Fuelling The Future Today

Annual Report 2007

China Gas Holdings Limited

Stock code: 384

CHINA GAS
中國燃氣

About China Gas

China Gas Holdings Limited ("China Gas", stock code: 384) is a natural gas services operator, principally engaging in the investment, operation and management of city gas pipeline infrastructure, long-distance high pressure pipelines, distribution of natural gas to residential, commercial, industrial and vehicle users, construction and operation of oil stations, and gas stations as well as LNG liquefaction plants, and development and application of oil and natural gas related technologies. Major shareholders of the Company include the Centre of Strait Economic & Science-Tech Cooperation under the Taiwan Affairs Office of the State Council of China, Sinopec, the second largest oil and gas company in China, Gail (India) Limited, the largest natural gas company in India under the control of the Indian federal government, Oman Oil Company, S.A.O.C., an energy company wholly-owned by the Sultanate Government of Oman, and the Asian Development Bank, a multilateral financial institution established by 66 different countries.

Fuelling The Future Today

Annual Report 2007

Vision & Mission

The principal business of China Gas is clean energy utilization. By leveraging on the national policy of the Central Government of the PRC to promote the use of natural gas and the staggering demand for energy of China, we have been growing rapidly in this new industry and realizing better values for our shareholders.

China Gas is dedicated to improving people's living environment and quality of life. This has earned for us the recognition of the governments at both the central and local levels. Our commitment to providing safe and high quality services has also won the trust on us from the community and our customers.

The most valuable asset of China Gas is its people. We give our staff our complete trust and respect, encourage them to fully develop their potential in their positions, and incentivize them to align their interest with the business performance of the Company.

Adhering to our belief that by "applying our best, we are set for magnificent achievements", and living the China Gas' spirit of "integrity, innovation and cooperation", we are determined to become an evergreen brandname and the leader in the natural gas industry in China.

China Gas Holdings Limited
Stock code: 384

CHINA GAS
中國燃氣

Corporate Information

Board of Directors

Executive Directors

Li Xiao Yun (Chairman)
Xu Ying (Vice-Chairman)
Liu Ming Hui (Managing Director)
Zhu Wei Wei
Ma Jin Long

Non-Executive Directors

Feng Zhuo Zhi
Joe Yamagata
R. K. Goel
Mark Gelinas

Independent Non-Executive Directors

Zhao Yu Hua
Mao Er Wan
Wong Sin Yue Cynthia

Company Secretary

Yang Yan Tung Doris

Auditors

Deloitte Touche Tohmatsu
Certified Public Accountants

Principal Bankers

Hang Seng Bank
Dah Sing Bank
China Development Bank
Industrial and Commercial Bank of China
Agricultural Bank of China
Bank of china

Head Office and Principal Place of Business in Hong Kong

Room 1601
16th Floor
AXA Centre
151 Gloucester Road
Wan Chai
Hong Kong

Registered Office

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Principal Share Registrar and Transfer Office

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
14 Bermudiana Road
Pembroke
Bermuda

Hong Kong Branch Share Registar and Transfer Office

Computershare Hong Kong Investor Services Limited
Rooms 1712-1716, 17/F
Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

Stock Code

384

Website

www.chinagasholdings.com.hk

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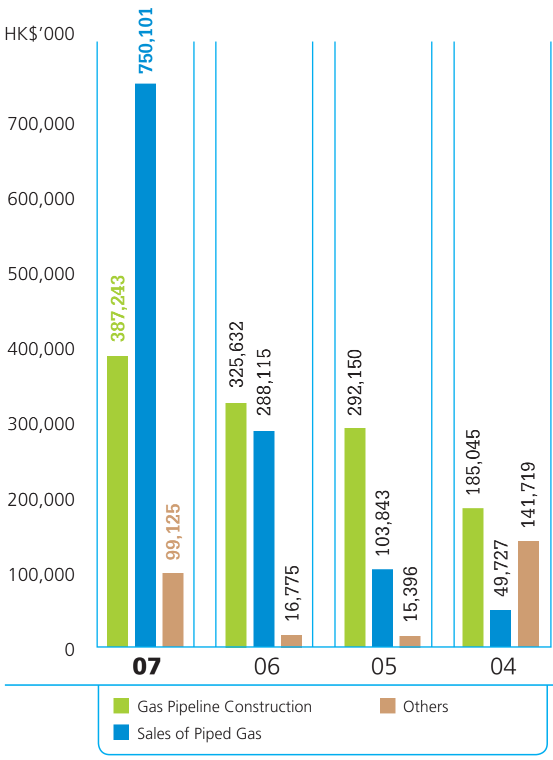
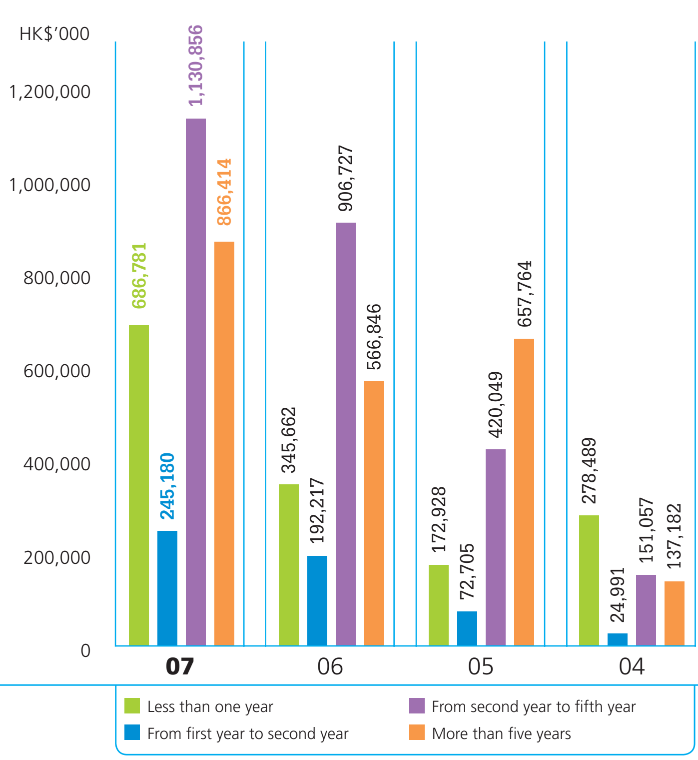
Financial Statistics

Turnover by Principal Activities



Debt Maturity Profile

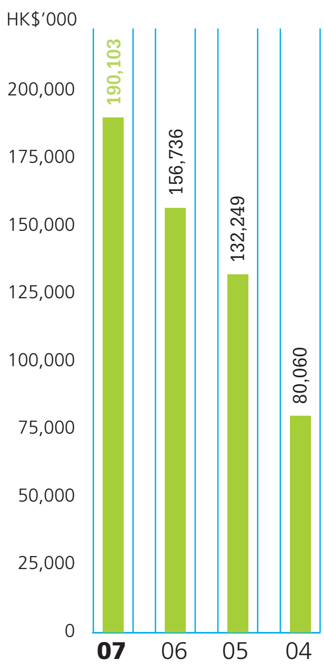


Financial ratios

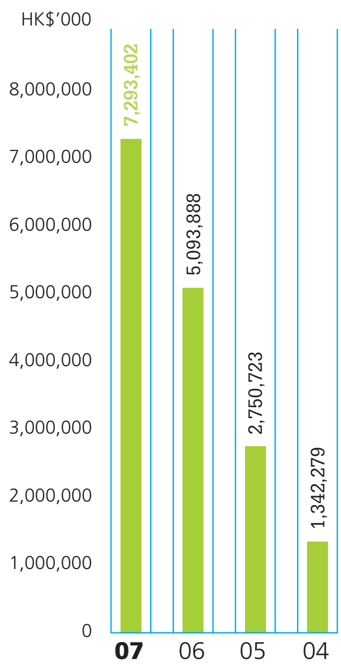
	2007	2006	2005 (Restated)	2004
Earnings per share (HK cents)-Basic	**6.35**	6.15	5.24	6.15
Net asset value per share (HK cents)	**75.8**	63.85	44.04	32.27
Current ratio	**1.65**	3.37	3.19	2.65
Quick ratio	**1.58**	3.24	3.08	2.61
Net gearing ratio	**0.75**	0.38	0.72	0.4
Gross profit margin	**34%**	48%	60%	45%
Net profit margin	**18%**	29%	32%	21%
Return on average equity (%)	**9%**	11%	13%	25%
Price to earning ratio				
Year low	**18.0**	19.0	7.8	10.4
Year high	**30.6**	28.5	22.5	19.8

Flying Higher And Higher

Profit (Loss) Attributable to Shareholders



Total Assets



Formula for financial ratios:

Current ratio	Current assets/Current liabilities
Quick ratio	(Current assets – Inventories)/Current liabilities
Net gearing ratio	Net borrowing/Shareholders' funds
Gross profit margin	Gross profit/Turnover
Net profit margin	Net profit for the year/Turnover
Return on average equity	Profit attributable to equity holders of the Company/Average equity attributable to equity holders of the Company

96%

Remarkable growth in turnover

21%

Strong growth in attributable profit

108%

Tremendous growth in natural gas sales volume

Natural Gas Network

Taking Off On A Solid Foundation

HEILONGJIANG
JILIN
LIAONING
Fushun
Jinzhou Economic Hi-Tech Development Zone
Dalian
HEBEI
Fengnan District of Tangshan
Letingxian
Tangshan Nanpu
Tianjian
Qinghexian
Cangzhou
Cangzhou Development Zone
Dezhou
Nanpixian
Xinle
Wangdu
Pingshanxian
Gaocheng
Neiqiuxian
INNER MONGOLIA
Hohhot
Baotou
Wushen Banner
Otog Banner
NINGXIA
SHANXI
SHANDONG
Qingdao
GANSU
SHAANXI
Baoji
Qishanxian
HENAN
Jiawang District, Xuzhou
Pizhou
Xinyi, Xuzhou
Suzhou
JIANGSU
Fengtaixian
Shouxian
Huainan
Yangzhou City
Jiang Bei District, Nanjing
Yangzhong
ANHUI
Wuwei
Wuhu
Huoshanxian
Wuhuxian
Nanlingxian
Xiaoshan District, Hangzhou
Shaoxingxian
ZHEJIANG
Xuanhan
Kaixian
Dianjiang County
Suizhou
Guangshui
Yingcheng
Yunmeng
Dangyang
Tianmen
Hanchuan
Xiaogan
Yichang
HUBEI
Yubei
CHONGQING
Yuanjiang
Yiyang
HUNAN
JIANGXI
FUJIAN
GUIZHOU
TAIWAN
Liuzhou
GUANGXI
Yulin
Fangchenggang
Qinzhou
Conghua
GUANGDONG
Maoming
HAINAN
CONCESSION LOCATION*
City Gas Project
Exploration & Production
LNG Project
Long Distance Pipeline Project
MAJOR NATURAL GAS PIPELINES IN CHINA
West-East Gas Pipeline
Shaanxi-Beijing Pipeline
Zhongwu Line
* As of June 30, 2007

Operational Statistics

Our growth is as boundless as our enthusiasm

	Province	Operational Location	Total Population	Urban Population	Connectable Domestic Households		Accumulated Connected Domestic Households		Accumulated Connected Industrial Customers		Accumulated Connected Commerical Customers		Length of Pipelines (km)			
													Total length		*Length for branch*	
					as at 31 Mar 06	as at 31 Mar 07	as at 31 Mar 06	as at 31 Mar 07	as at 31 Mar 06	as at 31 Mar 07	as at 31 Mar 06	as at 31 Mar 07	as at 31 Mar 06	as at 31 Mar 07	as at 31 Mar 06	as at 31 Mar 07
City Gas	Anhui	Wuhu	2,190,000	1,000,000	203,000	313,000	132,513	143,854	18	18	305	305	1,206	1,305	700	802
		Huainan	2,065,000	1,500,000	341,000	469,000	61,662	70,925	3	4	37	72	536	588	367	395
		Shouxian	1,270,000	150,000	47,000	47,000	-	1,959	-	-	-	-	5	16	-	6
		Suzhou	5,707,000	425,000	133,000	133,000	35,569	47,145	2	2	26	53	186	281	107	141
		Wuhuxian	530,000	80,000	25,000	25,000	629	2,745	-	5	-	11	11	24	11	-
		Nanlingxian	540,000	125,000	39,000	39,000	71	2,115	-	-	-	-	3	23	-	6
		Huoshanxian	365,000	80,000	25,000	25,000	-	-	-	-	-	-	-	4	-	-
		Fengtaixian	580,000	90,000	28,000	28,000	-	209	-	-	-	-	10	10	3	3
		Wuwei	1,400,000	180,000	-	56,000	-	-	-	0	-	-	-	-	-	-
	Hubei	Yichang	3,990,000	1,209,000	378,000	378,000	80,036	89,047	1	3	101	148	714	830	362	443
		Xiaogan	883,000	230,000	72,000	72,000	23,062	24,179	-	2	1	22	386	212	116	119
		Hanchuan	1,061,000	173,000	54,000	54,000	15,948	15,948	5	8	4	9	133	148	98	98
		Yingcheng	669,000	175,000	55,000	55,000	15,616	15,869	1	2	10	25	104	130	78	80
		Yunmeng	579,000	94,000	29,000	29,000	12,097	12,097	-	3	-	29	101	120	80	80
		Suizhou	2,580,000	782,000	244,000	244,000	35,928	38,950	2	5	10	23	284	351	181	208
		Tianmen	1,740,000	200,000	63,000	63,000	1,341	4,264	-	1	1	6	35	53	12	21
		Dangyang	560,000	140,000	44,000	44,000	-	15	1	1	-	-	3	26	-	-
		Guangshui	899,000	125,000	39,000	39,000	-	-	-	-	-	-	-	86	-	-
	Hunan	Yiyang, Yuanjian	4,600,000	860,000	269,000	269,000	32,312	36,495	-	-	-	1	348	435	284	328
	Jiangsu	Pizhou	1,580,000	230,000	72,000	72,000	17,261	17,881	-	-	-	-	88	113	52	54
		Yangzhong	273,000	88,000	28,000	28,000	15,298	19,898	1	3	58	99	183	298	46	60
		Jiang Bei District , Nanjing	1,200,000	1,200,000	203,000	375,000	25,009	55,203	-	-	-	-	107	313	75	166
		Jiawang District, Xuzhou	500,000	180,000	56,000	56,000	-	636	-	-	-	-	-	6	-	2
		Xinyi, Xuzhou	970,000	160,000	50,000	50,000	529	3,759	-	-	-	1	5	43	2	11
		Yangzhou City	4,570,000	1,220,000	-	381,000	94,016	100,234	2	2	224	256	705	805	282	319
	Zhejiang	Xiaoshan district, Hangzhou	1,157,000	1,157,000	88,000	362,000	-	-	-	-	-	-	-	8	-	2
		Shaoxingxian	710,000	500,000	34,000	156,000	-	-	-	-	-	-	-	-	-	-
	Hebei	Cangzhou	6,670,000	470,000	147,000	147,000	-						-	-	-	-
		Cangzhou Ecnonomic Development Zone	20,000	20,000	6,000	6,000	491	539	4	4	2	2	7	9	1	2
		Nanpixian	760,000	52,000	16,000	16,000	313	452	-	-	-	-	7	9	1	1
		Qinghexian	340,000	72,000	23,000	23,000	-	-	-	-	-	-	-	1	-	-
		Wangdu City	230,000	32,000	-	10,000	-	161	-	3	-	1	-	16	-	1
		Tangshan Nampo	170,000	72,000	-	23,000	813	3,213	-	-	-	4	7	23	3	10
		Letingxian, Xinle, Gaocheng, Pingshanxian, Fengnan District of Tangshan, Neiqiuxian	4,320,000	788,000	246,000	246,000	31,405	40,227	17	18	34	40	228	255	97	123
	Guangxi Zhuang Autonomous Region	Yulin	5,760,000	600,000	125,000	188,000	2,522	9,050	-	-	-	1	23	80	8	27
		Qinzhou	3,260,000	400,000	69,000	125,000	3,675	5,922	-	-	-	7	28	53	11	18
		Liuzhou	3,580,000	1,300,000	-	406,000	51,621	64,733	1	1	319	347	647	702	155	194
		Fangchenggang	718,000	200,000	-	63,000	-		-	-	-	-	-	-	-	-
	Shaanxi	Baoji	3,720,000	1,020,000	-	319,000	116,366	138,887	14	19	263	300	753	894	349	417
		Qishanxian	458,000	150,000		47,000										
	Guangdong	Maoming	6,700,000	1,200,000	375,000	375,000	-	3,000	-	-	-	1	-	13	-	9
		Conghua	630,000	300,000	-	94,000	-	1,678	-	-	-	-	-	15	-	5
	Liaoning	Fushun	2,260,000	1,415,000	-	442,000	-	185,828	-	1	-	5,854	-	452	-	208
		Dalian	6,020,000	3,123,000	-	976,000	-	-	-	-	-	-	-	-	-	-
	Chongqing	Yubei	877,000	877,000		274,000	-	-	-	-	-	-	-	-	-	-
	Shandong	Dezhou	5,526,000	1,454,000	-	454,000	-		-	-	-	-	-	-	-	-
		Qingdao	7,410,000	3,000,000	-	938,000	-		-	-	-	-	-	-	-	-
	Inner Mongolia Autonomous Region	Hohhot	2,580,000	1,700,000	-	531,000	-	189,111	-	4	-	2,834	-	765	-	429
		Wuzhen Banner	95,000	30,000	-	9,000	-	3,554	-		-		-	141	-	10
		Baotou	2,100,000	1,300,000	-	406,000	-		-		-		-		-	
	Total		**107,452,000**	**32,008,000**	**3,632,000**	**10,005,000**	**806,103**	**1,349,782**	**72**	**109**	**1,395**	**10,451**	**6,853**	**9,656**	**3,481**	**4,798**
Pipeline	Inner Mongolia Autonomous Region	Otog Banner			-		-		-		-		-		-	
		Wuzhen Banner							-		-		-		-	
	Tianjian	Tianjian			-		-		-		-		-		-	
	Hubei	Xiaogan								1				202		
		Dangyang								1			54	54		
LNG	Chongqing	Kaixian														
	Sichuan	Xuanhan														
E&P	Chongqing	Dianjiang county														
	Total		**107,452,000**	**32,008,000**	**3,632,000**	**10,005,000**	**806,103**	**1,349,782**	**72**	**111**	**1,395**	**10,451**	**6,907**	**9,912**	**3,481**	**4,798**

Milestones & Awards


❷


❶

❸

Milestones:

June 2006

- Acquired 38.69% equity interest in Chongqing Ding Fat Industries Co., Ltd for RMB62.16 million. The Company has 40 natural gas wells with total annual capacity of 150 million m^3 of natural gas, expandable to 500 million m^3.
- To invest RMB750 million for 75% interest in the Dalian city gas network which has a customer base of 650,000 residential and 6,000 industrial and commercial users.
- Invested RMB93.33 million for 70% interest in the Fushun city gas network which has a customer base of 189,000 residential and 3,000 industrial and commercial users.

August 2006

- Invested RMB400 million for 50% interest in the Hohhot city natural gas network, which has a customer base of 170,000 residential and 2,300 industrial and commercial users.
- Asian Development Bank subscribed US$24 million worth of shares and further provided a US$125 million long-term financing package to China Gas to finance its city gas projects in China. ❶

September 2006

- To invest RMB111 million for 51% interest in the Dezhou city natural gas network which has a customer base of 65,000 residential and 300 industrial and commercial users.

December 2006

- To invest RMB800 million to build its first LNG liquefaction production and distribution plant in Kaixian, Chongqing. This facility, with a capacity of 450 million m^3 and a fleet of 150 LNG trucks, will bring in an annual turnover of more than RMB1.2 billion for China Gas.
- Granted the license by the Ministry of Commerce to export, import, wholesale and retail fuel products including LNG and LPG.
- Invested RMB256 million for 51% interest in the Qingdao city natural gas network, which has a customer base of 380,000 residential users and is an industrially and commercially prosperous city in Shandong province.

February 2007

- Invested RMB115 million for 97.62% interest in the Yubei District, Chongqing city natural gas network which has a customer base of 94,000 residential users.

March 2007

- Signed a JV agreement with SK E&S and SK Gas, both the subsidiaries of SK Group, the third largest corporation in Korea. The JV, which has been registered in HK with an authorized capital of US$20 million, will focus on energy products distribution in China. Each party holds 50% equity interest in the JV. ❷

May 2007

- Signed a JV agreement with strategic shareholder, Oman Oil. The JV, with an authorized capital of US$40 million, will focus on importing energy products from Middle East to China. ❸
- To invest RMB1.2 billion to build a 100% owned LNG liquefaction plant, in Xuanhanxian, Sichuan, with a capacity of 700 million m^3 per year and a fleet of 200 LNG trucks.

June 2007

- To construct Otog Banner Long Distance Natural Gas Pipeline with an annual capacity 1.2 billion m^3. This pipe will be commissioned in June 2008.
- Invested RMB147 million for a high quality city natural gas network in Baotou, the largest industrial city in Inner Mongolia. This project, with 50 years' city gas concession right, has a customer base of 70,000 residential, 134 commercial users and 3 industrial users each consuming over 100,000 m^3 per day.

Awards:

- China Gas received the "Outstanding Natural Gas Provider" award in the 2nd Capital China Outstanding Enterprise Awards; it is the second time the Group won this honor. ❹
- China Gas won three awards in FinanceAsia's 2007 Asia's Best Company Poll for China category:
  - "Best Managed Company" and "Best Investor Relations" ❺
  - "Best Mid-cap" ❻
- China Gas won "2006 Top Ten Most Impressive Enterprises" award, which was organized by"博燃網" (Gasshow.com)-the gas industry portal in China. It is the 3rd time China Gas received this award consecutively.

❶ ADB facility
❷ Signed a JV agreement with SK E&S
❸ Signed a JV agreement with strategic shareholder, Oman Oil
❹ 1st and 2nd "Outstanding Natural Gas Provider Honour" in "Capital China Outstanding Enterprise awards"
❺ ❻ FinanceAsia — "Best Managed Company" & "Best Investor Relations" and "Best Mid-cap" awards
❼ "The Superbrands China" award


❹

❺

❻

❼

Envisioning New Heights

Chairman's Statement

Seeing The Next Level

With the PRC Government's recognition of environmental protection as being an important means of achieving sustainable growth, the country has embraced green energy wholeheartedly. Natural gas — the cleanest of fuels — is expected to constitute 17% of China's energy source by 2010 and China Gas will be determined to be a leading gas operator, not just in the Mainland, but around the world.

On behalf of the Board of Directors (the "Board" or the "Directors") of China Gas Holdings Limited ("China Gas" or the "Company", together with its subsidiaries, the "Group"), I would like to present to the shareholders the 2007 annual report.

Financial Results

In the past financial year ended March 31, 2007, the Group's overall performance was satisfactory. Turnover amounted to HK$1,236,469,000 and profit attributable to shareholders was HK$190,103,000, an increase of 96.1% and 21.3% respectively compared to last year. Earnings per share was HK6.35 cents.

Over the past financial year, the Group connected a total of 164,544 new household users, 33 new industrial users and 369 new commercial users, representing a year-on-year growth of approximately 16.3%, 65.0% and 159.9% respectively. As at March 31, 2007, the Group's total connected residential customers came to 1,349,782 households, connected industrial customers 111 users and commercial customers 10,451 users, representing a year-on-year growth of approximately 67.4%, 54.2% and 649.2% respectively. During the past financial year, the Group sold a total of 432,195,000 m^3 piped gas, an approximately 145.0% year-on-year growth, of which 357,726,000 m^3 was natural gas, representing a year-on-year growth of 107.6%, and 74,469,000 m^3 was other piped gases. This demonstrated a rapid growth in our sale of piped gas.

Final Dividend and Closure of Registar of Members

The Board recommended the payment of a final dividend of HK1.2 cent (2006: HK1 cent) per share for the year ended March 31, 2007.

The registrar of members of the Company will be closed from August 22, 2007 to August 29, 2007, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfer documents must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on August 21, 2007. The final dividend, if approved by the shareholders in the annual general meeting of the Company to be held on August 29, 2007, is expected to be paid to qualified persons on or before September 28, 2007.

Supplying gas is an important responsibility which stresses safety and reliability. Acknowledging our responsibility, we will look to the world in search of steady, long-term sources of green energy and employ stringent safety measures so as to propel our nation forward.

New Projects Development

For new projects development, the Group had secured nine new city gas projects in six provinces/autonomous regions/directly-administered cities during the past year. Of these nine city gas projects, three were in Inner Mongolia Autonomous Region and were the Group's first investment in this region, one in Chongqing Municipality, one in Anhui Province, two in Shandong Province, one in Liaoning Province and one in Shaanxi Province. The city gas projects in Inner Mongolia Autonomous Region covered the most prosperous cities namely Hohhot City and Baotou City. The two city gas projects in Shandong Province were situated in Dezhou City and Qingdao City, each with population over a million. In addition, the Group also invested in two LNG production factories. The one with 500,000 tons annual production capacity is located in XuanHanxian, Dazhou City, Sichuan Province and the one with annual production capacity of 300,000 tons is in Kaixian, Chongqing Municipality. The Group also invested two long distance pipeline projects in Wushen Banner and Otog Banner, Ordos City, Inner Mongolia Autonomous Region, with capacities of one billion m^3 per year and 1.2 billion m^3 per year respectively. The Group also invested in one long distance natural gas pipeline project in Tianjin Municipality during the same period.

