively as "PRC GAAP"). These profits may differ from these that are reflected in this report which is prepared in accordance with IFRSs.

In accordance with the articles of association of the Company, the reserve available for distribution is based on the lower of the Group's profits determined under PRC GAAP and those under IFRSs.

11. **Earnings per share attributable to ordinary equity holders of the Company**

The basic earnings per share amount for the year ended 31 December 2007 is computed by dividing the profit attributable to equity holders of the Company of approximately RMB128,462,000 (2006: approximately RMB111,485,000) by the weighted average number of ordinary shares in issue during the year of 1,251,500,000 (2006: 1,251,500,000).

12. **Retirement benefits and accommodation benefits**

Retirement benefits

As stipulated by the PRC State regulations, the Company and its subsidiaries participate in a defined contribution retirement plan. All employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount according to the geographical area of their last employment on their retirement date. As the Company and its subsidiaries are operating in Zhengzhou, they are required to make contributions to the Labour and Social Security Bureau of the Zhengzhou Municipal Government at 21% (2006: 21%) of the previous year's average basic salaries of the employees that are under employment with the Company and its subsidiaries. The Company and its subsidiaries have no obligation for the payment of pension benefits beyond the annual contributions to the Labour and Social Security Bureau of the Zhengzhou Municipal Government as set out above.

Accommodation benefits

According to the relevant rules and regulations of the PRC, the Company and its subsidiaries are required to make contributions which are at 12% (2006: 10%) of previous year's basic salaries and wages of the employees to an accommodation fund administered by the Public Accumulation Funds Administration Centre. There are no further obligations on the part of the Company and its subsidiaries except for such contributions to the accommodation fund.

13. **Investments in subsidiaries**

	Company	
	2007	*2006*
	RMB'000	*RMB'000*
Unlisted investments, at cost	52,350	52,350

Particulars of the Company's subsidiaries are as follows:

Name of company	**Place of registration and operations/date of registration**	**Nominal value of registered and paid-up capital**	**Percentage of equity interest attributable to the Company**		**Principal activities**
			Direct	**Indirect**	
Zhengzhou Gas Engineering and Construction Co., Ltd. (note (a))	PRC/Mainland China 19 June 2002	RMB40,000,000	100	—	Construction of gas pipelines
Zhengzhou Zhengran Pressure Control Technology Co., Ltd. (note (b))	PRC/Mainland China 14 November 2003	RMB5,000,000	51	—	Manufacture and sale of gas appliances and heating systems
Dengfeng Zhengran Gas Co., Ltd. (note (c))	PRC/Mainland China 17 February 2004	RMB30,000,000	22	78	Sale of natural gas and gas appliances and constructionof gas pipelines

Notes:

(a) Zhengzhou Gas Engineering and Construction Co., Ltd. was established by the Company and the Zhengzhou Gas Group Labour Union Committee in Zhengzhou, Henan Province, the PRC, on 19 June 2002. The Zhengzhou Gas

Group Labour Union Committee is a social organisation legal person established under the General Principles of the Civil Law and the Labour Union of the PRC. It is accountable to the Labour Union Member Meeting and represents the interests of all the staff members of Zhengzhou Gas Group Co., Ltd., a holding company of the Company.

On 1 July 2006, the Zhengzhou Gas Group Labour Union Committee disposed of all its shareholding in Zhengzhou Gas Engineering and Construction Co., Ltd. to the Company.

(b) Zhengzhou Zhengran Pressure Control Technology Co., Ltd. was established by the Company and 19 individual shareholders in Zhengzhou, Henan Province, the PRC, on 14 November 2003. These individual shareholders are either employees of the Company or employees of the Company's holding company.

(c) Dengfeng Zhengran Gas Co., Ltd. was established by the Company and Zhengzhou Gas Engineering and Construction Co., Ltd. on 17 February 2004.

14. Property, plant and equipment

Group

31 December 2007	Buildings	Machinery and equipment	Gas pipelines	Office equipment	Motor vehicles	Computer software	Leasehold improvement	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost									
At 1 January 2007:	26,524	187,477	308,016	13,170	27,239	5,355	—	170,990	738,771
Additions	8,601	2,000	1,071	1,000	751	332	532	53,589	67,876
Transferred from construction in progress	13,787	63,724	95,489	1,913	6,254	753	—	(181,920)	—
Disposals	—	—	(1,381)	—	(313)	—	—	—	(1,694)
At 31 December 2007	48,912	253,201	403,195	16,083	33,931	6,440	532	42,659	804,953
Accumulated depreciation and provision for impairment losses									
At 1 January 2007:	2,765	47,580	76,893	3,861	10,144	2,116	—	—	143,359
Depreciation charge for the year	1,021	10,114	13,294	1,547	3,091	1,053	59	—	30,179
Disposals	—	—	(756)	—	(306)	—	—	—	(1,062)
At 31 December 2007	3,786	57,694	89,431	5,408	12,929	3,169	59	—	172,476
Net carrying amount:									
At 31 December 2007	45,126	195,507	313,764	10,675	21,002	3,271	473	42,659	632,477
At 31 December 2006	23,759	139,897	231,123	9,309	17,095	3,239	—	170,990	595,412

31 December 2006	Buildings *RMB'000*	Machinery and equipment *RMB'000*	Gas pipelines *RMB'000*	Office equipment *RMB'000*	Motor vehicles *RMB'000*	Computer software *RMB'000*	Leasehold improvement *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
Cost									
At 1 January 2006:	20,697	166,114	270,113	10,668	23,444	4,765	—	91,225	587,026
Additions	369	5,919	60	2,800	4,034	394	—	155,054	168,630
Transferred from construction in progress	6,122	26,393	40,615	—	—	196	—	(73,326)	—
Disposals	(664)	(10,949)	(2,772)	(298)	(239)	—	—	(1,963)	(16,885)
At 31 December 2006	26,524	187,477	308,016	13,170	27,239	5,355	—	170,990	738,771
Accumulated depreciation and provision for impairment losses									
At 1 January 2006:	2,196	48,947	66,946	2,767	7,688	1,180	—	—	129,724
Depreciation charge for the year	849	8,587	11,882	1,302	2,556	936	—	—	26,112
Impairment losses provided for the year	384	34	—	39	129	—	—	—	586
Disposals	(664)	(9,988)	(1,935)	(247)	(229)	—	—	—	(13,063)
At 31 December 2006	2,765	47,580	76,893	3,861	10,144	2,116	—	—	143,359
Net carrying amount:									
At 31 December 2006	23,759	139,897	231,123	9,309	17,095	3,239	—	170,990	595,412
At 31 December 2005	18,501	117,167	203,167	7,901	15,756	3,585	—	91,225	457,302

Company

31 December 2007	Buildings RMB'000	Machinery and equipment RMB'000	Gas pipelines RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Computer software RMB'000	Leasehold improvement RMB'000	Construction in progress RMB'000	Total RMB'000
Cost									
At 1 January 2007:	20,294	169,274	325,355	12,061	19,947	5,330	—	175,692	727,953
Additions	8,478	1,050	484	951	751	329	532	52,596	65,171
Transferred from construction in progress	14,899	62,684	98,014	1,913	6,254	753	—	(184,517)	—
Disposals	—	—	(1,381)	—	(313)	—	—	—	(1,694)
At 31 December 2007	43,671	233,008	422,472	14,925	26,639	6,412	532	43,771	791,430
Accumulated depreciation and provision for impairment losses									
At 1 January 2007:	2,646	44,189	78,338	3,483	7,103	2,091	—	—	137,850
Depreciation charge for the year	913	8,987	14,252	1,411	2,103	1,053	59	—	28,778
Disposals	—	—	(756)	—	(306)	—	—	—	(1,062)
At 31 December 2007	3,559	53,176	91,834	4,894	8,900	3,144	59	—	165,566
Net carrying amount:									
At 31 December 2007	40,112	179,832	330,638	10,031	17,739	3,268	473	43,771	625,864
At 31 December 2006	17,648	125,085	247,017	8,578	12,844	3,239	—	175,692	590,103

31 December 2006	Buildings *RMB'000*	Machinery and equipment *RMB'000*	Gas pipelines *RMB'000*	Office equipment *RMB'000*	Motor vehicles *RMB'000*	Computer software *RMB'000*	Leasehold improvement *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
Cost									
At 1 January 2006:	20,697	149,473	290,398	9,680	16,153	4,740	—	73,318	564,459
Additions	261	4,801	60	2,679	4,033	394	—	167,724	179,952
Transferred from construction in progress	—	25,522	37,669	—	—	196	—	(63,387)	—
Disposals	(664)	(10,522)	(2,772)	(298)	(239)	—	—	(1,963)	(16,458)
At 31 December 2006	20,294	169,274	325,355	12,061	19,947	5,330	—	175,692	727,953
Accumulated depreciation and provision for impairment losses									
At 1 January 2006:	2,196	46,440	67,873	2,512	5,406	1,155	—	—	125,582
Depreciation charge for the year	730	7,501	12,400	1,179	1,797	936	—	—	24,543
Impairment losses provided for the year	384	34	—	39	129	—	—	—	586
Disposals	(664)	(9,786)	(1,935)	(247)	(229)	—	—	—	(12,861)
At 31 December 2006	2,646	44,189	78,338	3,483	7,103	2,091	—	—	137,850
Net carrying amount:									
At 31 December 2007	17,648	125,085	247,017	8,578	12,844	3,239	—	175,692	590,103
At 31 December 2006	18,501	103,033	222,525	7,168	10,747	3,585	—	73,318	438,877

15. Available-for-sale investment

	Group and Company 2007 *RMB'000*	2006 *RMB'000*
Unlisted equity investment, at cost	—	50

As at 31 December 2006, the Group's unlisted equity investment, held on a long term basis, represented the Company's 1.87% equity interest in an unlisted company registered in the PRC with limited liability.

16. **Land lease prepayments**

	Group		Company	
	2007	**2006**	**2007**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January	18,756	10,056	18,756	10,056
Additions	51,056	9,103	46,133	9,103
Amortisation charged for the year	(1,535)	(403)	(1,406)	(403)
At 31 December	68,277	18,756	63,483	18,756
Current portion included in prepayments, deposits and other receivables	(1,580)	(468)	(1,482)	(468)
Non-current portion	66,697	18,288	62,001	18,288

The land lease prepayments represent payments for medium term leases of land situated in Mainland China.

As at 31 December 2007, the Group is in process of applying for the land certificate, with net book value of RMB3,043,000.

17. **Deferred tax assets**

Group

	Provision for impairment losses	Non-deductible staff costs	Recognised of unrealised profit	Non-deductible unpaid accrued expenses	Advances from customers ageing more than one year and others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2007	490	5,170	1,783	854	217	8,514
Deferred tax credited/(charged) to the income statement during the year (note 8)	511	(2,483)	(159)	(516)	(25)	(2,672)
At 31 December 2007	1,001	2,687	1,624	338	192	5,842

Group

	Provision for impairment losses	Non-deductible staff costs	Recognised of unrealised profit	Non-deductible unpaid accrued expenses	Advances from customers ageing more than one year and others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2006	—	1,008	1,395	358	467	3,228
Deferred tax credited/(charged) to the income statement during the year (note 8)	490	4,162	388	496	(250)	5,286
At 31 December 2006	490	5,170	1,783	854	217	8,514

Company

	Provision for impairment losses	Non-deductible staff costs	Non-deductible unpaid accrued expenses	Advances from customers ageing more than one year	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2007	490	5,170	854	217	6,731
Deferred tax credited/(charged) to the income statement during the year	511	(2,483)	(516)	(25)	(2,513)
At 31 December 2007	1,001	2,687	338	192	4,218

Company

	Provision for impairment losses	Non-deductible staff costs	Non-deductible unpaid accrued expenses	Advances from customers ageing more than one year	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2006	—	1,008	358	467	1,833
Deferred tax credited/(charged) to the income statement during the year	490	4,162	496	(250)	4,898
At 31 December 2006	490	5,170	854	217	6,731

18. **Trade and notes receivables**

	Group		Company	
	2007	**2006**	**2007**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	110,869	96,636	106,722	94,782
Notes receivables	7,891	—	5,991	—
Impairment	(1,767)	(1,505)	(1,767)	(1,505)
	116,993	95,131	110,946	93,277

The Group's trading terms with its customers are mainly on credit. The credit period is generally one month, extending up to six months for major customers. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

	Group		Company	
	2007	2006	2007	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 month	97,999	87,371	95,930	85,649
1 to 3months	9,052	6,570	8,733	6,554
3 to 6 months	7,566	938	5,265	925
6 to 12 months	1,788	157	860	140
Over 12 months	588	95	158	9
	116,993	95,131	110,946	93,277

The movement in provision for impairment of trade receivables is as follows:

	Group		Company	
	2007	2006	2007	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January	1,505	1,273	1,505	1,273
Impairment losses recognised (note 6)	262	232	262	232
At 31 December	1,767	1,505	1,767	1,505

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB1,276,000 (2006: RMB1,244,000) with a carrying amount of RMB1,276,000 (2006: RMB1,244,000). The individually impaired trade receivables relate to customers that are in financial difficulties and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

The aged analysis of the trade and notes receivables is as follows:

	Group		Company	
	2007	**2006**	**2007**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Neither past due nor impaired	105,959	85,678	101,921	85,678
Less than 1 month past due	6,845	7,313	6,215	5,592
1 to 3 months past due	1,491	1,591	1,471	1,576
3 to 6 months past due	496	403	496	390
6 to 12 moths past due	1,768	114	839	41
Over 12 months past due	434	32	4	—
	116,993	95,131	110,946	93,277

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

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

19. **Inventories**

	Group		Company	
	2007	**2006**	**2007**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Natural gas, at net realisable value	2,491	1,211	2,491	1,211
Construction materials and pressure control equipment, at net realisable value	3,695	3,428	1,545	886
	6,186	4,639	4,036	2,097

The amounts of the write-down of inventories recognised as expenses for the Group and the Company are RMB1,195,000 (2006: RMB655,000) and RMB1,195,000 (2006: RMB667,000), respectively.

20. **Prepayments, deposits and other receivables**

	Group		Company	
	2007	**2006**	**2007**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepayments	34,747	27,212	24,938	14,160
Deposits	1,502	270	1,500	5
Other receivables	1,115	1,095	705	903
	37,364	28,577	27,143	15,068

None of the above assets is impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

21. **Trade payables**

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

	Group		Company	
	2007	**2006**	**2007**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 month	49,121	29,267	30,007	20,609
1 to 3 months	4,033	6,309	1,900	2,471
3 to 6 months	2,937	2,860	1,143	1,314
6 to 12 months	4,286	23,885	4,275	404
Over 12 months	4,114	2,970	1,823	1,357
	64,491	65,291	39,148	26,155

The above balances are unsecured, interest-free and are generally on terms of 7 to 90 days.

22. **Construction contract work in progress/advance payments received**

	Group		Company	
	2007	**2006**	**2007**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Construction contract work in progress				
Contract costs incurred to date	1,515	1,417	—	—
Advance payments received				
Progress payments received	288,360	239,879	10,076	7,713
Less: Contract costs incurred to date	(32,650)	(30,497)	(354)	(1,147)
	255,710	209,382	9,722	6,566

As at 31 December 2007, retention held by customers for contract works included in trade receivables amounted to approximately RMB1,439,000 (2006: Nil).

23. **Cash and cash equivalents and restricted cash deposits**

	Group		Company	
	2007	**2006**	**2007**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash and bank balances	238,291	193,496	53,903	121,819
Less: Restricted cash deposits	(19,200)	(16,000)	(19,200)	(16,000)
Cash and cash equivalents	219,091	177,496	34,703	105,819

At the balance sheet date, the cash and bank balances of the Group denominated in Hong Kong dollars ("HK$") amounted to HK$927 (2006: HK$1,012).

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

24. **Accrued liabilities and other payables**

	Group		Company	
	2007	**2006**	**2007**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Advances from customers	52,259	54,293	51,941	53,709
Other payables	27,278	19,796	23,826	14,595
Accruals	1,350	2,588	1,350	2,588
Payroll payables	14,060	15,648	14,046	14,254
	94,947	92,325	91,163	85,146

Accrued liabilities and other payables are unsecured, interest-free and have no fixed terms of repayment.

25. **Due from/to subsidiaries**

		2007	**2006**
	Notes	*RMB'000*	*RMB'000*
Due from a subsidiary:			
Zhengzhou Zhengran Pressure Control Technology Co., Ltd.		—	3,000
Due to subsidiaries:			
Zhengzhou Gas Engineering and Construction Co., Ltd.			
— Entrusted loans	(a)	100,000	150,000
— Construction fee payables	(b)	109,148	114,555
		209,148	264,555
Zhengzhou Zhengran Pressure Control Technology Co., Ltd.		4,872	3,271
		214,020	267,826

Notes:

(a) Entrusted loans represent borrowings from Zhengzhou Gas Engineering and Construction Co., Ltd. via a financial institution. The unsecured entrusted loans bear interest at a rate of 6.39% (2006: 5.022%) per annum and are repayable on 27 April 2008. Further details are contained in note 29 to the financial statements.

(b) The balances arise from the provision of construction services by the subsidiary to the Company. These balances are unsecured, interest-free and have no fixed terms of repayment.

26. **Due from/to fellow subsidiaries**

The amounts due from/to fellow subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

27. **Issued capital**

	Group and Company			
	2007		**2006**	
	Number of shares	**Nominal value**	**Number of shares**	**Nominal value**
	'000	*RMB'000*	*'000*	*RMB'000*
Registered	1,251,500	125,150	1,251,500	125,150

	2007		**2006**	
	Number of shares	**Nominal value**	**Number of shares**	**Nominal value**
	'000	*RMB'000*	*'000*	*RMB'000*
Issued and fully paid:				
Domestic Shares of RMB0.10 each	700,840	70,084	700,840	70,084
H Shares of RMB0.10 each	550,660	55,066	550,660	55,066
	1,251,500	125,150	1,251,500	125,150

The Domestic Shares and H Shares are both ordinary shares in the issued capital of the Company. The Domestic Shares are not currently listed on any stock exchange. All dividends in respect of H Shares are to be paid by the Company in Hong Kong dollars whereas all dividends in respect of the Domestic Shares are to be paid by the Company in RMB.

Save for the foregoing and in relation to the despatch of notices and financial reports to shareholders, dispute resolution, registration of shares on different parts of the register of shareholders, the method of share transfer and the appointment of dividend receiving agents, the Domestic Shares and the H Shares rank pari passu with each other in all aspects.

There was no movement of the Company's ordinary issued capital during the year.