Capital Market

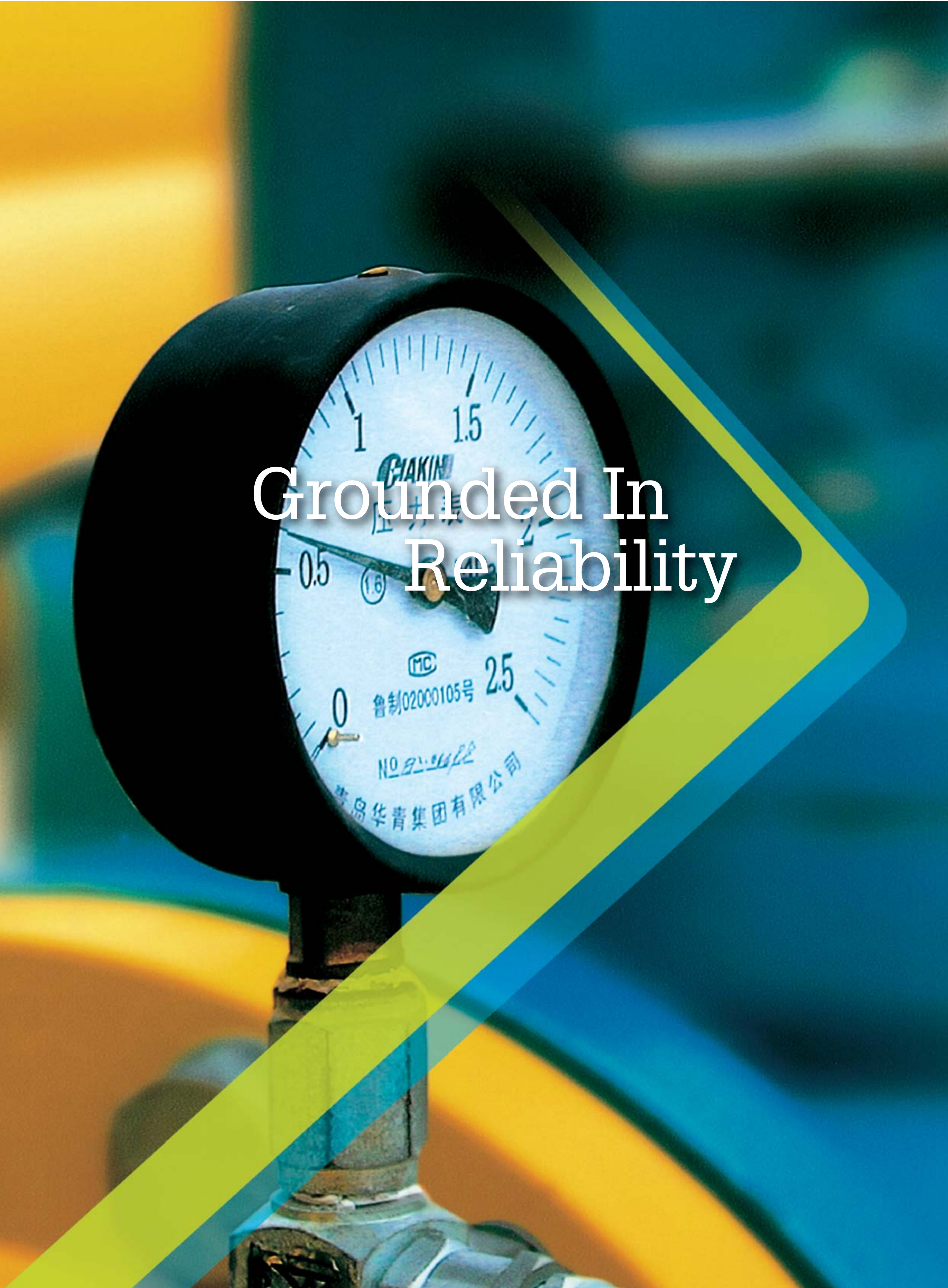
In the last financial year, the Group has obtained financing support from major international financial institutions.

In October 2006, the Group obtained financing package in an aggregate amount of US$149 million from the Asian Development Bank which is to fund the Group's investment in new natural gas distribution infrastructure in China. Among this financing package, US$24 million was for the subscription of the Company's shares, US$50 million was a 9-year development capital facility, and US$75 million was a 7-year development capital facility granted by the Royal Bank of Scotland and nine other commercial banks under the arrangement of Asian Development Bank. The interest rate on these two development capital facilities were much more favourable than that of a high-yield bond of a similar tenor in the international capital market, and this demonstrates the strong support of Asian Development Bank to us, the Group's credibility in the banking community, and the recognition of the Group's business prospects.

Shareholders' Structure and Board Composition

In the last fiscal year, the shareholder base of the Company has become more internationalized. Hai Xia Finance Holdings Limited is the founding and substantial shareholder of the Company. Asian Development Bank became a shareholder of the Company in October 2006, together with the three international strategic shareholders namely China Petroleum & Chemical Corporation, GAIL (India) Limited and Oman Oil Company, S.A.O.C., the Company had become an important platform to facilitate cooperation among energy companies in Asia.

Grounded In Reliability



Watching Our Network Grow

We have expanded our gas network by over 2,900 km within the last fiscal year alone and acquired eight more gas concessions and three long-distance gas transmission projects in the span of 15 months — a prelude of things to come.

The composition of the Board of the Company also had changes in this financial year. Mr. Suresh Raghavanachari, representative from GAIL (India) Limited, resigned as a non-executive director of the Company in December 2006 due to job deployment and Mr. R.K. Goel, a finance director was then nominated by GAIL (India) Limited to become a non-executive director of the Company. Following the completion of the share subscription by Asian Development Bank, Mr. Joe Yamagata, a director of Private Sector Operations Department, was nominated by Asian Development Bank to become a non-executive director of the Company in October 2006. Mr. Harrison Blacker, the nominee from Oman Oil Company, S.A.O.C. resigned as a non-executive director of the Company in July 2007 and will be appointed as the managing director of China Oman Energy Co. Ltd. Mr. Mark Gelinas, a General Counsel was then nominated by Oman Oil Company, S.A.O.C. to become a non-executive director of the Company. On behalf of the Board, I would like to welcome Mr. Joe Yamagata, Mr. R.K. Goel and Mr. Mark Gelinas to join the Board and believe that with their outstanding ability and rich industry, finance and legal experience, their participation in the Board will strengthen our team and will bring more good ideas to the Group. We will ensure that the Board will continue to maintain a high governance standard and leverage on its experience and expertise so as to guide the Group to become a successful international natural gas company. Meanwhile, I would like to take this opportunity to express my gratitude to Mr. Suresh Raghavanachari and Mr. Harrison Blacker for their services and contributions to the Company during their tenure of office.

Prospects

Our business is in a steady phase of growth. With a large portfolio of quality projects and sufficient capital support, the coming year is expected to be another year of rewards. We will continue to move towards our goals, pursue a more proactive investment strategy, invest in more gas projects and strengthen on investment in the upstream supply market, especially in the areas of liquefied natural gas and compressed natural gas. The Group will continue to work hard for better returns of our shareholders.

Lastly, I would like to express my thanks to the staff, the management team and the fellow board members for their endeavors and hard work. I am also grateful to our shareholders for their full support of our business strategies, as well as to the banking community and investors for their confidence, encouragement and recognition.

Li Xiao Yun
Chairman

July 20, 2007


CHINAGAS
中國燃氣

Industry Outlook

As the Chinese economy continues to experience substantial growth in the 21st century, so does the demand in energy, which has been growing year after year. Hence, energy supply has become a bottleneck to the economic development in China. The extensive mode of economic growth in China has caused excessive energy demand and poor energy utilization efficiency in the country, as well as serious environmental pollution problem. While energy import from overseas has been expanding in a higher pace, it still falls short of satisfying the needs from domestic economic development. Cases of oil shortage, electricity shortage and coal shortage are reported frequently. Facing the problem of energy bottleneck that could slow China's economic growth, The National Development and Reform Commission issued earlier this year The Eleventh Five-Year Plan in Energy Development, which outlines the national energy strategy of giving priority to energy conservation, relying on domestic resources, developing diverse energy resources, and driving for environmental protection, as well as putting in place a system that supplies stable, economical and clean energy, so that the sustainable development of the economy and society will be supported by the sustainable development of energy.

According to the Plan, by 2010, annual growth rate of primary energy consumption in China is expected to be 4%, among which coal, oil and natural gas will respectively account for 66.1%, 20.5% and 5.3% of the total primary energy consumption. Compared to 2005, the proportions of coal and petroleum in such consumption will decrease by 3.0 percentage points and 0.5 percentage point respectively, while natural gas will increase by 2.5 percentage points. According to the Plan, demand in natural gas in China is expected to reach approximately 110 billion m^3 per annum by 2010, and the annual consumption growth rate of natural gas will exceed 17%. Among the various types of natural gas consumptions, city gas is the fastest growing as households are shifting to use natural gas instead of coal gas.

In order to step up the development of domestic natural gas industry and to even out the imbalance between supply and demand, the PRC government has devoted greater effort in the upstream operation of natural gas exploration and exploitation as well as to speed up the construction of long distance pipelines. On the other hand, it has begun to rationalize the pricing mechanism of natural gas market, and to implement taxation and pricing policies that are favourable to production and utilization of clean energy.

Recently, Sulige Gas Field in Inner Mongolia and Puguang Gas Field in Sichuan have been discovered with total reserves of more than 500 billion m^3. These discoveries have driven the country's natural gas reserves and production volume to a new level. Moreover, the State Council has formally approved the "Sichuan-to-East Pipeline" project on the Puguang Gas Field, the total investment of which amounts to RMB 63.2 billion and commercial production is expected to commence in 2009. The gas field will provide 15 billion m^3 per year of natural gas to Hubei, Anhui, Jiangsu and Shanghai etc. In addition to its focus on domestic market, the PRC government also actively explores opportunities in the international natural gas supply market. While seeking to import LNG from overseas, the inland natural gas importation projects between China, Russia and Turkmenistan are progressing well. In the future, we can see tremendous opportunities in the city gas sector in China as natural gas supply is expected to increase significantly and because of its advantages of price and environmental protection.

Business Review
Development of New Projects

The Group is principally engaged in the investment in, and the operation and management of, gas pipeline and the sale and distribution of piped natural gas and compressed natural gas in China.

For the year ended March 31, 2007, turnover of the Group amounted to HK$1,236,469,000 (year ended March 31, 2006: HK$630,522,000), increased by 96.1% over the same period of last year. Profit for the year amounted to HK$225,563,000 (year ended March 31, 2006: HK$180,068,000), increased by 25.3%. Earnings per share was HK6.35cents (year ended March 31, 2006: HK6.15 cents).

New Project Expansion

Since the last financial year, the Group's project expansion has gradually shifted to large to medium-sized cities. As at June 30, 2007, the Group had secured 57 city piped gas projects (with exclusive concession rights) in 15 provinces, autonomous regions and directly-administered cities, owned one natural gas company with natural gas exploration right, five long distance natural gas pipeline projects and two LNG liquefaction companies.

The new projects include nine city piped gas projects in regions of Wuwei County in Anhui Province, Dezhou City and Qingdao City in Shandong Province, Jinzhou City Economic Hi-Tech Development Zone in Liaoning Province, Qishan County in Shaanxi Province, Hohhot City, Baotou City and Wushen Banner in Inner Mongolia Autonomous Region and Yubei district in Chongqing Municipality, two long distance gas pipeline projects in Inner Mongolia Region and one in Tianjin Municipality , two LNG liquefaction companies located in Kaixian, Chongqing Municipality and Xuanhan County, Sichuan Province and one natural gas company with natural gas exploration right in Dianjiang County, Chongqing Municipality.

Set out below is the nine new city piped gas projects secured by the Group by June 2007:

Province / Autonomous Region / Directly-Administered Cities	City / Districts
Anhui Province	Wuwei County
Inner Mongolia Autonomous Region	Hohhot City, Baotou City, Wushen Banner
Shandong Province	Dezhou City, Qingdao City
Chongqing Municipality	Yubei District
Liaoning Province	Jinzhou City Economic Hi-Tech Development Zone
Shaanxi Province	Qishan County

Left: Gas pipeline network in Baoji

Right: Dalian, Liaoning Province, city gas concession signing ceremony


CNG 加气站
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The above new projects cover a connectable city population of approximately 8,771,000 (approximately 2,741,000 households). The connectable city population covered by the Group's gas projects has increased to approximately 32,008,000 (approximately 10,009,000 households) as of June 2007, representing an increase by 39.0% compared to 2006.

In addition to the newly invested city piped gas projects, the Group also owns three long distance natural gas pipeline projects in Wushen Banner and Otog Banner, Ordos City, Inner Mongolia Autonomous Region and in Tianjin Municipality. Accordingly, the number of long distance gas pipeline projects owned by the Group has increased from last year's two (Dangyang and Xiaogan) to this year's five.

Last year, the Group actively sought for opportunities to invest in small scale natural gas liquefaction facilities close to natural gas source in the central and western region of China. In the last financial year, the Group decided to invest in two natural gas liquefaction factories in order to build up an independent gas supply system for the Group and to meet the demand of the downstream markets, thus further enhancing our competitiveness in tendering for new projects.

Looking into the next financial year, in the area of city gas distribution, the Group will continue to actively look for investment opportunities in large and medium-sized city gas projects with reasonable investment returns, expand its customer base and further integrate the existing city gas projects and increase the Group's overall project qualities and level of investment return. In the upstream exploration and transportation area, the Group will make preparation for participating in overseas natural gas exploration and transportation by collaborating with its strategic shareholders. At the end of 2006, the Ministry of Commerce of the PRC granted the Group a licence allowing the Group to operate gas fuel business such as the import, export and wholesale of natural gas, liquefied natural gas, liquefied petroleum gas, methanol and dimethyl ether, etc. This licence will provide further support to the future gas supply system of the Group.

Construction of Piped Gas Networks

Construction of city gas pipeline networks is one of the Group's principal businesses. The Group builds city main pipeline network and branch pipeline network to make gas connection to residential, industrial and commercial users, and charges them for such connection and gas usage.

During the financial year, the Group had completed 18 processing stations, two medium and high pressure regulating stations, high-pressure gas pipelines of 159 km, city medium and low-pressure gas pipeline of approximately 1,438 km and branch and customer pipeline network of 1,320 km.

As at March 31, 2007, the Group accomplished piped gas supply in 37 cities, and had built 43 processing stations, 22 medium to high pressure regulating stations, high-pressure gas pipelines of approximately 571 km, medium to low-pressure gas pipelines of approximately 4,466 km and branch and customer pipeline network of 4,798 km. Designed gas supply capacity of the processing stations reached 6,563,753 m^3 per day.

Left: Construction site of mid-range pressure natural gas network in Wuhu

Right: Liquidfied Natural Gas (LNG) tanks

Business Review
Residential Customers

During the financial year, the Group acquired a number of large city gas projects with urban population over a million each. These cities are economically prosperous and their citizens have high demand for real properties. This has enhanced the development of residential customer base of the Group. During the period, the Group completed natural gas connections for 164,544 domestic households, increased by approximately 16.3% over the same period of last year. The average connection fee of residential users was RMB2,092.

During the financial year, the Group acquired a total of 379,135 residential users who were primarily from Fushun and Hohhot projects. As at March 31, 2007, the Group had a total of 1,349,782 residential users, increased by 67.4% over the same period of last year, representing 16.7% of the total connectable domestic households.

Upper left: Customer service centre

Upper right: Natural gas transportation truck

Lower left: Electronic gas distribution monitoring system

Lower right: Gas pipelines for residential users

Business Review
Industrial and Commercial Customers

As versus residential users, industrial and commercial users, the focus of the Group's business direction, have much bigger demand for gas. During the financial year, the Group completed natural gas connections for 33 industrial customers and 369 commercial customers and acquired 5 industrial customers and 8,688 commercial customers. Industrial users are primarily in the building material productions, metallurgy and glass making industry.

As at March 31, 2007, the Group had a total of 111 industrial customers and 10,451 commercial customers, increased by 54.2% and 649.2% respectively compared with the last period. During the financial year, the connection fee for industrial fee for industrial users was calculated on the basis of the contracted daily gas volume at the average rate of RMB42.9 per m^3 and the average connection fee paid by commercial customers was RMB147,039 per customer.

Connection fee represented approximately 31.3% to the Group's total revenue for the financial year under review.

Sale of Piped Gas

Connection fee is a one-off income, whereas the Group's ultimate profit comes from the sales income of piped gas.

The Group sold a total of 357,726,000 m^3 of natural gas, a substantial increase of 107.6% as compared to the same period of last year, of which 62,028,000 m^3 was sold to residential users, 233,416,000 m^3 to industrial users and 33,240,000 m^3 to commercial users, 22,726,000 m^3 to CNG vehicle drivers and 6,317,000 m^3 to other users.

During the financial year, gas sold to industrial users represented 65.2% of the total natural gas volume sold, commercial users 9.3%, residential users 17.3% and CNG vehicles 6.4%. With a large proportion of industrial users in its customers mix, the Group enjoys a very big potential in its future gas sales. In addition, as local governments are generally more relaxed in controlling the tariffs for industrial users, it becomes much easier for the Group to transfer the risk of upstream natural gas price fluctuation to them.

During the financial year, the Group recorded natural gas sales income of HK$661,800,000, representing approximately 53.5% of the Group's total revenue for the year, an increase of approximately 142.4% over the same period of last year.

As at March 31, 2007, the daily natural gas supply capacity of the Group reached 1,618,160 m^3, increased by approximately 114.0% over the same period of last year, of which the actual domestic usage was approximately 342,460m^3/day, actual industrial usage approximately 758,566m^3/day, actual commercial usage approximately

Left: Natural gas-operated ceramics kilns in Dangyang

Right: Copper production factory in Wuhu

194,929 m^3/day, and actual CNG vehicles usage approximately 192,108 m^3/day. As of June 30, 2007, the total natural gas supply of the Group had exceeded 2,300,000 m^3 per day.

In the past financial year, average selling price (pre tax) was RMB1.75 per m^3 for residential users, RMB1.66 per m^3 for industrial users, RMB2.31 per m^3 for commercial users, and RMB2.23 per m^3 for CNG vehicles.

The core business of the Group is natural gas supply. Because of historical reasons, some of the projects are still selling piped coal gas and liquefied petroleum gas (LPG). Piped coal gas and LPG sales income from Fushun Zhongran, Liuzhou Zhongran and Yangzhou Zhongran was recorded. A total of 74,469,000 m^3 piped coal gas and LPG was sold during the financial year, of which 56,650,000 m^3 was sold to residential customers, 7,388,000 m^3 to industrial customers and 10,426,000 m^3 to commercial customers.

Natural Gas Joint Venture Companies

For the year ended March 31, 2007, revenue contribution of the Group's major subsidiaries and jointly-controlled companies to the Group's total revenue is as follows:

Joint venture company	Revenue (HK$'000)	As a percentage to the Group's total revenue (%)
Baoji Zhongran	188,043	15.21
Dangyang Zhongran	180,761	14.62
Wuhu Zhongran	167,963	13.58
Liuzhou Zhongran	108,776	8.80
Yichang Zhongran	73,149	5.92
Nanjing Zhongran	72,167	5.84
Yangzhou Zhongran	70,317	5.69
Beijing Zhongran Xiangke	53,603	4.34
Huainan Zhongran	49,166	3.97
Suzhou Zhongran	39,362	3.18
Fushun Zhongran	36,751	2.97
Xiaogan Zhongran	34,683	2.80
Yangzhong Zhongran	23,151	1.87
Total	**1,097,892**	**88.79**

CNG Refilling Stations for Vehicles

Compared to gasoline, compressed natural gas (CNG) can help reduce emissions of pollutant gases such as carbon monoxide, carbon dioxide and sulphur dioxide, and particular pollutants from motor vehicles on the roads. It is thus a more environmental-friendly fuel. Moreover, CNG only costs 60% as much as gasoline to produce the same amount of heat content. CNG is internationally recognized as a preferred alternative energy for motor vehicles.

During the period of the Eleventh Five-Year Plan, the PRC government has clearly defined its energy strategy as giving priority to conservation and environmental protection. As environmental protection ranks higher in the government's agenda, and with the increased exploitation of natural gas resource and its widened application, the promotion and use of CNG-fueled vehicles will give a strong assurance to reducing environmental pollution, alleviating pressure from oil shortage and realizing sustainable social and economic development. It is believed that CNG-fueled vehicles will enjoy strong support from and promotion by the government due to its outstanding economic and social cost-efficiency.

In this financial year, the Group entered into a cooperation agreement with 長沙市液化石油氣發展有限公司(Changsha City LPG Development Limited) for the establishment of Changsha Zhongran Natural Gas Company Ltd to operate natural gas refilling station for vehicles business in Changsha City, the provincial capital of Hunan Province. The joint venture company has already obtained its business registration licence which was issued by the People's Government of Changsha City. The Group also acquired 80% equity interest in 內蒙古包頭市申銀天然氣加氣有限公司(Inner Mongolia Baotou City Shenyin Natural Gas Station Limited) recently, which has already completed one natural gas refilling main station and three sub-stations for vehicles in Baotou City.

The Group currently owns 24 CNG refilling stations for vehicles, with a daily capacity in excess of 240,000 m^3. Sales income from CNG took up 6.4% of the Group's total sales income of natural gas in the period under review. In future, the Group will invest further in CNG refilling stations for vehicles with an aim to increasing its share of the market.

Furthermore, in order to develop the CNG refilling business for vehicles, the Group signed a joint venture agreement with GAIL, one of its existing shareholders, in June 2007 for the formation of a 50:50 joint venture company which is to invest in CNG projects, city gas supply projects and CNG refilling stations business in China, India and other countries.

Other Projects Development

In March 2007, the Group signed a joint venture agreement with SK E&S and SK Gas, subsidiaries of SK Group, the third largest corporation in Korea, for the establishment of a joint venture company to participate in such energy projects as exploitation, liquefaction, transportation of natural gas, distribution of city gas, and import and export of Liquefied Petroleum Gas (LPG) in China and overseas. According to the joint venture agreement, the new joint venture company will be incorporated in Hong Kong, China with a registered capital of US$20 million to be contributed by the two sides, in which China Gas will contribute US$10 million and hold 50% shares in the joint venture, and SK E&S and SK Gas will jointly contribute US$10 million and hold the remaining 50% in the joint venture. After the joint venture is set up, the two sides shall draw on their individual strengths in capital, technology and other resources to assist the joint venture in capturing investment opportunities and developing its core business. The joint venture aspires to become a major gas and energy operator in the Asia Pacific region.

Gross Profit Margin and Net Profit Margin

During the financial year, the Group realized revenue of HK$1,236,469,000 (2006: HK$630,522,000), an increase of 96.1% over the same period of last year; gross profit of HK$420,296,000 (2006:HK$305,354,000), representing 34.0% of the Group's overall gross profit margin (2006: 48.4%); net profit of HK$225,563,000 (2006: HK$180,068,000), representing an overall net profit margin of 18.2%(2006: 28.6%).

Strategic Shareholders

In addition to Hai Xai Finance Holdings Limited, a major shareholder of the Company, Asian Development Bank has become a strategic shareholder of the Company since last year. Besides Asian Development Bank, the Company also has strategic cooperation with two of its strategic shareholders.

In May 2007, the Company and Oman Oil Company, S.A.O.C. entered into a joint venture agreement for the establishment of a 50:50 joint venture company in Bermuda. The Bermuda joint venture company will primarily be engaged in the business of importing into the PRC energy products including liquefied natural gas, liquefied petroleum gas, crude oil and fuel oil from the Middle East or other parts of the world, and developing, acquiring, owning and operating energy projects including oil and gas field exploration and production (including coal bed methane fields), transportation infrastructure (such as pipelines and gas liquefaction and re-gasification facilities) in the Middle East, PRC or other parts of the world. It is an objective of the Company and Oman Oil Company, S.A.O.C. that the joint venture will become a major energy importer and producer in Asia.

In June 2007, the Company and GAIL entered into a joint venture agreement for the establishment of a 50:50 joint venture company in Bermuda. This joint venture company will primarily be engaged in the business of purchase, sale, distribution and transportation of natural gas, LNG and CNG, construction, operation and maintenance of gas pipeline and other systems, especially in relation to the coal bed methane, CNG supply to motor vehicles and construction of CNG refilling stations and their ancillary facilities and conversion equipments.

Human Resources

A team of excellent employees is vital to the success of a corporation. The Group remains faithful to "people come first" management concept. It has put in place a system of recruitment and internal training. The system provides mechanism for upgrading the professionalism and competence of its staff at all levels on an ongoing basis and also creates a platform for knowledge exchange and experience sharing among its staff. The Group recruits and retains capable people through enhancing job satisfaction and attractive remuneration package.

As at March 31, 2007, the Group has approximately 7,343 employees, an increase of approximately 64.5% over last year. More than 99.9% of the Group's employees are located in the PRC. Remuneration is determined by reference to their qualifications and experiences of the staff concerned and according to the prevailing industry practice in the respective regions in which it operates. Besides the basic salaries and pension fund contribution, some employees may be given discretionary bonuses, merit payment and share options depending on the financial results of the Group and the performances of these individual employees. The Group also provides extensive training including orientation tours for new employees and different levels of technical and management courses for the Group's management members and employees.

Excellence in Corporate Management

The Group's management team is committed to upgrading its corporate governance and transparency. In recognition of the effort of the Group's management, Capital Magazine once again awarded the Group with the "Capital's Outstanding PRC Natural Gas Supplier" title in May 2007. Capital Magazine is one of the best-selling and authoritative Chinese financial magazines in Hong Kong and the award panel was comprised of members from the editorial committee of Capital and 10 leading figures in the business community. This award demonstrates that the management standard of the Group is recognized by most of the investors.

Moreover, in June 2007, the Group was awarded first prize in "The Best Mid-Cap Company" and ranked seventh in both "The Best Managed Company" and "The Best Investor Relations" categories in the Mainland China section in the 2007 Asia's top companies poll organized by FinanceAsia, one of the leading financial magazines in Asia Pacific. This demonstrates that China Gas's effort in corporate management and investor relations are recognized by the investing community. The results of the poll were generated from the votes of some 200 securities analysts, fund managers and other figures in the Asian financial market who had been invited by FinanceAsia to pick their choices regarding the best companies in corporate management, leadership, corporate governance and investor relations etc. by a survey through email. China Gas stood out of the competition and was recognized by investors as an excellent Chinese business enterprise.