28. **Reserves**

(a) *Statutory Surplus Reserve (the "SSR")*

In accordance with the Company Law of the PRC and the respective articles of association of the Company and its subsidiaries, each of the Company and its subsidiaries is required to allocate 10% of its profits after tax, as determined in accordance with PRC GAAP applicable to the Company and its subsidiaries, to the SSR until such reserve reaches 50% of its registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the SSR may be converted to increase paid-up capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

(b) *Statutory Public Welfare Fund (the "PWF")*

In accordance with the Company Law of the PRC prior to 1 January 2006 and the respective articles of association of the Company and its subsidiaries, each of the Company and its subsidiaries was required to transfer 5% to 10% of its profits after tax, as determined in accordance with PRC GAAP applicable to the Company and its subsidiaries, to the PWF which was a non-distributable reserve other than in the event of liquidation. The PWF must be used for capital expenditure on staff welfare facilities and these facilities remain the properties of the Company and its subsidiaries.

When the PWF was utilised, an amount equal to the lower of the cost of the assets and the balance of the PWF was transferred from the PWF to the General Surplus Reserve (the "GSR"). The GSR was nondistributable other than in liquidation. On disposal of the relevant assets, the original transfers from the PWF were reversed.

According to the revised Company Law of the PRC effective 1 January 2006, the Company and its subsidiaries are no longer required to transfer their profit after tax to the PWF. As allowed by the revised Company Law of the PRC, the Company and its subsidiaries have transferred the PWF balance to SSR.

(c) *General Surplus Reserve (the "GSR")*

In addition to the statutory surplus reserves which is required by the Company Law of the PRC and the respective articles of association of the Company and its subsidiaries, the equity holders of the Company resolved on 13 March 2007 to transfer approximately RMB11,504,000 from the Company's retained earnings as at 31 December 2006 to the GSR.

(d) *Retained earnings*

As set out in note 10 to the financial statements, for dividend purposes, the amount which the Company and its subsidiaries can legally distribute by way of a dividend is determined by reference to their profits as reflected in their PRC statutory financial statements which are prepared in accordance with PRC GAAP. These profits differ from those that are reflected in this report which is prepared in accordance with IFRSs.

According to the articles of association of the Company, the reserves available for distribution are based on the lower of the Company's profits determined under PRC GAAP and those under IFRSs.

In accordance with the Company Law of the PRC, profits after tax can be distributed as dividends after the transfers to the SSR as set out above.

As at 31 December 2007, the Company's reserves available for distribution were approximately RMB233,777,000 (2006: RMB189,811,000), of which approximately RMB30,286,000 has been proposed as a final dividend for the year and approximately RMB10,126,000 has been proposed to be transferred to the GSR.

29. **Related party transactions**

(i) *Transactions with the Group's/Company's fellow subsidiaries/subsidiaries and the holding company*

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group and the Company had the following significant transactions with their related parties:

Name of related parties	Nature of transactions	2007 *RMB'000*	2006 *RMB'000*
Group			
Recurring transactions			
Zhengzhou Gas Group Co., Ltd. *(note (a))*	Operating lease of equipment, land and buildings from the related company *(note (d))*	8,930	9,353
	Trademark fees *(note (e))*	780	773
Zhengzhou Zhengran Property Management Co., Ltd. *(note (b))*	Provision of property management services by the related company in relation to the Group's leased equipment, land and buildings *(note (f))*	946	951
Non-recurring transactions			
Zhengzhou Gas Group Co., Ltd. *(note (a))*	Purchase of land and buildings *(note (g))*	17,000	5,477

Name of related parties	Nature of transactions	2007 RMB'000	2006 RMB'000
Zhengzhou Gas Group LPG Co., Ltd. *(note (b))*	Purchases of property, plant and equipment and land *(note (h))*	27,606	35,385
Zhengzhou Gas Group Labour Union Committee	Acquisition of an equity interest	—	9,900
NanYang Zhengran Natural Gas Co., Ltd. *(note (b))*	Provision of construction services to the related company *(note (i))*	884	—
Company			
Recurring transactions			
Zhengzhou Gas Group Co., Ltd. *(note (a))*	Operating lease of equipment, land and buildings from the related company *(note (d))*	8,296	8,633
	Trademark fees *(note (e))*	780	773
Zhengzhou Zhengran Property Management Co., Ltd. *(note (b))*	Provision of property management services by the related company in relation to the Company's leased equipment, land and buildings *(note (f))*	790	792
Zhengzhou Gas Engineering and Construction Co., Ltd. *(note (c))*	Provision of construction services by the related company *(note (i))*	7,567	19,155
	Advances from the related company *(note (j))*	109,148	114,555
	Entrusted loans from the related company *(note (k))*	100,000	150,000
	Interest expense to the related company *(note (k))*	8,535	6,075
Zhengzhou Zhengran Pressure Control Technology Co., Ltd. *(note (c))*	Purchases of construction materials from the related company *(note (l))*	8,092	4,047

Name of related parties	Nature of transactions	2007 *RMB'000*	2006 *RMB'000*
Non-recurring transactions			
Zhengzhou Gas Group Co., Ltd. *(note (a))*	Purchases of land and buildings *(note (g))*	17,000	5,477
Zhengzhou Gas Group LPG Co., Ltd. *(note (b))*	Purchases of property, plant and equipment *(note (h))*	27,606	35,385
Zhengzhou Gas Group Labour Union Committee	Acquisition of an equity interest	—	9,900

Notes:

(a) Zhengzhou Gas Group Co., Ltd. is the holding company of the Company.

(b) Zhengzhou Zhengran Property Management Co., Ltd., Zhengzhou Gas Group LPG Co., Ltd. and NanYang Zhengran Natural Gas Co., Ltd are fellow subsidiaries of the Company.

(c) Zhengzhou Gas Engineering and Construction Co., Ltd. and Zhengzhou Zhengran Pressure Control Technology Co., Ltd. are subsidiaries of the Company.

(d) In accordance with the property lease agreements, the land lease agreements, and the equipment lease agreement entered into between the Company and Zhengzhou Gas Group Co., Ltd., Zhengzhou Gas Group Co., Ltd. leased certain equipment and land and buildings to the Company for its office and operational uses. In the opinion of the directors, these transactions were determined by agreement of parties based on the valuation of an independent appraiser.

(e) On 1 April 2006, the Company and Zhengzhou Gas Group Co., Ltd. entered into a trademark licence agreement (the "trademark licence agreement"). Pursuant to the trademark licence agreement, Zhengzhou Gas Group Co., Ltd. has agreed to grant the Group the right to use these trademarks at a trademark fee of RMB780,000 per annum for the period from 1 April 2006 to 31 March 2009.

These transactions were carried out in accordance with the terms of the underlying agreements.

(f) On 26 July 2006, the Company and Zhengzhou Gas Engineering and Construction Co., Ltd. entered into an property management service agreement with Zhengzhou Zhengran Property Management Co., Ltd.. According to the agreement, Zhengzhou Zhengran Property Management Co., Ltd. provided property management services in relation to the leased equipment, land and buildings at the fee of RMB790,000 and RMB156,000 per annum, respectively.

(g) On 20 March 2007, the Company entered into a property purchase agreement with Zhengzhou Gas Group Co., Ltd. to acquire two parcels of land situated at the junction of Dongming Road West and Zhengbian Road South and the junction of Xianhuan Road West and Laozhengmi Road West, respectively, at an aggregate consideration of RMB11,401,000 and certain buildings erected there at a consideration of RMB5,599,000.

As at 31 December 2007, the acquisition of the two parcels of land had been completed. These transactions were carried out based on normal commercial terms and the transacted prices were based on the valuation of independent appraiser.

(h) On 8 September 2006, the Company entered into an LPG asset purchase agreement with Zhengzhou Gas Group LPG Co., Ltd. (the "LPG Company"). The LPG Company is owned as to 44% by Zhengzhou Gas Group Co., Ltd. ("Zhengzhou Gas Group"), the controlling shareholder of the Company. Pursuant to the LPG asset purchase agreement, the Company has conditionally agreed to acquire a parcel of land and certain gas storage structures, real estate and equipment erected on the land (the "LPG Assets") from the LPG Company at an aggregate consideration of approximately RMB63.24 million. Pursuant to another supplementary contract entered between the Company and the LPG Company, the actual purchase amount arrived at approximately RMB62.99 million. The consideration was determined after arm's length negotiation between the Company and LPG Company with reference to the valuation of an independent valuer. The main purpose of the acquisition of the LPG Assets is to increase the Group's natural gas storage capacity.

The Company has completed the whole acquisition of LPG Assets as at 31 December 2007.

(i) The gas pipeline construction fee paid to Zhengzhou Gas Engineering and Construction Co., Ltd. was determined by reference to the base prices of Municipal Construction Projects in Henan Province regulated by the Base Prices Standardisation Office, Henan Province.

(j) Apart from the entrusted loans advanced by Zhengzhou Gas Engineering and Construction Co., Ltd. as set out in note 25, all advances from Zhengzhou Gas Engineering and Construction Co., Ltd. are unsecured, interest-free and have no fixed terms of repayment.

Had interest been charged on the outstanding amounts due to the subsidiary during the year, based on the official lending rate quoted by the People's Bank of China of approximately 7.47% per annum (2006: 6.12% per annum) for the year ended 31 December 2007, the Company would have borne interest expense, net of tax, of approximately RMB6,136,000 (2006: RMB5,599,000) for the year ended 31 December 2007.

In the opinion of the directors, the transactions were conducted in the ordinary course of business.

(k) On 25 April 2007, the Company entered into a renewed agreement with Zhengzhou Gas Engineering and Construction Co., Ltd. and Everbright Bank Zhongyuan Branch ("Everbright") for an entrusted loan of RMB50,000,000 at an interest rate of 6.57% per annum, including bank commission charge at a rate of 0.1% per annum. The repayment was made by the Company on 25 October 2007.

On 28 April 2007, a new entrusted loan agreement was entered into between the Company, Zhengzhou Gas Engineering and Construction Co., Ltd. and Everbright. Pursuant to the agreement, Zhengzhou Gas Engineering and Construction Co., Ltd. made a new entrusted loan with an amount of RMB100,000,000 to the Company through Everbright at an interest rate of 6.39% per annum, including bank commission charge at a rate of 0.1% per annum.

The directors of the Company are of the opinion that the above transactions with Zhengzhou Gas Engineering and Construction Co., Ltd. were carried out based on normal commercial terms in the ordinary course of business and were fair and reasonable.

(l) These transactions were carried out based on the agreement of both parties.

The transactions were conducted by both parties based on the negotiation by reference to market price.

(ii) *Compensation of key management personnel of the Group*

	2007	**2006**
	RMB'000	*RMB'000*
Short term employee benefits	4,435	3,990
Retirement benefits	109	119
Total compensation paid to key management personnel	4,544	4,109

Further details of directors' remuneration are included in note 7 to the financial statements.

(iii) *Transactions with other State-Owned Enterprises in Mainland China*

The Group operates in an economic environment predominated by enterprises directly or indirectly owned or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively "State-Owned Enterprises"). During the years ended 31 December 2007 and 2006, the Group had transactions with State-owned Enterprises including, but not limited to, the provision of construction services, operating leases of equipment, land and buildings and the use of trademarks.

The directors consider that the transactions with other State-Owned Enterprises are conducted in the ordinary course of the Group's business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those State-Owned Enterprises are ultimately controlled or owned by the PRC government. The Group has established pricing policies for products and services, and such pricing policies do not depend on whether or not the customers are State-Owned enterprises. The directors have confirmed that these transactions are carried out on terms similar to those that would be entered into with non-state-owned Enterprises and have been reflected in the financial statements. The directors are of the opinion that the transactions with other State-Owned Enterprises are fair and reasonable.

Having due regard to the substance of the relationships, the directors are of the opinion that meaningful information relating to related party disclosures has been adequately disclosed.

30. **Commitments**

	Group		Company	
	2007	**2006**	**2007**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Capital commitments				
In respect of property, plant and equipment:				
Authorised, but not contracted for	364,534	19,124	364,534	20,976
Contracted, but not provided for	11,779	34,598	11,670	34,593
	376,313	53,722	376,204	55,569

Operating lease commitments

As lessee

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases in respect of equipment, land and buildings falling due as follows:

	Group		Company	
	2007	**2006**	**2007**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	15,694	14,633	15,157	13,877
In the second to fifth years, inclusive	34,771	26,050	33,894	26,050
Over five years	8,342	10,377	8,342	10,377
	58,807	51,060	57,393	50,304

The Group has entered into commercial leases on certain of land, buildings and pipeline equipment under operating lease arrangements. Leases for land and buildings are negotiated for terms ranging from three to thirteen years, and those for pipeline equipment are for terms of about five years. There are no purchase options and escalation clauses included in the contracts. The Group is given priority in renewing the leases of land, buildings and pipeline equipment upon the expiry of the lease terms on the terms and conditions agreed by both parties. There are no restrictions placed upon the Group when entering into these leases.

31. **Contingent liabilities**

At the balance sheet date, neither the Group nor the Company had any significant contingent liabilities.

32. **Financial instruments by category**

Group

Financial assets

	2007			2006		
	Loans and receivables	**Available-for-sale financial assets**	**Total**	**Loans and receivables**	**Available-for-sale financial assets**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Available-for-sale investment *(note 15)*	—	—	—	—	50	50
Cash and cash equivalents *(note 23)*	219,091	—	219,091	177,496	—	177,496
Trade and notes receivables *(note 18)*	116,993	—	116,993	95,131	—	95,131
Due from the holding company	21	—	21	—	—	—
Due from fellow subsidiaries *(note 26)*	96	—	96	136	—	136
Financial assets included in prepayments, deposits and other receivables *(note 20)*	1,115	—	1,115	1,095	—	1,095
	337,316	—	337,316	273,858	50	273,908

Financial liabilities

	2007 Financial liabilities at amortised cost	2006 Financial liabilities at amortised cost
	RMB'000	*RMB'000*
Trade payables *(note 21)*	64,491	65,291
Due to fellow subsidiaries *(note 26)*	5,746	947
Financial liabilities included in accrued liabilities and other payables *(note 24)*	27,278	19,796
	97,515	86,034

Company

Financial assets

	2007			2006		
	Loans and receivables	**Available-for-sale financial assets**	**Total**	**Loans and receivables**	**Available-for-sale financial assets**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Interests in subsidiaries *(note 13)*	52,350	—	52,350	52,350	—	52,350
Trade and notes receivables *(note 18)*	110,946	—	110,946	93,277	—	93,277
Cash and cash equivalents *(note 23)*	34,703	—	34,703	105,819	—	105,819
Available-for-sale investment *(note 15)*	—	—	—	—	50	50
Due from the holding company	21	—	21	—	—	—
Due from a subsidiary *(note 25)*	—	—	—	3,000	—	3,000
Due from fellow subsidiaries *(note 26)*	52	—	52	136	—	136
Financial assets included in prepayments, deposits and other receivables *(note 20)*	705	—	705	903	—	903
	198,777	—	198,777	255,485	50	255,535

Financial liabilities

	2007 Financial liabilities at amortised cost	2006 Financial liabilities at amortised cost
	RMB'000	*RMB'000*
Trade payables *(note 21)*	39,148	26,155
Due to subsidiaries *(note 25)*	214,020	267,826
Due to fellow subsidiaries *(note 26)*	5,746	947
Financial liabilities included in accrued liabilities and other payables *(note 24)*	23,826	14,595
	282,740	309,523

33. **Financial risk management objectives and policies**

The Group's principal financial liabilities are trade payables. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables and cash, which arise directly from its operations.

Interest rate risk

The Group has no interest-bearing loans and liabilities, and has little exposure to market risk for changes in interest rate.

Foreign currency risk

The Group operates in Mainland China and its principal activities are conducted in RMB. Therefore, the Group's exposure to market risk for changes in foreign currency exchange rate is not significant.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, available-for-sale investment, amounts due from the holding company and fellow subsidiaries and other receivables.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer. There are no significant concentrations of credit risk within the Group.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and notes receivables are disclosed in note 18 to the financial statements.

Liquidity risk

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

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

Group

			2007			
	On demand	**Less than 90 days**	**91 to 180 days**	**181 to 365 days**	**Over 365 days**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	59,757	4,734	—	—	—	64,491
Other payables	7,475	12,118	962	4,658	4,078	29,291
Due to fellow subsidiaries	—	—	—	5,746	—	5,746
	67,232	16,852	962	10,404	4,078	99,528

			2006			
	On demand	**Less than 90 days**	**91 to 180 days**	**181 to 365 days**	**Over 365 days**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	55,019	10,272	—	—	—	65,291
Other payables	911	16,810	2,056	37	3,969	23,783
Due to fellow subsidiaries	—	—	947	—	—	947
	55,930	27,082	3,003	37	3,969	90,021

Company

	2007					
	On demand	**Less than 90 days**	**91 to 180 days**	**181 to 365 days**	**Over 365 days**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	34,414	4,734	—	—	—	39,148
Other payables	6,476	11,919	861	4,167	4,078	27,501
Due to subsidiaries	—	—	100,000	4,871	109,149	214,020
Due to fellow subsidiaries	—	—	—	5,746	—	5,746
	40,890	16,653	100,861	14,784	113,227	286,415

	2006					
	On demand	**Less than 90 days**	**91 to 180 days**	**181 to 365 days**	**Over 365 days**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	15,883	10,272	—	—	—	26,155
Other payables	911	13,898	2,056	37	3,969	20,871
Due to subsidiaries	—	3,271	150,000	—	114,555	267,826
Due to fellow subsidiaries	—	—	947	—	—	947
	16,794	27,441	153,003	37	118,524	315,799

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and a healthy capital ratio in order to support its business and maximise shareholder value.

The capital structure of the Group comprised share capital and reserves. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 31 December 2006. As at 31 December 2007 and 2006, the details of the capital structures of the Group are as follows:

	2007	2006
	RMB'000	*RMB'000*
Issued capital	125,150	125,150
Reserves	534,870	442,076
Total capital	660,020	567,226

34. **Other significant event**

On 24 September 2007, pursuant to the "Method on Collection of Urban Infrastructure Facility Fee of Zhengzhou City" issued by the Zhengzhou Municipal Government, the Group will cease to collect gas pipelines network construction fee from gas users with effective from 1 October 2007. On 6 March 2008, the Henan Province Development and Reform Commission has approved the proposal set forth in the "Letter relating to the issues of natural gas pipeline construction fee of Zhengzhou" dated 4 March 2008 by the Zhengzhou Municipal Government, whereby, the collection of gas pipeline network construction fee by the Group was replaced by an infrastructure facility fee (the "Facility Fee") with effective from 1 October 2007. Under the new fee model, the Group charges a Facility Fee at a standard rate of RMB22 per square meter based on the floor area and a national project standard fee as stipulated by the authorities for each newly connected residential user.