The Group was further elected by a dedicated gas industry portal in China –"博燃網" (Gasshow.com) as one of the "Top Ten Most Impressive Enterprises" in its "2006 Gasshow Performance Ranking" for three consecutive years, evidencing both industry and consumer recognition of the Group. The list was arrived at based on recommendations of members of the website and online ballots, and the election criteria included yearly performance, integrity, contribution to industry development, and technological and managerial innovation of an enterprise.

Financial Review

Liquidity

As at March 31, 2007, the total assets of the Group was HK$7,293,402,000, increased by approximately 43.2% as compared to March 31, 2006.

As at March 31, 2007, the Group's cash on hand was HK$1,512,347,000 (March 31, 2006: HK$1,727,130,000). The Group's total bank and other borrowings amounted to approximately HK$2,929,233,000 (March 31, 2006: HK$2,011,452,000) of which approximately 23.5%, 8.4%, 38.6% and 29.5% would be due within one year, from first to second year, from second to fifth year and after the fifth year, respectively.

The Group has a current ratio of approximately 1.65 (March 31, 2006: 3.38) and the net gearing ratio was 0.75 (March 31, 2006: 0.38). The calculation of net gearing ratio was based on the net borrowings of HK$2,001,754,000 (total borrowings of HK$3,514,101,000 less bank balances and cash of HK$1,512,347,000) and the net assets of HK$2,681,220,000 as at March 31, 2007.

Capital Structure

The Company entered into a subscription agreement with Asian Development Bank during the financial year for the subscription of 150,000,000 shares of the Company, and the net proceeds received by the Company was approximately HK$186,700,000. These proceeds were mainly used for the development of new projects of the Group.

The Company entered into a subscription agreement with Asian Development Bank during the financial year for the subscription of 150,000,000 shares of the Company, and the net proceeds received by the Company was approximately HK$186,700,000. These proceeds were mainly used for the new projects development of the Group.

The Company issued convertible bonds with 1% per annum coupon due June 29, 2010 with an aggregate principal amount of US$40,000,000 (the "Bonds") in June 2005. The initial conversion price of the Bonds was HK$1.731 but the conversion will be adjusted in accordance to the initial agreement if any shareholding dilution event happens. The Bonds have been listed on The Hong Kong Stock Exchange since June 1, 2006. As at July 20, 2007, a total of US$23,000,000 of the Bond had been converted into a total of 103,639,506 ordinary shares of the Company.

Financial Resources

In October 2006, the Group obtained a 9-years development-related loan facility of US$50 million granted by Asian Development Bank. Such loan facility was used by the Group to invest in the infrastructures projects for the new natural gas transportation and distribution projects in China. Furthermore, the Group also obtained a total of US$75 million 7-years development-related loan facility from The Royal Bank of Scotland and other commercial banks in June 2007 under the arrangement of Asian Development Bank. Interest rate for the first loan facility is at USD LIBOR plus 2% per annum, while the second loan facility was charged at USD LIBOR plus 1.35% per annum.

The Group does not anticipate any material foreign exchange exposure since its cash, borrowings, revenue and expenses are denominated in Hong Kong dollars, RMB and US dollars. Besides, the Group believes that RMB appreciation will continue in the foreseeable future. Since all the operating income of the Group is denominated in RMB, the Group is expected to be benefited from repaying foreign currency debts by RMB funding.

As the interest charged on the commercial loans and development capital loan granted to the Group was calculated on a floating basis, in order to minimize the interest rate risk, the Group has entered into interest rate swap contracts to mitigate interest rate risk and reduce finance costs. There were two interest rate swap contracts outstanding during the financial year. For the US$60 million syndicated loan arranged by Societe Generale as the lead arranger, the Group is to pay floating interest charged at LIBOR+150Bps, but under the relevant interest swap contract, the Group only needs to pay interest at the fixed rate of 5.07% per annum. As to the US$50 million development-related loan provided by FMO and Proparco, interest is charged at the floating rate of LIBOR+235Bps. At present, the Group only needs to pay interest at the fixed annual rate of 5.73% pursuant to the interest rate swap. The development capital loans of US$50 million and US$75 million under the Asian Development Bank facilities have also been put into similar interest rate swap arrangements in order to mitigate interest rate risk and reduce finance costs.

The Group's operating and capital expenditures are funded by operating cash income, subscription monies from strategic investors, bank loans, the Bonds and development capital loan facility. The Group has sufficient sources of funds to meet future capital expenditure and working capital requirements.

Charge on Assets

As at March 31, 2007, the Group pledged part of the fixed assets and investment properties having a net book value of approximately HK$395,872,000 (March 31, 2006: HK$371,867,000) and certain investments in subsidiaries to banks to secure loan facilities granted to the Group.

Capital Commitments

The Group has a capital commitments in respect of the acquisition of property, plant and equipment and construction materials contracted for but not provided in the financial statements as at March 31, 2007 was HK$392,357,000 (March 31, 2006: HK$453,224,000) and HK$56,006,000 (March 31, 2006: HK$175,573,000), and such commitments would require a substantial part of the Group's present cash and external borrowings. The Group has also committed to acquire part of the PRC enterprise shares and to establish sino-foreign joint venture companies in the PRC.

Contingent Liabilities

As at March 31, 2007, the Group did not have any material contingent liabilities (as at March 31, 2006: Nil).

Liu Ming Hui
Managing Director

July 20, 2007

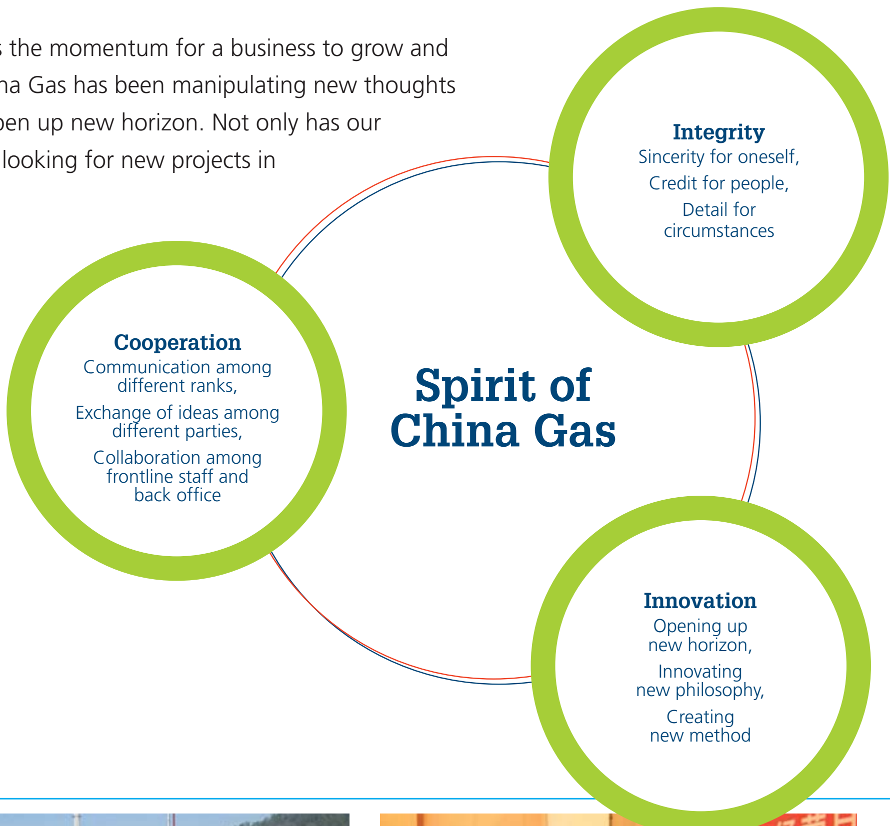
Corporate Culture

Excellent corporate culture is the key for a business to survive, to compete and to grow. As a young enterprise, China Gas has, since its establishment, set a long-term goal for shaping a 'Hundred Years of China Gas', so as to build a business that can sustain its growth for a long time. The spirit of China Gas - Integrity, Innovation, Cooperation - is the ultimate guiding philosophy for leading the Group towards its goal and success.

Integrity is the base for a corporation to survive. All staff of China Gas has been taking leaps to build up our corporate integrity and doing our utmost to provide our clients with safe and reliable quality services. As a result, we have won our clients' great patronage and trust over the years.

Innovation is the momentum for a business to grow and prosper. China Gas has been manipulating new thoughts flexibly to open up new horizon. Not only has our Group been looking for new projects in China enthusiastically, but we have also been launching cooperation with international strategic partners vigorously. We aim at grasping each and every opportunities in this ever-changing society and grow swiftly.

China Gas adheres to the people-centered corporate principle and provides every employee a platform to realise self value and self development. At the same time, the growth of China Gas cannot be achieved without the unanimous cooperation of the staff. As embodied in the China Gas logo which depicts the same direction of geometric figures of gas pipelines, it signifies the unified goal of China Gas staff in creating and fighting for 'Hundred Years of China Gas'.



Left: Gas pipeline check-up in Dangyang

Right: Management Institute of China Gas Graduation Ceremony 2006

Corporate Governance Report

The Board of Directors (the "Board" or the "Directors") and the management of China Gas Holdings Limited (the "Company", together with its subsidiaries, the "Group") are committed to attain high standards of corporate governance that help to ensure:

- Satisfactory and sustainable returns to shareholders
- Risk and opportunity are understood and managed appropriately
- Assets are safeguarded
- Delivery of high-quality services to the customers
- High standards of ethics are maintained

This report describes the Company's corporate governance arrangement and also includes the disclosures recommended by the code provisions of the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and describes how the principles of good corporate governance that are set out in the Code have been applied.

Compliance with the Code

The Company has complied with the Code throughout the year ended March 31, 2007 other than the term of the appointment of non-executive directors.

Composition of the Board

The Board consists of 12 members, five of whom are executive directors, four are non-executive directors and three are independent non-executive directors. Table 1 gives the composition of the Board of the Company.

Name of Directors	Position
Li Xiao Yun	Chairman, Executive Director
Xu Ying	Vice-Chairman, Executive Director
Liu Ming Hui	Managing Director, Executive Director
Zhu Wei Wei	Head of Capital, Executive Director
Ma Jin Long	Executive Director
Feng Zhuo Zhi	Non-Executive Director (nominated by Hai Xia Finance Holdings Limited)
R.K. Goel	Non-Executive Director (nominated by Gail (India) Limited)
Mark Gelinas	Non-Executive Director (nominated by Oman Oil Company S.A.O.C.)
Joe Yamagata	Non-Executive Director (nominated by Asian Development Bank)
Zhao Yu Hua	Independent Non-Executive Director
Mao Er Wan	Independent Non-Executive Director
Wong Sin Yue, Cynthia	Independent Non-Executive Director

Table 1 Composition of the Board

With half of the Board being non-executive and two-third not participating into the management of the Company, the Board is able to exercise independent judgment on corporate affairs and provide the management with a diverse and objective perspective on issues.

Mr. Joe Yamagta, a nominee from Asian Development Bank, was appointed as a non-executive director of the Company in October 2006. On the other hand, Mr. Suresh Raghavanachari, a nominee from GAIL (India) Limited, resigned as a non-executive director of the Company due to job deployment and Mr. R.K, Goel was nominated by GAIL (India) Limited as his successor to take up his non-executive director position in December 2006. In addition, Mr. Harrison Blacker, a nominee from Oman Oil Company S.A.O.C., will be appointed as the managing director of China Oman Energy Co. Ltd. and has resigned as a director of the Company. Mr. Mark Gelinas has since then been nominated by Oman Oil Company S.A.O.C. as a successor to be appointed as non-executive director of the Company in July 2007.

Details of the directors are disclosed under the "Biographical Details of Directors" of the annual report. The executive and non-executive directors have a complimentary range of financial, operational, legal and entrepreneurial experience that ensures a balance of viewpoints in the Board.

There is no financial, business, family and other relevant relationship among members of the Board. The roles and responsibilities of the Chairman and Managing Director are clearly separated and the two positions are held by two different members of the Board. The Chairman of the Board is Mr. Li Xiao Yun and he does not participate in the daily operations of the Group though he is an executive director of the Company. Mr. Li is only responsible for the Company's overall strategic planning and for ensuring the effectiveness of the Board. The Managing Director of the Company is Mr. Liu Ming Hui and he is responsible for the overall and daily operations of the Group and the running of the Group's business.

Each of the independent non-executive directors has provided an annual confirmation of his/her independence to the Company pursuant to the requirement of the Listing Rules. The Board considers all of the independent non-executive directors to be independent.

Operation of the Board

The primary role of the Board is to protect and enhance long-term shareholder value. The Board is responsible for setting overall strategy for the Group, overseeing the businesses and affairs of the Group and monitoring the performance of the management.

All the directors are kept informed on a timely basis of major development of the Group's businesses. Directors meet with other senior management and staff of the Group occasionally, have access to advice from the Company Secretary and may take independent legal or other professional advice at the Company's expenses where it is considered necessary for the proper discharge of their duties as Directors.

Meeting agenda of board meetings or committee meetings is generally distributed at least seven business days before the meeting date whereas the relevant board papers are generally distributed in writing to the directors at least three days in advance of the meetings for review by the directors. Sensitive subject matters may be discussed at the meeting without written materials being distributed in advance or at the meeting. Minutes are taken of each meeting of the Board and its committees and any significant concerns raised by any director are recorded in the minutes.

To provide a more manageable process and better control, certain of the Board's power have been delegated to committees. There are four committees at present namely executive committee, audit committee, nomination committee and remuneration committee and the Company Secretary is the secretary of all the committees. Other ad-hoc committees maybe formed from time to time to look into specific areas as and when the need arises.

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules. The Board confirmed that for the financial year ended March 31, 2007, all of the directors of the Company have complied with the Model Code set out in Appendix 10 of the Listing Rules.

Continuing professional development is a vital part for directors in this fast changing and competitive business environment. In order to meet this challenge, the Company engaged a reputable consultancy firm to launch its first corporate governance program for directors and senior management in Bangkok, Thailand in March 2007. The objective of this program is to provide directors and senior management with additional information on the latest trend and guidelines on corporate governance and to have an overview on the Company's current corporate governance practices.

Operational Management of the Group

The Board delegates the operational management of the Group to the Managing Director and Executive Directors (except for the Chairman of the Board who does not involve in the daily operations of the Group). The Executive Directors maintain day-to-day contact and meet regularly face-to-face or via video conferences with non-board senior management both in the head office and our operating units. The Group currently has over 60 operating units located in 15 provinces/autonomous regions/directly-administrated cities in China and each operating unit is headed by a general manager who is responsible for the day to day performance of the operating unit.

Directors and Officers' Liabilities

The Company maintains appropriate insurance cover in respect of legal action against the Company's directors and officers when they discharge their duties. The insurance coverage is reviewed on an annual basis.

Board Committees

The principal committees of the Board are Executive Committee, Remuneration Committee, Nomination Committee and Audit Committee. Details of their responsibilities and the works performed during the financial year were described as follows:

1. Executive Committee

The executive committee provides overall strategic direction to the management, to monitor the operations of all operating units and to ensure that funding is adequate for the Group's investment projects.

During the financial year, members of the executive committee include the Vice-Chairman, Managing Director and an executive director. The committee meets as and when required to discuss the daily operations and affairs of the Group. It reviews and approves major investments recommended by the management. Besides, a committee comprising any two of the executive directors has been set up to approve the issue and allotment of shares (i) under the share option scheme of the Company when exercise of share options arose; (ii) conversion rights attached to the convertible bonds.

In order to further assist the executive committee, sub-committees are formed for the purpose of performing detailed due diligence review on proposed investment projects. Members of sub-committees include executive directors and senior management members in different key operational and functional areas and they report to the Managing Director regularly.

2. Remuneration Committee

The remuneration committee consists of all independent non-executive directors with terms of reference approved by the Board. The committee is not currently independently advised by remuneration consultants but it consults with the Chairman/Managing Director of the Board as and when needed.

The committee is responsible for setting the remuneration for all executive directors and to recommend to the Board the remuneration policy, compensation policy, structure for directors and senior management and on the establishment of a formal and transparent procedure for developing such policies. It also ensures that no directors or any of his/her associates are involved in determining his/her own remuneration.

The remuneration of the executive directors and other directors may comprise salary/fee, other allowances and mandatory provident funds and share options. The participation of all the directors in the above arrangements and their total emoluments for the financial year ended March 31, 2007 are summarized in Table 2 below:

	Salary/Fees		Contributions to retirement benefits scheme		Total	
	2007	2006	**2007**	2006	**2007**	2006
Executive Directors						
Li Xiao Yun *(Note 3a)*	**370,000**	–	**–**	–	**370,000**	–
Xu Ying *(Note 3b)*	**1,200,000**	–	**12,000**	–	**1,212,000**	–
Liu Ming Hui *(Note 3c)*	**–**	–	**–**	–	**–**	–
Zhu Wei Wei	**520,000**	520,000	**12,000**	12,000	**532,000**	532,000
Ma Jin Long	**180,000**	60,000	**–**	–	**180,000**	60,000
Non-Executive Directors						
Feng Zhuo Zhi	**120,000**	103,000	**–**	–	**120,000**	103,000
Suresh Raghavanachari *(Note 1)*	**106,000**	–	**–**	–	**106,000**	–
Harrison Blacker *(Note 2)*	**122,000**	–	**–**	–	**122,000**	–
R.K. Goel	**40,000**	–	**–**	–	**40,000**	–
Joe Yamagata	**54,000**	–	**–**	–	**54,000**	–
Independent Non-executive Directors						
Zhao Yu Hua	**200,000**	120,000	**–**	–	**200,000**	120,000
Mao Er Wan	**200,000**	120,000	**–**	–	**200,000**	120,000
Wong Sin Yue, Cynthia	**200,000**	120,000	**–**	–	**200,000**	120,000

Table 2 Remuneration of each member of the Board for the financial year ended March 31, 2007 (All figures are in HK$)

Notes:

1. Resigned as director on December 1, 2006
2. Resigned as director on July 20, 2007

3a. For the two financial years ended March 31, 2006 and March 31, 2007, the Company incurred share-based payment expenses of HK$91,000 and HK$138,000 respectively in respect of fair value of 5,000,000 share options granted to Mr. Li Xiao Yun by the Company on October 20, 2005 at an exercise price HK$1.50 with an exercise period from October 20, 2010 to October 19, 2015.

3b. For the year ended March 31, 2006, the Company incurred share-based payment expense of HK$2,261,000 in respect of fair value of 90,000,000 share options granted to Mr. Xu Ying and approved by the shareholders of the Company on November 22, 2004. The exercise of such options is subject to the condition that the consolidated net asset value of the Group which shall be certified by the auditors appointed by the Company as at the date of exercise of the options being not less than HK$1 billion.

3c. For the year ended March 31, 2006, the Company incurred share-based payment expense of HK$3,265,000 in respect of fair value of 130,000,000 share options granted to Mr. Liu Ming Hui and approved by the shareholders of the Company on November 22, 2004. The exercise of such options is subject to the condition that the consolidated net asset value of the Group which shall be certified by the auditors appointed by the Company as at the date of exercise of the options being not less than HK$1 billion.

The committee believes that remuneration packages should reward the efforts of all staff and directors since a motivated workforce is a key element of the Group's performance and it recognizes that executive directors bear the greatest responsibility for delivering corporate strategy that underpins long-terms sustainable performance. As part of the remuneration package for all staff and directors, the Company also grants share option to staff and directors under the share option scheme of the Company to ensure that an appropriate balance of reward for responsibilities, motivation, retention and share participation. Share options were granted to directors in financial years 2004, 2005 and 2006 but no share options were granted during the financial period under review and no options were exercise during the period. The interests of directors who have options to subscribe for ordinary shares of the Company, together with movements during the financial year are shown in table 3.

Batch	Exercise Price (HK$)	Exercise Period
1	0.80	September 1, 2004 to January 8, 2014
2a	0.71	March 20, 2005 to October 5, 2014
2b	0.71	November 22, 2004 to October 5, 2014#
2c	0.71	January 1, 2005 to October 5, 2014
3	1.50	October 20, 2010 to October 19, 2015

\# *The exercise of options will be subject to the condition that the consolidated net asset value of the Group which shall be certified by the auditors appointed by the Company as at the date of exercise of the options being not less than HK$1 billion.*

	Batch	As at April 1, 2006	Granted during year	Exercised during year	As at March 31, 2007
Li Xiao Yun	1	5,000,000	–	–	5,000,000
	3	5,000,000	–	–	5,000,000
Xu Ying	1	5,000,000	–	–	5,000,000
	2b	90,000,000	–	–	90,000,000
Liu Ming Hui	1	5,000,000	–	–	5,000,000
	2b	130,000,000	–	–	130,000,000
Zhu Wei Wei	1	4,000,000	–	–	4,000,000
	2a	6,000,000	–	–	6,000,000
Ma Jin Long	1	9,240,711	–	–	9,240,711
Zhao Yu Hua	1	1,000,000	–	–	1,000,000
	2c	700,000	–	–	700,000
Mao Er Wan	1	1,000,000	–	–	1,000,000
Wong Sin Yue, Cynthia	1	1,000,000	–	–	1,000,000
	2c	700,000	–	–	700,000

Table 3 Interest of each member of the Board in share options for the financial year ended March 31, 2007

The committee met once during the financial year to review and approve the remuneration packages for two executive directors.

3. Nomination Committee

Originally, the committee consisted of one independent non-executive director and two executive directors. However, the composition of the committee changed in July 2007 to catch in line with the best practices of the Code. The committee is currently structured to include majority of independent non-executive directors with term of reference approved by the Board.

The committee is responsible for ensuring that the Board comprises an appropriate balance of skills, knowledge and experience and as part of this role leads the process of recommending candidates for appointment to the Board. The committee also considers those candidates presenting themselves for election at the annual general meeting ("AGM.").

Pursuant to the existing bye-laws of the Company, at each AGM, one-third of the directors shall retire from the office. The retired directors should be those who have been the longest in the office since their last re-election or appointment. New director appointed by the Board during the year shall hold office until the next following AGM and shall then be eligible for re-election at that meeting. The newly appointed director shall not be taken into account in determining the number of directors who are to retire by rotation at that AGM. All retiring directors are eligible for re-election at each AGM of the Company.

Mr. R.K. Goel, the nominee representative of GAIL (India) Limited, Mr. Joe Yamagata, the nominee representative of Asian Development Bank and Mr. Mark Gelinas, the nominee representative of Oman Oil Company S.A.O.C. were appointed as non-executive directors of the Company during the period from the last AGM upto and including July 20, 2007 and they shall hold office until the next following AGM and then eligible for re-election at that meeting.

At present, both non-executive directors and independent non-executive directors are not appointed for a fixed term and this deviates from the code provision of the Code. However they are subject to retirement by rotation and re-election at AGM in accordance with the bye-laws of the Company.

For the fiscal year 2007, the directors who are retiring and who, being eligible, will offer themselves for re-election at the forthcoming AGM, are named below:

Name of Director	Date of first appointment	Date of last-re-election
Li Xiao Yun	August 22, 2001	–
Xu Ying	August 22, 2001	August 12, 2004
Wong Sin Yue, Cynthia	October 21, 2003	August 12, 2004
Joe Yamagata	October 21, 2006	–
R.K. Goel	December 1, 2006	–
Mark Gelinas	July 20, 2007	–

The committee met three times during the financial year and the work performed by it:

i. review and recommend the appointment non-executive directors; and

ii. review and consider those directors who are presenting themselves for election at the AGM

4. Audit Committee

The audit committee consists of all independent non-executive directors with terms of reference approved by the Board. All the members of the committee have significant relevant financial expertise and are appropriately qualified to undertake their duties as audit committee members.

The main responsibility of the audit committee is to review, with the external auditors and the management, the Company's general policies and internal financial control procedures. It also reviews half-yearly and annual results announcements as well as the financial statements of the Group before they are submitted to the Board for approval. The audit committee also recommends the appointment and re-appointment of the Company's external auditors.

The committee met five times during the fiscal year 2007. The work performed by the audit committee included:

i. review of the Company's financial statements for the year ended March 31, 2006 and the annual results announcement and provided recommendation to the Board for approval;

ii. recommend to the Board to re-appoint Deloitte Touche Tohmatsu as external auditors of the Company for the financial year 2007 pending shareholders approval at the 2006 AGM;

iii. review of the Company's interim financial statements for the six months ended September 30, 2006 and the interim results announcement and provided recommendation to the Board for approval;

iv. review the report and the management letter submitted by the external auditors for the matters arising from their audit on the Group for the year ended March 31, 2006;

v. review and discuss with the management and the external auditors the changes in accounting policies arising from the new Hong Kong financial reporting and accounting standards which would have effect on the financial statements for the year ended March 31, 2006;

vi. review and approve the appointment of external consultant to carry out risk assessment and to examine the Group's internal control system;

vii. approve the annual audit fee.

The audit committee has reviewed the amount of remuneration paid and payable in connection with the audit and non-audit services provided by Deloitte Touche Tohmatsu for the fiscal year 2007.

Services	**Amount** (HK$)
Audit Services	
Final results for the year ended March 31, 2007 (to be agreed)	2,800,000
Final results for the year ended March 31, 2006	2,200,000

Table 4 Amount of remuneration paid and payable to Deloitte Touche Tohmatsu

Individual Director Participation at Meetings

The Board and the Board Committees meet regularly every fiscal year and additional meetings would be arranged if and when necessary. The attendance record of each member of the Board in respect of the Board and Board Committee meetings are set out in the table below.