The directors of the Company have assessed the potential financial impact arising from implementation of Facility Fee to the Group and the directors are of the opinion that the implementation of Facility Fee above would not have a significant impact to the financial positions and operating results of the Group.

35. **Post balance sheet events**

The following significant events took place subsequent to 31 December 2007:

(a) Subsequent to 31 December 2007, the directors proposed a final dividend of RMB0.0242 per ordinary share, totalling approximately RMB30,286,000 pertaining to 2007 for payment in 2008. The proposed final dividend is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. The proposed final dividend has not been incorporated in the consolidated financial statements of the Group for the year ended 31 December 2007.

(b) Subsequent to 31 December 2007, the directors proposed to transfer 10%, totalling approximately RMB10,126,000, of the Company's profit after tax, as determined in accordance with the PRC GAAP applicable to the Company, for the year ended 31

December 2007 to the GSR. The proposed transfer to the GSR is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. The proposed transfer to the GSR has not been incorporated in the consolidated financial statements of the Group for the year ended 31 December 2007.

(c) On 28 February 2008, the Company and the Administrative Commission of Zhengbian Industrial Zone (the "Zhengbian Administrative Commission") entered into a formal concession agreement (the "Concession Agreement"). Pursuant to the Concession Agreement, the Zhengbian Administrative Commission granted the Company a concession for the provision of piped natural gas in the Zhengbian Industrial Zone (excluding Bianxi) for a term of thirty years from 1 March 2008 to 1 March 2038 at nil consideration. In return, pursuant to the Concession Agreement, the Company shall be responsible for the investment and construction of gas pipelines and the provision of natural gas to users in accordance with the annual development plans of the Zhengbian Industrial Zone.

(d) On 6 March 2008, the Company entered into an equity transfer agreement with Pingdingshan State Assets Supervision and Administrative Commission ("Pingdingshan SASAC"), pursuant to which the Company has agreed to purchase and Pingdingshan SASAC has agreed to sell 27% equity interest of Pingdingshan Gas at an aggregate cash consideration of RMB 30.5 million. Pingdingshan Gas is a company that supplies fuel gas, natural gas and liquefied gas for the gas users in Pingdingshan City.

The completion of the acquisition of Pingdingshan Gas is depending on the completion of the equity transfer procedures and approval from the relevant authorities.

36. **Comparative figures**

Certain comparative figures have been reclassified to conform with the current year's presentation.

37. **Approval of the financial statements**

The financial statements were approved and authorised for issue by the board of directors on 26 March 2008.

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 Nanyang Zhengran Group.

Deloitte.
德勤

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太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

29 January 2010

The Directors
China Resources Gas Group Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") relating to Nanyang Zhengran Natural Gas Co., Ltd. ("Nanyang Zhengran") and its subsidiaries (hereinafter collectively referred to as the "Nanyang Zhengran Group") for the period from 9 June 2007 (date of establishment) to 31 December 2007, the year ended 31 December 2008 and the ten months ended 31 October 2009 (the "Relevant Periods"), for the inclusion in the circular of China Resources Gas Group Limited (the "Company") dated 29 January 2010 (the "Circular") issued in connection with the potential cooperation between the Company and the controlling shareholder of Zhengzhou Gas Company Limited ("Zhengzhou Gas") involving the formation of a joint venture, acquisition of assets by the joint venture for its piped gas business and acquisition of controlling interest in Zhengzhou Gas. As part of the potential cooperation, a 100% equity investment in Nanyang Zhengran will be injected to the joint venture.

Nanyang Zhengran was established on 9 June 2007 in the People's Republic of China ("PRC") and is principally engaged in sales of liquefied gas and connection of gas pipelines.

Particulars of Nanyang Zhengran's subsidiaries, which are directly held by Nanyang Zhengran, are as follows:

	Place and date of establishment	Registered capital	Attributable equity interest of the Nanyang Zhengran Group				Principal activities
			At 31 December 2007	At 31 December 2008	At 31 October 2009	At date of report	
Subsidiaries							
南陽市第三石油公司	PRC 12 July 2006	RMB1,000,000	100%	100%	100%	100%	Operation of petroleum filling station
南陽市建設旅行社	PRC 31 October 2005	RMB300,000	100%	100%	100%	100%	Travel agent
南陽鄭燃實業有限公司	PRC 17 April 2008	RMB3,000,000	N/A	97%	97%	97%	Repair and maintenance of gas pipelines

All of the above subsidiaries were established in the PRC in the form of limited company and adopt 31 December as the financial year end date.

The statutory financial statements of Nanyang Zhengran and its subsidiaries for the two years ended 31 December 2007 and 2008, or since their respective dates of establishment, where this is a shorter period, were prepared in accordance with the relevant accounting principles and financial regulations applicable to the PRC jurisdiction and were audited by the following certified public accountants registered in the PRC:

Name	**Financial period**	**Name of auditors**
Nanyang Zhengran	For the period from 9 June 2007 (date of establishment) to 31 December 2007 and for the year ended 31 December 2008	河南誠和聯合會計師事務所
南陽市第三石油公司	For each of the two years ended 31 December 2007 and 2008	河南誠和聯合會計師事務所
南陽市建設旅行社	For each of the two years ended 31 December 2007 and 2008	河南誠和聯合會計師事務所
南陽鄭燃實業有限公司	For the period from 17 April 2008 (date of establishment) to 31 December 2008	河南誠和聯合會計師事務所

For the purpose of this report, the directors of Nanyang Zhengran have prepared the consolidated financial statements of the Nanyang Zhengran Group for the period from 9 June 2007 (date of establishment) to 31 December 2007, the year ended 31 December 2008 and the ten months ended 31 October 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 for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements. No adjustments are considered necessary to adjust the Underlying Financial Statements in the preparation of this report for inclusion in the Circular.

The directors of Nanyang Zhengran are responsible for preparing the Underlying Financial Statements and the directors of the Company are responsible for 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, 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 Nanyang Zhengran Group as at 31 December 2007 and 2008 and 31 October 2009 and the state of affairs of Nanyang Zhengran as at 31 December 2007 and 2008 and 31 October 2009 and of the consolidated results and cash flows of the Nanyang Zhengran Group for the Relevant Periods.

The comparative consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity of the Nanyang Zhengran Group for the ten months ended 31 October 2008 together with the notes thereon (the “31 October 2008 Financial Information”) have been extracted from the Nanyang Zhengran Group’s unaudited consolidated financial information for the same period which was prepared by the directors of Nanyang Zhengran 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 31 October 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

	Notes	Period from 9 June 2007 to 31 December 2007 HK$'000	Year ended 31 December 2008 HK$'000	Ten months ended 31 October 2008 HK$'000 (unaudited)	Ten months ended 31 October 2009 HK$'000
Turnover	8	23,751	97,616	83,316	83,470
Cost of sales/direct operating costs		(23,400)	(84,167)	(69,267)	(67,905)
Gross profit		351	13,449	14,049	15,565
Other income		262	3,218	2,783	1,362
Selling expenses		(6,979)	(17,786)	(14,459)	(14,865)
Administrative expenses		(8,165)	(16,871)	(14,101)	(12,743)
Finance costs	9	(855)	(6,105)	(5,042)	(1,400)
Impairment loss on goodwill	15	(127,602)	—	—	—
Loss for the period/year	10	(142,988)	(24,095)	(16,770)	(12,081)
Other comprehensive income for the period/year					
Exchange difference arising on translation to presentation currency		(787)	(1,634)	(1,518)	73
Total comprehensive income for the period/year		(143,775)	(25,729)	(18,288)	(12,008)
Loss for the period/year attributable to:					
Owner of Nanyang Zhengran		(142,988)	(24,090)	(16,767)	(12,076)
Minority interests		—	(5)	(3)	(5)
		(142,988)	(24,095)	(16,770)	(12,081)
Total comprehensive income attributable to:					
Owner of Nanyang Zhengran		(143,775)	(25,725)	(18,286)	(12,002)
Minority interests		—	(4)	(2)	(6)
		(143,775)	(25,729)	(18,288)	(12,008)

II. CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	At 31 December 2007 HK$'000	At 31 December 2008 HK$'000	At 31 October 2009 HK$'000
Non-current assets				
Property, plant and equipment	13	89,038	104,132	112,181
Prepaid lease payments	14	29,227	29,878	28,707
Deposits for acquisition of property, plant and equipment		—	1,120	3,958
		118,265	135,130	144,846
Current assets				
Inventories	17	5,692	6,332	7,401
Trade and other receivables	18	23,795	32,059	22,632
Amounts due from customers for contract work	19	5,102	6,840	8,571
Prepaid lease payments	14	1,295	1,383	1,382
Amount due from immediate holding company	20	33,183	—	—
Bank balances and cash	21	7,043	9,758	9,539
		76,110	56,372	49,525
Current liabilities				
Trade and other payables	22	161,479	91,597	89,281
Amounts due to customers for contract work	19	2,962	8,586	9,398
Amount due to immediate holding company	20	—	81,671	5,563
Amount due to a fellow subsidiary	23	—	442	792
Other borrowings - amount due within one year	24	15,923	23,782	30,331
		180,364	206,078	135,365
Net current liabilities		(104,254)	(149,706)	(85,840)
		14,011	(14,576)	59,006
Capital and reserves				
Paid-in capital	25	123,228	123,228	213,995
Reserves		(143,775)	(169,500)	(181,502)
Equity attributable to owner of Nanyang Zhengran		(20,547)	(46,272)	32,493
Minority interests		—	97	91
		(20,547)	(46,175)	32,584
Non-current liabilities				
Other borrowings - amount due after one year	24	34,558	31,599	26,422
		14,011	(14,576)	59,006

III. STATEMENTS OF FINANCIAL POSITION OF NANYANG ZHENGRAN

	Notes	At 31 December 2007 HK$'000	At 31 December 2008 HK$'000	At 31 October 2009 HK$'000
Non-current assets				
Property, plant and equipment	13	87,623	102,212	110,449
Prepaid lease payments	14	29,227	29,878	28,707
Interests in subsidiaries	16	264	3,380	3,176
Deposits for acquisition of property, plant and equipment		—	1,120	3,958
		117,114	136,590	146,290
Current assets				
Inventories	17	4,050	4,482	5,386
Trade and other receivables	18	22,610	30,121	20,013
Amounts due from customers for contract work	19	5,102	6,840	8,571
Prepaid lease payments	14	1,295	1,383	1,382
Amount due from immediate holding company	20	33,183	—	—
Amount due from a subsidiary	16	2,757	4,680	9,740
Bank balances and cash	21	4,322	7,215	6,113
		73,319	54,721	51,205
Current liabilities				
Trade and other payables	22	157,199	88,663	86,198
Amounts due to customers for contract work	19	2,962	8,586	9,398
Amount due to immediate holding company	20	—	81,671	5,563
Amounts due to subsidiaries	16	23	2,052	2,271
Amount due to a fellow subsidiary	23	—	442	792
Other borrowings - amount due within one year	24	15,923	23,782	30,331
		176,107	205,196	134,553
Net current liabilities		(102,788)	(150,475)	(83,348)
		14,326	(13,885)	62,942
Capital and reserves				
Paid-in capital	25	123,228	123,228	213,995
Reserves	26	(143,460)	(168,712)	(177,475)
Equity attributable to owner of Nanyang Zhengran		(20,232)	(45,484)	36,520
Non-current liabilities				
Other borrowings - amount due after one year	24	34,558	31,599	26,422
		14,326	(13,885)	62,942

IV. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Equity attributable to owner of Nanyang Zhengran					
	Paid-in capital	Exchange reserve	Accumulated losses	Total	Minority interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Exchange difference arising on translation to presentation currency	—	(787)	—	(787)	—	(787)
Loss for the period	—	—	(142,988)	(142,988)	—	(142,988)
Total comprehensive income for the year	—	(787)	(142,988)	(143,775)	—	(143,775)
Capital contribution	123,228	—	—	123,228	—	123,228
At 31 December 2007	123,228	(787)	(142,988)	(20,547)	—	(20,547)
Exchange difference arising on translation to presentation currency	—	(1,635)	—	(1,635)	1	(1,634)
Loss for the year	—	—	(24,090)	(24,090)	(5)	(24,095)
Total comprehensive income for the year	—	(1,635)	(24,090)	(25,725)	(4)	(25,729)
Contribution from a minority shareholder of a subsidiary	—	—	—	—	101	101
At 31 December 2008	123,228	(2,422)	(167,078)	(46,272)	97	(46,175)
Exchange difference arising on translation to presentation currency	—	74	—	74	(1)	73
Loss for the period	—	—	(12,076)	(12,076)	(5)	(12,081)
Total comprehensive income for the period	—	74	(12,076)	(12,002)	(6)	(12,008)
Capital contribution	90,767	—	—	90,767	—	90,767
At 31 October 2009	213,995	(2,348)	(179,154)	32,493	91	32,584

	Equity attributable to owner of Nanyang Zhengran					
	Paid-in capital	**Exchange reserve**	**Accumulated losses**	**Total**	**Minority interests**	**Total equity**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2008 (audited)	123,228	(787)	(142,988)	(20,547)	—	(20,547)
Exchange difference arising on translation to presentation currency	—	(1,519)	—	(1,519)	1	(1,518)
Loss for the period	—	—	(16,767)	(16,767)	(3)	(16,770)
Total comprehensive income for the period	—	(1,519)	(16,767)	(18,286)	(2)	(18,288)
Contribution from a minority shareholder of a subsidiary	—	—	—	—	101	101
At 31 October 2008 (unaudited)	123,228	(2,306)	(159,755)	(38,833)	99	(38,734)

V. CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	Period from 9 June 2007 to 31 December 2007	Year ended 31 December 2008	Ten months ended 31 October 2008	2009
		HK$'000	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Cash flows from operating activities					
Loss for the period/year		(142,988)	(24,095)	(16,770)	(12,081)
Adjustments for:					
Interest income		(255)	(128)	(143)	(157)
Interest expense		855	6,105	5,042	1,400
Release from prepaid lease payments		311	1,364	1,137	1,155
Depreciation of property, plant and equipment		1,471	6,563	5,118	5,737
Loss (gain) on disposal of property, plant and equipment, net		13	(1,500)	(1,471)	13
Impairment loss on goodwill		127,602	—	—	—
Impairment loss on trade receivables		—	2,161	2,132	66
Impairment loss on other receivables		—	—	—	598
Operating cash flows before movements in working capital		(12,991)	(9,530)	(4,955)	(3,269)
Increase in inventories		(2,852)	(277)	(1,101)	(1,072)
Decrease (increase) in trade and other receivables		4,274	(8,907)	(11,456)	8,746
Increase in amounts due from customers for contract work		(3,289)	(1,413)	(98)	(1,735)
Decrease in trade and other payables		(24,040)	(24,781)	(6,525)	(2,188)
Increase in amounts due to customers for contract work		—	5,435	2,641	817
Net cash (used in) from operating activities		(38,898)	(39,473)	(21,494)	1,299
Cash flows from investing activities					
Interest received		255	128	143	157
Proceeds from disposal of property, plant and equipment		10	2,247	1,873	169
Acquisition of businesses	28	(17,375)	—	—	—

	Note	Period from 9 June 2007 to 31 December 2007 *HK$'000*	Year ended 31 December 2008 *HK$'000*	Ten months ended 31 October 2008 *HK$'000* (unaudited)	Ten months ended 31 October 2009 *HK$'000*
Payment for deferred consideration for acquisition of businesses	28	—	(56,340)	—	—
Purchase of property, plant and equipment		(4,742)	(16,582)	(11,033)	(14,017)
Deposits for acquisition of property, plant and equipment		—	(1,105)	—	(2,839)
Additions of prepaid lease payments		—	(173)	—	—
Net cash used in investing activities		(21,852)	(71,825)	(9,017)	(16,530)
Cash flows from financing activities					
Capital contribution		123,228	—	—	90,767
(Repayment to) advance from immediate holding company		(51,221)	112,524	35,442	(76,065)
Repayment of bank borrowings		(4,668)	—	—	—
Interest paid		(71)	—	—	—
Advance from a fellow subsidiary		—	442	—	350
Contribution from a minority shareholder of a subsidiary		—	101	101	—
Net cash from financing activities		67,268	113,067	35,543	15,052
Net increase (decrease) in cash and cash equivalents		6,518	1,769	5,032	(179)
Effect on foreign exchange rate changes		525	946	676	(40)
Cash and cash equivalents at beginning of the period/year		—	7,043	7,043	9,758
Cash and cash equivalents at end of the period/year, representing bank balances and cash		7,043	9,758	12,751	9,539

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL

Nanyang Zhengran was established on 9 June 2007 in the PRC as a limited liability company and is principally engaged in sales of liquefied gas and connection of gas pipelines. Nanyang Zhengran's immediate holding company and ultimate parent for the Relevant Periods are Zhengzhou Gas Group Company Limited ("Zhengzhou GGCL"), a State-owned company established in the PRC, and Zhengzhou State-owned Assets Supervision and Administration Commission of Zhengzhou Municipality ("Zhengzhou SASAC"), a government municipality established in the PRC, respectively. The address of the registered office and principle place of business of Nanyang Zhengran is No. 505, Gongye Road, Nanyang City, Henan Province, the PRC.

The functional currency of the Nanyang Zhengran Group is Renminbi ("RMB") while the Financial Information is presented in Hong Kong dollars ("HK$"), which is consistent with the presentation currency of the financial information of the Company and its subsidiaries included in the Circular.

2. BASIS OF PREPARATION OF THE FINANCIAL INFORMATION

The Financial Information has been prepared on a going concern basis because Zhengzhou GGCL has agreed to provide adequate funds to enable the Nanyang Zhengran Group and Nanyang Zhengran to meet in full their financial obligations as they fall due for the foreseeable future, or until the completion of the transfer of equity interest in Nanyang Zhengran to the joint venture established by the Company and the controlling shareholder of Zhengzhou Gas, whichever is earlier. The Company has also agreed that upon and after the completion of the transfer of equity interest in Nanyang Zhengran to the joint venture established by the Company and the controlling shareholder of Zhengzhou Gas, it will provide financial support to the Nanyang Zhengran Group and Nanyang Zhengran to enable them to meet in full their financial obligations as they fall due for the foreseeable future.

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

The Nanyang Zhengran 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 Nanyang Zhengran Group's financial period beginning on 1 January 2009 in the preparation of the Financial Information throughout the Relevant Periods.