Name of directors	Board (regular meeting)		Audit Committee		Nominations Committee		Remuneration Committee	
	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended
Li Xiao Yun	4	3	–	–	–	–	–	–
Xu Ying	4	4	–	–	3	3	–	–
Liu Ming Hui	4	4	–	–	3	3	–	–
Zhu Wei Wei	4	3	–	–	–	–	–	–
Ma Jinlong	4	4	–	–	–	–	–	–
Feng Zhuo Zhi	4	2	–	–	–	–	–	–
Suresh Raghavanachari *(Note 1)*	1	1						
Joe Yamagata *(Note 2)*	3	3						
R.K. Goel *(Note 3)*	3	2						
Harrison Blacker *(Note 4)*	4	3	–	–	–	–	–	–
Zhao Yu Hua	4	4	5	4	–	–	1	1
Mao Er Wan	4	4	5	5	3	3	1	1
Wong Sin Yue, Cynthia	4	3	5	5	–	–	1	1

Table 5 Directors' attendance at Board and Board Committee Meetings

Notes:

1. Resigned on December 1, 2006
2. Appointed on October 21, 2006
3. Appointed on December 1, 2006
4. Resigned on July 20, 2007

Risk Management and Internal Control

The Board acknowledges its responsibilities to establish, maintain, and review the effectiveness of the Group's system of internal control to ensure that shareholders' investment and the Group's assets are safeguarded. In light of this, the Board had engaged a professional consultancy firm to assist them in fulfilling this responsibility by carrying out a risk assessment and conducting a review on the system of internal control during the financial year.

While the Board has the overall responsibility to ensure that sound and effective internal control are maintained, management is charged with the responsibility to design and implement the internal control system. The board has designated specific management staff to assess the performance of risk management and internal control system over time and a steering committee was formed for that purpose. The Board believes that it is important to embed effective internal control throughout the business to provide reasonable assurance regarding the achievement of the Company's objectives. The Board has therefore, put in place an integrated framework of internal controls which is consistent with the COSO (the Committee of Sponsoring Organisations of the Treadway Commission) Internal Control Framework.

During the financial year, the Board has enhanced the internal control system and risk management process in the following ways:

i. Strengthening the risk management process by conducting a formal board-level risks assessment to identify key risks facing the Company and to ensure appropriate risk management measures are in place;

ii. Assessing the effectiveness of the organisation structure and putting in place a decentralized structure with defined reporting line, authority limits and responsibilities;

iii. Enhancing communication and monitoring control over the activities of joint ventures through the Company's representatives on the boards of the joint ventures together with the regular meeting with the management of the relevant entities;

iv. Implementing a formal performance evaluation system for senior management staff to enable alignment of the individuals' performance with the Company;

v. Formalising and documenting policies and procedures for investment, acquisition, and capital expenditure;

vi. Strengthening the control over cash flow management at Group and operating units;

vii. Requiring each operating unit to formalise and document policies and procedures for all key operational, financial reporting, and compliance functions; and

viii. Engaging a professional consultancy firm to benchmark the system of internal control to the COSO Internal Control Framework.

Way forward

As a continuous process on improving the Group's system of internal control, several initiatives have been under consideration:

- Enhance the internal audit function to independently monitor the effectiveness of internal control structures across the Group.

- The development of an enterprise risk management framework to enable the Company to effectively deal with uncertainty and associated risk and opportunity.

- Conducting risk assessment at operating units to ensure major risks are identified and managed appropriately.

- Implementation of a control self assessment process to require management in each operating unit to assess the adequacy and effectiveness of controls.

Communication

Shareholders

The Board is accountable to the Company's shareholders for the performance and activities of the Group and is very much aware of maintaining good relations and communications with all its shareholders. The reporting calendar is dominated by the publication of interim and final results each year, in which the Board reports to shareholders on its performance of the Company. Information is also communicated to shareholders on a timely basis through corporate announcements and circulars. All of the circulars and the announcements, including the annual reports and interim reports can be easily accessed from the Company's website (www.chinagasholdings.com.hk) and hard copies are available upon request to the Company Secretary.

Shareholders' meeting provides a principal forum for dialogue with shareholders. The Board encourages shareholders to attend and welcomes their participation. For the AGM, notice of the meeting and the related circular are dispatched to the shareholders of the Company at least 21 calendar days before the meeting. Separate resolution for each substantial issue, including the election of director, is proposed at the AGM and details of the poll voting procedures and rights of shareholders to demand a poll are included in the related circular.

Two shareholders' meetings were carried out in September 2006. In the extraordinary general meeting, approval was given by the shareholders of the Company to effect a reduction of the share premium account of the Company to write-off the accumulated losses so as to facilitate the declaration of final dividend for the year ended March 31, 2006. For the 2006 AGM, approval was given by the shareholders of the Company on the amendments of bye-laws which were related to corporate governance and other housekeeping matters. The most important amendment on the bye-laws was that the chairman and managing director of the Company are now subject to retirement by rotation which is in line with the code provisions of the Code. All resolutions put to shareholders were duly passed at both meetings and the Managing Director and senior management of the Company were available at both meetings to answer questions.

Investors and Analysts

The Board acknowledges the importance to establish good relationship with analysts and investors. The Company has established an Investors Relations Department dedicated for communication with institutional investors and analysts. Throughout the financial year, there are regular site visits, luncheons, telephone conferences and non deal roadshows with analysts and investors to update them on the latest business development of the Group.

Besides, the Board also recognises the importance to be readily accessible by the public and retail investors. From time to time press conferences are held so that the public can be informed of recent business developments of the Group. The Company sees this as an effective channel to pass public corporate information to the general investors community.

All investors and public are welcome to give their comments and make their enquiries through the Company's website (www.chinagasholdings.com.hk) or by email at investor@chinagasholdings.com.hk.

Corporate Social Responsibility

The Company recognizes the importance of corporate social responsibility and aims to act in a way that respects the social, economic and environmental interests.

Employee

Treating people fairly, providing them with training, support and equipment they need to do their jobs better is one of the basic aims of the Company on our employees. The Company acknowledges that training and development help create a professional, highly motivated workforce. Opportunities are given to all employees at all grades to join on-job training programs provide by Gas Technology Research Institute of China Gas and Management Institute of China Gas. Both institutes were established by the Company with the support from Harbin Institute of Technology and the two institutes provide over 50 training programs covering areas in general management, production safety, market development, customers service, financial management and application of information technology. Through these extensive training and development programs, the Company hopes to ensure that our employees are skillful and fully equipped for the challenges in a fast-changing market and environment. Furthermore, the Company believes that keeping employees fully informed of business activities of the Group is of great importance. The Group disseminates information to the employees through regular team meetings, annual conference, email, intranet, and monthly in-house magazine.

Environment

The Company cares about the environment even in the areas of paper usage, process waste at printers and the disposal of packaging waste and overdue in-house magazines. The Company is committed to helping the environment by using re-cycled paper for printing of annual reports, circulars and in-house magazines. The Company encourages all employees to re-use unwanted paper and is actively looking at other ways to reduce printers' wastes. Besides, the Company has established special arrangements with recycled-paper producers for them to make use of our overdue in-house magazines and packaging waste for conversion into recycled fibre.

Directors' Responsibility in Preparing the Financial Statements

The Directors acknowledge their responsibilities in preparing the financial statements and ensure that the financial statements are in accordance to the statutory requirements and applicable accounting standards.

The statement of the Auditors, Messrs. Deloitte Touche Tohmatsu, about their reporting responsibilities on the financial statements is set out in the Auditor's report on page 53 of the 2007 Annual Report.

Continuous Improvement

The Company will continue to improve the corporate governance practices in view of the regulatory requirements and in line with the international developments. The Company will take further steps that can embed risk assessment and internal control further into the Group's operations and to deal with areas for improvement which come to the Board's attention.

The Company recognizes the need for ongoing training and development, not just so our employees can do their job better but they can develop individually. The Company will further strengthen the substance and quality of the training programs provided by Gas Technology Research Institute of China Gas and Management Institute of China Gas to our employees so as to enhance the calibre of our staff and to better prepare our directors and senior management to encounter challenges in this fast-moving market.

Biographical Details of Directors

Executive Directors

Mr. Li Xiaoyun, aged 51, is a Director of the Company since August 2001 and appointed as Chairman of the Company since April 2002. Mr. Li graduated from Beijing University in 1979 and has substantial years experience in economic management. Mr. Li is currently the President of Strait Travel Agency.

Mr. Xu Ying, aged 45, is a Director of the Company and appointed as Vice-Chairman of the Company since August 2001. Mr. Xu graduated from Shanghai Jiao Tong University of Agriculture and Biology. Mr. Xu is the deputy President of Strait Travel Agency.

Mr. Liu Ming Hui, aged 44, is a Director of the Company since April 2002 and appointed as Managing Director of the Company since July 2002. Mr. Liu holds a Doctor of Business Administration degree. He has over 20 years working experience in government authorities and Chinese enterprises.

Mr. Ma Jin Long, aged 40, is a Director of the Company since September 2002. Mr. Ma received his Degree in Economics from Hebei University and EMBA from University of International Business and Economics. He has substantial experiences in financial management. Mr. Ma is the President of Beijing Zhongran Xiangke Oil Gas Technology Company Limited.

Mr. Zhu Wei Wei, aged 34, is a Director of the Company since September 2002. Mr. Zhu received his Master degree in Finance from Zhong-nan University of Finance & Economic. Mr. Zhu has substantial experiences in financing and project management.

Non-Executive Directors

Mr. Feng Zhuo Zhi, aged 51, is a non-executive Director of the Company since May 2005. Mr. Feng graduated from 中國人民解放軍炮兵指揮學院 (Artillery College of the People's Liberation Army) and is currently the general manager of Straits Travel Agency.

Mr. Joe Yamagata, aged 53, appointed as a non-executive director of the Company in October 2006. He received a master degree in Management from Massachusetts Institute of Technology and is specialized in international management and finance and is currently a director of Private Sector Operations Department of Asian Development Bank. Prior joining Asian Development Bank in 1994, Mr. Yamagata has been working in Toshiba Corporation, Tokyo, Japan for 15 years.

Mr. R.K. Goel, aged 56 years, appointed as a non-executive director of the Company in December 2006. He possesses over 30 years of experiences in financial management in major oil and gas companies in India and has obtained his Bachelor of Honours Degree in Commerce with merit from Punjab University, India.. He is a fellow member of the Indian Institute of Chartered Accountants of India. He joined GAIL (India) Limited in 1988 and is currently the Director (Finance) of GAIL (India) Limited. Mr. Goel has had a rich experience in the area of project evaluation, financial appraisal of projects and international experience of Oil & Gas Companies world wide specially relating to Tariff fixation and regulatory issues.

Mr. Mark Gelinas, aged 40, appointed as a non-executive director of the Company in July 2007. He graduated from New England School of Law, USA. He is an energy lawyer with considerable experience in coordinating and leading cross-border teams of lawyers on large-scale transactions in the energy and energy related sectors. He is currently the General Counsel of Oman Oil Company, S.A.O.C. ("OOC"). Prior joining OOC in 2004, Mr. Gelinas has been working in Clifford Chance, an international law firm, for over seven years.

Mr. Suresh Raghavanachari, aged 52, appointed as a non-executive director of the Company in January 2006. Mr. Raghavanachari obtained his post-graduate degree in energy studies from India Institute of Technology, Delhi, India and has 27 years of experiences in the energy sector. He had worked in Oil and Natural Gas Corporation, India before joining GAIL in 1985 and is currently the Executive Director (Marketing) of GAIL. Mr. Suresh resigned in December 2006.

Mr. Harrison Blacker, aged 57, appointed as a non-executive director of the Company in March 2006. Mr. Blacker holds a master degree in mechanical engineering and has 30 years of experiences in the energy sector. He joined OOC in 2001 and is currently a Senior Investment Advisor for OOC. Mr. Blacker is a member and former director of the Society of Petroleum Engineers and he is an active member of the Association of International Petroleum Negotiators. Mr. Blacker resigned in July 2007.

Independent non-executive Directors

Mr. Zhao Yu Hua, aged 39, appointed as an independent non-executive Director of the Company in November 2002. Mr. Zhao graduated from Institute of International Economy, Nankai University and holds a master degree in economics. He joined J&A Securities Company in 1993, engaging in corporate financing and advisory business.

Dr. Mao Er Wan, aged 44, appointed as an independent non-executive Director of the Company in January 2003. Dr. Mao graduated from Mathematics and System Sciences, Chinese Academy of Sciences and holds a Doctor Degree. He was the Chief Economist of Da Cheng Fund Management Co. Ltd. He is currently a deputy professor of School of International Business, Beijing Foreign Studies University, a committee member of China Institute of Finance, Financial Engineering, deputy director of Financial and Securities Institute of BFSU and deputy director of Financial quantity Analysis & Computation Committee.

Ms. Wong Sin Yue, Cynthia, aged 56, appointed as an independent non-executive director of the Company in October 2003. Ms. Wong is currently a Deputy General Manager of China Merchants Holdings (International) Company Limited and is responsible for finance. She also holds the office of non-executive director of China Merchants Holdings (Pacific) Limited. Ms. Wong holds a MBA degree. She held various senior positions at reputable international investment banks including Societe Generale, Deutsche Morgan Grenfell, Samuel Montague and Bear Stearns Asia for over 15 years during which period she had advised more than 50 companies in Greater China and Asia in their equity, equity finance or equity-related activities.

Directors' Report

The directors present their annual report and the audited consolidated financial statements for the year ended March 31, 2007.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its associates, jointly controlled entities and principal subsidiaries are set out in notes 18, 19 and 51, respectively, to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended March 31, 2007 are set out in the consolidated income statement on page 55.

The Board recommended the payment of a final dividend of HK1.2 cents per share for the year ended March 31, 2007 to the holders of ordinary shares of the Company whose names appear on the Registrar of Members of the Company on August 22, 2007 subject to shareholders' approval at the forthcoming annual general meeting.

The final dividend, if approved by the shareholders, is expected to be payable on or about September 28, 2007.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 133.

INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

The Group revalued all of its investment properties at the year end date. The net increase in fair value of investment properties, which has been credited to profit or loss, amounting to HK$4,650,000.

Details of these and other movements during the year in investment properties and property, plant and equipment of the Group are set out in notes 15 and 16 to the consolidated financial statements respectively.

MAJOR PROPERTIES

Details of the major properties of the Group at March 31, 2007 are set out on page 134.

SHARE CAPITAL, AND CONVERSION BONDS SUBSCRIPTION RIGHTS ATTACHED TO CONVERTIBLE BONDS

Details of movements during the year in the share capital and convertible bonds of the Company are set out in notes 35 and 37 respectively to the consolidated financial statements.

During the year, a total of 7,001,191 shares were issued for the conversions of subscription rights attached to the conversion bonds. At the balance sheet date, the Company had outstanding convertible bonds of US$40,000,000.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserve available for distribution to shareholders as at March 31, 2007 comprised the accumulated profits of HK$95,853,000.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors

Mr. Li Xiao Yun
Mr. Xu Ying
Mr. Liu Ming Hui
Mr. Ma Jin Long
Mr. Zhu Wei Wei

Non-executive directors

Mr. Feng Zhuo Zhi	
Mr. Mark Gelinas	(appointed on July 20, 2007)
Mr. Jo Yamagata	(appointed on October 2, 2006)
Mr. R. K. Goel	(appointed on December 1, 2006)
Mr. Harrison Blacker	(resigned on July 20, 2007)
Mr. Suresh Raghavanachari	(resigned on December 1, 2006)

Independent non-executive directors

Mr. Zhao Yu Hua
Dr. Mao Er Wan
Ms. Wong Sin Yue, Cynthia

In accordance with the provisions of the Company's Bye-laws, Mr. Li Xiao Yun, Mr. Xu Ying, Ms. Wong Sin Yue, Cynthia, Mr. Jo Yamagata, Mr. R. K. Goel and Mr. Mark Gelinas shall retire and, being eligible, offer themselves for re-election.

The term of office of each non-executive or independent non-executive director is the period up to his/her retirement by rotation in accordance with the above clause of the Company's Bye-laws.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Each of Mr. Xu Ying and Mr. Liu Ming Hui had entered into a service agreement with the Company commencing from April 1, 2005 for a period of three years.

RETIREMENT BENEFITS SCHEME

Details of the Group's retirement benefits scheme are set out in note 47 to the consolidated financial statements.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at March 31, 2007, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, to be notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities (the "Listing Rules"), were as follows:

(a) Ordinary shares of HK$0.01 each of the Company (the "Shares")

Name of director	Nature of interest	Number of attributable number of Shares held (Note)	Approximate percentage or attributable percentage of shareholdings (%)
Mr. Liu Ming Hui	Personal	372,424,000 (L)	12.03
("Mr. Liu")		118,500,000 (S)	3.83

L: Long position

S: Short position

Note: Among these 372,424,000 Shares, 253,924,000 Shares are beneficially owned by Mr. Liu and 118,500,000 Shares are to be delivered to Hai Xia Finance Holdings Limited ("Hai Xia"). Pursuant to a sale and purchase agreement dated March 8, 2005 entered into between Hai Xia and Mr. Liu, Mr. Liu agreed to sell and Hai Xia agreed to purchase 190,000,000 Shares from Mr. Liu in five tranches for cash consideration in the aggregate amount of HK$330,000,000. Details of the transaction have been set out in the announcement of the Company dated March 9, 2005.

As at March 31, 2007, sale and purchase of 71,500,000 Shares had been completed, the outstanding number of shares to be sold and purchased is 118,500,000 Shares.

(b) Share options

Name of director	Number of options held (Note)	Nature of interest	Number of underlying shares	Approximate percentage of issued shares capital of the Company
Mr. Liu	135,000,000	Beneficial owner	135,000,000	4.36%
Mr. Xu Ying	95,000,000	Beneficial owner	95,000,000	3.07%
Mr. Zhu Wei Wei	10,000,000	Beneficial owner	10,000,000	0.32%
Mr. Li Xiao Yun	10,000,000	Beneficial owner	10,000,000	0.32%
Mr. Ma Jin Long	9,240,711	Beneficial owner	9,240,711	0.30%
Mr. Zhao Yu Hua	1,700,000	Beneficial owner	1,700,000	0.05%
Ms. Wong Sin Yue, Cynthia	1,700,000	Beneficial owner	1,700,000	0.05%
Dr. Mao Er Wan	1,000,000	Beneficial owner	1,000,000	0.03%
	263,640,711		263,640,711	

Note: The share options were granted under the share option scheme adopted by the Company on February 6, 2003 and the holders thereof are entitled to subscribe for Shares at an exercise price and exercise period as disclosed in the section headed "Share Options" below.

Save as disclosed above, as at March 31, 2007, none of the directors nor the chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

SHARE OPTIONS

Particulars of the Company's share option scheme and details of movements in the share options under the share option scheme during the year are set out in note 48 to the consolidated financial statements.

Name	Exercise period	Exercise price HK$	No. of options As at April 1, 2006	Exercised during the financial year ended March 31, 2007	Lapsed during the financial year ended March 31, 2007	Outstanding as at March 31, 2007
Directors						
Mr. Li Xiao Yun	9.1.2004 to 1.8.2014	0.80	5,000,000	–	–	5,000,000
	10.20.2010 to 10.19.2015	1.50	5,000,000	–	–	5,000,000
Mr. Xu Ying	9.1.2004 to 1.8.2014	0.80	5,000,000	–	–	5,000,000
	11.22.2004 to 10.5.2014	0.71	90,000,000	–	–	90,000,000
Mr. Liu	9.1.2004 to 1.8.2014	0.80	5,000,000	–	–	5,000,000
	11.22.2004 to 10.5.2014	0.71	130,000,000	–	–	130,000,000
Mr. Zhu Wei Wei	9.1.2004 to 1.8.2014	0.80	4,000,000	–	–	4,000,000
	3.20.2005 to 10.5.2014	0.71	6,000,000	–	–	6,000,000
Mr. Ma Jin Long	9.1.2004 to 1.8.2014	0.80	9,240,711	–	–	9,240,711
Mr. Zhao Yu Hua	9.1.2004 to 1.8.2014	0.80	1,000,000	–	–	1,000,000
	1.1.2005 to 10.5.2014	0.71	700,000	–	–	700,000
Dr. Mao Er Wan	9.1.2004 to 1.8.2014	0.80	1,000,000	–	–	1,000,000
Ms. Wong Sin Yue, Cynthia	9.1.2004 to 1.8.2014	0.80	1,000,000	–	–	1,000,000
	1.1.2005 to 10.5.2014	0.71	700,000	–	–	700,000
			263,640,711	–	–	263,640,711
Other employees	9.1.2004 to 1.8.2014	0.80	68,510,000	(3,240,000)	(2,060,000)	63,210,000
	3.20.2005 to 10.5.2014	0.71	146,060,000	(14,400,000)	–	131,660,000
	10.20.2010 to 10.19.2015	1.50	151,800,000	–	–	151,800,000
	1.27.2011 to 1.26.2016	1.52	6,500,000	–	–	6,500,000
			372,870,000	(17,640,000)	(2,060,000)	353,170,000
			636,510,711	(17,640,000)	(2,060,000)	616,810,711

SUBSTANTIAL SHAREHOLDERS

As at March 31, 2007, so far as was known to the directors and the chief executives of the Company, the following persons (not being directors or chief executive of the Company), had or was deemed to have, an interest or short position in the shares or underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name of shareholder	Notes	Nature of interest	Total	Approximate percentage or attributable percentage of shareholdings (%)
Ms. Xu Xau Lan	1	Deemed interest	507,424,000 (L)	16.39
			118,500,000 (S)	3.83
Hai Xia	2	Beneficial owner	340,000,003 (L)	10.98
			150,000,003 (S)	4.84
China Petroleum & Chemical Corporation		Beneficial owner	210,000,000 (L)	6.78
GAIL (India) Limited		Beneficial owner	210,000,000 (L)	6.78
Oman Oil Company, S.A.O.C.	3	Beneficial owner	210,000,000 (L)	6.78
Mackenzie Financial Corporation	4	Investment manager	215,198,600 (L)	6.95

L: Long position

S: Short position

Notes:

(1) Ms. Xu Xau Lan is deemed to be interested in the shares held by her spouse, Mr. Liu, the managing director of the Company.

(2) On March 8, 2005, a sale and purchase agreement was entered into between Hai Xia and Mr. Liu. Pursuant to which Mr. Liu has agreed to sell and Hai Xia has agreed to purchase 190,000,000 Shares from Mr. Liu in five tranches for a cash consideration in an aggregate amount of HK$330,000,000. Details of the transaction was set out in the announcement of the Company dated March 9, 2005. As at March 31, 2007, sale and purchase of 71,500,000 Shares has been completed, the outstanding number of shares to be sold and purchased is 118,500,000 Shares.

The 340,000,003 Shares represented 221,500,003 Shares beneficially owned by Hai Xia and 118,500,000 Shares agreed to be acquired by Hai Xia from Mr. Liu.

(3) The Company was notified by Oman Oil Company, S.A.O.C. ("OOC") on May 15, 2007 and May 17, 2007 that OOC has purchased 13,916,000 shares and 13,651,000 shares of the Company at an average price of HK$1.691 per share and HK$1.767 per share from the open market respectively. A total of 27,567,000 shares were purchased in aggregate. After such purchases, the total number of shares held by OOC is 237,567,000 shares, representing 7.66% of the issued share capital of the Company as at May 17, 2007.

(4) The Company was notified by Mackenzie Financial Corporation ("Mackenzie") on April 27, 2007 that the aggregate shareholdings of the relevant funds managed by Mackenzie was interested in 154,650,600 shares, represented, 4.98% of the issued share capital as at April 27, 2007 and Mackenzie ceased to have 5% interest in the issued share capital of the Company.

Save as disclosed herein, as at March 31, 2007, the directors and the chief executives of the Company were not aware of any person (other than the directors and the chief executive of the Company) who had, or was deemed to have, interest or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, directly or indirectly, interested in 5% 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.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significances, to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed above , at no time during the year was the Company or any of its subsidiaries, a party to any arrangement to enable the directors of the Company or their respective spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers of the Group accounted for less than 30% of the Group's revenue. The aggregate purchases attributable to the Group's five largest suppliers were 38% of total purchases of the Group, with the largest supplier accounted for approximately 13%.

At no time during the year did any director, any associate of a director, or any shareholder, which to the knowledge of the directors owned more than 5% of the Company's share capital, have any beneficial interests in the Group's five largest suppliers.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

EMOLUMENT POLICY

The emolument policy of the senior management of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 48 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provision for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro-rata basis to the existing shareholders.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive director, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended March 31, 2007.

POST BALANCE SHEET EVENTS

Details of the significant events occurring after the balance sheet date are set out in note 50 to the consolidated financial statements.

AUDITOR

A resolution will be submitted to the annual general meeting to re-appoint, Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

Liu Ming Hui
Managing Director

July 20, 2007

Independent Auditor's Report

Deloitte.
德勤

TO THE SHAREHOLDERS OF CHINA GAS HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of China Gas Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 55 to 132, which comprise the consolidated balance sheet as at March 31, 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at March 31, 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

July 20, 2007

Consolidated Income Statement

For the year ended March 31, 2007

	NOTES	2007 HK$'000	2006 HK$'000
Revenue	6	**1,236,469**	630,522
Cost of sales		**(816,173)**	(325,168)
Gross profit		**420,296**	305,354
Other income	8	**100,093**	39,580
Distribution costs		**(44,593)**	(27,463)
Administrative expenses		**(173,961)**	(145,254)
Change in fair value of investment properties		**4,650**	6,073
Change in fair value of held-for-trading investments		**33,446**	–
Impairment loss recognised in respect of available-for-sale investments		**(2,200)**	(4,400)
Allowance for trade and other receivables		**(9,201)**	(11,000)
Finance costs	9	**(107,796)**	(44,207)
Change in fair value of derivative financial instruments	28	**(4,307)**	25,669
Gain on disposal of subsidiaries		**–**	443
Discounts on acquisition of associates, a jointly controlled entity and businesses	10	**17,185**	37,893
Share of results of associates	18	**5,742**	(138)
Profit before taxation		**239,354**	182,550
Taxation	11	**(13,791)**	(2,482)
Profit for the year	12	**225,563**	180,068
Attributable to:			
Equity holders of the Company		**190,103**	156,736
Minority interests		**35,460**	23,332
		225,563	180,068
Earnings per share	14		
Basic		**HK6.35 cents**	HK6.15 cents
Diluted		**HK5.54 cents**	HK5.54 cents

Consolidated Balance Sheet

As at March 31, 2007

	NOTES	2007 HK$'000	2006 HK$'000
Non-current assets			
Investment properties	15	**49,100**	44,450
Property, plant and equipment	16	**3,083,300**	1,809,844
Prepaid lease payments	17	**286,102**	94,434
Interests in associates	18	**75,278**	613
Available-for-sale investments	20	**23,149**	27,989
Goodwill	21	**299,965**	275,375
Other intangible assets	22	**83,006**	–
Deposits for acquisition of property, plant and equipment	23	**146,551**	173,863
Deposits paid for acquisitions of subsidiaries	45(i), (iv)	**280,255**	–
Loan receivable	24	**15,000**	–
		4,341,706	2,426,568
Current assets			
Inventories	25	**137,032**	108,024
Amounts due from customers for contract work	26	**444,552**	454,914
Trade and other receivables	27	**719,326**	347,666
Derivative financial instruments	28	**33,298**	27,660
Amount due from an associate	29	**42,071**	–
Prepaid lease payments	17	**5,229**	1,926
Held-for-trading investments	30	**57,841**	–
Pledged bank deposits	31	**29,417**	–
Bank balances and cash	31	**1,482,930**	1,727,130
		2,951,696	2,667,320
Current liabilities			
Trade and other payables	32	**859,399**	391,765
Derivative financial instruments	28	**59,314**	49,369
Amounts due to customers for contract work	26	**5,721**	1,209
Taxation		**15,682**	1,784
Bank and other borrowings – due within one year	33	**686,781**	345,662
Obligations under a finance lease – due within one year	34	**–**	64
Obligation on acquisition of a jointly controlled entity	40	**157,965**	–
		1,784,862	789,853
Net current assets		**1,166,834**	1,877,467
Total assets less current liabilities		**5,508,540**	4,304,035

	NOTES	2007 HK$'000	2006 HK$'000
Equity			
Share capital	35	**30,962**	29,216
Reserves		**2,316,901**	1,836,242
Equity attributable to equity holders of the Company		**2,347,863**	1,865,458
Minority interests		**333,357**	255,308
Total equity		**2,681,220**	2,120,766
Non-current liabilities			
Amount due to a minority shareholder of a subsidiary	36	**311,411**	244,505
Bank and other borrowings – due after one year	33	**2,242,452**	1,665,790
Convertible bonds	37	**273,457**	272,974
		2,827,320	2,183,269
		5,508,540	4,304,035

The consolidated financial statements on pages 55 to 132 were approved and authorised for issue by the Board of Directors on July 20, 2007 and are signed on its behalf by:

Xu Ying
Vice-Chairman

Liu Ming Hing
Managing Director

Consolidated Statement of Changes in Equity

For the year ended March 31, 2007

	Attributable to equity holders of the Company													
	Share capital	Share premium	Other reserve	Employee share-based compensation reserve	Convertible note and bonds equity reserve	Translation reserve	Investment revaluation reserve	Properties revaluation reserve	Special reserve	Statutory funds	Accumulated (losses) profits	Total	Minority interests	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At April 1, 2005	22,448	908,671	900	29,474	1,354	4,083	–	–	1,602	9,075	6,423	984,030	97,360	1,081,390
Decrease in fair value of available–for-sales investments	–	–	–	–	–	–	(5,259)	–	–	–	–	(5,259)	–	(5,259)
Revaluation upon change of intended use of properties	–	–	–	–	–	–	–	1,601	–	–	–	1,601	–	1,601
Exchange gain on translation of operations outside Hong Kong	–	–	–	–	–	4,439	–	–	–	–	–	4,439	496	4,935
Net income recognised directly in equity	–	–	–	–	–	4,439	(5,259)	1,601	–	–	–	781	496	1,277
Profit for the year	–	–	–	–	–	–	–	–	–	–	156,736	156,736	23,332	180,068
Total recognised income for the year	–	–	–	–	–	4,439	(5,259)	1,601	–	–	156,736	157,517	23,828	181,345
Private placement	5,550	643,016	–	–	–	–	–	–	–	–	–	648,566	–	648,566
Redemption of convertible note	–	–	–	–	(1,354)	–	–	–	–	–	1,354	–	–	–
Recognition of equity-settled share based payments	–	–	–	8,505	–	–	–	–	–	–	–	8,505	–	8,505
Exercise of share options	318	23,198	–	–	–	–	–	–	–	–	–	23,516	–	23,516
Exercise of warrants	900	59,400	(900)	–	–	–	–	–	–	–	–	59,400	–	59,400
Share issue expenses	–	(16,076)	–	–	–	–	–	–	–	–	–	(16,076)	–	(16,076)
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	116,088	116,088
Disposal of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	(2,160)	(2,160)
Capital injected by minority shareholder of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	20,192	20,192
Transfer	–	–	–	–	–	–	–	–	–	3,352	(3,352)	–	–	–
At March 31, 2006	29,216	1,618,209	–	37,979	–	8,522	(5,259)	1,601	1,602	12,427	161,161	1,865,458	255,308	2,120,766

	Attributable to equity holders of the Company													
	Share capital HK$'000	Share premium HK$'000	Other reserve HK$'000	Employee share-based compensation reserve HK$'000	Convertible note and bonds equity reserve HK$'000	Translation reserve HK$'000	Investment revaluation reserve HK$'000	Properties revaluation reserve HK$'000	Special reserve HK$'000	Statutory funds HK$'000	Accumulated (losses) profits HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At April 1, 2006	29,216	1,618,209	–	37,979	–	8,522	(5,259)	1,601	1,602	12,427	161,161	1,865,458	255,308	2,120,766
Decrease in fair value of available–for-sales investments	–	–	–	–	–	–	(2,640)	–	–	–	–	(2,640)	–	(2,640)
Exchange gain on translation of operations outside Hong Kong	–	–	–	–	–	111,070	–	–	–	–	–	111,070	19,426	130,496
Net income recognised directly in equity	–	–	–	–	–	111,070	(2,640)	–	–	–	–	108,430	19,426	127,856
Profit for the year	–	–	–	–	–	–	–	–	–	–	190,103	190,103	35,460	225,563
Total recognised income for the year	–	–	–	–	–	111,070	(2,640)	–	–	–	190,103	298,533	54,886	353,419
Private placement	1,500	186,000	–	–	–	–	–	–	–	–	–	187,500	–	187,500
Reduction in accumulated losses by offsetting with share premium	–	(382,038)	–	–	–	–	–	–	–	–	382,038	–	–	–
Recognition of equity-settled share based payments	–	–	–	4,896	–	–	–	–	–	–	–	4,896	–	4,896
Exercise of share options	176	12,640	–	–	–	–	–	–	–	–	–	12,816	–	12,816
Exercise of subscription rights	70	7,827	–	–	–	–	–	–	–	–	–	7,897	–	7,897
Acquisitions of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	41,429	41,429
Acquisition of additional interest in a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	(18,266)	(18,266)
Dividends paid	–	–	–	–	–	–	–	–	–	–	(29,237)	(29,237)	–	(29,237)
Transfer	–	–	–	–	–	–	–	–	–	3,194	(3,194)	–	–	–
At March 31, 2007	30,962	1,442,638	–	42,875	–	119,592	(7,899)	1,601	1,602	15,621	700,871	2,347,863	333,357	2,681,220

Note: The special reserve of the Group represents the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition at the time of the group reorganisation prior to the listing of the Company's shares in 1995.

The statutory funds are reserves required by the relevant laws of the People's Republic of China, other than Hong Kong (the "PRC"), applicable to the Group's PRC subsidiaries.

Other reserve as at March 31, 2005 represented the consideration received from subscribers for the issue of warrants.

Pursuant to a resolution passed at a special general meeting held on September 5, 2006, the Company effected a capital reduction by eliminating the entire amount of accumulated losses of HK$382,038,000 standing to the credit to the share premium account of the Company.

Consolidated Cash Flow Statement

For the year ended March 31, 2007

	2007 HK$'000	2006 HK$'000
OPERATING ACTIVITIES		
Profit before taxation	**239,354**	182,550
Adjustments for:		
Change in fair value of investment properties	**(4,650)**	(6,073)
Change in fair value of held-for-trading investments	**(33,446)**	–
Impairment loss recognised in respect of available-for-sale investments	**2,200**	4,400
Allowance for trade and other receivables	**9,201**	11,000
Adjustment in liability component of convertible bonds	**(10,642)**	–
Depreciation of property, plant and equipment	**96,769**	46,868
Release of prepaid lease payments	**2,191**	696
Amortisation of intangible assets	**2,128**	–
Gain on disposal of property, plant and equipment	**(20)**	–
Interest expense	**107,796**	44,207
Gain on disposal of subsidiaries	**–**	(443)
Share of results of associates	**(5,742)**	138
Discount on acquisition of associates, a jointly controlled entity and businesses	**(17,185)**	(37,893)
Share-based payments	**4,896**	8,505
Interest income	**(40,530)**	(21,553)
Change in fair value of derivative financial instruments	**4,307**	(25,669)
Operating cash flows before movements in working capital	**356,627**	206,733
Increase in inventories	**(8,306)**	(7,069)
Decrease (increase) in amounts due from customers for contract work	**30,623**	(88,250)
Increase in trade and other receivables	**(239,358)**	(186,081)
Increase in held-for-trading investments	**(24,395)**	–
Increase in trade and other payables	**49,442**	119,694
Increase in amounts due to customers for contract work	**4,512**	317
Cash from operations	**169,145**	45,344
PRC income tax paid	**–**	(856)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**169,145**	44,488

	NOTES	2007 HK$'000	2006 HK$'000
INVESTING ACTIVITIES			
Interest received		**40,530**	21,553
Dividend from pre-acquisition profit received from an associate		**1,296**	–
Increase in loan receivable		**(15,000)**	–
Increase in amount due from an associate		**(42,071)**	–
Deposits paid for acquisition of property, plant and equipment		**(118,745)**	(139,676)
Increase in pledged bank deposit		**(29,417)**	–
Purchase of available-for-sale investments		**–**	(17,525)
Purchase of additional interest in a subsidiary		**(21,939)**	–
Addition of property, plant and equipment		**(666,024)**	(232,477)
Addition of prepaid lease payments		**(29,535)**	(12,249)
Proceeds from disposal of property, plant and equipment		**5,258**	–
Acquisitions of subsidiaries, net of cash and cash equivalents acquired	39	**(52,025)**	–
Acquisitions of jointly controlled entities, net of cash and cash equivalents acquired	40	**8,624**	(219,492)
Acquisitions of businesses, net of cash and cash equivalents acquired	41	**(77,806)**	33,086
Acquisitions of associates		**(64,651)**	–
Deposit paid for acquisitions of subsidiaries		**(280,255)**	–
Disposal of subsidiaries, net of cash and cash equivalents disposed of	42	**–**	2,682
NET CASH USED IN INVESTING ACTIVITIES		**(1,341,760)**	(564,098)
FINANCING ACTIVITIES			
Interest paid		**(71,773)**	(35,997)
Proceeds from issue of ordinary shares		**208,213**	731,482
Proceeds from issue of convertible bonds		**–**	310,000
Dividend paid		**(29,237)**	–
Share issue expenses		**–**	(16,076)
Expenses on issuing convertible bonds		**–**	(9,259)
Repayment of convertible note		**–**	(35,900)
New bank and other borrowings raised		**1,260,078**	768,403
Repayments of bank and other borrowings		**(585,984)**	(285,294)
Repayments of obligations under a finance lease		**(64)**	(131)
Advance from a minority shareholder of subsidiaries		**51,936**	111,574
NET CASH GENERATED FROM FINANCING ACTIVITIES		**833,169**	1,538,802

Consolidated Cash Flow Statement

For the year ended March 31, 2007

	2007 HK$'000	2006 HK$'000
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(339,446)**	1,019,192
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**1,727,130**	712,015
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**95,246**	(4,077)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**1,482,930**	1,727,130
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	**1,482,930**	1,727,130

Notes to the Consolidated Financial Statements

For the year ended March 31, 2007

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of its registered office and principal place of business are disclosed in the section headed "Corporate Information" of the Group's annual report.

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out note 51.

The consolidated financial statements are presented in Hong Kong dollars and the functional currency of the Company and its subsidiaries is Renminbi ("RMB"). As the Company is listed on Hong Kong, the directors consider that it is appropriate to present the consolidated financial statements in Hong Kong dollars.

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

In the current year, the Group has applied, for the first time, a number of new standard, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are either effective for accounting periods beginning on or after December 1, 2005, January 1, 2006 and March 1, 2006. 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.

The Group has not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendment or interpretations will have no material impact on the results and financial position of the Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 23 (Revised)	Borrowing costs[2]
HKFRS 7	Financial instruments: Disclosures[1]
HKFRS 8	Operating segments[2]
HK(IFRIC)-INT 8	Scope of HKFRS 2[3]
HK(IFRIC)-INT 9	Reassessment of embedded derivatives[4]
HK(IFRIC)-INT 10	Interim financial reporting and impairment[5]
HK(IFRIC)-INT 11	HKFRS 2 – Group and treasury share transactions[6]
HK(IFRIC)-INT 12	Service concession arrangements[7]

1 Effective for accounting periods beginning on or after January 1, 2007.
2 Effective for accounting periods beginning on or after January 1, 2009.
3 Effective for accounting periods beginning on or after May 1, 2006.
4 Effective for accounting periods beginning on or after June 1, 2006.
5 Effective for accounting periods beginning on or after November 1, 2006.
6 Effective for accounting periods beginning on or after March 1, 2007.
7 Effective for accounting periods beginning on or after January 1, 2008.

3. SIGNIFICANT ACCOUNTING POLICIES

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.

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments, which are measured at revalued amounts or fair values, as explained in the accounting policies set out below.

Basis of consolidation

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

The results of subsidiaries acquired or disposed of during the 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 into line with those used by other members of the Group.

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

Minority interests in the net assets of 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 subsidiaries 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 Hong Kong Financial Reporting Standard ("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 initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

Capitalised goodwill arising on acquisitions prior to April 1, 2004

Goodwill arising on an acquisition of a subsidiary or a jointly controlled entity for which the agreement date is before April 1, 2004 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 subsidiary or jointly controlled entity at the date of acquisition.

For previously capitalised goodwill arising on acquisitions before April 1, 2004, the Group has discontinued amortisation from April 1, 2004 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.

Capitalised goodwill arising on acquisitions on or after April 1, 2004

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary, associate or jointly controlled entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

On acquisition of additional interest in subsidiaries, the excess of the fair value of the consideration over the carrying values of the underlying assets and liabilities attributable to the additional interest in subsidiaries acquired by the Group are recognized as goodwill.

On subsequent disposal of a subsidiary 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.

Impairment testing on capitalised goodwill

For the purpose 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 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. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in a subsequent periods.

Interests 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Interests in associates *(Continued)*

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, interests in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, 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.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

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.

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 subsidiary (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, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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

Sales of petroleum, natural gas and gas appliances are recognised when goods are delivered and title has passed.

Rental income under operating leases is recognised on a straight-line basis over the terms of the relevant leases.

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, 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.

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

Construction in progress

Construction in progress represents 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties

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

Leasehold land held for undetermined future use is regarded as held for capital appreciation purpose and classified as an investment property, and carried at fair value. Changes in fair value of the leasehold land are recognised directly in profit or loss for the period in which changes take place.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or 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 in which the item is derecognised.

Intangible assets

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. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses below).

Impairment

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired (see the accounting policies in respect of impairment losses for tangible and intangible assets below).

Construction contracts

Where the outcome of a construction contract can be estimated reliably, contract costs are charged to the income statement by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that costs incurred to date to estimated total costs for the contract.

Where the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as expense in the period in which they are incurred.

When it is probable that total contract costs will exceed contract revenue, the expected loss is recognised as an expense immediately.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Construction contracts *(Continued)*

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

Inventories

Inventories, including construction materials, gas appliances and gas for sales, petroleum, consumables and spare parts, are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less estimated costs to completion and the estimated costs necessary to make the sale.

Impairment losses 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, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Leasing

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

The Group as lessor

Rental income from operating lease is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as 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, leasehold land which title is not expected to pass to the lessee by the end of the lease term is classified as an operating lease unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is classified as a finance lease.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group are translated into the presentation currency of the Group (i.e. Hong Kong dollar) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, 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 translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme ("MPF Scheme") and other defined contribution schemes are charged as an expense when employees have rendered service entitling them to the contributions.

Taxation

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset realised. Deferred tax is charged or credited to the profit and 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.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction on production of qualifying assets, are capitalised as part of the cost of these 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.

Financial instruments

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

Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss, 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. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss represent financial assets held for trading.

At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

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 loan receivable, amount due from an associate, amounts due from customers for contract work, trade and other receivables, pledged bank deposit and bank balances are carried at amortised cost using the effective interest method, less any identified impairment losses. 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. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction 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.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as (a) loan and receivable, (b) held to maturity investments or (c) financial assets at fair value through profit or loss. 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. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in profit or loss in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Financial liabilities

Financial liabilities including trade and other payables, amounts due to customers for contract work, amounts due to minority shareholders of subsidiaries, bank and other borrowings are subsequently measured at amortised cost, using the effective interest method.

Convertible bonds contain liability component and conversion/redemption option derivatives

Convertible bonds issued by the Group that contain liability and conversion/redemption option derivatives components are classified separately into respective items on initial recognition. Conversion/redemption option derivatives will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is a conversion/redemption option derivative. At the date of issue, both the liability and conversion/redemption option components are recognised at fair value.

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The conversion/redemption option derivative is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and conversion/redemption option components in proportion to the allocation of the proceeds. Transaction costs relating to the conversion/redemption option derivatives is charged to profit and loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

Equity instruments

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

Derivatives financial instruments

Derivative financial instruments are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in profit or loss as they arise.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are separated from the relevant host contracts (the liability component) and deemed as held-for-trading when the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contracts, and the combined contracts are not measured at fair value through profit or loss. In all other circumstances, derivatives embedded are not separated and are accounted for together with the host contracts in accordance with appropriate standards. Where the Group needs to separate an embedded derivative but is unable to measure the embedded derivative, the combined contract is treated as held-for-trading.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derecognition *(Continued)*

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 and payable is recognised in profit or loss.

Equity settled share-based payment transactions

Share options granted to employees of the Company

The fair value of services received determined by reference to the fair value of share 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 original estimates, if any, is recognised in profit or loss over the remaining vesting period, 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 be transferred to retained earning.

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 a deduction from the carrying amount of the relevant asset 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".

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Impairment of goodwill

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 present value. When the actual future cash flows are less than expected, a material impairment loss may arise. The carrying amount of goodwill at March 31, 2007 was HK$301,567,000 (2006: HK$275,375,000) with no impairment loss recognised. Details of the value in use calculation are set out in note 21.

Estimated allowance of trade and other receivables

The Group makes allowance of trade and other receivables based on an assessment of the recoverability of receivables. Allowance is applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of allowance requires the use of judgment and estimates. Where the expectation on the recoverability of trade and other receivables is different from the original estimate, such difference will impact the carrying value of trade and other receivables and doubtful debt expenses in the periods in which such estimate has been changed.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Revenue recognition of gas connection contract

Revenue from gas connection contracts is recognised on the percentage of completion method, measured by reference to the proportion of the contract costs incurred for the work performed to date over the estimated total costs. Accordingly, any changes to the estimated total cost may have material impact on the contract revenue recognised in each accounting period over the contract term.

Depreciation of property, plant and equipment

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

Income taxes

As at March 31, 2007, the Group has unused tax losses of HK$326,241,000 available for offset against future profits. No deferred tax asset in relation to unused tax losses has been recognised in the Group's balance sheet due to uncertainty of future profit streams. In cases where there are future profits generated to utilise the tax losses, a material deferred tax assets may arise, which would be recognised in the income statement for the period in which such future profits are recorded.

Impairment of intangible assets

At the balance sheet date, management reconsidered the recoverability of its intangible assets arising from the acquisition of subsidiaries, in which the carrying amount at March 31, 2007 was HK$83,006,000 (2006: nil). The business of the related subsidiaries continues to progress in a very satisfactory manner. Detailed sensitivity analysis has been carried out and management is confident that the carrying amount of the asset will be recovered in full. This situation will be closely monitored. Adjustment will be made in future periods if future market activity indicates that adjustments for impairment are appropriate.

5. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The Group's major financial instruments include loan receivable, amount due from/to customers for contract work, trade and other receivables, trade and other payables, amounts due from/to minority shareholders of subsidiaries, bank and other borrowings, convertible bonds and bank balances. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies applied by the Group on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

The Group collects most of its revenue in RMB and most of the expenditures as well as capital expenditures are also denominated in RMB. Future exchange rates of RMB could vary significantly from the current or historical exchange rates as a result of controls that could be imposed by the PRC government. The exchange rates may also be affected by economic developments and political changes domestically and internationally, and supply and demand of RMB. The appreciation or devaluation of RMB against Hong Kong dollars and United States dollars ("USD") may have positive or negative impact on the results of operations of the Group.

5. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Currency risk *(Continued)*

Certain borrowings of the Group are denominated in USD and Japanese Yen ("JPY"). The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Interest rate risks

The Group does not have any specific interest rate policy except that the Group would regularly review the market interest rates to capture potential opportunities to reduce the cost of borrowings. Accordingly, the Group enters into interest rate swap arrangement to hedge the interest rate risks as appropriate.

Fair value interest rate risk

The Group's fair value interest rate risk relates primarily to fixed-rate bank and other borrowings and the convertible bonds issued by the Group (see notes 33 and 37 for details of these borrowings and convertible bonds respectively). In relation to the fixed-rate other borrowings, the Group entered into interest rate swaps to manage its exposures to changes in fair values of the borrowings. The critical terms of these interest rate swaps are similar to those of hedged notes. These interest rate swaps do not qualify for hedge accounting. The changes in fair value of the interest rate swaps are recognised in the profit and loss as they arise.

Cash flow interest rate risk

The Group's cash flow interest rate risk primarily relates to variable-rate bank and other borrowings (see note 33 for details of these borrowings). It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

Price risk

The Group's available-for-sale investments and held-for-trading investments are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity security price risk. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

Credit risk

As at March 31, 2007, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counter parties or debtors in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the consolidated balance sheet.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each half-year end date and 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.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are reputational banks in the PRC and banks with high credit-ratings assigned by international credit-rating agencies.

5. FINANCIAL INSTRUMENTS *(Continued)*

Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices;
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and
- the fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available, the fair value of a non-optional derivative is estimated using discounted cash flow analysis and the applicable yield curve. For an option-based derivative, the fair value is estimated using option pricing model.

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

6. REVENUE

Revenue represents, the net amounts received and receivable for sales of piped gas, gas connection services, properties rental and dividend income by the Group for the year and is analysed as follows:

	2007 **HK$'000**	2006 HK$'000
Gas connection fees	**387,243**	325,632
Sales of piped gas	**750,101**	288,115
Sales of goods	**97,590**	15,218
Rental income	**936**	1,070
Dividend income	**599**	487
	1,236,469	630,522

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into four operating divisions – property investment, financial and securities investment, gas connection and sales of piped gas. These principal operating activities are the basis on which the Group reports its primary segment information.

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

Segment information about these businesses is presented below:

2007

	Property investment HK$'000	Financial and securities investment HK$'000	Gas connection HK$'000	Sales of piped gas HK$'000	Others HK$'000	Consolidated HK$'000
REVENUE	936	599	387,243	750,101	97,590	1,236,469
SEGMENT RESULT	5,586	34,045	166,055	114,501	1,526	321,713
Unallocated corporate revenue						74,772
Unallocated corporate expenses						(67,955)
Finance costs						(107,796)
Change in fair value of derivative financial instruments						(4,307)
Discount on acquisition of associates, a jointly controlled entity and businesses	–	–	–	17,185	–	17,185
Share of results of associates	–	–	–	5,742	–	5,742
Profit before taxation						239,354
Taxation						(13,791)
Profit for the year						225,563
ASSETS						
Segment assets	49,100	107,050	805,492	4,646,770	8,318	5,616,730
Interest in associates	–	–	–	75,278	–	75,278
Unallocated corporate assets						1,601,394
Consolidated total assets						7,293,402
LIABILITIES						
Segment liabilities	210	–	218,339	621,404	3,880	843,833
Unallocated corporate liabilities						3,768,349
Consolidated total liabilities						4,612,182
OTHER INFORMATION						
Additions to goodwill	–	–	–	24,590	–	24,590
Additions to intangible assets	–	–	–	85,134	–	85,134
Additions to property, plant and equipment	–	–	–	1,223,976	–	1,223,976
Additions to property, plant and equipment (unallocated)						38,317
						1,372,017
Amortisation of intangible assets	–	–	–	2,128	–	2,128
Release of prepaid lease payment	–	–	–	1,848	–	1,848
Release of prepaid lease payment (unallocated)	–	–	–	–	–	343
						4,319
Depreciation of property, plant and equipment	–	–	–	92,793	–	92,793
Depreciation of property, plant and equipment (unallocated)						3,976
						96,769

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

2006

	Property investment HK$'000	Financial and securities investment HK$'000	Gas connection HK$'000	Sales of piped gas HK$'000	Others HK$'000	Consolidated HK$'000
REVENUE	1,070	487	325,632	288,115	15,218	630,522
SEGMENT RESULT	7,101	460	186,372	22,117	(7,708)	208,342
Unallocated corporate revenue						35,752
Unallocated corporate expenses						(81,204)
Finance costs						(44,207)
Change in fair value of derivative financial instruments						25,669
Gain on disposal of subsidiaries	–	–	–	443	–	443
Discount on acquisition of associates, a jointly controlled entity and businesses	–	–	393	37,500	–	37,893
Share of results of associates	–	–	–	(138)	–	(138)
Profit before taxation						182,550
Taxation						(2,482)
Profit for the year						180,068
ASSETS						
Segment assets	44,450	27,989	527,919	2,636,934	7,549	3,244,841
Interest in associates	–	–	–	613	–	613
Unallocated corporate assets						1,848,434
Consolidated total assets						5,093,888
LIABILITIES						
Segment liabilities	149	–	176,476	191,048	6,976	374,649
Unallocated corporate liabilities						2,598,473
Consolidated total liabilities						2,973,122
OTHER INFORMATION						
Additions to goodwill	–	–	–	65,981	–	65,981
Additions to property, plant and equipment	–	–	–	881,830	–	881,830
Additions to property, plant and equipment (unallocated)						21,256
						969,067
Depreciation of property, plant and equipment	–	–	–	42,700	–	42,700
Depreciation of property, plant and equipment (unallocated)						4,168
						46,868

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Geographical segments

The Group's operations are located in Hong Kong and the PRC. The Group's property investment, financial and securities investment divisions are located in Hong Kong. Sales of piped gas and gas pipeline construction are carried out in the PRC. Accordingly, no analysis of the Group's sales by geographical market, the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical area is presented.