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

HKFRSs (Amendment)	Amendment to HKFRS 5 as part of improvements to HKFRS, 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 24 (Revised)	Related party disclosures[3]
HKAS 27 (Revised)	Consolidated and separate financial statements[1]
HKAS 32 (Amendments)	Classification of rights issues[4]
HKAS 39 (Amendments)	Eligible hedged items[1]
HKFRS 1 (Amendments)	Additional exemptions for first-time adopters[5]
HKFRS 2 (Amendments)	Group cash-settled share-based payment transactions[5]
HKFRS 3 (Revised)	Business combinations[1]
HKFRS 9	Financial instruments[6]
HK(IFRIC) - INT 14 (Amendments)	Prepayments of a minimum funding requirement[3]
HK(IFRIC) - INT 17	Distributions of non-cash assets to owners[1]
HK(IFRIC) - INT 19	Extinguishing financial liabilities with equity instruments[7]

[1] Effective for annual periods beginning on or after 1 July 2009
[2] Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate
[3] Effective for annual periods beginning on or after 1 January 2011
[4] Effective for annual periods beginning on or after 1 February 2010
[5] Effective for annual periods beginning on or after 1 January 2010
[6] Effective for annual periods beginning on or after 1 January 2013
[7] Effective for annual periods beginning on or after 1 July 2010

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

The directors of Nanyang Zhengran 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 Nanyang Zhengran 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 Nanyang Zhengran and entities controlled by Nanyang Zhengran (its subsidiaries). Control is achieved where Nanyang Zhengran 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 and 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 Nanyang Zhengran 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 Nanyang Zhengran 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 Nanyang Zhengran 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

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 Nanyang Zhengran 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 Nanyang Zhengran Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Nanyang Zhengran Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

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

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses and 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 the 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 profit or loss and is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit, 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 Nanyang Zhengran's statement of financial position.

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 the 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 values, 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 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 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 the 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.

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 Nanyang Zhengran Group's financial assets are classified as loans and receivables. 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 the reporting period subsequent to initial recognition, loans and receivables (including trade and other receivables, amount due from immediate holding company, amount due from a subsidiary 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.

Impairment loss on financial assets

Financial assets are assessed for indicators of impairment at the end of the 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.

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 Nanyang Zhengran 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.

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.

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the Nanyang Zhengran Group after deducting all of its liabilities.

Financial liabilities

Financial liabilities including trade and other payables, amount due to immediate holding company, amount due to a fellow subsidiary and amounts due to subsidiaries 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 Nanyang Zhengran 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 Nanyang Zhengran 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 assets

At the end of the reporting period, the Nanyang Zhengran Group reviews the carrying amounts of its tangible 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 Nanyang Zhengran 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 the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of the 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 Nanyang Zhengran Group's operations are translated into the presentation currency of the Nanyang Zhengran Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the 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 in other comprehensive income and accumulated in equity under the heading of exchange reserve.

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 as and included in finance costs in the consolidated statement of comprehensive income in the period in which they are incurred.

Retirement benefit costs

Payments to state-managed retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

Taxation

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

The tax currently payable is based on taxable profit for the year/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 Nanyang Zhengran Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the 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 except where the Nanyang Zhengran 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 the 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 to other comprehensive income or directly to equity, in which case the deferred tax is also dealt with in other comprehensive income or directly in equity.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

The Nanyang Zhengran 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 the Nanyang Zhengran Group's property, plant and equipment at 31 December 2007 and 2008 and 31 October 2009 are HK$89,038,000, HK$104,132,000 and HK$112,181,000, respectively. The carrying amounts of Nanyang Zhengran's property, plant and equipment at 31 December 2007 and 2008 and 31 October 2009 are HK$87,623,000, HK$102,212,000 and HK$110,449,000, 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 Nanyang Zhengran 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. Details of the recoverable amount calculation are disclosed in Note 15.

Allowance for doubtful debts

The Nanyang Zhengran 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 Nanyang Zhengran Group makes judgement 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 original 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 and 2008 and 31 October 2009, the carrying amounts of trade receivables, net of allowance, of the Nanyang Zhengran Group are HK$6,322,000, HK$3,169,000 and HK$805,000, respectively. At 31 December 2007 and 2008 and 31 October 2009, the carrying amounts of trade receivables, net of allowance, of Nanyang Zhengran are HK$5,472,000, HK$2,491,000 and HK$73,000, respectively. At 31 December 2007 and 2008 and 31 October 2009, the carrying amounts of other receivables, net of allowance, of the Nanyang Zhengran Group, are HK$14,891,000, HK$23,716,000 and HK$16,761,000, respectively. At 31 December 2007 and 2008 and 31 October 2009, the carrying amounts of other receivables, net of allowance, of Nanyang Zhengran are HK$14,692,000, HK$23,468,000 and HK$16,488,000, respectively.

6. CAPITAL RISK MANAGEMENT

The Nanyang Zhengran Group manages its capital to maintain a balance between continuity of cash flows from operating activities and the flexibility through the use of other borrowings. The Nanyang Zhengran Group also monitors the current and expected liquidity requirements regularly to ensure that sufficient working capital is maintained to meet its liquidity requirements.

The capital structure of the Nanyang Zhengran Group consists of other borrowings disclosed in note 24, bank balances and equity attributable to owner of Nanyang Zhengran, comprising paid-in capital, accumulated losses and other reserves.

The management of the Nanyang Zhengran 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 Nanyang Zhengran Group's capital structure through the payment of dividends, capital contribution as well as the issue of new debts or the redemption of existing debts.

7. FINANCIAL INSTRUMENTS

Categories of financial instruments

	At 31 December		At 31 October
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
THE NANYANG ZHENGRAN GROUP			
Financial assets			
Loans and receivables (including cash and cash equivalents)			
- trade and other receivables	21,213	26,885	17,566
- amount due from immediate holding company	33,183	—	—
- bank balances and cash	7,043	9,758	9,539
	61,439	36,643	27,105
Financial liabilities			
At amortised cost			
- trade and other payables	129,718	62,556	57,206
- amount due to immediate holding company	—	81,671	5,563
- amount due to a fellow subsidiary	—	442	792
- other borrowings	50,481	55,381	56,753
	180,199	200,050	120,314

	At 31 December		At 31 October
	2007	2008	2009
	HK$'000	*HK$'000*	*HK$'000*
NANYANG ZHENGRAN			
Financial assets			
Loans and receivables (including cash and cash equivalents)			
- trade and other receivables	20,164	25,959	16,561
- amount due from immediate holding company	33,183	—	—
- amount due from a subsidiary	2,757	4,680	9,740
- bank balances and cash	4,322	7,215	6,113
	60,426	37,854	32,414
Financial liabilities			
At amortised cost			
- trade and other payables	129,113	62,377	57,021
- amount due to immediate holding company	—	81,671	5,563
- amounts due to subsidiaries	23	2,052	2,271
- amount due to a fellow subsidiary	—	442	792
- other borrowings	50,481	55,381	56,753
	179,617	201,923	122,400

Financial risk management objectives and policies

The major financial instruments of the Nanyang Zhengran Group and Nanyang Zhengran include trade and other receivables, amount due from (to) immediate holding company amounts due from (to) subsidiaries, bank balances and cash, trade and other payables, amount due to a fellow subsidiary 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 Nanyang Zhengran Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Interest rate risk

The Nanyang Zhengran Group and Nanyang Zhengran are exposed to cash flow interest rate risk in relation to floating rate amount due to immediate holding company and other borrowings (see notes 20 and 24 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 Nanyang Zhengran Group's and Nanyang Zhengran'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 Nanyang Zhengran consider the Nanyang Zhengran Group's and Nanyang Zhengran'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, amount due to immediate holding company and other borrowings. The analysis is prepared assuming the bank balances, amount due to immediate holding company and other borrowings outstanding at the end of the reporting period were outstanding for the whole year/period. A 50 basis increase or decrease which represents management's assessment of the reasonably possible change in interest rates is used during the Relevant Periods.

If the interest rate on bank balances carried at variable rates and floating-rate amount due to immediate holding company and other borrowings had been 50 basis points higher/lower and all other variables were held constant, the Nanyang Zhengran Group's loss after tax for the period from 9 June 2007 to 31 December 2007, the year ended 31 December 2008 and the ten months ended 31 October 2009 would increase/decrease by approximately HK$217,000, HK$597,000 and HK$236,000, respectively and Nanyang Zhengran's loss after tax for the period from 9 June 2007 to 31 December 2007, the year ended 31 December 2008 and the ten months ended 31 October 2009 would increase/decrease by approximately HK$231,000, HK$610,000 and HK$253,000 respectively.

Credit risk

The Nanyang Zhengran Group's and Nanyang Zhengran'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 statements of financial position. In order to minimise the credit risk, the Nanyang Zhengran 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 Nanyang Zhengran 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 Nanyang Zhengran 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 Nanyang Zhengran Group assesses the credit quality of the suppliers before payments and reviews the recoverability on a regular basis. In this regard, the Nanyang Zhengran 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, the Nanyang Zhengran Group and Nanyang Zhengran have concentration of credit risk in relation to the amount due from immediate holding company amounting to HK$33,183,000. In order to minimise the credit risk, the management has reviewed the recoverable amount of the receivable from immediate holding company at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of Nanyang Zhengran consider that the Nanyang Zhengran Group's and Nanyang Zhengran'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 Nanyang Zhengran 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 Nanyang Zhengran Group and Nanyang Zhengran monitor and maintain a level of cash and cash equivalents deemed adequate by the management to finance the Nanyang Zhengran Group's and Nanyang Zhengran's operations and mitigate the effects of fluctuations in cash flows. The management also monitors the utilisation of other borrowings.

The Nanyang Zhengran Group and Nanyang Zhengran rely on other borrowings and financial support from the immediate holding company which has agreed to provide adequate funds for the Nanyang Zhengran Group and Nanyang Zhengran as a significant source of liquidity.

The following table details the Nanyang Zhengran Group's and Nanyang Zhengran'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 Nanyang Zhengran Group can be required to pay. The table includes both interest and principal cash flows.

THE NANYANG ZHENGRAN GROUP

	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 31 December 2007							
Trade and other payables	—	129,674	44	—	—	129,718	129,718
Other borrowings	2.82%	11,069	4,991	21,410	18,491	55,961	50,481
		140,743	5,035	21,410	18,491	185,679	180,199
At 31 December 2008							
Trade and other payables	—	60,742	1,814	—	—	62,556	62,556
Amount due to immediate holding company	7.47%	81,671	—	—	—	81,671	81,671
Amount due to a fellow subsidiary	—	442	—	—	—	442	442
Other borrowings	4.17%	18,620	5,378	23,852	14,746	62,596	55,381
		161,475	7,192	23,852	14,746	207,265	200,050
At 31 October 2009							
Trade and other payables	—	45,894	11,312	—	—	57,206	57,206
Amount due to immediate holding company	—	5,563	—	—	—	5,563	5,563
Amount due to a fellow subsidiary	—	792	—	—	—	792	792
Other borrowings	2.55%	25,171	5,292	22,553	6,784	59,800	56,753
		77,420	16,604	22,553	6,784	123,361	120,314

NANYANG ZHENGRAN

	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 31 December 2007							
Trade and other payables	—	129,069	44	—	—	129,113	129,113
Amounts due to subsidiaries	—	23	—	—	—	23	23
Other borrowings	2.82%	11,069	4,991	21,410	18,491	55,961	50,481
		140,161	5,035	21,410	18,491	185,097	179,617
At 31 December 2008							
Trade and other payables	—	60,563	1,814	—	—	62,377	62,377
Amount due to immediate holding company	7.47%	81,671	—	—	—	81,671	81,671
Amounts due to subsidiaries	—	2,052	—	—	—	2,052	2,052
Amount due to a fellow subsidiary	—	442	—	—	—	442	442
Other borrowings	4.17%	18,620	5,378	23,852	14,746	62,596	55,381
		163,348	7,192	23,852	14,746	209,138	201,923
At 31 October 2009							
Trade and other payables	—	45,709	11,312	—	—	57,021	57,021
Amount due to immediate holding company	—	5,563	—	—	—	5,563	5,563
Amounts due to subsidiaries	—	2,271	—	—	—	2,271	2,271
Amount due to a fellow subsidiary	—	792	—	—	—	792	792
Other borrowings	2.55%	25,171	5,292	22,553	6,784	59,800	56,753
		79,506	16,604	22,553	6,784	125,447	122,400

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 inputs.

The directors of Nanyang Zhengran consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated statement of financial position approximate to 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 principles generally accepted in the PRC, that are regularly reviewed by the general manager of Nanyang Zhengran in order to allocate resources to the reportable segments and to assess their performance. During the Relevant Periods, there is no difference in the loss before taxation of the Nanyang Zhengran Group as stated in the internal management reports and the Financial Information.

The Nanyang Zhengran 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 (commence during the year ended 31 December 2008)
Petroleum filling station	—	sales of petroleum for motor vehicles

Segment results represent the loss before taxation earned by each segment, excluding other income, interest income, finance costs, central administration costs and impairment loss on goodwill arising on acquisition of businesses of sale and distribution of gas fuel and related products and gas connection. This is the measure reported to the general manager of Nanyang Zhengran for the purpose of resource allocation and assessment of segment performance.

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

Period from 9 June 2007 to 31 December 2007

Segment results

	Sale and distribution of gas fuel and related products	Gas connection	Petroleum filling station	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER				
External sales	7,623	—	16,128	23,751
RESULTS				
Segment results	(9,145)	—	(37)	(9,182)
Interest income				255
Finance costs				(855)
Impairment loss on goodwill				(127,602)
Unallocated income				7
Unallocated expenses				(5,611)
Loss for the period				(142,988)

Segment assets and liabilities

	Sale and distribution of gas fuel and related products	Gas connection	Petroleum filling station	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS				
Segment assets	119,800	15,561	3,897	139,258
Unallocated corporate assets *(Note a)*				55,117
				194,375
LIABILITIES				
Segment liabilities	132	22,859	2,016	25,007
Unallocated corporate liabilities *(Note b)*				189,915
				214,922

Other information

	Sale and distribution of gas fuel and related products	Gas connection	Petroleum filling station	Unallocated	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Capital additions	2,900	1,824	18	—	4,742
Depreciation of property, plant and equipment	1,294	—	177	—	1,471
Release from prepaid lease payments	311	—	—	—	311
Loss on disposal of property, plant and equipment, net	13	—	—	—	13
Impairment loss on goodwill	—	—	—	127,602	127,602

Year ended 31 December 2008

Segment results

	Sale and distribution of gas fuel and related products	Gas connection	Petroleum filling station	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER				
External sales	33,971	19,363	44,282	97,616
RESULTS				
Segment results	(29,292)	10,929	1,996	(16,367)
Interest income				128
Finance costs				(6,105)
Unallocated income				3,090
Unallocated expenses				(4,841)
Loss for the year				(24,095)

Segment assets and liabilities

	Sale and distribution of gas fuel and related products	Gas connection	Petroleum filling station	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS				
Segment assets	127,233	26,808	3,987	158,028
Unallocated corporate assets *(Note a)*				33,474
				191,502
LIABILITIES				
Segment liabilities	2,239	25,375	2,357	29,971
Unallocated corporate liabilities *(Note b)*				207,706
				237,677

Other information

	Sale and distribution of gas fuel and related products	Gas connection	Petroleum filling station	Unallocated	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Capital additions	5,858	10,261	463	—	16,582
Depreciation of property, plant and equipment	6,341	—	222	—	6,563
Release from prepaid lease payments	1,364	—	—	—	1,364
Gain on disposal of property, plant and equipment, net	1,500	—	—	—	1,500

Ten months ended 31 October 2009

Segment results

	Sale and distribution of gas fuel and related products	Gas connection	Petroleum filling station	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER				
External sales	28,001	14,227	41,242	83,470
RESULTS				
Segment results	(21,627)	8,294	4,702	(8,631)
Interest income				157
Finance costs				(1,400)
Unallocated income				1,205
Unallocated expenses				(3,412)
Loss for the period				(12,081)

Segment assets and liabilities

	Sale and distribution of gas fuel and related products	Gas connection	Petroleum filling station	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS				
Segment assets	135,449	28,971	3,651	168,071
Unallocated corporate assets *(Note a)*				26,300
				194,371
LIABILITIES				
Segment liabilities	2,029	38,611	2,298	42,938
Unallocated corporate liabilities *(Note b)*				118,849
				161,787

Other information

	Sale and distribution of gas fuel and related products	Gas connection	Petroleum filling station	Unallocated	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Capital additions	2,254	11,756	7	—	14,017
Depreciation of property, plant and equipment	5,567	—	170	—	5,737
Release from prepaid lease payments	1,155	—	—	—	1,155
Loss on disposal of property, plant and equipment, net	13	—	—	—	13

Ten months ended 31 October 2008 (unaudited)

Segment results

	Sale and distribution of gas fuel and related products	Gas connection	Petroleum filling station	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER				
External sales	28,356	19,194	35,766	83,316
RESULTS				
Segment results	(21,432)	11,061	1,016	(9,355)
Interest income				143
Finance costs				(5,042)
Unallocated income				2,640
Unallocated expenses				(5,156)
Loss for the period				(16,770)

Other information

	Sale and distribution of gas fuel and related products	Gas connection	Petroleum filling station	Unallocated	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Capital additions	2,019	8,551	463	—	11,033
Depreciation of property, plant and equipment	4,933	—	185	—	5,118
Release from prepaid lease payments	1,137	—	—	—	1,137
Gain on disposal of property, plant and equipment, net	1,471	—	—	—	1,471

No analysis on turnover and non-current assets by location is shown as the Nanyang Zhengran 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 Nanyang Zhengran Group during the Relevant Periods.

Notes:

(a) Unallocated corporate assets represent other receivables, amounts due from group companies and bank balances and cash.