8. OTHER INCOME

	2007 HK$'000	2006 HK$'000
Interest income	40,530	21,553
Subsidies of PRC governmental authorities		
Compensation of loss incurred in liquefied gas/coal gas operation (note a)	2,127	3,051
Subsidy for replacement of pipelines for natural gas supply (note b)	20,827	–
Tax refund (note c)	2,673	771
Sundry income	17,171	9,850
Profit on sales of industrial materials	2,563	1,651
Repair and maintenance services fee	1,898	201
Foreign exchange gain	1,662	2,503
Adjustment in liability component of convertible bonds (note 37)	10,642	–
	100,093	39,580

Notes:

(a) Pursuant to the supplementary agreement dated August 14, 2006 signed with 揚中市建設局 (“建設局”) in the PRC, 揚中中燃城市發展有限公司, a subsidiary of the Company, is entitled to receive a subsidy from 建設局 to compensate for its operating loss arising from the liquefied gas operation for the year ended March 31, 2007.

For the year ended March 31, 2006, pursuant to notice of compensation dated August 26, 2003 issued by the relevant government authority in the PRC, 淮南中燃城市發展有限公司, a subsidiary of the Company, is entitled to receive compensation from the government authority to subsidise its coal gas operation for three years after its establishment.

(b) During the year, 蕪湖中燃城市燃氣發展有限公司(“蕪湖中燃”), a subsidiary of the Company received an one–off subsidy of HK$20,827,000 from 蕪湖市天然氣開發利用領導小組辦公室 for its costs incurred in transforming all the coal gas users to use natural gas in Wuhu city. All the required work of the transformation has been completed by蕪湖中燃.

(c) The PRC government authorities have granted a tax incentive to certain subsidiaries in PRC by way of tax refund for natural gas business operated in the PRC.

9. FINANCE COSTS

	2007 HK$'000	2006 HK$'000
Interest on:		
Bank loans and other borrowings wholly repayable within five years	**110,844**	60,443
Bank loans and other borrowings not wholly repayable within five years	**45,506**	35,126
Obligations under a finance lease	**1**	10
Convertible note	**–**	145
Convertible bonds (note 37)	**14,225**	10,436
	170,576	106,160
Less: Net interest income on interest rate swaps	**(9,215)**	(254)
Interest capitalised to construction in progress	**(53,565)**	(61,699)
	107,796	44,207

10. DISCOUNTS ON ACQUISITION OF ASSOCIATES, A JOINTLY CONTROLLED ENTITY AND BUSINESSES

	2007 HK$'000	2006 HK$'000
Discount on acquisition of associates (note 18)	**5,568**	–
Discount on acquisition of a jointly controlled entity (note 40)	**11,617**	393
Discount on acquisition of business (note 41)	**–**	37,500
	17,185	37,893

11. TAXATION

The amount represents PRC income tax for both years.

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group had no assessable profit for both years.

Taxation arising in other jurisdictions in the PRC is calculated at the rates prevailing in the relevant jurisdictions.

Pursuant to the relevant laws and regulations in the PRC, certain PRC subsidiaries of the Group are exempted from PRC enterprise income tax for the first two years commencing from their first profit-making year of operation and thereafter, these PRC subsidiaries will be entitled to a 50% relief from PRC enterprise income tax for the following three years. The reduced tax rate for the relief period is ranging from 7.5% to 16.5%. The charge of PRC enterprise income tax for the years has been provided for after taking these tax incentives into account.

11. TAXATION *(Continued)*

The taxation for the year can be reconciled to the (loss) profit before taxation per the income statement as follows:

	Hong Kong		PRC		Total	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
(Loss) profit before taxation	**(36,256)**	(2,368)	**275,610**	184,918	**239,354**	182,550
Tax at the domestic income tax rate	**(6,345)**	(414)	**90,951**	61,023	**84,606**	60,609
Tax effect of share of profit of associates	**–**	–	**(1,896)**	–	**(1,896)**	–
Tax effect of expenses not deductible for tax purpose	**5,513**	3,479	**3,451**	3,832	**8,964**	7,311
Tax effect of income not taxable for tax purpose	**(8,005)**	(13,916)	**(8,356)**	(5,010)	**(16,361)**	(18,926)
Tax effect of estimated tax losses not recognised	**8,837**	10,851	**15,527**	12,738	**24,364**	23,589
Effect of tax exemption granted to certain PRC subsidiaries	**–**	–	**(85,886)**	(70,101)	**(85,886)**	(70,101)
Taxation for the year	**–**	–	**13,791**	2,482	**13,791**	2,482

Note: The applicable tax rate for Hong Kong and the PRC is 17.5% and 33% (2006: 17.5% and 33%) respectively.

12. PROFIT FOR THE YEAR

	2007 HK$'000	2006 HK$'000
Profit for the year has been arrived at after charging (crediting):		
Auditor's remuneration	**2,800**	2,000
Depreciation of property, plant and equipment on:		
Owned assets	**96,769**	46,752
Asset held under a finance lease	**–**	116
	96,769	46,868
Release of prepaid lease payments	**2,191**	1,113
Amortisation of intangible assets included in administrative expenses	**2,128**	–
Minimum lease payments for operating leases in respect of:		
– rented premises	**8,429**	4,699
– equipment	**–**	128
Gain on disposal of property, plant and equipment	**(20)**	–
Share of tax of associates (included in share of results of associates)	**1,438**	–
Staff costs:		
Directors' emoluments (see below)	**3,474**	6,729
Salaries and allowances of other staff	**99,313**	63,927
Contributions to retirement benefit scheme contributions of other staff	**15,445**	5,430
Less: amount capitalised in construction in progress	**(4,921)**	(4,885)
	113,311	71,201
Rental income from investment properties less outgoings of HK42,000 (2006: HK$42,000)	**(894)**	(1,028)

12. PROFIT FOR THE YEAR *(Continued)*

Emoluments of directors and employees

Directors

The emoluments paid or payable to each of the directors were as follow:

2007

	Directors' fees HK$'000	Salaries and other benefits HK$'000	Share-based payments HK$'000	Contributions to retirement benefits scheme HK$'000	Total emoluments HK$'000
Executive directors					
Mr. Li Xiao Yun	370	–	138	–	508
Mr. Xu Ying	–	1,200	–	12	1,212
Mr. Liu Ming Hui	–	–	–	–	–
Mr. Ma Jin Long	–	180	–	–	180
Mr. Zhu Wei Wei	–	520	–	12	532
Non-executive directors					
Mr. Feng Zhuo Zhi	120	–	–	–	120
Mr. Suresh Raghavanachari	106	–	–	–	106
Mr. Harrison Blacker	122	–	–	–	122
Mr. R.K. Goel	40	–	–	–	40
Mr. Jo Yamagata	54	–	–	–	54
Independent non-executive directors					
Mr. Zhao Yu Hua	200	–	–	–	200
Dr. Mao Er Wan	200	–	–	–	200
Ms. Wong Sin Yue, Cynthia	200	–	–	–	200
	1,412	1,900	138	24	3,474

12. PROFIT FOR THE YEAR *(Continued)*

Emoluments of directors and employees *(Continued)*

Directors *(Continued)*

2006

	Directors' fees HK$'000	Salaries and other benefits HK$'000	Share-based payments HK$'000	Contributions to retirement benefits scheme HK$'000	Total emoluments HK$'000
Executive directors					
Mr. Li Xiao Yun	–	–	91	–	91
Mr. Xu Ying	–	–	2,261	12	2,273
Mr. Liu Ming Hui	–	–	3,265	12	3,277
Mr. Ma Jin Long	60	–	–	–	60
Mr. Zhu Wei Wei	–	520	–	12	532
Non-executive directors					
Mr. Feng Zhuo Zhi	103	–	–	–	103
Mr. Suresh Raghavanachari	–	–	–	–	–
Mr. Harrison Blacker	–	–	–	–	–
Mr. Wu Bang Jie	33	–	–	–	33
Independent non-executive directors					
Mr. Zhao Yu Hua	120	–	–	–	120
Dr. Mao Er Wan	120	–	–	–	120
Ms. Wong Sin Yue, Cynthia	120	–	–	–	120
	556	520	5,617	36	6,729

During both years, no remuneration was paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. During the year ended March 31, 2007, Messrs. Xu Ying and Liu Ming Hui waived emoluments of HK$6,000,000 (2006: HK$7,200,000) and HK$7,200,000 (2006: HK$7,200,000) respectively.

12. PROFIT FOR THE YEAR *(Continued)*

Emoluments of directors and employees *(Continued)*

Employees

Of the five individuals with the highest emoluments in the Group, one (2006: two) was director of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining four (2006: three) individuals were as follows:

	2007 HK$'000	2006 HK$'000
Salaries and other benefits	8,661	7,780
Retirement benefit scheme contributions	107	66
	8,768	7,846

Their emoluments were within the following bands:

	2007 No. of employee	2006 No. of employee
Nil to HK$1,000,000	2	1
HK$3,000,001 to HK$3,500,000	1	1
HK$3,500,001 to HK$4,000,000	1	1

13. DIVIDENDS

	2007 HK$'000	2006 HK$'000
Final dividend paid in respect of 2006 of HK$0.01 (2005: nil) per share	29,237	–

The final dividend in respect of 2007 of HK$0.012 (2006: HK$0.01) per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

14. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	2007 HK$'000	2006 HK$'000
Earnings for the purpose of basic earnings per share, being profit for the year attributable to equity holders of the Company	**190,103**	156,736
Adjustment for the effect of dilutive potential ordinary shares:		
Change in fair value of stock subscription option	**(2,100)**	–
Change in fair value of embedded derivative of convertible bonds	**(2,560)**	–
Adjustment in liability component of convertible bonds	**(10,642)**	–
Interest on convertible bonds	**14,225**	–
Earnings for the purpose of diluted earnings per share	**189,026**	156,736

	2007 '000	2006 '000
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,995,323**	2,548,931
Adjustment for the effect of dilutive potential ordinary shares:		
Share options (note a)	**228,419**	234,148
Stock subscription option (note b)	**10,740**	2,407
Convertible bonds (note b)	**179,087**	N/A
Warrants	**–**	42,870
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**3,413,569**	2,828,356

Notes:

(a) Weighted average number of ordinary shares for the purpose of the computation of diluted earnings per share has been accounted for the effect of the options with a dilutive effect and the effect of contingent issuable shares.

(b) Weighted average number of ordinary shares for the purpose of computation of diluted earnings per share has been accounted for the effect of the potential issuance of shares upon exercise of the stock subscription option and conversion of convertible bonds.

The computation of diluted earnings per share for the year ended March 31, 2006, did not assume the conversion of the Company's outstanding convertible bonds, since their conversion would increase the earnings per share, after taking into account of the effect of interest and change in fair value of conversion/redemption option derivatives components of the convertible bonds.

15. INVESTMENT PROPERTIES

	HK$'000
At April 1, 2005	24,400
Transferred from property, plant and equipment and prepaid lease payments (note a)	13,977
Change in fair value (note b)	6,073
At March 31, 2006	44,450
Change in fair value (note b)	4,650
At March 31, 2007	49,100

Notes:

(a) Buildings and prepaid lease payments having an aggregate carrying value of HK$12,376,000 were revalued on April 1, 2005 by LCH (Asia-Pacific) Surveyors Limited. The resulting surplus of HK$1,601,000 was credited to properties revaluation reserve.

(b) The fair value of the Group's investment properties at March 31, 2007 and 2006 have been arrived at on the basis of a valuation carried out at these dates by LCH (Asia-Pacific) Surveyors Limited. The resulting surplus of HK$4,650,000 (2006: HK$6,073,000) was credited to consolidated income statement.

LCH (Asia-Pacific) Surveyors Limited has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to Hong Kong Institute of Surveyors Valuation Standards on Properties, was arrived at by reference to comparable market transactions and rental yield for similar properties.

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

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Pipelines HK$'000	Construction in progress HK$'000	Machinery and equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
COST							
At April 1, 2005	34,116	103,941	756,859	45,008	8,596	23,512	972,032
Additions	6,852	51,288	417,133	21,691	2,907	17,311	517,182
Acquired on acquisition of a jointly controlled entity	17,381	73,355	62,259	46,008	–	4,416	203,419
Acquired on acquisition of businesses	51,074	92,222	12,173	23,515	1,233	2,268	182,485
Disposal of a subsidiary	–	(287)	(5,434)	(10)	(53)	(30)	(5,814)
Reclassification	–	223,332	(226,558)	3,226	–	–	–
Transferred to investment properties	(4,417)	–	–	–	–	–	(4,417)
Exchange realignment	180	999	7,277	433	50	207	9,146
At March 31, 2006	105,186	544,850	1,023,709	139,871	12,733	47,684	1,874,033
Additions	39,678	6,691	738,647	32,210	2,395	29,652	849,273
Acquired on acquisition of a jointly controlled entity	39,555	164,161	82,219	2,964	355	5,314	294,568
Acquired on acquisition of businesses	17,091	66,558	1,736	27,539	278	2,155	115,357
Acquired on acquisition of subsidiaries	–	–	3,095	–	–	–	3,095
Disposals	(2,191)	–	–	(3,156)	(471)	(2,309)	(8,127)
Reclassification	57,303	793,262	(989,958)	139,393	–	–	–
Exchange realignment	6,942	33,358	62,676	10,250	754	2,833	116,813
At March 31, 2007	263,564	1,608,880	922,124	349,071	16,044	85,329	3,245,012
DEPRECIATION AND IMPAIRMENT							
At April 1, 2005	3,224	2,549	–	5,462	1,847	4,286	17,368
Provided for the year	5,155	23,396	–	10,261	1,557	6,499	46,868
Eliminated on transfer to investment properties	(167)	–	–	–	–	–	(167)
Eliminated on disposal of a subsidiary	–	–	–	(1)	(10)	(3)	(14)
Exchange realignment	8	25	–	53	13	35	134
At March 31, 2006	8,220	25,970	–	15,775	3,407	10,817	64,189
Provided for the year	7,299	39,480	–	34,951	2,389	12,650	96,769
Eliminated on disposals	(244)	–	–	(1,104)	(79)	(1,462)	(2,889)
Exchange realignment	338	1,590	–	966	188	561	3,643
At March 31, 2007	15,613	67,040	–	50,588	5,905	22,566	161,712
CARRYING VALUES							
At March 31, 2007	247,951	1,541,840	922,124	298,483	10,139	62,763	3,083,300
At March 31, 2006	96,966	518,880	1,023,709	124,096	9,326	36,867	1,809,844

16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The carrying value of buildings of the Group shown above comprises:

	2007 HK$'000	2006 HK$'000
In Hong Kong		
Long lease	**6,522**	6,889
In PRC		
Long lease	**38,890**	–
Medium-term lease	**202,539**	90,077
	247,951	96,966

The above items of property, plant and equipment other than construction in progress are depreciated on a straight-line basis at the following rates per annum:

Buildings	Over the shorter of the remaining terms of the leases or 50 years
Pipelines	Over the shorter of 30 years or the operation period of the relevant company
Machinery and equipment	10%
Furniture and fixtures	15% – 50%
Motor vehicles	25%

At March 31, 2007, interest capitalised in construction in progress amounted to HK$84,427,000 (2006: HK$113,384,000).

The carrying value of property, plant and equipment includes an amount of nil (2006: HK$165,000) in respect of an asset held under a finance lease.

At March 31, 2007, the Group is in the process of obtaining title deeds from relevant government authorities for its buildings in the PRC amounting to HK$39,222,000 (2006: nil). In the opinion of the directors, the Group is not required to incur additional cost in obtaining the title deeds for its buildings in the PRC.

At March 31, 2007, the directors considered that the leasehold land element of the buildings with the carrying value of HK$19,145,000 (2006: HK$1,460,000) cannot be separately identified.

17. PREPAID LEASE PAYMENTS

	2007 HK$'000	2006 HK$'000
The Group's prepaid lease payments comprise:		
Leasehold land in Hong Kong		
Long lease	21,032	21,220
Leasehold land in the PRC		
Long lease	102,832	–
Medium term lease	167,467	75,140
	291,331	96,360
Analysed for reporting purposes as:		
Non-current portion	286,102	94,434
Current portion	5,229	1,926
	291,331	96,360

The leasehold land and land use rights are charged to income statement on a straight-line basis over the term of the leases.

18. INTERESTS IN ASSOCIATES

	2007 HK$'000	2006 HK$'000
Cost of investments in associates – unlisted	65,402	751
Share of pre-acquisition dividend	(1,296)	–
Share of post-acquisition profit (loss) (net of dividend received)	5,604	(138)
Discount on acquisition of associates	5,568	–
	75,278	613

18. INTERESTS IN ASSOCIATES *(Continued)*

As at March 31, 2007, the Group had interests in the following associates:

Name of entity	Form of business structure	Place of registration	Principal place of operation	Class of capital	Proportion of nominal value of registered capital held by the Group %	Principal activities
北京宏達斯特燃氣技術開發公司	Sino-foreign equity joint venture	PRC	PRC	Registered	22.10	Trading of natural gas
北京華昊恒通有限責任公司	Sino-foreign equity joint venture	PRC	PRC	Registered	19.60 (note)	Trading of natural gas
重慶市川東燃氣工程建設有限公司 ("川東燃氣")	Sino-foreign equity joint venture	PRC	PRC	Registered	44.00	Trading of natural gas and gas pipeline construction
重慶鼎發實業股份有限公司 ("重慶鼎發")	Sino-foreign equity joint venture	PRC	PRC	Registered	38.69	Exploration, collection transportation, purification and sales of natural gas

Note: The Group is able to exercise significant influence over this company because it has the power to appoint two out of the six directors of that company.

During the year, a discount on acquisition of HK$5,568,000 arising on the acquisition of 川東燃氣 and 重慶鼎發 has been included as income in the determination of the Group's share of profit of associates.

18. INTERESTS IN ASSOCIATES *(Continued)*

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

	2007 HK$'000	2006 HK$'000
Total assets	**431,629**	14,689
Total liabilities	**(238,958)**	(12,488)
Net assets	**192,671**	2,201
The Group's share of associates' net assets	**75,278**	613
Revenue	**155,174**	23,194
Profit (loss) for the year	**16,916**	(1,439)
The Group's share of results of associates for the year	**5,742**	(138)

19. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

At March 31, 2007, the Group had interests in the following significant jointly controlled entities:

Name of entity	Form of business structure	Place of registration	Principal place of operation	Class of capital	Proportion of nominal value of registered capital held by the Group %	Principal activity
北京京港燃氣有限公司 Beijing Jinggang Gas Development Company Limited* ("Beijing Jinggang")	Sino-foreign equity joint venture	PRC	PRC	Registered	49.0 (note a)	Trading of natural gas and gas pipeline construction
柳州中燃城市燃氣有限公司 ("柳州中燃")	Sino-foreign equity joint venture	PRC	PRC	Registered	50.0 (note b)	Trading of natural gas and gas pipeline construction
楊州中燃城市燃氣發展有限公司 ("楊州中燃")	Sino-foreign equity joint venture	PRC	PRC	Registered	50.0 (note b)	Trading of natural gas and gas pipeline construction
呼和浩特中燃城市燃氣發展有限公司 ("呼和浩特中燃")	Sino-foreign equity joint venture	PRC	PRC	Registered	50.0 (note b)	Trading of natural gas and gas pipeline construction

* English name is for identification purposes only.

Notes:

(a) The Group holds 49% of the issued share capital of Beijing Jinggang and three out of the seven directors of Beijing Jinggang are appointed by the Group, hence the Group controls 42.9% of the voting power in general meeting. As all the decisions made in the Board of Directors meeting require at least 2/3 votes from all of the directors, Beijing Jinggang is accounted for as a jointly controlled entity.

(b) The Group holds 50% of the issued share capital of these companies and three out of the seven directors of these companies are appointed by the Group, hence the Group controls 42.9% of the voting power in general meeting. As all the decisions made in the Board of Directors meeting require at least 2/3 votes from all of the directors, these companies are accounted for as jointly controlled entities.

19. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES *(Continued)*

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

	2007 HK$'000	2006 HK$'000
Current assets	**414,782**	219,454
Non-current assets	**722,488**	232,847
Current liabilities	**376,628**	60,938
Non-current liabilities	**152,689**	75,169
Revenue	**193,880**	44,904
Profit for the year	**30,163**	8,857

20. AVAILABLE FOR SALE INVESTMENTS

	2007 HK$'000	2006 HK$'000
Equity securities listed in Hong Kong, at fair value	**16,746**	19,386
Unlisted equity securities, at cost less impairment	**3,017**	5,217
Club debenture, at fair value	**3,386**	3,386
	23,149	27,989

Equity securities listed in Hong Kong are stated at fair value. The fair values of listed equity securities are based on quoted market price. Decrease in fair value of the listed equity securities classified as available-for-sale investments for the year ended March 31, 2007 of HK$2,640,000 (2006: HK$5,259,000) was charged to investment revaluation reserve.

Unlisted equity securities issued by private entities are measured at cost less impairment at the balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Group are of the opinion that their fair values cannot be measured reliably. During the year, impairment loss of HK$2,200,000 (2006: HK$4,400,000) was recognised, as in the opinion of the directors, the investment could not demonstrate a predicable future cash inflow to the Group.

Club debentures are stated at fair value. Fair value of the club debenture has been determined by reference to the bid prices quoted in active market.

21. GOODWILL

	HK$'000
COST	
At April 1, 2005	209,394
Arising on acquisitions of a jointly controlled entity (note 40)	65,981
At March 31, 2006	275,375
Arising on acquisition of additional interest in a subsidiary (note 39)	24,590
At March 31, 2007	299,965
CARRYING AMOUNTS	
At March 31, 2007	299,965
At March 31, 2006	275,375

The Group tests goodwill annually for impairment in the financial year in which the acquisition takes place, or more frequently if there are indications that goodwill might be impaired.

Management considers each subsidiary represents a separate cash generating unit ("CGU") for the purpose of goodwill impairment testing. At March 31, 2006, the carrying amount of goodwill mainly represents goodwill arising from the acquisition of Clever Decision Enterprises Limited, Suzhou Zhongran City Gas Development Co., Ltd., Beijing Zhongran Xiangke Oil Gas Technology Company Limited, 柳州中燃and other subsidiaries of HK$141,716,000, HK$44,802,000, HK$15,540,000, HK$65,981,000 and HK$7,336,000, respectively.

During the year, the Group acquired additional interest in a subsidiary from a minority shareholder. The Group recognised an amount of HK$24,590,000, representing the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business, at the date of acquisition.

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 during the period. 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.

21. GOODWILL *(Continued)*

The Group prepares cash flows forecasts derived from the most recent financial budgets approved by management for the next five to seven years, which is the general development period for natural gas business and extrapolates cash flows for the following five to seven years based on the estimated growth rate of 3%. The financial budgets and growth rates are estimated according to the stage of each operation with reference to the development curve of the natural gas industry in the PRC region. The rates used to discount the forecast cash flows for CGUs are from 15% to 17%. In the opinion of the directors, no material impairment loss is identified as at March 31, 2007.

22. OTHER INTANGIBLE ASSETS

	Exclusive rights of natural gas operation	**Contracted customer base**	**Total**
	HK$'000	HK$'000	HK$'000
COST			
At April 1, 2005 and April 1, 2006	–	–	–
Acquired on acquisition of businesses (note 39)	70,134	15,000	85,134
At March 31, 2007	70,134	15,000	85,134
AMORTISATION			
At April 1, 2005 and April 1, 2006	–	–	–
Charge for the year	1,834	294	2,128
At March 31, 2007	1,834	294	2,128
CARRYING VALUES			
At March 31, 2007	68,300	14,706	83,006
At March 31, 2006	–	–	–

Note: The exclusive rights of natural gas operation and contracted customer base are amortised on a straight-line method over the period of 30 years and 10 years respectively.

23. DEPOSITS FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

At March 31, 2006, the amount included HK$38,173,000 which was paid to a minority shareholder of a subsidiary for acquisition of property, plant and equipment. During the year ended March 31, 2007, this deposit has been transferred to property, plant and equipment and details of this related party transaction is set out in 49(i).

24. LOAN RECEIVABLE

	2007 HK$'000	2006 HK$'000
Fixed-rate loan receivable at interest rate of 7% per annum, unsecured and repayable after 2 years but not more than 5 years	**15,000**	–

The amount is denominated in Hong Kong dollars, currency other than the financial currency of the relevant group entity

25. INVENTORIES

	2007 HK$'000	2006 HK$'000
Construction materials	**102,699**	99,384
Consumables and spare parts	**14,838**	2,218
Natural gas	**19,495**	6,422
	137,032	108,024

Cost of inventories recognised as an expense during the year is HK$601,230,000 (2006: HK$266,452,000).

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

	2007 HK$'000	2006 HK$'000
Contracts in progress at balance sheet date:		
Contract costs incurred plus recognised profits less recognised losses	**555,723**	533,806
Less: progress billings	**(116,892)**	(80,101)
	438,831	453,705
Analysed for reporting purposes as:		
Amounts due from customers for contract work	**444,552**	454,914
Amounts due to customers for contract work	**(5,721)**	(1,209)
	438,831	453,705

At March 31, 2007 and 2006, there were no retention monies held by customers for contract work performed. At March 31, 2007, advances received from customers for contract work amounted to HK$103,451,000 (2006: HK$14,292,000) which were included in trade and other payables.

27. TRADE AND OTHER RECEIVABLES

Other than certain major customers with good repayment history which the Group allows a longer credit period or settlement by instalment basis, the Group generally allows an average credit period of 30 to 180 days to its trade customers.

The following is an aged analysis of trade receivables net of impairment losses at the reporting date:

	2007 HK$'000	2006 HK$'000
0-180 days	**240,170**	101,618
181-365 days	**64,483**	29,825
Over 365 days	**23,250**	8,770
Trade receivables	**327,903**	140,213
Deposits paid for construction materials	**44,519**	22,979
Deposits paid for purchase of natural gas	**47,833**	13,499
Advanced payments to contractors	**28,231**	26,675
Other receivables, deposits and prepayments	**216,089**	142,104
Amounts due from minority shareholders of subsidiaries	**9,012**	2,196
Amounts due from shareholders of a jointly controlled entity	**21,161**	–
Fund in securities brokers	**24,578**	–
	719,326	347,666

At March 31, 2007, the carrying value of trade receivables includes an amount of HK$164,300,000 (2006: nil) would be settled by instalment basis during the year ending March 31, 2008 of HK$114,708,000 and March 31, 2009 of HK$49,592,000 respectively.

During the year ended March 31, 2007, the Group made an allowance of HK$9,201,000 (2006: HK$11,000,000) in respect of the trade receivables.

Amounts due from minority shareholders of subsidiaries and shareholders of a jointly controlled entity are unsecured, non-interest bearing and repayable on demand.

28. DERIVATIVE FINANCIAL INSTRUMENTS

	2007 HK$'000	2006 HK$'000
Derivative financial assets:		
Interest rate swap contracts not qualified for hedge accounting	**17,433**	21,669
Early redemption option embedded in convertible bonds (note 37)	**15,865**	5,991
	33,298	27,660
Derivative financial liabilities:		
Embedded conversion option (note 37)	**52,502**	40,609
Stock subscription rights granted to Merill Lynch International ("ML")	**5,400**	7,500
Mandatory redemption option embedded in convertible bonds (note 37)	**1,412**	1,260
	59,314	49,369

Major terms of the interest rate swap contracts are as follows:

Notional amount	**Maturity**	**Swaps**
US$30,000,000	April 18, 2008	From USD LIBOR + 1.50% to 5.05%
US$30,000,000	April 18, 2008	From USD LIBOR + 1.50% to 5.08%
US$50,000,000	February 15, 2009	From USD LIBOR + 2.35% to 5.73%

The fair values of the interest rate swaps are determined based on market prices quoted from financial institutions for equivalent instruments and the application of discounted cash flow method at the balance sheet date.

Embedded conversion option represents the fair value of the bondholders' option to convert the convertible bond issued on June 29, 2005 (as detailed in note 37) into equity of the Company, but the conversion will be settled other than by the exchange of a fixed number of the Company's own equity.

Early redemption option and mandatory redemption option represent the fair value of the Company's option to early redeem and the fair value of the redemption at the option of certain bondholders, respectively, in respect of convertible bond issued on June 29, 2005.

28. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Stock subscription rights represent the fair value of the option granted to ML to subscribe new shares of the Company. Details of such convertible bond and the subscription arrangement are set out in note 37. The fair value of the early redemption option and stock subscription option is calculated using the Black-Scholes-Merton Option Pricing Model. The inputs into the model were as follows:

	Embedded conversion option	Early redemption option	Stock subscription option
Conversion price/redemption price/exercise price	HK$1.731	HK$1.996	HK$1.128
Expected volatility (note a)	36.49%	37.74%	36.53%
Expected life (note b)	1 year	1.25 years	1.9 years
Risk free rate (note c)	3.752%	3.786%	3.823%

Notes:

(a) Expected volatility for early redemption option was determined by calculating the historical volatility of the Company's share price over 300 trading days; for embedded conversion option and stock subscription option were determined by calculating the historical volatility of the Company's share price over 250 and 460 trading days respectively.

(b) Expected life was the expected remaining life of the respective options.

(c) The risk free rate is determined by reference to the Hong Kong Government Bond Yield.

The fair value of the mandatory redemption option is determined by application of binomial method, using effective yield at 6.44% per annum and time to maturity equal to the expected remaining life of the option.

During the year, HK$4,307,000 (2006: HK$25,669,000) was recognised as a change in fair value of derivative financial instruments.

29. AMOUNT DUE FROM AN ASSOCIATE

The balance is unsecured, non-interest bearing and repayable on demand.

30. HELD-FOR-TRADING INVESTMENTS

	2007 HK$'000	2006 HK$'000
Listed securities at fair value		
– Equity securities listed in Hong Kong	45,045	–
– Equity securities listed in the PRC	12,796	–
	57,841	–

31. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The bank deposits bearing floating interest at effective interest of 2% to 4% per annum.

Pledged bank deposits represent deposits pledged to banks to secure banking facilities granted to the Group. Deposits amounting to HK$29,417,000 (2006: nil) have been pledged to secure short-term bank loans and undrawn facilities and are therefore classified as current assets.

32. TRADE AND OTHER PAYABLES

Trade and other payables comprise amounts outstanding for trade purchases and ongoing costs. The following is an aged analysis of trade and other payables at the reporting date:

	2007 HK$'000	2006 HK$'000
0-90 days	109,511	128,365
91-180 days	77,326	19,412
Over 180 days	117,440	59,347
Trade payables	304,277	207,124
Other payables and accrued charges	425,142	170,349
Advance received from customers for contract work	103,451	14,292
Amounts due to minority shareholders of subsidiaries	26,529	–
	859,399	391,765

Amounts due to minority shareholders of subsidiaries are unsecured, non-interest bearing and repayable on demand.

33. BANK AND OTHER BORROWINGS

	2007 HK$'000	2006 HK$'000
Bank loans	2,626,599	1,672,706
Mortgage loan	16,668	18,798
Other loans	285,966	319,948
	2,929,233	2,011,452
Secured	1,830,337	1,264,511
Unsecured	1,098,896	746,941
	2,929,233	2,011,452

33. BANK AND OTHER BORROWINGS *(Continued)*

	2007 HK$'000	2006 HK$'000
The maturity profile of the above loans is as follows:		
On demand or within one year	**686,781**	345,662
More than one year, but not exceeding two years	**245,181**	192,217
More than two years, but not exceeding five years	**1,130,856**	906,727
More than five years	**866,415**	566,846
	2,929,233	2,011,452
Less: Amount due within one year shown under current liabilities	**(686,781)**	(345,662)
Amount due after one year	**2,242,452**	1,665,790
Borrowings comprise:		
Fixed-rate borrowings	**1,830,337**	1,462,302
Floating-rate borrowings	**1,098,896**	549,150
	2,929,233	2,011,452

The range of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2007	2006
Effective interest rate per annum:		
Fixed-rate borrowings	**2.00% to 7.34%**	2.00% to 7.34%
Floating-rate borrowings	**5.28% to 7.67%**	4.83% to 6.02%

33. BANK AND OTHER BORROWINGS *(Continued)*

The details of the Group's borrowings which are denominated in foreign currencies are set out below:

	USD HK$'000 equivalent	JPY HK$'000 equivalent
At March 31, 2007	832,654	57,190
At March 31, 2006	459,397	44,035

34. OBLIGATIONS UNDER A FINANCE LEASE

	Minimum lease payments		Present value of minimum lease payments	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Amounts payable under a finance lease:				
Within one year	–	66	–	64
In the second to fifth year inclusive	–	–	–	–
	–	66	–	64
Less: Future finance charges	–	(2)	–	N/A
Present value of lease obligations	–	64	–	64
Less: Amount due for settlement within one year (shown under current liabilities)			–	(64)
			–	–

34. OBLIGATIONS UNDER A FINANCE LEASE *(Continued)*

It was the Group's policy to lease certain of its property, plant and equipment under finance lease. The lease term was 3 years. For the year ended March 31, 2007, the effective borrowing rate was approximately 8% (2006: 8%) per annum. Interest rate was fixed at the contract date. The lease was on a fixed repayment basis and no arrangement had been entered into for contingent rental payments.

The Group's obligations under a finance lease were secured by the lessor's charge over the leased asset and were fully repaid during the year.

35. SHARE CAPITAL

	Ordinary shares		**Convertible preference shares**		**Total**
	No. of shares '000 at HK$0.01 each	HK$'000	No. of shares '000 at HK$1.00 each	HK$'000	HK$'000
Authorised	9,000,000	90,000	124,902	124,902	214,902
Issued and fully paid:					
At March 31, 2005	2,244,813	22,448	–	–	22,448
Issue of new ordinary shares (notes a, b, c and d)	555,000	5,550	–	–	5,550
Exercise of share options (note 48)	31,750	318	–	–	318
Exercise of warrants (note e)	90,000	900	–	–	900
At March 31, 2006	2,921,563	29,216	–	–	29,216
Issue of new ordinary shares (notes f and g)	157,001	1,570	–	–	1,570
Exercise of share options (note 48)	17,640	176	–	–	176
At March 31, 2007	3,096,204	30,962	–	–	30,962

35. SHARE CAPITAL *(Continued)*

Notes:

(a) On May 3, 2005, pursuant to the subscription agreement dated February 19, 2005, the Company allotted and issued 210,000,000 ordinary shares of HK$0.01 each in the Company at a price of HK$1.158 per share to GAIL (India) Limited, an independent investor.

(b) On October 28, 2005, the Company entered into subscription agreement with Templeton Strategic Emerging Market Fund II LDC ("TSEMF II") and Nederlandse – Maatschappij Voor Ontwikkelingslanden N.V. ("FMO"), pursuant to which TSEMF II and FMO agreed to subscribe for and the Company agreed to allot an aggregate of 133,000,000 ordinary shares at a subscription price of HK$1.16 per share.

(c) On January 19, 2006, pursuant to the subscription agreement dated November 28, 2005, the Company allotted and issued 210,000,000 ordinary shares of HK$0.01 each in the Company at price of HK$1.185 per share to Oman Oil Company S.A.O.C. ("OOC").

(d) On February 6, 2006 and February 21, 2006, pursuant to a subscription letter dated October 29, 2003, the Company allotted and issued 2,000,000 ordinary shares of HK$0.01 each in the Company at a price of HK$1.128 per share to ML. Details of the subscription letter are set out in note 37.

(e) At March 31, 2006, 90,000,000 warrants were exercised and 90,000,000 ordinary shares of HK$0.01 each in the Company at a price of HK$0.66 per share were issued. As at March 31, 2006, the Company has no outstanding warrants.

(f) On October 20, 2006, pursuant to a subscription agreement dated August 30, 2006, the Company allocated and issued a total of 150,000,000 ordinary shares of HK$0.01 each in the Company at a price of HK$1.25 per share to Asian Development Bank.

(g) On January 10, 2007, pursuant to the subscription letter dated October 29, 2003, the Company issued a total of 7,001,191 ordinary shares of HK$0.01 each in the Company at a price of HK$1.128 per share to ML. Details of the subscription letter are set out in note 37.

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

36. AMOUNT DUE TO A MINORITY SHAREHOLDER OF A SUBSIDIARY

The amount is unsecured, interest bearing at 2% per annum and repayable in year 2013. Accordingly, amount is classified as non-current liability as at the balance sheet date.

The effective interest rate on the amount due to a minority shareholder of a subsidiary is equal to contracted interest rate.

37. CONVERTIBLE BONDS

The Company entered into a subscription letter on October 29, 2003 with ML pursuant to which the Company granted to ML, the rights to subscribe for new shares of the Company (the "Letter"). Under the terms of the Letter, ML would have a right to subscribe for new shares up to 15% of the principal amount of each tranche of the convertible bonds ("the ML Bonds") pursuant to a subscription agreement dated on October 29, 2003 ("the Agreement") issued divided by 0.94 with a subscription price of HK$1.128 per share (subject to adjustments). The subscription rights are exercisable by ML at any time from and including the date of issue to the maturity date of the relevant tranche of the ML Bonds. The maturity dates are October 30, 2008 and October 30, 2009 for the ML Bonds issued on November 13, 2003 and June 10, 2004, respectively. All of the ML Bonds issued under the Agreement had been either converted or redeemed during the two years ended March 31, 2005. Upon the adoption of HKAS 39, the fair value of the stock subscription rights has been recognised as derivative financial instruments as set out in note 28.

On June 23, 2005, the Company entered into a conditional subscription agreement with CQS Convertible and Quantitative Strategies Master Fund Limited ("CQS") and Courtenay Enterprises Limited ("Courtenay"), independent third parties of the Group, whereby CQS and Courtenay subscribed the USD denominated Bonds ("the Bond") issued at par by the Company in an aggregate principal amount of US$40,000,000. The Bond was issued on June 29, 2005 ("the Issue Date") and carries interest at 1% per annum and is matured on June 29, 2010. The conversion price of the Bond is HK$1.7310 and can be converted at any time on or after Issue Date up to June 19, 2010. Unless previously redeemed, converted or purchased and cancelled, the Bonds will be redeemed at 127.070 per cent of their principal amount on June 29, 2010. All or some of the Bonds may be redeemed at the option of the relevant holder on June 29, 2008 at 115.314 per cent of their principal amount. The Bond are listed on the Stock Exchange (Stock Code: 2562) on June 1, 2006.

The net proceeds received from the issue of convertible bonds contain the following components that are required to be separately accounted for in accordance with HKAS 32 "Financial instruments: Disclosure and Presentation" and HKAS 39 "Financial instruments: Recognition and Measurement":

(a) Liability component of the Bond represents the present value of the contractually determined stream of future cash flows discounted at the rate of interest at that time by the market to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the conversion and redemption option. The effective interest rate of the liability component is 4.5% (2006: 4.5%) per annum.

(b) Embedded conversion option of the Bond to be accounted for as a separate financial liability represents the fair value of the option to convert the liability into equity of the Company but the conversion will be settled other than by the exchange of a fixed number of the Company's own equity.

(c) Embedded early redemption option of the Bond represents the Company's option to early redeem all or part of the Bond.

(d) Mandatory redemption option of the Bond represents redemption at the option of the bond holders.

37. CONVERTIBLE BONDS *(Continued)*

The movement of different components of the convertible bonds during the year is set out below:

	Liability HK$'000	Embedded conversion option HK$'000	Early redemption option HK$'000	Mandatory redemption option HK$'000	Total HK$'000
At April 1, 2005	–	–	–	–	–
Issued during the year, net of issued cost	264,863	40,609	(5,991)	1,260	300,741
Interest charged (note 9)	10,436	–	–	–	10,436
Interest paid	(2,325)	–	–	–	(2,325)
At March 31, 2006	272,974	40,609	(5,991)	1,260	308,852
Adjustment in liability component (note)	(10,642)	–	–	–	(10,642)
Change in fair value	–	11,893	(9,874)	152	2,171
Interest charged (note 9)	14,225	–	–	–	14,225
Interest paid	(3,100)	–	–	–	(3,100)
At March 31, 2007	273,457	52,502	(15,865)	1,412	311,506

Note:

Under the terms of the conditional subscription agreement with CQS, if the Stock Exchange has not granted listing of and permission to deal in the Bond before the first anniversary of the Issue Date, the interest rate shall be increased to 2% per annum with effect from the first anniversary of the Issue Date.

During the year, the Bond are listed on the Stock Exchange on May 29, 2006 and therefore, carries at interest rate of 1% per annum throughout the period. The decrease in fair value of liability component of the Bond due to revision of estimated cash flows is recognised as other income.

38. DEFERRED TAXATION

The following is the deferred tax liabilities (assets) recognised and movements thereon during the current and prior reporting years.

	Accelerated tax depreciation HK$'000	Tax losses HK$'000	Total HK$'000
At April 1, 2005	18	(18)	–
Charge (credit) to income statement for the year	1,466	(1,466)	–
At March 31, 2006	1,484	(1,484)	–
Charge (credit) to income statement for the year	888	(888)	–
At March 31, 2007	2,372	(2,372)	–

At March 31, 2007, the Group has estimated unused tax losses of HK$326,241,000 (2006: HK$228,512,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$13,554,000 (2006: HK$8,480,000) of the tax losses. No deferred tax asset has been recognised for the remaining estimated tax losses of HK$312,687,000 (2006: HK$220,032,000) due to the uncertainty of future profits streams. Included in unrecognised estimated tax losses are losses of HK$90,645,000 (2006: HK$43,593,000) that will expire in 5 years from the year of origination. Other losses may be carried forward indefinitely.

39. ACQUISITION OF SUBSIDIARIES AND ADDITIONAL INTEREST IN A SUBSIDIARY

Acquisition of assets through purchase of subsidiaries in 2007

(i) On July 14, 2006, the Group acquired 100% equity interests in China City Natural Gas Investment Limited ("CGNGIL") at a total consideration of HK$70,200,000. The group headed by CGNGIL has not yet commenced business at the date of a acquisition

	Net assets acquired HK$'000
Property, plant and equipment	3,095
Prepaid lease payments	149
Intangible asset – exclusive rights of natural gas operations	70,134
Deposits for acquisition for property, plant and equipment	9,613
Inventories	7
Other receivables	10,069
Bank balances and cash	48,175
Other payables	(4,752)
Advance from a shareholder	(64,559)
Minority interests of subsidiaries of CGNGIL	(1,731)
Total consideration	70,200
SATISFIED BY	
Cash consideration	70,200
NET CASH OUTFLOW ARISING ON ACQUISITION	
Cash consideration paid	(70,200)
Bank balances and cash acquired	48,175
	(22,025)

39. ACQUISITION OF SUBSIDIARIES AND ADDITIONAL INTEREST IN A SUBSIDIARY *(Continued)*

Acquisition of assets through purchase of subsidiaries in 2007 *(Continued)*

(ii) On October 8, 2006, the Group acquired 100% equity interests and outstanding shareholder loan of China Gas Investment Development Limited ("CGIDL") at a total consideration of HK$30,000,000. CGIDL and its subsidiary has not commercial business at the date of a acquisition.

	Net assets acquired HK$'000
Intangible asset	
– contracted customer base	15,000
Other receivables	15,000
Total consideration satisfied by cash and net cash outflow arising on acquisition	30,000

Acquisition of additional interest in a subsidiary in 2007

On January 27, 2007, 中燃投資有限公司 ("中燃投資"), a wholly-owned subsidiary of the Company, entered into agreements with independent third parties in relation to the acquisition of the remaining 45% equity interests of a non-wholly owned subsidiary – 孝感中燃天然氣有限公司 ("孝感中燃") at a total consideration of RMB42,000,000 (approximately HK$42,856,000). The Group has paid HK$21,939,000 during the year. The unpaid consideration was included in other payable.

Goodwill on acquisitions arising from the acquisition of additional interest in 孝感中燃 is HK$24,590,000.

40. ACQUISITION OF JOINTLY CONTROLLED ENTITIES

Establishment of a jointly controlled entity in 2007

On March 16, 2007, the Group established a jointly controlled entity in the PRC, namely 呼和浩特中燃, which the Group owns 50% equity interest. The Group contributed the capital in cash of HK$394,912,000 and the other shareholder contributed the capital in the form of assets and liabilities. The assets and liabilities contributed by the other shareholder enable 呼和浩特中燃 to continue the operation of the existing natural gas business in which the other shareholder previously engaged. This transaction has been accounted for using the purchase method of accounting.

	Carrying amount of net assets injected by other shareholder of 呼和浩特中燃 HK$'000	Adjustments HK$'000	Provisional fair value of net assets injected by other shareholder of 呼和浩特中燃 and the Group HK$'000	50% of provisional fair value under proportionate consolidation HK$'000
NET ASSETS ACQUIRED				
Property, plant and equipment	518,598	70,538	589,136	294,568
Prepaid lease payments	126,130	139,328	265,458	132,729
Inventories	36,090	–	36,090	18,045
Trade and other receivables	177,930	–	177,930	88,965
Bank balances and cash	96,230	–	96,230	48,115
Trade and other payables	(520,480)	–	(520,480)	(260,240)
Bank borrowings	(226,218)	–	(226,218)	(113,109)
	208,280	209,866	418,146	209,073
Agreed cash injection by the Group			394,912	197,456
			813,058	406,529
Discount on acquisition				(11,617)
Total consideration				394,912
SATISFIED BY				
Cash injection to 呼和浩特中燃				78,982
Obligation on acquisition				315,930
				394,912
NET CASH INFLOW ON ACQUISITION				
Cash injection to 呼和浩特中燃				(78,982)
Bank balances and cash shared by the Group				87,606
				8,624

Note: The initial accounting for the above a acquisition has been determined provisionally, awaiting the receipt to professional valuations in relation to certain underlying assets and liabilities of the acquiree.

40. ACQUISITION OF JOINTLY CONTROLLED ENTITIES *(Continued)*

Establishment of a jointly controlled entity in 2007 *(Continued)*

As at March 31, 2007, the Company has contributed the capital in cash of HK$78,982,000 to 呼和浩特中燃. The remaining capital of HK$315,930,000 was not paid as at the balance sheet date. The remaining capital is subsequently injected to 呼和浩特中燃 on April 16, 2007. As the Group owns 50% equity interest in 呼和浩特中燃 and accounts for such interest using proportional consolidation, the obligation on acquisition as at balance sheet date is HK$157,965,000 .

Establishment of a jointly controlled entity in 2006

On December 19, 2005, the Group established a jointly controlled entity in the PRC, namely 楊州中燃, which the Group owns 50% issued share capital. The Group contributed the capital in cash of HK$207,212,000 and the other shareholder contributed the capital in the form of assets and liabilities. The assets and liabilities contributed by the other shareholder enable 楊州中燃 to continue the operation of the existing natural gas business which the other shareholder previously engaged. This transaction has been accounted for using the purchase method of accounting.

	Carrying amount and fair value of net assets injected by the other shareholder of 楊州中燃 and the Group HK$'000	**50% of carrying amount and fair value of net assets under proportionate consolidation** HK$'000
NET ASSETS ACQUIRED		
Property, plant and equipment	186,618	93,309
Inventories	88,648	44,324
Trade and other receivables	59,456	29,728
Bank balances and cash	28,490	14,245
Trade and other payables	(155,214)	(77,607)
	207,998	103,999
Agreed cash injection by the Group	207,212	103,606
	415,210	207,605
Discount on acquisition		(393)
Total consideration		207,212
SATISFIED BY		
Cash injection to 楊州中燃		207,212
NET CASH OUTFLOW ON ACQUISITION		
Cash injection to 楊州中燃		(207,212)
Bank balances and cash shared by the Group		117,851
		(89,361)

40. ACQUISITION OF JOINTLY CONTROLLED ENTITIES *(Continued)*

Acquisition in 2006

(i) On December 22, 2005, the Group acquired 50% equity interests in 柳州中燃 at a consideration of HK$144,688,000.

	Acquirees' carrying amounts before combination and fair values under proportionate consolidation HK$'000
NET ASSETS ACQUIRED	
Property, plant and equipment	110,110
Prepaid lease payments	13,452
Inventories	4,762
Trade and other receivables	31,074
Bank balances and cash	14,557
Trade and other payables	(15,733)
Bank borrowings	(79,515)
	78,707
Goodwill	65,981
	144,688
SATISFIED BY	
Cash consideration	144,688
NET CASH OUTFLOW ARISING ON ACQUISITION	
Cash consideration paid	(144,688)
Bank balances and cash acquired	14,557
	(130,131)

柳州中燃 is engaged in trading of natural gas business in the PRC. The goodwill arising on the acquisition of 柳州中燃 is attributable to the anticipated profitability of the gas connection and sales of piped gas businesses of this company.

41. ACQUISITION OF BUSINESS

Acquisition of business through establishment of subsidiaries in 2007

(i) During the year, the Group established a subsidiary in the PRC, namely 撫順中燃城市燃氣發展有限公司 ("撫順中燃") which the Group owns 70% equity interest. The consideration paid by the Group is HK$92,629,000 of which HK$67,505,000 and HK$13,653,000 have been paid to 撫順市燃氣總公司 ("撫順市燃氣") the minority shareholder which contributed to 撫順中燃 its existing business in the form of certein assets and liabilities and the local government to acquire a land use right respectively on July 25, 2006. The remaining cash consideration of HK$11,471,000 have been injected to 撫順中燃 by the Group. The assets and liabilities contributed by 撫順市燃氣 on July 25, 2006 enable 撫順中燃 to continue the operation of the existing natural gas business which 撫順市燃氣 previously engaged. This transaction has been accounted for using the purchase method of accounting.

	Carrying amount of net assets injected by 撫順市燃氣 HK$'000	Adjustments HK$'000	Provisional fair value HK$'000
NET ASSETS ACQUIRED			
Property, plant and equipment	139,818	(24,461)	115,357
Prepaid lease payments	27,885	–	27,885
Inventories	2,650	–	2,650
Trade and other receivables	25,089	(125)	24,964
Bank balances and cash	3,352	–	3,352
Trade and other payables	(15,727)	–	(15,727)
Borrowings	(37,625)	–	(37,625)
	145,442	(24,586)	120,856
Cash injected by the Group			11,471
Minority interest			(39,698)
Total consideration			92,629
SATISFIED BY			
Cash consideration paid to 撫順市燃氣 and the local government			81,158
Cash injection to 撫順中燃			11,471
			92,629
NET CASH OUTFLOW ON ACQUISITION			
Cash consideration paid			(81,158)
Bank balances and cash acquired			3,352
			(77,806)

撫順中燃 contributed to the Group's revenue of HK$36,751,000 and contributed profit to the Group's result for the year of HK$11,528,000.