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

9. FINANCE COSTS

	Period from 9 June 2007 to 31 December 2007	Year ended 31 December 2008	Ten months ended 31 October 2008	Ten months ended 31 October 2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
			(unaudited)	
Interest on bank borrowings wholly repayable within five years	71	—	—	—
Interest on other borrowings not wholly repayable within five years	784	1,659	1,383	1,400
Interest on amount due to immediate holding company	—	4,446	3,659	—
	855	6,105	5,042	1,400

10. LOSS FOR THE PERIOD/YEAR

	Period from 9 June 2007 to 31 December 2007	Year ended 31 December 2008	Ten months ended 31 October 2008	2009
	HK$'000	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Loss for the period/year has been arrived at after charging:				
Directors' emoluments *(Note 11)*	18	43	39	39
Other staff costs	6,291	19,001	15,856	16,650
Retirement benefit schemes contributions	1,130	2,279	1,861	1,986
Total staff costs	7,439	21,323	17,756	18,675
Auditor's remuneration	31	11	—	—
Depreciation of property, plant and equipment	1,471	6,563	5,118	5,737
Impairment loss on goodwill	127,602	—	—	—
Impairment loss on trade receivables	—	2,161	2,132	66
Impairment loss on other receivables	—	—	—	598
Release from prepaid lease payments	311	1,364	1,137	1,155
Loss on disposal of property and equipment, net	13	—	—	13
and after crediting:				
Gain on disposal of property, plant and equipment, net	—	1,500	1,471	—
Interest income	255	128	143	157

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

		Period from 9 June 2007 to 31 December 2007			
Name of director	*Note*	**Fees**	**Other benefits**	**Retirement benefit schemes contributions**	**Total**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Chen Yu	(a)	—	—	—	—
Li Yantong	(a)	—	—	—	—
Shang Yuqiu	(a)	—	—	—	—
Zhang Gang	(a)	—	18	—	18
Zhao Yan	(a)	—	—	—	—
		—	18	—	18

		Year ended 31 December 2008			
Name of director	*Notes*	**Fees**	**Other benefits**	**Retirement benefit schemes contributions**	**Total**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Chen Yu		—	—	—	—
Li Yantong		—	—	—	—
Zhang Gang		—	43	—	43
Zhao Yan		—	—	—	—
Shang Yuqiu	(b)	—	—	—	—
Liu Daoquan	(c)	—	—	—	—
Qiao Hong	(c)	—	—	—	—
Zhao Ruibao	(c)	—	—	—	—
		—	43	—	43

Name of director	Fees	Other benefits	Retirement benefit schemes contributions	Total
	Ten months ended 31 October 2009			
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Chen Yu	—	—	—	—
Li Daoquan	—	—	—	—
Li Yantong	—	—	—	—
Qiao Hong	—	—	—	—
Zhang Gang	—	39	—	39
Zhao Ruibao	—	—	—	—
Zhao Yan	—	—	—	—
	—	39	—	39

Name of director	*Notes*	Fees	Other benefits	Retirement benefit schemes contributions	Total
		Ten months ended 31 October 2008			
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
		(unaudited)	*(unaudited)*	*(unaudited)*	*(unaudited)*
Chen Yu		—	—	—	—
Li Yantong		—	—	—	—
Zhang Gang		—	39	—	39
Zhao Yan		—	—	—	—
Shang Yuqiu	(b)	—	—	—	—
Li Daoquan	(c)	—	—	—	—
Qiao Hong	(c)	—	—	—	—
Zhao Ruibao	(c)	—	—	—	—
		—	39	—	39

Notes:

(a) Appointed on 16 June 2007.

(b) Resigned as director on 30 April 2008.

(c) Appointed on 30 April 2008.

Emoluments and retirement benefit schemes contributions paid or payable to the directors, except Zhang Gang, during the Relevant Periods were borne by the immediate holding company.

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

	Period from 9 June 2007 to 31 December 2007	Year ended 31 December 2008	Ten months ended 31 October 2008	2009
	HK$'000	*HK$'000*	*HK$'000* *(unaudited)*	*HK$'000*
Basic salaries and allowances	84	212	180	177
Retirement benefit schemes contributions	3	3	3	—
	87	215	183	177

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

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

12. TAXATION

No provision for Hong Kong Profits Tax and PRC Enterprise Income Tax have been made for the period from 9 June 2007 to 31 December 2007, the year ended 31 December 2008 and the ten months ended 31 October 2008 and 2009 as the Nanyang Zhengran Group has no assessable profit in Hong Kong and the PRC for those periods/years.

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 Nanyang Zhengran Group's subsidiaries from 1 January 2008.

Taxation for the Relevant Periods can be reconciled to the loss for the period/year as follows:

	Period from 9 June 2007 to 31 December 2007	Year ended 31 December 2008	Ten months ended 31 October 2008	2009
	HK$'000	*HK$'000*	*HK$'000* *(unaudited)*	*HK$'000*
Loss for the period/year	(142,988)	(24,095)	(16,770)	(12,081)
Taxation charge at the applicable income tax rate (note)	(47,186)	(6,024)	(4,193)	(3,020)
Tax effect of expenses not deductible for tax purposes	42,109	—	—	—
Tax effect of tax losses not recognised	5,077	6,024	4,193	3,020
Taxation charge for the period/year	—	—	—	—

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 ten months ended 31 October 2008 and 2009, of which the Nanyang Zhengran Group's operations are substantially based.

At 31 December 2007 and 2008 and 31 October 2009, the Nanyang Zhengran Group had unused tax losses of approximately HK$15,386,000, HK$39,481,000 and HK$51,562,000, 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.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings held for own use	Plant and machinery	Furniture and fixtures	Motor vehicles	Gas pipelines	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
THE NANYANG ZHENGRAN GROUP							
Cost							
Exchange realignment	786	641	18	37	1,911	72	3,465
Additions	457	563	314	281	1,303	1,824	4,742
Acquisition of businesses	19,353	15,618	137	650	46,621	—	82,379
Disposals	(68)	(93)	—	—	—	—	(161)
At 31 December 2007	20,528	16,729	469	968	49,835	1,896	90,425
Exchange realignment	1,346	1,104	33	70	3,181	258	5,992
Additions	3,937	1,147	207	796	234	10,261	16,582
Transfers	—	115	—	—	—	(115)	—
Disposals	(1,188)	(10)	—	(194)	—	—	(1,392)
At 31 December 2008	24,623	19,085	709	1,640	53,250	12,300	111,607
Exchange realignment	(12)	(10)	—	(1)	(25)	(4)	(52)
Additions	443	364	318	454	682	11,756	14,017
Transfers	3	172	—	—	9,249	(9,424)	—
Disposals	—	—	—	—	(993)	—	(993)
At 31 October 2009	25,057	19,611	1,027	2,093	62,163	14,628	124,579
Accumulated depreciation							
Exchange realignment	9	15	1	1	28	—	54
Charge for the period	289	449	18	9	706	—	1,471
Eliminated on disposals	(62)	(76)	—	—	—	—	(138)
At 31 December 2007	236	388	19	10	734	—	1,387
Exchange realignment	28	47	2	3	90	—	170
Charge for the year	1,381	1,626	51	365	3,140	—	6,563
Eliminated on disposals	(448)	(9)	—	(188)	—	—	(645)
At 31 December 2008	1,197	2,052	72	190	3,964	—	7,475
Exchange realignment	(1)	(1)	—	—	(1)	—	(3)
Charge for the period	1,242	1,335	111	244	2,805	—	5,737
Eliminated on disposals	—	—	—	—	(811)	—	(811)
At 31 October 2009	2,438	3,386	183	434	5,957	—	12,398
Carrying values							
At 31 October 2009	22,619	16,225	844	1,659	56,206	14,628	112,181
At 31 December 2008	23,426	17,033	637	1,450	49,286	12,300	104,132
At 31 December 2007	20,292	16,341	450	958	49,101	1,896	89,038

	Buildings held for own use	Plant and machinery	Furniture and fixtures	Motor vehicles	Gas pipelines	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
NANYANG ZHENGRAN							
Cost							
Exchange realignment	762	604	17	37	1,911	72	3,403
Additions	451	563	302	281	1,303	1,824	4,724
Acquisition of businesses	18,765	14,693	130	650	46,621	—	80,859
Disposals	(68)	(93)	—	—	—	—	(161)
At 31 December 2007	19,910	15,767	449	968	49,835	1,896	88,825
Exchange realignment	1,307	1,020	32	63	3,181	258	5,861
Additions	3,896	933	186	326	234	10,261	15,836
Transfers	—	115	—	—	—	(115)	—
Disposals	(1,188)	(10)	—	(194)	—	—	(1,392)
At 31 December 2008	23,925	17,825	667	1,163	53,250	12,300	109,130
Exchange realignment	(12)	(9)	—	—	(25)	(4)	(50)
Additions	443	364	307	454	682	11,756	14,006
Transfers	3	172	—	—	9,249	(9,424)	—
Disposals	—	—	—	—	(993)	—	(993)
At 31 October 2009	24,359	18,352	974	1,617	62,163	14,628	122,093
Accumulated depreciation							
Exchange realignment	9	9	1	1	28	—	48
Charge for the period	251	309	17	9	706	—	1,292
Eliminated on disposals	(62)	(76)	—	—	—	—	(138)
At 31 December 2007	198	242	18	10	734	—	1,202
Exchange realignment	25	35	1	1	90	—	152
Charge for the year	1,344	1,449	46	230	3,140	—	6,209
Eliminated on disposals	(448)	(9)	—	(188)	—	—	(645)
At 31 December 2008	1,119	1,717	65	53	3,964	—	6,918
Exchange realignment	—	(1)	—	—	(1)	—	(2)
Charge for the period	1,210	1,238	106	180	2,805	—	5,539
Eliminated on disposals	—	—	—	—	(811)	—	(811)
At 31 October 2009	2,329	2,954	171	233	5,957	—	11,644
Carrying values							
At 31 October 2009	22,030	15,398	803	1,384	56,206	14,628	110,449
At 31 December 2008	22,806	16,108	602	1,110	49,286	12,300	102,212
At 31 December 2007	19,712	15,525	431	958	49,101	1,896	87,623

The above items of property, plant and equipment other than construction in progress are depreciated on a straight-line basis over their estimated useful lives and after taking into account of their estimated residual values, which are as follows.

Buildings held for own use	Over the shorter of the unexpired terms of leases or twenty five years, whichever is shorter
Plant and machinery	5 to 20 years
Furniture and fixtures	3 to 12 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. Included in buildings held for own use are buildings with carrying amount of HK$3,379,000, HK$6,179,000 and HK$6,079,000 at 31 December 2007 and 2008 and 31 October 2009, respectively, of which the official legal titles have not yet been obtained.

14. PREPAID LEASE PAYMENTS

	At 31 December		At 31 October
	2007	2008	2009
	HK$'000	*HK$'000*	*HK$'000*
THE NANYANG ZHENGRAN GROUP AND NANYANG ZHENGRAN			
Balance at beginning of the period/year	—	30,522	31,261
Exchange realignment	1,145	1,930	(17)
Acquisition of businesses	29,688	—	—
Addition	—	173	—
Release for the period/year	(311)	(1,364)	(1,155)
Balance at end of the period/year	30,522	31,261	30,089
Analysed for reporting purposes:			
Non-current assets	29,227	29,878	28,707
Current assets	1,295	1,383	1,382
	30,522	31,261	30,089

Prepaid lease payments represent payments for medium-term land use rights situated in the PRC. Included in prepaid lease payments are land use rights of HK$1,126,000, HK$887,000 and HK$629,000 at 31 December 2007 and 2008 and 31 October 2009, respectively, of which the official land use right titles have not yet been obtained.

15. GOODWILL

	At 31 December		At 31 October
	2007	2008	2009
	HK$'000	*HK$'000*	*HK$'000*
COST			
Balance at beginning of the period/year	—	127,602	127,602
Acquisition of businesses	127,602	—	—
Balance at end of the period/year	127,602	127,602	127,602
IMPAIRMENT			
Balance at beginning of the period/year	—	127,602	127,602
Impairment loss recognised	127,602	—	—
Balance at end of the period/year	127,602	127,602	127,602
CARRYING VALUES	—	—	—

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 whole goodwill related to both the "gas operation - sale and distribution of gas fuel and related products" and "gas connection" segments.

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 of gas 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.

As at 31 December 2007, the Nanyang Zhengran Group prepared cash flows forecasts derived from the most recent financial budgets approved by senior management for the next five years, and extrapolates cash flows for the following five years based on the estimated growth rate of 5% and twenty years based on 0% estimated growth rate. The rate used to discount the forecast cash flows is 9.8%. The management assesses the recoverable amount of the CGU is less than its carrying amount (including goodwill of HK$127,602,000), accordingly, full impairment loss is recognised on goodwill upon acquisition of businesses.

16. INTERESTS IN SUBSIDIARIES AND AMOUNTS DUE FROM (TO) SUBSIDIARIES

	At 31 December		At 31 October
	2007	2008	2009
	HK$'000	*HK$'000*	*HK$'000*
NANYANG ZHENGRAN			
Unlisted investments, at cost	1,335	4,597	4,597
Impairment loss	(1,071)	(1,217)	(1,421)
	264	3,380	3,176

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

17. INVENTORIES

	At 31 December		At 31 October
	2007	2008	2009
	HK$'000	*HK$'000*	*HK$'000*
THE NANYANG ZHENGRAN GROUP			
Construction materials	3,008	3,151	4,018
Finished goods	2,684	3,181	3,383
	5,692	6,332	7,401
NANYANG ZHENGRAN			
Construction materials	3,008	3,151	4,018
Finished goods	1,042	1,331	1,368
	4,050	4,482	5,386

18. TRADE AND OTHER RECEIVABLES

	At 31 December 2007 HK$'000	At 31 December 2008 HK$'000	At 31 October 2009 HK$'000
THE NANYANG ZHENGRAN GROUP			
Trade receivables	6,322	3,169	805
Deposits paid to suppliers	2,582	5,174	5,066
Other receivables	14,891	23,716	16,761
	23,795	32,059	22,632
NANYANG ZHENGRAN			
Trade receivables	5,472	2,491	73
Deposits paid to suppliers	2,446	4,162	3,452
Other receivables	14,692	23,468	16,488
	22,610	30,121	20,013

Other receivables mainly represent staff advances and staff welfare fund contributions receivable from employees.

The Nanyang Zhengran Group and Nanyang Zhengran have a policy of allowing credit periods of up to 90 days to its customers. The following is an aged analysis of trade receivables presented based on invoice date at the end of the reporting period:

	At 31 December 2007 HK$'000	At 31 December 2008 HK$'000	At 31 October 2009 HK$'000
THE NANYANG ZHENGRAN GROUP			
0 to 90 days	768	696	715
91 to 180 days	—	1,927	—
181 to 360 days	5,435	347	—
Over 360 days	119	199	90
	6,322	3,169	805
NANYANG ZHENGRAN			
0 to 90 days	3	18	73
91 to 180 days	—	1,927	—
181 to 360 days	5,435	347	—
Over 360 days	34	199	—
	5,472	2,491	73

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

	At 31 December		At 31 October
	2007	2008	2009
	HK$'000	*HK$'000*	*HK$'000*
THE NANYANG ZHENGRAN GROUP			
91 to 180 days	—	1,927	—
181 to 360 days	5,435	347	—
Over 360 days	119	199	90
Total	5,554	2,473	90
NANYANG ZHENGRAN			
91 to 180 days	—	1,927	—
181 to 360 days	5,435	347	—
Over 360 days	34	199	—
Total	5,469	2,473	—

The Nanyang Zhengran Group and Nanyang Zhengran do not hold any collateral over these balances that are past due. The Nanyang Zhengran Group and Nanyang Zhengran have no significant concentration of credit risk on trade and other receivables, with exposure spread over a large number of counterparties and customers.

Movement in the allowance for doubtful debts

	At 31 December		At 31 October
	2007	2008	2009
	HK$'000	*HK$'000*	*HK$'000*
THE NANYANG ZHENGRAN GROUP AND NANYANG ZHENGRAN			
Balance at beginning of the year/period	—	—	2,161
Exchange realignment	—	—	(1)
Allowance recognised	—	2,161	66
Balance at end of the year/period	—	2,161	2,226

In determining the recoverability of the trade and other receivables, the Nanyang Zhengran Group and Nanyang Zhengran consider 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.

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

	At 31 December 2007	At 31 December 2008	At 31 October 2009
	HK$'000	*HK$'000*	*HK$'000*
THE NANYANG ZHENGRAN GROUP AND NANYANG ZHENGRAN			
Contract costs incurred plus profits recognised	4,638	7,524	9,428
Less: Progress billings	(2,498)	(9,270)	(10,255)
	2,140	(1,746)	(827)
Analysed for reporting purposes:			
Amounts due from customers for contract work	5,102	6,840	8,571
Amounts due to customers for contract work	(2,962)	(8,586)	(9,398)
	2,140	(1,746)	(827)

20. AMOUNT DUE FROM (TO) IMMEDIATE HOLDING COMPANY

THE NANYANG ZHENGRAN GROUP AND NANYANG ZHENGRAN

The balances are unsecured and repayable on demand. At 31 December 2008, the amount due to immediate holding company of HK$73,834,000 is interest-bearing at the People's Bank of China 1-year fixed borrowing rate, with an average rate of 7.47% per annum.

The amount due from immediate holding company as at 31 December 2007 of HK$33,183,000 and the amount due to immediate holding company as at 31 December 2008 and 31 October 2009 of HK$7,837,000 and HK$5,563,000, respectively, are interest-free.

21. BANK BALANCES AND CASH

Bank balances and cash comprises cash and short-term bank deposits which bear interest at variable rate and with maturity within three months from initial inception.

THE NANYANG ZHENGRAN GROUP AND NANYANG ZHENGRAN

	At 31 December 2007 %	At 31 December 2008 %	At 31 October 2009 %
Interest rates of bank deposits	0-3.62	0-1.31	0-1.65

22. TRADE AND OTHER PAYABLES

	At 31 December 2007 HK$'000	At 31 December 2008 HK$'000	At 31 October 2009 HK$'000
THE NANYANG ZHENGRAN GROUP			
Trade payables	7,715	7,130	14,682
Bills payables	—	6,661	2,111
Advances from customers	14,330	14,255	18,858
Other tax payables	1,179	912	964
Other payables	65,663	48,765	40,413
Compensation payable *(Note 28)*	56,340	—	—
Accrued expenses	16,252	13,874	12,253
	161,479	91,597	89,281
NANYANG ZHENGRAN			
Trade payables	7,715	7,130	14,682
Bills payables	—	6,661	2,111
Advances from customers	12,314	11,898	16,516
Other tax payables	1,209	874	687
Other payables	65,058	48,586	40,228
Compensation payable *(Note 28)*	56,340	—	—
Accrued expenses	14,563	13,514	11,974
	157,199	88,663	86,198

Other payables mainly represent salaries and staff welfare payable.

The following is an aged analysis of trade payables presented based on invoice date at the end of the reporting period:

	At 31 December		At 31 October
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
THE NANYANG ZHENGRAN GROUP AND NANYANG ZHENGRAN			
0 to 90 days	44	1,814	—
91 to 180 days	877	2,717	11,312
181 to 360 days	6,794	111	315
Over 360 days	—	2,488	3,055
	7,715	7,130	14,682

The average credit period on purchases of goods ranges from 30 to 90 days. The trade payables from purchase of construction materials are subject to retention period within one year after completion of the construction projects. The Nanyang Zhengran Group and Nanyang Zhengran have financial risk management policies in place to ensure that all payables are within the credit timeframe.

23. AMOUNT DUE TO A FELLOW SUBSIDIARY

THE NANYANG ZHENGRAN GROUP AND NANYANG ZHENGRAN

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

24. OTHER BORROWINGS

	At 31 December		At 31 October
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
THE NANYANG ZHENGRAN GROUP AND NANYANG ZHENGRAN			
Unsecured other loans	50,481	55,381	56,753

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

	At 31 December		At 31 October
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
On demand or within one year	15,923	23,782	30,331
More than one year but not exceeding two years	14,561	15,490	15,482
More than two years but not exceeding five years	4,854	5,163	5,160
Over five years	15,143	10,946	5,780
	50,481	55,381	56,753
Less: Amount due within one year shown as current liabilities	(15,923)	(23,782)	(30,331)
Amount due after one year shown as non-current liabilities	34,558	31,599	26,422

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

	Effective interest rate per annum	Carrying amount At 31 December		At 31 October
		2007	*2008*	*2009*
		HK$'000	*HK$'000*	*HK$'000*
Floating-rate borrowings:				
Unsecured other loans at 0.3% above the People's Bank of China 1-year fixed deposit rate	2.55%-4.17%	50,481	55,381	56,753

25. PAID-IN CAPITAL

	At 31 December		At 31 October
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Registered and paid-in capital:			
Zhengzhou GGCL	120,000	120,000	200,000
Shown in the Financial Information as	123,228	123,228	213,995

The above capital contributions on 7 June 2007 and 2 June 2009 have been verified by capital verification reports 宛方會驗(2007)15號 issued by 南陽方圓有限責任會計師事務所, and 豫君會驗字(2009)第41號 issued by 河南君廣信會計師事務所有限公司, respectively.

26. RESERVES OF NANYANG ZHENGRAN

	Exchange reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*
Exchange difference arising on translation to presentation currency	(735)	—	(735)
Loss for the period	—	(142,725)	(142,725)
At 31 December 2007	(735)	(142,725)	(143,460)
Exchange difference arising on translation to presentation currency	(1,607)	—	(1,607)
Loss for the year	—	(23,645)	(23,645)
At 31 December 2008	(2,342)	(166,370)	(168,712)
Exchange difference arising on translation to presentation currency	1,475	—	1,475
Loss for the period	—	(10,238)	(10,238)
At 31 October 2009	(867)	(176,608)	(177,475)

27. RETIREMENT BENEFITS SCHEMES

The employees of the Nanyang Zhengran Group in the PRC are members of state-managed retirement benefit schemes operated by the local government in the PRC. The Nanyang Zhengran 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 Nanyang Zhengran Group with respect to the retirement benefit schemes is to make the specified contributions.

28. ACQUISITION OF BUSINESSES

On 6 June 2007, Zhengzhou GGCL entered into agreements with 南陽市建設委員會, a committee under the Nanyang local government, for acquisition of businesses of 南陽市液化石油氣有限公司 and 南陽市沼氣公司. Pursuant to the agreement, Zhengzhou GGCL was required to pay a sum of RMB73,036,000 (equivalent to HK$75,000,000) to the staff of 南陽市液化石油氣有限公司 and 南陽市沼氣公司 ("the Staff") as compensation. Such compensation paid or payable to the Staff was regarded as costs of this acquisition. Zhengzhou GGCL then established Nanyang Zhengran as its wholly-owned subsidiary and the businesses were directly transferred from 南陽市建設委員會 to Nanyang Zhengran on 22 September 2007.

This acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was HK$127,602,000.

	Acquiree's carrying amounts before combination	Fair value adjustments	Fair values
	HK$'000	*HK$'000*	*HK$'000*
NET ASSETS ACQUIRED:			
Property, plant and equipment	73,252	9,127	82,379
Prepaid lease payments	14,746	14,942	29,688
Inventories	2,731	—	2,731
Trade and other receivables	26,994	—	26,994
Amounts due from customers for contract work	1,744	—	1,744
Bank balances and cash	1,285	—	1,285
Trade and other payables	(123,763)	—	(123,763)
Amounts due to customers for contract work	(2,849)	—	(2,849)
Amount due to immediate holding company	(17,347)	—	(17,347)
Other borrowings	(53,464)	—	(53,464)
	(76,671)	24,069	(52,602)
Goodwill			127,602
			75,000
Satisfied by:			
Cash			18,660
Compensation payable to the Staff (included in trade and other payables)			56,340
			75,000
Analysis of net outflow of cash and cash equivalents in respect of acquisition of businesses:			
Cash paid			(18,660)
Bank balances and cash acquired			1,285
			(17,375)

The acquirees contributed HK$17,093,000 to the Nanyang Zhengran Group's loss for the period between the date of acquisition and 31 December 2007.

29. CAPITAL COMMITMENTS

	At 31 December		At 31 October
	2007	2008	2009
	HK$'000	*HK$'000*	*HK$'000*
THE NANYANG ZHENGRAN GROUP AND NANYANG ZHENGRAN			
Capital expenditure in respect of acquisition of property, plant and equipment contracted but not provided in the Financial Information	—	4,239	95,974

30. CONTINGENT LIABILITIES

As at 31 December 2007 and 2008 and 31 October 2009, the Nanyang Zhengran Group and Nanyang Zhengran have given guarantees amounting to HK$15,697,000, HK$16,476,000 and HK$4,198,000, respectively, to banks in respect of banking facilities granted to other state-controlled entities. The fair values of the guarantees as at 31 December 2007, 31 December 2008 and 31 October 2009 are not significant as it is remote for the default payment by state controlled entities and therefore no amount has been recognised in the statements of financial position as liabilities, respectively.

31. RELATED PARTY TRANSACTIONS

The Nanyang Zhengran Group entered into the following related party transactions during the Relevant Periods:

	Period from 9 June 2007 to 31 December	Year ended 31 December	Ten months ended 31 October	
	2007	2008	2008	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
			(unaudited)	
THE NANYANG ZHENGRAN GROUP				
Construction service received from a related company	908	—	—	—
Purchase of goods from a related company	—	152	—	—
Interest expenses paid to immediate holding company	—	4,446	3,659	—

The Nanyang Zhengran Group itself is part of a larger group of companies under Zhenghzou SASAC which is controlled by the government of the PRC. Apart from the transactions with the parent company and a related company which have been disclosed in other notes to the Financial Information and the financial guarantees granted to certain state-controlled entities as mentioned in Note 30, the Nanyang Zhengran 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 are independent third parties as far as the Nanyang Zhengran Group's business transactions with them are concerned. In establishing its pricing strategies and approval process for transactions with other state-controlled entities, the Nanyang Zhengran Group does not differentiate whether the counter-party is a state-controlled entity or not. The Nanyang Zhengran 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 Financial Information.

Compensation of key management personnel

	Period from 9 June 2007 to 31 December 2007	**Year ended 31 December 2008**	**Ten months ended 31 October 2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000* *(unaudited)*	*HK$'000*
Short-term benefits	84	212	180	177
Post-employment benefits	3	3	3	—
	87	215	183	177

B. ULTIMATE PARENT AND IMMEDIATE HOLDING COMPANY

At 31 October 2009, the directors of Nanyang Zhengran regard Nanyang Zhengran's ultimate parent and immediate holding company to be Zhengzhou SASAC and Zhengzhou GGCL, a State-owned company incorporated in the PRC, respectively.

C. DIRECTORS' EMOLUMENTS

The remuneration paid to the directors of Nanyang Zhengran for the period from 9 June 2007 to 31 December 2007, the year ended 31 December 2008 and the ten months ended 31 October 2009 are HK$18,000, HK$43,000 and HK$39,000, respectively.

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Nanyang Zhengran or any of the companies of the Nanyang Zhengran Group subsequent to 31 October 2009.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

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 Zhengzhou Gas Design.

Deloitte.
德勤

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29 January 2010

The Directors
China Resources Gas Group Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") relating to Zhengzhou City Zhengran Gas Design Development Co., Ltd. ("Zhengzhou Gas Design") for each of the three years ended 31 December 2006, 2007 and 2008 and the ten months ended 31 October 2009 (the "Relevant Periods"), for the inclusion in the circular of China Resources Gas Group Limited (the "Company") dated 29 January 2010 (the "Circular") issued in connection with the potential cooperation between the Company and the controlling shareholder of Zhengzhou Gas Company Limited ("Zhengzhou Gas") involving the formation of a joint venture, acquisition of assets by the joint venture for its piped gas business and acquisition of controlling interest in Zhengzhou Gas. As part of the potential cooperation, a 17.37% equity investment in Zhengzhou Gas Design will be injected to the joint venture.

Zhengzhou Gas Design was established on 18 December 2000 in the People's Republic of China ("PRC") and is principally engaged in gas pipeline design.

The statutory financial statements of Zhengzhou Gas Design for the Relevant Periods were prepared in accordance with the relevant accounting principles and financial regulations applicable to the PRC jurisdiction and were audited by 河南誠和會計師事務所 which is registered in the PRC.

For the purpose of this report, the directors of Zhengzhou Gas Design have prepared its financial statements for the three years ended 31 December 2006, 2007 and 2008 and the ten months ended 31 October 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 for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements. No adjustments are considered necessary to adjust the Underlying Financial Statements in the preparation of this report for inclusion in the Circular.

The directors of Zhengzhou Gas Design are responsible for preparing the Underlying Financial Statements and the directors of the Company are responsible for 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, 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 Zhengzhou Gas Design as at 31 December 2006, 2007 and 2008 and 31 October 2009 and its profit and cash flows for the Relevant Periods.

The comparative statement of comprehensive income, statement of cash flows and statement of changes in equity of Zhengzhou Gas Design for the ten months ended 31 October 2008 together with the notes thereon (the "31 October 2008 Financial Information") have been extracted from the Zhengzhou Gas Design's unaudited financial information for the same period which was prepared by the directors of Zhengzhou Gas Design 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 31 October 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. STATEMENTS OF COMPREHENSIVE INCOME

		Year ended 31 December			Ten months ended 31 October	
	Notes	**2006**	**2007**	**2008**	**2008**	**2009**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*	*HK$'000*
Service income		7,618	9,281	13,223	11,343	15,431
Direct costs		(2,170)	(2,967)	(4,405)	(3,453)	(3,870)
Gross profit		5,448	6,314	8,818	7,890	11,561
Other income		84	114	92	56	53
Selling and distribution expenses		(52)	(63)	(149)	(96)	(93)
Administrative expenses		(597)	(387)	(750)	(610)	(744)
Profit before taxation	8	4,883	5,978	8,011	7,240	10,777
Taxation	10	(260)	(332)	(320)	(274)	(387)
Profit for the year/period		4,623	5,646	7,691	6,966	10,390
Other comprehensive income for the year/period Exchange difference arising on translation to presentation currency		689	866	501	491	(2)
Total comprehensive income for the year/period		5,312	6,512	8,192	7,457	10,388

II. STATEMENTS OF FINANCIAL POSITION

		At 31 December			At 31 October
	Notes	**2006**	**2007**	**2008**	**2009**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets					
Plant and equipment	12	553	726	812	843
Available-for-sale investment	13	50	—	—	—
		603	726	812	843
Current assets					
Trade and other receivables	14	69	66	480	492
Amount due from a shareholder	15	11,441	726	5,679	5,677
Taxation recoverable		—	—	29	91
Bank balances and cash	16	10,390	6,576	15,602	22,633
		21,900	7,368	21,790	28,893
Current liabilities					
Other payables	17	1,188	2,482	5,833	5,757
Taxation payable		25	4	—	—
		1,213	2,486	5,833	5,757
Net current assets		20,687	4,882	15,957	23,136
Net assets		21,290	5,608	16,769	23,979
Capital and reserves					
Paid-in capital	18	1,326	1,326	4,295	4,295
Reserves		19,964	4,282	12,474	19,684
Total equity		21,290	5,608	16,769	23,979

III. STATEMENTS OF CHANGES IN EQUITY

	Paid-in capital	General reserve	Exchange reserve	Retained profits	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Note)			
At 1 January 2006	1,326	1,766	—	12,886	15,978
Exchange difference arising on translation to presentation currency	—	—	689	—	689
Profit for the year	—	—	—	4,623	4,623
Total comprehensive income for the year	—	—	689	4,623	5,312
At 31 December 2006	1,326	1,766	689	17,509	21,290
Exchange difference arising on translation to presentation currency	—	—	866	—	866
Profit for the year	—	—	—	5,646	5,646
Total comprehensive income for the year	—	—	866	5,646	6,512
Dividend recognised as distribution	—	—	—	(22,194)	(22,194)
Transfer between categories	—	(1,179)	—	1,179	—
At 31 December 2007	1,326	587	1,555	2,140	5,608
Exchange difference arising on translation to presentation currency	—	—	501	—	501
Profit for the year	—	—	—	7,691	7,691
Total comprehensive income for the year	—	—	501	7,691	8,192
Capital contribution	2,969	—	—	—	2,969
Transfer between categories	—	769	—	(769)	—

	Paid-in capital	**General reserve**	**Exchange reserve**	**Retained profits**	**Total equity**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Note)			
At 31 December 2008	4,295	1,356	2,056	9,062	16,769
Exchange difference arising on translation to presentation currency	—	—	(2)	—	(2)
Profit for the period	—	—	—	10,390	10,390
Total comprehensive income for the period	—	—	(2)	10,390	10,388
Dividend recognised as distribution	—	—	—	(3,178)	(3,178)
At 31 October 2009	4,295	1,356	2,054	16,274	23,979
At 1 January 2008 (audited)	1,326	587	1,555	2,140	5,608
Exchange difference arising on translation to presentation currency	—	—	491	—	491
Profit for the period	—	—	—	6,966	6,966
Total comprehensive income for the period	—	—	491	6,966	7,457
Capital contribution	2,969	—	—	—	2,969
At 31 October 2008 (unaudited)	4,295	587	2,046	9,106	16,034

Note: General reserve represents the General Reserve Fund set aside by Zhengzhou Gas Design in accordance with the relevant laws and regulations in the PRC. It is not available for distribution. According to the 企業財務通則第六章第50條 announced by the PRC government on 4 December 2006, PRC companies are not required to set aside general reserve when the accumulated amount exceeds 50% of registered capital. On 12 June 2007, Zhengzhou Gas Design has reversed its excess general reserve over 50% of registered capital to retained profits, amounting to HK$1,179,000.

IV. STATEMENTS OF CASH FLOWS

	Year ended 31 December			Ten months ended 31 October	
	2006	2007	2008	2008	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Cash flows from operating activities					
Profit before taxation	4,883	5,978	8,011	7,240	10,777
Adjustments for:					
Interest income	(50)	(90)	(92)	(56)	(53)
Depreciation of plant and equipment	151	163	198	163	187
Operating cash flows before movements in working capital	4,984	6,051	8,117	7,347	10,911
Decrease (increase) in trade and other receivables	5	7	(410)	(282)	(12)
Increase (decrease) in other payables	377	1,209	3,182	1,431	(73)
Cash from operations	5,366	7,267	10,889	8,496	10,826
PRC Enterprise Income Tax paid	(264)	(355)	(353)	(312)	(449)
Net cash from operating activities	5,102	6,912	10,536	8,184	10,377
Cash flows from investing activities					
Proceeds from disposal of available-for-sale investment	149	54	—	—	—
Interest received	50	90	92	56	53
Advance to a shareholder	(15)	—	(5,679)	(5,679)	—
Repayment from a shareholder	—	11,532	775	775	—
Purchase of plant and equipment	—	(292)	(237)	(237)	(218)
Net cash from (used in) investing activities	184	11,384	(5,049)	(5,085)	(165)

	Year ended 31 December			Ten months ended 31 October	
	2006	**2007**	**2008**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Cash flows from financing activities					
Capital contribution	—	—	2,969	2,969	—
Dividend paid	—	(22,194)	—	—	(3,178)
Net cash (used in) from financing activities	—	(22,194)	2,969	2,969	(3,178)
Net increase (decrease) in cash and cash equivalents	5,286	(3,898)	8,456	6,068	7,034
Effect on foreign exchange rate changes	296	84	570	560	(3)
Cash and cash equivalents at beginning of the year/period	4,808	10,390	6,576	6,576	15,602
Cash and cash equivalents at end of the year/period, representing bank balances and cash	10,390	6,576	15,602	13,204	22,633

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL

Zhengzhou Gas Design was established on 18 December 2000 in the PRC as a limited liability company, being a joint venture held by Zhengzhou Gas Group Co., Ltd. ("Zhengzhou GGCL") and Zhengzhou Gas Group Co., Ltd. Labour Union ("Zhengzhou GGCL Labour Union"), both established in the PRC. On 22 August 2008, due to additional capital contribution by Zhengzhou GGCL Labour Union, Zhengzhou GGCL Labour Union has become the parent of Zhengzhou Gas Design. The address of the registered office and principal place of business of Zhengzhou Gas Design is 352 Longhai West Road, Zhengzhou City, Henan Province, the PRC.

The functional currency of Zhengzhou Gas Design is Renminbi ("RMB") while the Financial Information is presented in Hong Kong dollars ("HK$"), which is consistent with the presentation currency of the financial information of the Company and its subsidiaries included in the Circular.

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

Zhengzhou Gas Design 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 Zhengzhou Gas Design's financial period beginning on 1 January 2009 in the preparation of the Financial Information throughout the Relevant Periods.

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

HKFRSs (Amendment)	Amendment to HKFRS 5 as part of improvements to HKFRS, 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 24 (Revised)	Related party disclosures[3]
HKAS 27 (Revised)	Consolidated and separate financial statements[1]
HKAS 32 (Amendments)	Classification of rights issues[4]
HKAS 39 (Amendments)	Eligible hedged items[1]
HKFRS 1 (Amendments)	Additional exemptions for first-time adopters[5]
HKFRS 2 (Amendments)	Group cash-settled share-based payment transactions[5]
HKFRS 3 (Revised)	Business combinations[1]
HKFRS 9	Financial instruments[6]
HK(IFRIC) - INT 14 (Amendments)	Prepayments of a minimum funding requirement[3]
HK(IFRIC) - INT 17	Distributions of non-cash assets to owners[1]
HK(IFRIC) - INT 19	Extinguishing financial liabilities with equity instruments[7]

[1] Effective for annual periods beginning on or after 1 July 2009
[2] Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate
[3] Effective for annual periods beginning on or after 1 January 2011
[4] Effective for annual periods beginning on or after 1 February 2010
[5] Effective for annual periods beginning on or after 1 January 2010
[6] Effective for annual periods beginning on or after 1 January 2013
[7] Effective for annual periods beginning on or after 1 July 2010

The directors of Zhengzhou Gas Design anticipate that the application of the new and revised standards, amendments or interpretations will have no material impact on the results and financial position of Zhengzhou Gas Design.

3. 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.

Revenue recognition

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

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.

Plant and equipment

Plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write-off the cost of items of plant and equipment over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method.

An item of 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 statement of comprehensive income in the year/period in which the item is derecognised.

Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when Zhengzhou Gas Design 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

Zhengzhou Gas Design'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 receivables, an amount due from a shareholder 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, loans and receivables or held-to-maturity investments.

At the end of each reporting period subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in other comprehensive income and accumulated in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated 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 loss on financial assets

Loans and receivables and available-for-sale financial assets 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 Zhengzhou Gas Design'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 investment will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised in other comprehensive income and accumulated in equity.

Financial liabilities and equity

Financial liabilities and equity instruments issued by Zhengzhou Gas Design 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 Zhengzhou Gas Design after deducting all of its liabilities.

Financial liabilities

Financial liabilities including other payables 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 Zhengzhou Gas Design 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 Zhengzhou Gas Design 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 assets

At the end of each reporting period, Zhengzhou Gas Design reviews the carrying amounts of its tangible 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

Rental expenses arising from operating leases is charged to the 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.

Foreign currencies

In preparing the financial information of Zhengzhou Gas Design, 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 Zhengzhou Gas Design's operations are translated into the presentation currency of Zhengzhou Gas Design (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the 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 in other comprehensive income and accumulated in equity under the heading of the exchange reserve.

Retirement benefit costs

Payments to state-managed retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the tax currently payable.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from profit as reported in the 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. Zhengzhou Gas Design'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.

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 to other comprehensive income or directly to equity, in which case the deferred tax is also dealt with in other comprehensive income or directly in equity.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

Zhengzhou Gas Design 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 plant and equipment

Management estimates the useful lives of plant and equipment based on the expected lifespan of those plant and equipment. The useful lives of plant and equipment could change significantly as a result of technical obsolescence. When the actual useful lives of 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 plant and equipment at 31 December 2006, 2007 and 2008 and 31 October 2009 are HK$553,000, HK$726,000, HK$812,000 and HK$843,000, respectively.

5. CAPITAL RISK MANAGEMENT

Zhengzhou Gas Design manages its capital to maintain a balance between continuity of cash flows from operating activities. Zhengzhou Gas Design also monitors the current and expected liquidity requirements regularly to ensure that sufficient working capital is maintained to meet its liquidity requirements.

The capital structure of Zhengzhou Gas Design consists of bank balances and equity attributable to owners of Zhengzhou Gas Design, comprising paid-in capital, retained profits and other reserves.

The management of Zhengzhou Gas Design 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 Zhengzhou Gas Design's capital structure through the payment of dividends, capital contribution as well as the issue of new debts.

6. FINANCIAL INSTRUMENTS

Categories of financial instruments

	At 31 December			At 31 October
	2006	2007	2008	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets				
Loans and receivables (including cash and cash equivalents)				
— trade receivables	63	—	—	9
— amount due from a shareholder	11,441	726	5,679	5,677
— bank balances and cash	10,390	6,576	15,602	22,633
	21,894	7,302	21,281	28,319
Available-for-sale investment	50	—	—	—
Financial liabilities				
At amortised cost				
— other payables	7	—	—	16

Financial risk management objectives and policies

Major financial instruments of Zhengzhou Gas Design include available-for-sale investment, trade receivables, amount due from a shareholder, bank balances and cash and other payables. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Zhengzhou Gas Design manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Interest rate risk

Zhengzhou Gas Design'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 Zhengzhou Gas Design consider Zhengzhou Gas Design'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. A 50 basis increase or decrease which represents management's assessment of the reasonably possible change in interest rates is used during the Relevant Periods.

If the interest rate on bank balances carried at variable rates had been 50 basis points higher/lower and all other variables were held constant, Zhengzhou Gas Design's profit for the three years ended 31 December 2006, 2007 and 2008 and the ten months ended 31 October 2009 would increase/decrease by approximately HK$52,000, HK$33,000, HK$78,000 and HK$113,000, respectively.

Credit risk

Zhengzhou Gas Design'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 statement of financial position. In order to minimise the credit risk, Zhengzhou Gas Design 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, Zhengzhou Gas Design 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, Zhengzhou Gas Design 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, Zhengzhou Gas Design 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 2006, 2007 and 2008 and 31 October 2009, Zhengzhou Gas Design has concentration of credit risk in relation to the amount due from a shareholder amounting to HK$11,441,000, HK$726,000, HK$5,679,000 and HK$5,677,000, respectively. In order to minimise the credit risk, the management has reviewed the recoverable amount at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of Zhengzhou Gas Design consider that Zhengzhou Gas Design's credit risk is significantly reduced.

Liquidity risk

In the management of the liquidity risk, Zhengzhou Gas Design monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance Zhengzhou Gas Design's operations and mitigate the effects of fluctuations in cash flows. Based on the level of cash and cash equivalents held by Zhengzhou Gas Design at the end of the reporting period, Zhengzhou Gas Design considers that the liquidity risk is insignificant.

The following table details Zhengzhou Gas Design'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 Zhengzhou Gas Design can be required to pay. The table includes both interest and principal cash flows.

	Weighted average interest rate	On demand	Total undiscounted cash flows	Carrying amounts
		HK$'000	*HK$'000*	*HK$'000*
At 31 December 2006				
Other payables	N/A	7	7	7
At 31 December 2007				
Other payables	N/A	—	—	—
At 31 December 2008				
Other payables	N/A	—	—	—
At 31 October 2009				
Other payables	N/A	16	16	16

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 inputs.

The directors of Zhengzhou Gas Design consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the statement of financial position approximate to their fair values.

7. SEGMENT INFORMATION

The general manager, being the chief operating decision maker of Zhengzhou Gas Design, regularly reviews revenue analysis by the gas pipeline design division. However, other than revenue analysis, no operating results and other discrete financial information is available for the assessment of performance of the gas pipeline design division. The general manager reviews the operating results of Zhengzhou Gas Design as a whole to make decisions about performance assessment and resource allocation. The operation of Zhengzhou Gas Design constitutes one single reportable segment and accordingly, no separate segment information is prepared.

8. PROFIT BEFORE TAXATION

	Year ended 31 December			Ten months ended 31 October	
	2006	**2007**	**2008**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*	*HK$'000*
Profit before taxation has been arrived at after charging:					
Directors' emoluments (Note 9)	22	92	61	50	20
Other staff costs	1,229	1,598	2,733	2,294	2,599
Retirement benefit schemes contributions	215	255	363	274	355
Total staff costs	1,466	1,945	3,157	2,618	2,974
Depreciation of plant and equipment	151	163	198	163	187
Operating lease rentals in respect of land and buildings	121	127	139	116	117
and after crediting:					
Interest income	50	90	92	56	53

9. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES

Directors' emoluments

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

	Year ended 31 December 2006			
	Fees	**Salaries and other benefits**	**Retirement benefit schemes contributions**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Ge Bin	—	22	—	22
Li Yan Tong	—	—	—	—
Shang Yu Qiu	—	—	—	—
Wang Xiao Hua	—	—	—	—
Xiong Xiao Ping	—	—	—	—
	—	22	—	22

	Year ended 31 December 2007			
	Fees	Salaries and other benefits	Retirement benefit schemes contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Chen Kun (Note)	—	—	—	—
Ge Bin	—	92	—	92
Li Yan Tong	—	—	—	—
Shang Yu Qiu	—	—	—	—
Wang Xiao Hua	—	—	—	—
Xiong Xiao Ping	—	—	—	—
	—	92	—	92

	Year ended 31 December 2008			
	Fees	Salaries and other benefits	Retirement benefit schemes contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Chen Kun (Note)	—	—	—	—
Ge Bin	—	61	—	61
Li Yan Tong	—	—	—	—
Shang Yu Qiu	—	—	—	—
Wang Xiao Hua	—	—	—	—
Xiong Xiao Ping	—	—	—	—
	—	61	—	61

	Ten months end 31 October 2009			
	Fees	Salaries and other benefits	Retirement benefit schemes contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Chen Kun (Note)	—	—	—	—
Ge Bin	—	20	—	20
Li Yan Tong	—	—	—	—
Shang Yu Qiu	—	—	—	—
Wang Xiao Hua	—	—	—	—
Xiong Xiao Ping	—	—	—	—
	—	20	—	20

9. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES

	Ten months end 31 October 2008			
	Fees	Salaries and other benefits	Retirement benefit schemes contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	*(unaudited)*	*(unaudited)*	*(unaudited)*
Chen Kun (Note)	—	—	—	—
Ge Bin	—	50	—	50
Li Yan Tong	—	—	—	—
Shang Yu Qiu	—	—	—	—
Wang Xiao Hua	—	—	—	—
Xiong Xiao Ping	—	—	—	—
	—	50	—	50

Note: Appointed on 1 February 2007.

The five highest paid individuals included solely the employees of Zhengzhou Gas Design 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			Ten months ended 31 October	
	2006	2007	2008	2008	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Basic salaries and allowances	270	287	409	224	237
Retirement benefit schemes contributions	17	39	54	42	51
	287	326	463	266	288

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

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

10. TAXATION

	Year ended 31 December			Ten months ended 31 October	
	2006	**2007**	**2008**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
PRC Enterprise Income Tax					
Current tax	260	332	320	274	387

No provision for Hong Kong Profits Tax has been made for each of the three years ended 31 December 2006, 2007 and 2008 and the ten months ended 31 October 2008 and 2009 as Zhengzhou Gas Design 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 Zhengzhou Gas Design 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 Zhengzhou Gas Design from 1 January 2008.

According to 核定徵收企業所得稅暫行辦法 ("核定徵收法") issued by the State Administration of Taxation of the PRC, companies which cannot reliably match their costs with income may calculate their tax expenses according to the核定徵收法. Zhengzhou Gas Design is eligible to adopt 核定徵收法 during the Relevant Periods, assessable profit is calculated at 10% on the total income for the year/period and taxation is charged at the applicable tax rate for the Relevant Periods.

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

	Year ended 31 December			Ten months ended 31 October	
	2006	**2007**	**2008**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*	*HK$'000*
Profit before taxation	4,883	5,978	8,011	7,240	10,777
	33%	33%	25%	25%	25%
Taxation charge at the applicable income tax rate (Note)	1,611	1,972	2,003	1,810	2,694
Tax effect of expenses not deductible for tax purposes	930	1,128	1,326	1,040	1,177
Concession based on 核定徵收法	(2,281)	(2,768)	(3,009)	(2,576)	(3,484)
Taxation charge for the year/period	260	332	320	274	387

Note: The applicable income tax rate represents PRC Enterprise Income Tax rate of 33% for the two years ended 31 December 2006 and 2007 and 25% for the year ended 31 December 2008 and the ten months ended 31 October 2008 and 2009 of which Zhengzhou Gas Design's operations are substantially based.

11. DIVIDENDS

	Year ended 31 December			Ten months ended 31 October	
	2006	**2007**	**2008**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*	*HK$'000*
Dividends recognised as distribution during the year/period	—	22,194	—	—	3,178

Zhengzhou Gas Design declared dividends of HK$22,194,000 and HK$3,178,000 during the year ended 31 December 2007 and the ten months ended 31 October 2009, respectively.

12. PLANT AND EQUIPMENT

	Furniture and fixtures	Motor vehicles	Computer software	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost				
At 1 January 2006	936	—	193	1,129
Exchange realignment	34	—	7	41
At 31 December 2006	970	—	200	1,170
Exchange realignment	71	9	16	96
Additions	17	231	44	292
At 31 December 2007	1,058	240	260	1,558
Exchange realignment	66	15	19	100
Additions	42	—	195	237
At 31 December 2008	1,166	255	474	1,895
Additions	218	—	—	218
At 31 October 2009	1,384	255	474	2,113
Accumulated depreciation				
At 1 January 2006	397	—	50	447
Exchange realignment	16	—	3	19
Charge for the year	112	—	39	151
At 31 December 2006	525	—	92	617
Exchange realignment	43	—	9	52
Charge for the year	113	7	43	163
At 31 December 2007	681	7	144	832
Exchange realignment	43	1	9	53
Charge for the year	84	30	84	198
At 31 December 2008	808	38	237	1,083
Charge for the period	80	25	82	187
At 31 October 2009	888	63	319	1,270
Carrying values				
At 31 October 2009	496	192	155	843
At 31 December 2008	358	217	237	812
At 31 December 2007	377	233	116	726
At 31 December 2006	445	—	108	553

The above items of plant and equipment are depreciated on a straight-line basis over their estimated useful lives and after taking into account of their estimated residual values, which are as follows:

Furniture and fixtures	3 to 10 years
Motor vehicles	8 to 10 years
Computer software	5 to 10 years

13. AVAILABLE-FOR-SALE INVESTMENT

Available-for-sale investment comprises:

	At 31 December			At 31 October
	2006	**2007**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Unlisted equity investment in the PRC, at cost	50	—	—	—

The above unlisted investment represented investment in unlisted equity securities issued by a private entity established in the PRC. It is measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of Zhengzhou Gas Design are of the opinion that the fair value of the investment cannot be measured reliably.

14. TRADE AND OTHER RECEIVABLES

	At 31 December			At 31 October
	2006	**2007**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables	63	—	—	9
Prepayments	6	66	480	483
	69	66	480	492

Zhengzhou Gas Design has a policy of allowing credit periods up to 90 days to its customers. The following is an aged analysis of trade receivables presented based on completion date of the design projects at the end of the reporting period:

	At 31 December			At 31 October
	2006	**2007**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
0 to 90 days	—	—	—	9
Over 360 days	63	—	—	—
	63	—	—	9

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

	At 31 December			At 31 October
	2006	**2007**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Over 360 days	63	—	—	—

Zhengzhou Gas Design does not hold any collateral over these balances that are past due.

In determining the recoverability of the trade and other receivables, Zhengzhou Gas Design 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 allowance required.

15. AMOUNT DUE FROM A SHAREHOLDER

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

16. BANK BALANCES AND CASH

Bank balances and cash comprises cash and short-term bank deposits which bear interest at variable rate and with maturity within three months from initial inception.

	At 31 December			At 31 October
	2006	**2007**	**2008**	**2009**
	%	*%*	*%*	*%*
Interest rate of bank deposits	0.01-0.49	0.37-1.39	0.01-0.59	0.01-0.23

17. OTHER PAYABLES

	At 31 December			At 31 October
	2006	**2007**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Advances from customers	650	1,982	4,462	4,454
Accrued expenses	531	500	1,371	1,287
Other payables	7	—	—	16
	1,188	2,482	5,833	5,757

Advances from customers are unsecured and interest-free.

18. PAID-IN CAPITAL

	At 31 December			At 31 October
	2006	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Registered and paid-in capital:				
Zhengzhou GGCL Labour Union	680	680	3,329	3,329
Zhengzhou GGCL	700	700	700	700
	1,380	1,380	4,029	4,029

	At 31 December			At 31 October
	2006	2007	2008	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Shown in the Financial Information	1,326	1,326	4,295	4,295

The above capital contributions on 30 November 2000 and 18 August 2008 have been verified by capital verification reports 審驗字(2000)第12-12號 and 豫天宇會驗(2008) 第21號 issued by 河南太平會計師事務所有限公司 and 河南天宇聯合會計事務所, respectively.

19. RETIREMENT BENEFITS SCHEMES

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

20. OPERATING LEASE COMMITMENTS

At the end of the reporting period, Zhengzhou Gas Design 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 31 October
	2006	**2007**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	124	132	—	408
In the second to fifth year inclusive	124	—	—	578
	248	132	—	986

Operating lease payments represent rental payable by Zhengzhou Gas Design for certain of its properties. Leases are negotiated for lease terms principally ranged from one to six years on inception.

21. RELATED PARTY TRANSACTIONS

Zhengzhou Gas Design entered into the following related party transaction during the Relevant Periods.

	Year ended 31 December			Ten months ended 31 October	
	2006	**2007**	**2008**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Rental expense paid to a shareholder	121	127	139	116	117

Compensation of key management personnel

	Year ended 31 December			Ten months ended 31 October	
	2006	**2007**	**2008**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Short-term benefits	54	69	200	163	168
Post-employment benefits	5	20	34	28	35
	59	89	234	191	203

B. ULTIMATE PARENT

At 31 October 2009, the directors of Zhengzhou Gas Design regard Zhengzhou Gas Design's ultimate parent to be Zhengzhou GGCL Labour Union, an association established in the PRC.

C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Zhengzhou Gas Design subsequent to 31 October 2009.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

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.
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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 Nanyang Zhengran Natural Gas Co., Ltd. ("Nanyang Zhengran") and its subsidiaries ("Nanyang Zhengran 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 potential cooperation between the Company and the controlling shareholder of Zhengzhou Gas Company Limited ("Zhengzhou Gas") involving the formation of a joint venture, acquisition of assets by the joint venture for its piped gas business and acquisition of controlling interest in Zhengzhou Gas might have affected the financial information presented, for inclusion in Appendix V of the circular dated 29 January 2010 (the "Circular"). The basis of preparation of the unaudited pro forma financial information is set out on page V-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
29 January 2010

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 potential cooperation between the Company and the controlling shareholder of Zhengzhou Gas involving the formation of a joint venture, acquisition of assets by the joint venture for its piped gas business and acquisition of controlling interest in Zhengzhou Gas (the "Proposed Cooperation").

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 Proposed Cooperation 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 pro forma statement of assets and liabilities of the Group and Top Steed Limited ("Top Steed") and its subsidiaries ("Top Steed Group") as at 30 June 2009, which has been extracted from the circular dated 2 October 2009 in connection with the acquisition of Top Steed issued by the Company; (ii) the unaudited consolidated statement of financial position of Zhengzhou Gas as at 30 June 2009, which has been extracted from the interim report of Zhengzhou Gas for the six months ended 30 June 2009 and (iii) the consolidated statement of financial position of Nanyang Zhengran Group as at 31 October 2009, which has been extracted from the accountants' report on the financial information of Nanyang Zhengran Group for the period from 6 June 2007 (date of establishment) to 31 December 2007, the year ended 31 December 2008 and the ten months ended 31 October 2009 as set out in Appendix III to the Circular, after making pro forma adjustments relating to the Proposed Cooperation that are (i) directly attributable to the transaction; and (ii) factually supportable, as if the Proposed Cooperation 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 Proposed Cooperation. 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 Proposed Cooperation.

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

		Pro forma adjustments						
	The Group & Top Steed Group	**The Nanyang Zhengran Group**	**Recognition of goodwill on acquisition of the joint venture**	**Acquisition of Zhengzhou Gas Design**	**Acquisition of the Assets**	**Acquisition of Zhengzhou Gas**	**Acquisition of other assets**	**Pro forma adjusted total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
			Note 2	*Note 3*	*Note 4*	*Note 5*	*Note 6*	
Non-current assets								
Property, plant and equipment	2,342,275	112,181	—	—	58,248	—	25,242	2,537,946
Prepaid lease payments	136,987	28,707	—	—	102,248	—	—	267,942
Investment properties	7,750	—	—	—	—	—	—	7,750
Interests in associates	16,293	—	—	—	—	518,977	—	535,270
Available-for-sale investments	18,185	—	—	4,212	—	—	—	22,397
Goodwill	313,463	—	10,216	—	—	—	—	323,679
Exclusive operating rights	629,134	—	—	—	—	—	—	629,134
Deferred tax assets	11,524	—	—	—	—	—	—	11,524
Deposits for investment in subsidiaries	18,619	—	—	—	—	—	—	18,619
Prepayments for acquisition of property, plant and equipment	—	3,958	—	—	—	—	—	3,958
	3,494,230	144,846	10,216	4,212	160,496	518,977	25,242	4,358,219
Current assets								
Inventories	114,821	7,401	—	—	—	—	47	122,269
Trade and other receivables	517,181	22,632	—	—	5,690	—	67	545,570
Amounts due from customers for contract work	216,749	8,571	—	—	—	—	—	225,320
Prepaid lease payments	4,737	1,382	—	—	—	—	—	6,119
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	3,295	—	—	—	—	—	—	3,295
Bank balances and cash	44,942	9,539	—	—	157	(39,355)	(15,283)	—
	969,758	49,525	—	—	5,847	(39,355)	(15,169)	970,606
Assets classified as held for sale	10,221	—	—	—	—	—	—	10,221
	979,979	49,525	—	—	5,847	(39,355)	(15,169)	980,827

			Pro forma adjustments					
	The Group & Top Steed Group	The Nanyang Zhengran Group	Recognition of goodwill on acquisition of the joint venture	Acquisition of Zhengzhou Gas Design	Acquisition of the Assets	Acquisition of Zhengzhou Gas	Acquisition of other assets	Pro forma adjusted total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
			Note 2	*Note 3*	*Note 4*	*Note 5*	*Note 6*	
Current liabilities								
Trade and other payables	1,549,037	95,636	—	—	—	479,622	10,073	2,134,368
Amounts due to customers for contract work	685,279	9,398	—	—	—	—	—	694,677
Amounts due to group companies	13,459	—	—	—	—	—	—	13,459
Bank and other borrowings - amount due within one year	197,870	30,331	—	—	—	—	—	228,201
Dividend payable to an intermediate holding company	6,369	—	—	—	—	—	—	6,369
Taxation payable	7,946	—	—	—	—	—	—	7,946
	2,459,960	135,365	—	—	—	479,622	10,073	3,085,020
Net current (liabilities) assets	(1,479,981)	(85,840)	—	—	5,847	(518,977)	(25,242)	(2,104,193)
Total assets less current liabilities	2,014,249	59,006	10,216	4,212	166,343	—	—	2,254,026
Non-current liabilities								
Bank and other borrowings - amount due after one year	544,070	26,422	—	—	—	—	—	570,492
Other long-term liabilities	78,877	—	—	—	—	—	—	78,877
Deferred tax liabilities	141,056	—	—	—	—	—	—	141,056
	764,003	26,422	—	—	—	—	—	790,425
	1,250,246	32,584	10,216	4,212	166,343	—	—	1,463,601

Notes to the unaudited pro forma statement of assets and liabilities

1. The Proposed Cooperation includes the followings:

   a. Formation of a joint venture by the Group and the controlling shareholder of Zhengzhou Gas

      The Group will contribute cash amounting to RMB760,000,000 (equivalent to HK$863,636,000), representing a 80% equity interest in the joint venture.

      The controlling shareholder of Zhengzhou Gas will inject 100% equity interest in Nanyang Zhengran, 17.37% equity interest in Zhengzhou City Zhengran Gas Design Development Co., Ltd. ("Zhengzhou Gas Design") and certain assets including property, plant and equipment, prepaid lease payments, trade receivables and bank balances and cash (collectively referred to as the "Assets") as its capital contribution. According to the agreement of the Proposed Cooperation, the values of the 100% equity interest in Nanyang Zhengran, 17.37% equity interest in Zhengzhou Gas Design and the Assets should be determined with reference to the valuation report. The appraised values of the 100% equity interest in Nanyang Zhengran, 17.37% equity interest in Zhengzhou Gas Design and the Assets are RMB39,912,000 (equivalent to HK$45,354,000), RMB3,707,000 (equivalent to HK$4,212,000) and RMB146,382,000 (equivalent to HK$166,343,000), respectively. The total appraised value is RMB190,000,000 (equivalent to HK$215,909,000), and in return, the controlling shareholder of Zhengzhou Gas will have 20% equity interest in the joint venture.

      The formation of the joint venture and injection of 100% equity interest in Nanyang Zhengran by the controlling shareholder of Zhengzhou Gas is regarded as an acquisition of business by the Group in accordance with Hong Kong Financial Reporting Standard 3 (Revised in 2008) "Business Combinations". The transaction is accounted for using the purchase method of accounting.

      After the completion of formation of the joint venture, Nanyang Zhengran will become a subsidiary of the Group and Zhengzhou Gas Design will be recorded as an available-for-sale investment of the Group.

   b. Acquisition of 43.18% equity interest in Zhengzhou Gas

      Upon completion of formation of the joint venture, the joint venture will acquire 54,041,510 domestic shares in Zhengzhou Gas from the controlling shareholder of Zhengzhou Gas, which represent approximately 43.18% of the total issued share capital of Zhengzhou Gas at 30 June 2009, for a total consideration of RMB456,700,000 (equivalent to HK$518,977,000). Zhengzhou Gas will become an associate of the joint venture after the completion of the transaction.

c. Acquisition of other assets

The joint venture will also acquire other assets including property, plant and equipment, trade and other receivables net off with trade and other payables, for a consideration of RMB13,449,000 (equivalent to HK$15,283,000).

2. The adjustment reflects the goodwill of HK$10,216,000 arising from the acquisition of 80% equity interest in the joint venture. The goodwill is calculated as the difference between (i) the aggregate of consideration transferred amounting to HK$863,636,000 and the non-controlling interest in the joint venture amounting to HK$213,355,000, and (ii) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed of the joint venture amounting to HK$1,066,775,000. The net identifiable assets of the joint venture include the net asset value of the Nanyang Zhengran Group as at 31 October 2009 of HK$32,584,000, available-for-sale investment of HK$4,212,000 and the Assets of HK$166,343,000 injected by the controlling shareholder of Zhengzhou Gas and cash injected by the Group of HK$863,636,000.

   For the purposes of the preparation of the unaudited pro forma statement of assets and liabilities, goodwill is determined on an assumption that the fair values of the identifiable assets and liabilities of the Nanyang Zhengran Group at the date of the acquisition are the same as their carrying amounts as at 31 October 2009. And the non-controlling interest in the joint venture is measured at the non-controlling interest's proportionate share of the joint venture's identifiable net assets.

3. The adjustment reflects the acquisition of an available-for-sale investment, which represents a 17.37% equity interest in Zhengzhou Gas Design. The available-for-sale investment of HK$4,212,000 is recorded at cost less impairment, if any.

4. The adjustment reflects the acquisition of the Assets with carrying amount of HK$166,343,000, represented by property, plant and equipment of HK$58,248,000, prepaid lease payments of HK$102,248,000, trade and other receivables of HK$5,690,000 and bank balances and cash of HK$157,000.

5. The adjustment reflects the acquisition of an associate, which represents a 43.18% equity interest in Zhengzhou Gas, by the joint venture. The goodwill, amounting to HK$132,503,000, is calculated as the difference between the consideration of HK$518,977,000 and the share of net asset of Zhengzhou Gas as at 30 June 2009 which has been extracted from its interim report for the six months ended 30 June 2009, amounting to HK$386,474,000, and is included in the carrying amount of interest in associates.

   For the purposes of the preparation of the unaudited pro forma statement of assets and liabilities, goodwill is determined on an assumption that the fair values of the identifiable assets and liabilities of Zhengzhou Gas at the date of the acquisition are the same as their carrying amounts as at 30 June 2009.

The consideration of HK$518,977,000 will be settled by cash. For the purposes of the preparation of the unaudited proforma statement of assets and liabilities, the consideration of HK$39,355,000 is settled by cash and the remaining consideration of HK$479,622,000 is included in trade and other payables.

6. The adjustment reflects the acquisition of the other assets including property, plant and equipment, trade and other receivables net off with trade and other payables, for a consideration of HK$15,283,000 by the joint venture.

7. The reorganisation and other expenses attributable to the Proposed Cooperation 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.

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors jointly and severally 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 contained herein misleading.

DISCLOSURE OF INTERESTS BY DIRECTORS

As at the Latest Practicable Date, the interests and/or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were 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 which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code contained in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Long positions in Shares and underlying shares of the Company

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

Name	Capacity	Long or short position	Number of Shares	Approximate percentage of interest[1]
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%

Note:

1. This represents the percentage of aggregate long position in ordinary 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	300,000	300,000[3]	10.350	04/10/2004	0.0250%
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 4th October 2004 to 3rd October 2014.

4. 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. Ong Thiam Kin, Ken	Beneificial owner	long position	30,000	—	—	—	0.0006%
Mr. Li Fuzuo	Beneficial owner	long position	741,780	61,080[4]	3.919	18/03/2005	0.0171%
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** *HK$*	**Date of grant**	**Aggregate percentage of interest[2]**
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 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	970,000	—	—	—	0.0110%
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.

vi. *Interest in the issued ordinary shares and underlying shares of China Resources Cement Holdings Limited ("CR Cement"), 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	100,000	—	—	—	0.0015%

Notes:

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

2. This represents the percentage of aggregate long position in ordinary shares and underlying shares of CR Cement to the total issued share capital of CR Cement as at the Latest Practicable Date.

Save as disclosed above, none of the Directors or chief executive of the Company, as at the Latest Practicable Date, had any interests and/or short positions in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to the Model Code contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

At no time during the period under review were the rights to acquire benefits by means of the acquisition of shares in the Company granted to any directors or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

DISCLOSURE OF INTERESTS BY SUBSTANTIAL SHAREHOLDERS

So far as any Director or the chief executive of the Company is aware, as at the Latest Practicable Date, the following persons (not being Directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares 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 was (directly or indirectly) interested in 10% or more of the nominal value of any class of the share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group were as follows:

Long positions in Shares and underlying shares of the Company

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%
CR Holdings[1]	Controlled company's interest	Corporate interest	1,060,001,983	74.94%
CRC Bluesky Limited ("CRC Bluesky")[1]	Controlled company's interest	Corporate interest	1,060,001,983	74.94%
China Resources Co., Limited ("CRCL")[1]	Controlled company's interest	Corporate interest	1,060,001,983	74.94%
China Resources National Corp. ("CRN")	Controlled company's interest	Corporate interest	1,060,001,983	74.94%

Note:

1. Splendid Time and Commotra Company Limited directly hold 1,059,999,983 and 2,000 Shares in the Company respectively and both companies are wholly-owned subsidiaries of CR Holdings, which is therefore deemed to interested in 1,060,001,983 Shares of the Company under Part XV of the SFO. CR 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 1,060,001,983 Shares of the Company under Part XV of the SFO.

Save as disclosed above, so far as is known to any Director or chief executive of the Company, as at the Latest Practicable Date, no other person had an interest or short position in the Shares or underlying Shares of the Company 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 was 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 Group.

MATERIAL CHANGE

Save as otherwise publicly disclosed by the Company, the Directors are not aware of any material change in the financial or trading position of the Group since 31 December, 2008, the date to which the latest published audited financial statements of the Group were made up. Further, the directors of the Company confirm that they have performed sufficient due diligence to ensure that there has been no material change in the financial position and prospect of Zhengzhou Gas Design and Nanyang Zhengran since 31 October 2009.

SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered, or proposed to enter, into a service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTEREST IN CONTRACTS

As at the Latest Practicable Date, none of the directors of the Company has any interest, direct or indirect, in any asset which since 31 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 Latest Practicable Date, none of the directors of the Company was materially interested in any contract or arrangement which is significant in relation to the businesses of the Enlarged Group.

OTHER INTEREST

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been, since 31 December, 2008, the date to which the latest published audited accounts of the Enlarged Group were made up, 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.

COMPETING BUSINESS

As at the Latest Practicable Date, none of the directors of the Company or their respective associates (as defined in the Listing Rules) has an interest in a business apart from the Company's business which competes or is likely to compete, either directly or indirectly, with the Group's businesses.

LITIGATION

As at the Latest Practicable Date, no member of the Enlarged Group is engaged in any litigation or claim of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Enlarged Group.

EXPERT AND CONSENT

The following is the qualification of the experts who have given an opinion or advice contained in this circular:

Name	Qualification
Deloitte Touche Tohmatsu	Certified Public Accountants
Zhong Ming (Beijing) Asset Appraisal International Co., Ltd.	Valuer

As at the Latest Practicable Date, Deloitte Touche Tohmatsu and Zhong Ming (Beijing) Asset Appraisal International Co., Ltd. have given and have not withdrawn their written consents to the issue of this circular with the inclusion of its report as set out in this circular and references to its name in the form and context in which they appear.

As at the Latest Practicable Date, Deloitte Touche Tohmatsu and Zhong Ming (Beijing) Asset Appraisal International Co., Ltd. were not beneficially interested in the share capital of any member of the Group, nor did they have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, nor did they have any interest, either direct or indirectly, in any assets which had been since 31 December, 2008 (being the date to which the latest published audited financial statements of the Company were made up) acquired or disposed of by or leased to or were proposed to be acquired or disposed of by or leased to any member of the Group.

GENERAL

(a) 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.

(b) 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.

(c) Tricor Secretaries Limited, the Hong Kong branch share registrar and transfer office of the Company, is located at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

MATERIAL CONTRACTS

The following are the material contracts, not being contracts entered into in the ordinary course of business of the Group, which have been entered into by members of the Group within the two years immediately preceding the Latest Practicable Date:

(a) a share purchase agreement dated 21 August, 2008 and entered into between the Company and CR 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;

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

(c) 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;

(d) 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;

(e) a share purchase agreement dated 8 September, 2009 and entered into between the Company and CRGH in relation to the acquisition of the entire issued share capital of Top Steed Limited for a consideration of HK$1,600 million;

(f) master agreements dated 23 December, 2009 and a supplement agreement dated 24 December, 2009 entered into between CR Gas Investment and Chongqing Energy Investment Group* (重慶市能源投資集團公司) whereby CR Gas Investment will contribute cash of approximately RMB1,162.8 million to Chongqing Gas Group Corp Ltd* (重慶燃氣(集團)有限責任公司) in return for a 25% equity interest in Chongqing Gas Group Corp Ltd;

(g) a master agreement dated 25 November 2009 entered into between Zhengzhou SASAC and CR Gas Investment in relation to the establishment by Zhengzhou SASAC and CR Gas Investment of the Joint Venture and the related matters;

(h) a joint venture agreement dated 25 November 2009 entered into between Zhengzhou SASAC and CR Gas Investment in relation to, among other things, the scope of business of the Joint Venture and the rights and obligations of each of Zhengzhou SASAC and CR Gas Investment in the Joint Venture;

(i) a capital increase agreement dated 25 November 2009 entered into between Zhengzhou SASAC and CR Gas Investment in relation to the contribution by CR Gas Investment to the Joint Venture of a further RMB270 million in cash after obtaining the relevant approvals for the increase in the registered capital of the Joint Venture;

(j) a share transfer agreement dated 25 November 2009 entered into between Zhengzhou SASAC and CR Gas Investment in relation to the acquisition by the Joint Venture from Zhengzhou SASAC of the Sale Shares and CR Gas Investment to bear the compensation for the staff of Zhengzhou Gas and Zhengzhou GGCL for a total consideration of approximately RMB456.7 million;

(k) an assets transfer agreement dated 25 November 2009 entered into between Zhengzhou SASAC and CR Gas Investment in relation to the acquisition by the Joint Venture of the Other Assets, comprising principally buildings and equipment for its piped gas operation, from Zhengzhou SASAC for a total consideration of approximately RMB13.4 million; and

(l) a supplemental agreement dated 11 January 2010 entered into among Zhengzhou SASAC, CR Gas Investment, the Joint Venture and Zhengzhou GGCL in which the Joint Venture has confirmed its obligations in respect of the acquisition of the Sale Shares and the Other Assets under the various agreements entered into between Zhengzhou SASAC and CR Gas Investment on 25 November 2009.

Save as disclosed above, none of the members of the 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.

DOCUMENTS FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at Room 1901-05, 19th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong, the principal place of business of the Company, from the date of this circular up to and including 17 February 2010 (both dates inclusive):

(a) the Memorandum of Association and Bye-laws of the Company;

(b) the material contracts referred to in the paragraph headed "Material Contracts" of this circular;

(c) the annual reports of the Company for each of the financial years ended 31 December, 2007 and 31 December, 2008;

(d) circulars dated 2 October 2009 in respect of "Major and connected transaction of Top Steed Limited" and dated 6 November 2009 in respect of "Continuing connected transactions";

(e) the accountants' report on Nanyang Zhengran and Zhengzhou Gas Design as set out in Appendix III and Appendix IV to this circular respectively and the unaudited pro forma financial information of the Enlarged Group as set out in Appendix V;

(f) the written consent referred to in the section headed "Expert and Consent" in this appendix;

(g) the valuation report to which the value of 100% in Nanyang Zhengran, 17.37% equity interest in Zhengzhou Gas Design and the Assets are referred; and

(h) this circular.

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

德勤・關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
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

		Pro forma adjustments		
	The Group *HK$'000*	**Target Group** *HK$'000* *Note 1*	**Other adjustment** *HK$'000*	**Pro forma adjusted total** *HK$'000*
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

Deloitte.
德勤

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88 Queensway
Hong Kong

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	At 31 December 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

Name	Financial period	Name of auditors
鎮江華潤燃氣有限公司	(Note c)	N/A
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$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
			(note a)	*(note b)*		*(note c)*				
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, 潛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

		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 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$'000* *(unaudited)*	*HK$'000*
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$'000* *(unaudited)*	*HK$'000*
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$'000* *(unaudited)*	*HK$'000*
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:

		Carrying amount		
	Effective interest rate per annum	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