Note: The initial accounting for the above acquisition has been determined provisionally, awaiting the receipt of professional valuations relation to certain underlying assets and liabilities of the acquiree.

41. ACQUISITION OF BUSINESS *(Continued)*

Acquisition of business through establishment of a subsidiary in 2006

On March 7, 2006, the Group established a subsidiary in the PRC, namely 寶鷄中燃城市燃氣發展有限公司 ("寶鷄中燃") which the Group owns 64% issued share capital. The Group contributed the capital in cash of HK$163,523,000 and 寶鷄市天燃氣總公司 ("寶鷄天燃氣"), the minority shareholder contributed the capital in the form of assets and liabilities. The assets and liabilities contributed by 寶鷄天燃氣 enable 寶鷄中燃 to continue the operation of the existing natural gas business which 寶鷄天燃氣 previously engaged. This transaction has been accounted for using the purchase method of accounting.

41. ACQUISITION OF BUSINESS *(Continued)*

Acquisition of business through establishment of a subsidiary in 2006 *(Continued)*

	Carrying amount of net assets injected by寶鷄天燃氣	Adjustments	Fair value
	HK$'000	HK$'000	HK$'000
NET ASSETS ACQUIRED			
Property, plant and equipment	216,438	(33,953)	182,485
Prepaid lease payments	15,916	19,577	35,493
Inventories	13,302	(3,953)	9,349
Trade and other receivables	33,574	–	33,574
Bank balances and cash	33,086	–	33,086
Trade and other payables	(15,017)	–	(15,017)
Borrowings	(125,382)	–	(125,382)
Minority interest of subsidiaries of 寶鷄中燃	(3,013)	–	(3,013)
	168,904	(18,329)	150,575
Cash injected by the Group			163,523
Minority interest			(113,075)
Discount on acquisition			(37,500)
Total consideration			163,523
SATISFIED BY			
Cash injection to 寶鷄中燃			163,523
NET CASH INFLOW ON ACQUISITION			
Bank balances and cash acquired			33,086

41. ACQUISITION OF BUSINESS *(Continued)*

Acquisition of business through establishment of a subsidiary in 2006 *(Continued)*

In the opinion of the directors, the discount on acquisition of the business from 寶鷄天燃氣 to establish a new subsidiary 寶鷄中燃 represents an intended discount provided by the PRC regulator to attract foreign investor to engage in encourage foreign investment project. Introduction of the foreign investment to the PRC energy business which was previously operated by state-owned enterprise lead to the improvement of the corporate governance standard and to increase the operational effectiveness.

寶鷄中燃 contributed to the Group's revenue of HK$4,467,000 and contributed loss to the Group's result for the year of HK$2,121,000 during the year ended March 31, 2006.

42. DISPOSAL OF A SUBSIDIARY

Disposal in 2006

During the year ended March 31, 2006, the Group disposed of 51% equity interest in 遵化中燃翔科天然氣有限公司 ("遵化中燃"), which represent the total shareholding owned by the Group, at a consideration of HK$2,692,000.

	HK$'000
NET ASSETS DISPOSED OF	
Properties plant and equipment	5,800
Trade and other receivables	8,957
Bank balances and cash	10
Trade and other payables	(9,858)
Minority interests	(2,160)
	2,249
Gain on disposals	443
Total cash consideration	2,692
Net cash flow arising on disposal:	
Cash consideration received	2,692
Bank balances and cash disposed of	(10)
	2,682

遵化中燃 contributed to the Group's revenue of HK$3,255,000 and contributed a loss of HK$34,000 to the Group's result for the year ended March 31, 2006.

43. MAJOR NON-CASH TRANSACTIONS

During the year ended March 31, 2006, property, plant and equipment and prepaid lease payments amounting to HK$4,250,000 and HK$8,126,000, respectively, were transferred to investment properties.

During the year ended March 31, 2006, a minority shareholder of a subsidiary of the Company has injected property, plant and equipment with a fair value of HK$20,192,000, to satisfy the commitment to inject capital in this subsidiary agreed by the minority shareholder on the incorporation date.

44. OPERATING LEASE ARRANGEMENTS

The Group as lessee

At the balance sheet date, the Group had commitment for future minimum lease payments under non-cancellable operating leases in respect of rented premises and equipment which fall due as follows:

	2007 HK$'000	2006 HK$'000
Within one year	4,456	4,630
In the second to fifth year inclusive	2,684	1,136
After five years	–	476
	7,140	6,242

Operating lease payments represent rentals payable by the Group in respect of leasehold land and buildings and equipment. Leases for rented premises and equipment are negotiated for an average term of 2 years with fixed rental.

The Group as lessor

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

	2007 HK$'000	2006 HK$'000
Within one year	4,076	840
In the second to fifth year inclusive	5,216	3,360
After five years	2,673	3,360
	11,965	7,560

Leases are negotiated for an average term of two years.

45. CAPITAL COMMITMENTS

(i) On April 29, 2006, a subsidiary of the Company entered into a share transfer agreement with 廣西南方控股股份有限公司 pursuant to which the subsidiary will acquire 60% equity interest in 南寧管道燃氣有限責任公司 ("南寧管道") at an aggregate consideration of RMB55,000,000 (approximate HK$56,122,000) and have paid the full amount of consideration as at the balance sheet date. The completion of the acquisition is pending for the completion of change in the directors of 南寧管道 as appointed by the Group to get the control of南寧管道 pursuant to the share transfer agreement. The transaction has not yet been completed at the date of this report.

(ii) On June 6, 2006, the Group entered into an investment agreement ("Investment Agreement") with Dalian SOA Administration Bureau to establish a subsidiary namely 大連中燃城市燃氣發展有限公司 ("Dalian JV"). Dalian JV will engage principally in the natural gas business. The Group will hold 75% equity interest of Dalian JV after its establishment. Pursuant to the Investment Agreement, the registered capital of the Dalian JV will be RMB1,000,000,000 (approximate HK$1,020,408,000). RMB750,000,000 (approximate HK$765,306,000) will be contributed by the Group by way of cash and the remaining RMB250,000,000 (approximate 255,102,000) will be contributed by Dalian SOA Administration Bureau by way of assets injection. The transaction has not yet been completed at the date of this report.

(iii) On September 16, 2006, a wholly owned subsidiary of the Company entered into a agreement with 德州市燃氣總公司 ("Dezhou Partner") pursuant to which 德州中燃城市燃氣發展有限公司 ("Dezhou JV") will be established in Dezhou city, Shandong Province, the PRC. Dezhou JV will be engaged principally in the natural gas business in Dezhou city. Dezhou JV will be owned beneficially as to 51% by the Group and 49% by Dezhou Partner. The registered capital of Dezhou JV will be RMB218,622,000 of which RMB111,497,000 (approximate 113,772,000) will be contributed by the Group by way of cash and the remaining capital would be contributed by Dezhou Partner by way of injection of assets and liabilities of an existing business. The transaction has not yet been completed at the date of the report.

(iv) On December 18, 2006, the Group entered into share transfer agreements with two independent third parties pursuant to which the Group will acquire 100% equity interest in Positive Rise Energy Limited and 2.55% equity interest in Shanghai Zipower Gas Industry Company Limited at an aggregate consideration of RMB255,950,000 (approximate HK$261,173,000). The Group has paid HK$224,133,000 during the year. As at the balance sheet date, the completion of the acquisition is pending for the completion of change in the directors of the acquiring companies to be appointed by the Group to get the control of the acquiring companies pursuant to the share transfer agreements. The transaction has been completed at the date of the report.

Save as disclosed above, as at March 31, 2007, the Group has capital commitments in respect of the acquisition for property, plant and equipment and construction materials for property, plant and equipment contracted for but not provided in the financial statements amounting to HK$392,357,000 (2006: HK$453,224,000) and HK$56,006,000 (2006: HK$175,573,000), respectively.

46. PLEDGE OF ASSETS

The Group pledged certain property, plant and equipment and prepaid lease payments having a net carrying value of HK$356,842,000 and HK$21,030,000 (2006: HK$355,417,000 and nil), investment properties having a carrying value of HK$18,000,000 (2006: HK$16,450,000) and certain subsidiaries pledged their equity investments in other subsidiaries to banks to secure loan facilities granted to the Group.

47. RETIREMENT BENEFITS SCHEMES

With effective from December 1, 2000, the Group has joined a MPF Scheme for all employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Group with respect of the MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years at March 31, 2007 and 2006.

Employees of the Group's subsidiaries in the PRC are covered by the retirement and pension schemes defined by local practice and regulations. The subsidiaries are required to contribute a specific percentage of their payroll costs to the retirement and pension schemes. The only obligation of the Group in respect to the retirement benefits scheme is to make the specified contribution.

The calculation of contributions for PRC eligible staff is based on certain percentage of the applicable payroll costs. The contribution to the MPF Scheme is calculated based on the rules set out in the MPF Ordinance which is 5% on the basic salary of the relevant employee subject to a specific ceiling.

48. SHARE OPTION SCHEME AND SHARE BASED PAYMENTS

The share option scheme was adopted by the Company pursuant to a resolution passed on February 6, 2003 (the "Scheme") for the primary purpose of providing incentives to any directors of the Company, any employees of the Group, or any employee, partner or director of any business consultant, joint venture partner, financial adviser or legal adviser of the Group.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at the date of shareholders' approval of the Scheme ("Scheme Mandate Limit") or, if such 10% limit is refreshed, at the date of shareholders' approval of the renewal of the Scheme Mandate Limit. The maximum aggregate number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme must not exceed 30% of the total number of shares of the Company in issue from time to time. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company then in issue. Each grant of options to any director, chief executive or substantial shareholder must be approved by independent non-executive directors. Where any grant of options to substantial shareholder or an independent non-executive director or any of their respective associate would result in the shares of the Company issued and to be issued upon exercise of options already granted and to be granted in excess of 0.1% of the Company's issued share capital and with a value in excess of HK$5,000,000 in the 12-month period up to the date of grant must be approved in advance by the Company's shareholders.

Options granted must be taken up within 28 days from the date of grant, upon payment of HK$10 per each grant. Options may be exercised at any time from the date to be determined by the board of directors to the tenth anniversary of the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant and (iii) the nominal value of a share.

The life of the Scheme is effective for 10 years from the date of adoption until February 5, 2013.

48. SHARE OPTION SCHEME AND SHARE BASED PAYMENTS *(Continued)*

The following table discloses details of the Company's share options held by employees (including directors) and movements in such holdings during the two years ended March 31, 2007:

Date of grant	Vesting period	Exercisable period	Exercise price per share	Number of share options at 4.1.2005	Granted during the year	Exercised during the year	Lapsed during the year	Number of share options at 3.31.2006	Exercised during the year	Lapsed during the year	Number of share options at 3.31.2007
		HK$									
Directors											
1.9.2004	1.9.2004 to 8.30.2004	1.9.2004 to 1.8.2014	0.80	33,240,711	–	–	(2,000,000)	31,240,711	–	–	31,240,711
10.6.2004	(Note 1)	(Note 1)	0.71	220,000,000	–	–	–	220,000,000	–	–	220,000,000
10.6.2004	10.6.2004 to 3.19.2005	3.20.2005 to 10.5.2014 (Note 2)	0.71	9,100,000	–	(700,0000)	(1,000,000)	7,400,000	–	–	7,400,000
10.20.2005	10.20.2005 to 10.19.2010	10.20.2010 to 10.19.2015	1.50	–	5,000,000	–	–	5,000,000	–	–	5,000,000
				262,340,711	5,000,000	(700,000)	(3,000,000)	263,640,711	–	–	263,640,711
Other employees											
1.9.2004	1.9.2004 to 8.30.2004	9.1.2004 to 1.8.2014	0.80	81,120,000	–	(10,810,000)	(1,800,000)	68,510,000	(3,240,000)	(2,060,000)	63,210,000
10.6.2004	10.6.2004 to 3.19.2005	3.20.2005 to 10.5.2014 (Note 2)	0.71	166,300,000	–	(20,240,000)	–	146,060,000	(14,400,000)	–	131,660,000
10.20.2005	10.20.2005 to 10.19.2010	10.20.2010 to 10.19.2015	1.50	–	151,800,000	–	–	151,800,000	–	–	151,800,000
1.27.2006	1.27.2006 to 1.26.2011	1.27.2011 to 1.26.2016	1.52	–	6,500,000	–	–	6,500,000	–	–	6,500,000
				247,420,000	158,300,000	(31,050,000)	(1,800,000)	372,870,000	(17,640,000)	(2,060,000)	353,170,000
				509,760,711	163,300,000	(31,750,000)	(4,800,000)	636,510,711	(17,640,000)	(2,060,000)	616,810,711
Weighted average exercise price				HK$0.70	HK$1.50	HK$0.74	HK$0.78	HK$0.93	HK$0.73	HK$0.8	HK$0.93

Notes:

(1) The exercise of the options will be subject to the condition that the consolidated net asset value of the Company and its subsidiaries which shall be certified by the auditors appointed by the Company as at the date of the exercise of the options being not less than HK$1 billion. Exercisable period is between November 22, 2004 to October 5, 2014.

(2) The original exercisable period was July 1, 2005 to October 5, 2014. Pursuant to a resolution passed in the board of directors meeting held on March 20, 2005, the exercisable period is changed to the period from March 20, 2005 to October 5, 2014.

The consideration received during the year from the directors and employees for taking up the options granted amounted to nil (2006: HK$520).

48. SHARE OPTION SCHEME AND SHARE BASED PAYMENTS *(Continued)*

In accordance with HKFRS 2 "Share-based payment", fair value of share options granted to employees determined at the date of grant is expensed over the vesting period, with a corresponding adjustment to the Group's share option reserve. In the current year, an amount of share-based payment expenses in respect of its share options of approximately HK$4,896,000 (2006: HK$8,505,000) has been recognised with a corresponding adjustment recognised in the Group's share option reserve.

The options outstanding as at March 31, 2007 have a weighted average remaining contractual life of 8 years (2006: 9 years). No share option was granted in the current year. In 2006, options were granted on October 20, 2005 and January 27, 2006. The estimated fair values of the options granted on those dates are HK$33,227,000 and HK$1,597,000, respectively.

These fair values were calculated using the Black-Scholes-Merton Option Pricing Model. The inputs into the model were as follows:

	Share option grant date	
	January 27, 2006	October 20, 2005
Weighted average share price	**HK$1.536**	HK$1.240
Exercise price	**HK$1.520**	HK$1.500
Expected volatility (note a)	**27.56%**	29.59%
Expected life (note b)	**2 years**	2 years
Risk free rate (note c)	**4.102%**	4.220%
Expected dividend yield (note d)	**0%**	0%

Notes:

(a) Due to the lack of the comparable historical performance of the Company, the volatility is made reference to the historical volatility of the share price of other company in the similar industry over 260 trading days.

(b) Expected life used has been adjusted, based on the management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

(c) The risk free rate is determined by the reference to the Exchange Fund Notes issued by Hong Kong Monetary Authority.

(d) The expected dividend yield was based on historical dividend payment record of the Group and consensus from analyst forecast.

48. SHARE OPTION SCHEME AND SHARE BASED PAYMENTS *(Continued)*

During the year ended March 31, 2006, the Group selected not to apply HKFRS 2 with respect to the share options granted on or before November 7, 2002 and vested before April 1, 2005 in accordance with the transitional provision of HKFRS 2. The financial impact of the share options granted and fully vested before April 1, 2005 is not recorded in the Company's or the Group's financial statements until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company 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 by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

49. RELATED PARTY TRANSACTIONS

Apart from the amounts due from/to related parties as disclosed in notes 27, 29, 32 and 36, the Group entered into the following transactions with related parties that are not members of the Group:

(i) During the year, the Group purchased gas and plant and equipment for total amount of HK$95,334,000 and HK$144,294,000 respectively (2006: HK$7,029,000 and nil) from minority shareholders of subsidiaries.

The remuneration of key management of the Group was as follows:

	2007 **HK$'000**	2006 HK$'000
Short-term benefits	**11,100**	14,127
Post employment benefits	**51**	72
	11,151	14,199

The remuneration of key management is determined by the remuneration committee having regard to the performance of individuals and market trends.

50. POST BALANCE SHEET EVENTS

(i) On May 21, 2007, the Company entered into a joint venture agreement ("JV agreement") with OOC to establish a joint venture company ("JV Company") in Bermuda. The JV Company will primarily engage on the importation into PRC energy products from the Middle East or other parts of the world. The Company will own 50% equity interest of the JV Company after its establishment. Pursuant to the JV agreement, the authorised share capital of the JV Company will be US$40,000,000 (approximate HK$312,000,000) divided into 40,000,000,000 shares of a par value of US$0.001 each. US$20,000,000 will be contributed by the Company by way of cash and the remaining US$20,000,000 will be contributed by OOC by way of a combination of cash and provision of resources.

50. POST BALANCE SHEET EVENTS *(Continued)*

(ii) On May 21, 2007, Zhongran Investment Limited ("Zhongran") a wholly owned subsidiary of the Company, entered into a cooperation agreement with 長沙市液化石油氣發展有限公司 (Changsha City LPG Development Limited) for the establishment of Changsha Zhongran Natural Gas Company Ltd. ("Changsha Zhongran") to operate natural gas refilling station for vehicles business in Changsha City, Hunan Province. The registered capital of Changsha Zhongran will be RMB20,000,000 and Zhongran will own 70% equity interest in Changsha Zhongran.

(iii) On May 27, 2007, the Group entered into a LNG cooperation agreement ("LNG agreement") with the People's Government of XuanHangxian, Dazhou City of Sichuan Province ("Sichuan Government") to establish a wholly foreign owned enterprise ("WFOE"). The estimated total investment of the WFOE would be RMB1,200,000,000 (approximate HK$1,236,000,000). WFOE will engage principally in the natural gas business. Sichuan Government will provide preference terms to the WFOE on taxation, lands and other related matters to WFOE to cooperate the natural gas business in Sichuan Province.

(iv) On June 7, 2007, the Group entered into a share transfer agreement with Ordos City Shi Da Property Development Company Limited ("Shi Da Property") pursuant to which the Group will acquire 65% equity interests in Otog Banner Chang Meng Gas Company Limited ("Chang Meng Gas") at a consideration of RMB1,950,000 (approximately HK$2,009,000). Chang Meng Gas is principally engaged in property development and sales of building materials in Inner Mongolia Automous region.

(v) On June 20, 2007, the Group entered into cooperation agreements with Baotou City Shenyin Chan Ye Holding Limited and independent third parties pursuant to which the Group will acquire 80% equity interest in Baotou City Gas Limited ("Baotou Gas"), Baotou City Shenyin Chan Ye Holding Limited ("Shenyin Natural Gas ") and Baotou City Shenyin Pipeline Engineering Limited ("Shenyin Engineering") at an aggregate consideration of RMB 179,040,000 (approximate HK$184,411,200). Baotou Gas, Baotou Natural Gas and Baotou Engineering are engaged principally in the natural gas business in Baotou City, Inner Mongolia.

(vi) On June 26, 2007, the Company entered into a joint venture agreement with GAIL (India) Limited ("GAIL") for the establishment of a joint venture company ("CS-GAIL JV") in Bermuda. The CS-GAIL JV will primarily engage in the operation and management of projects regarding purchase, sale, processing and distribution, marketing and transportation of natural gas, LNG and CNG. The Company will own 50% equity interest in CS-GAIL JV after its establishment. Pursuant to the agreement, the authorized share capital of the CS-GAIL JV will be US$50,000,00 (approximately HK$390,000,000) divided into 50,000,000 shares of par value of US$1 each. The Company and GAIL will reach subscribe for 250,000 CS-GAIL JV Shares at par in the amount of US$250,000 (equivalent to HK$1,950,000) in cash.

(vii) Subsequent to the balance sheet date, pursuant to the conversion notices received from holders of the Bond, aggregate principal amount of US$23,000,000 of the Bond were converted into 103,639,506 ordinary shares of the Company at a conversion price of HK$1.731 each.

(viii) Subsequent to the balance sheet date, the Group has drawn down a bank loan of US$56,000,000 and RMB168,000,000 out of banking facilities of US$100,000,000 and RMB199,055,000 respectively obtained during the year ended March 31, 2007.

51. PARTICULAR OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries at March 31, 2007 are as follows:

Name of subsidiary	Place of incorporation or registration/ operations	Form of business structure	Paid up issued share capital/registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company Directly %	Indirectly %	Principal activities
Hai Xia Finance Limited	Hong Kong	Incorporated	Ordinary HK$2	–	100	Securities investment
Iwai's Holdings (Hong Kong) Limited	Hong Kong	Incorporated	Ordinary HK$1,000 Non-voting deferred shares HK$1,000,000 (Note)	– –	100 –	Investment holding, property investment and provision of management services to group companies
Wellgem Asia Limited	Hong Kong	Incorporated	Ordinary HK$10,000	100	–	Property development
中燃燃氣實業(深圳)有限公司 Zhongran (Shenzhen) Company Limited* (Formerly known as 中亞燃氣實業（深圳）有限公司)	PRC	WFOE	Registered US$29,800,000	100	–	Investment holding and treasury
中燃投資有限公司	PRC	WFOE	Registered RMB898,637,000	100	–	Investment holding and treasury
北京中燃翔科油氣技術有限公司 Beijing Zhongran Xiangke Oil Gas Technology Company Limited*	PRC	Sino-foreign equity joint venture	Registered RMB20,000,000	–	60	Trading of natural gas and gas pipeline construction
Elegant Cheer Limited	Hong Kong	Incorporated	Ordinary HK$10,000	–	100	Property holding
武漢中燃投資有限公司 Wuhan China Natural Gas Investment Company Limited*	PRC	Limited liability company	Registered RMB69,980,000	–	100	Investment holding
益陽中燃城市燃氣發展有限公司 Yiyang Central Gas & City Gas Development Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB44,000,000	–	80	Trading of natural gas and gas pipeline construction

51. PARTICULAR OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation or registration/ operations	Form of business structure	Paid up issued share capital/registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company Directly %	Indirectly %	Principal activities
蕪湖中燃城市燃氣發展有限公司 Wuhu City Natural Gas Development Company Limited*	PRC	Sino-foreign equity joint venture	Registered RMB100,000,000	–	90	Trading of natural gas and gas pipeline construction
北京中油翔科科技有限公司	PRC	Limited liability company	Registered RMB2,000,000	–	80	Trading of natural gas and gas pipeline construction
唐山翔科燃氣有限公司	PRC	Limited liability company	Registered RMB1,000,000	–	70	Trading of natural gas and gas pipeline construction
廊坊市翔科危險貨物運輸有限公司	PRC	Limited liability company	Registered RMB500,000	–	80	Trading of natural gas and gas pipeline construction
廊坊市翔科油氣技術有限公司	PRC	Limited liability company	Registered RMB2,680,000	–	51	Trading of natural gas and gas pipeline construction
宜昌中燃城市燃氣發展有限公司 Yichang Zhongran City Gas Development Limited*	PRC	Limited liability company	Registered RMB70,000,000	–	70	Trading of natural gas and gas pipeline construction
藁城翔科燃氣有限公司	PRC	Limited liability company	Registered RMB2,000,000	–	95	Trading of natural gas and gas pipeline construction
Clever Decision Enterprises limited	BVI	Incorporated	Ordinary US$100	100	–	Investment holding
北京通寶華油燃氣技術發展有限公司	PRC	Wholly owned foreign enterprise	Registered RMB20,000,000	–	100	Investment holding
淮南中燃城市燃氣發展有限公司 Huainan China Gas City Gas Development Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB72,000,000	–	100	Trading of natural gas and gas pipeline construction

51. PARTICULAR OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation or registration/ operations	Form of business structure	Paid up issued share capital/registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company Directly %	Indirectly %	Principal activities
隨州中燃城市燃氣發展有限公司 Suizhou Zhongran City Gas Development Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB35,000,000	–	100	Trading of natural gas and gas pipeline construction
孝感中燃 Xiaogan China Gas Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB48,950,000	–	100	Trading of natural gas and gas pipeline construction
孝感中亞城市燃氣發展有限公司 Xiaogan China Gas Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB16,002,000	–	100	Trading of natura gas and gas pipeline construction
漢川中燃城市燃氣發展有限公司 Hanchuan Jchina Gas Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB11,274,000	–	100	Trading of natural gas and gas pipeline construction
雲夢中燃城市燃氣發展有限公司 Yunmeng China Gas Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB9,708,000	–	100	Trading of natural gas and gas pipeline construction
應城中燃城市燃氣發展有限公司 Yingcheng Jiaxu China Gas Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB10,074,000	–	100	Trading of natural gas and gas pipeline construction
當陽中燃天然氣有限公司 Dangyang Zhongran Gas Co., Ltd.*	PRC	Wholly owned foreign enterprise	Registered HK$20,000,000	–	100	Trading of natural gas and gas pipeline construction
邳州中燃城市燃氣發展有限公司 Pizhou Zhongran City Gas Development Co., Ltd.*	PRC	Wholly owned foreign enterprise	Registered US$3,060,000	–	100	Trading of natural gas and gas pipeline

51. PARTICULAR OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation or registration/ operations	Form of business structure	Paid up issued share capital/registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company Directly %	Indirectly %	Principal activities
宿州中燃城市燃氣發展有限公司 Suzhou Zhongran City Gas Development Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered US$3,625,000	–	75	Trading of natural gas and gas pipeline construction
滄州中燃城市燃氣發展有限公司 Cangzhou Zhongran City Gas Development Co., Ltd.*	PRC	Wholly owned foreign enterprise	Registered HK$2,000,000	–	100	Trading of natural gas and gas pipeline construction
南皮縣中燃城市燃氣發展有限公司 Nanpixian Zhongran City Gas Development Co., Ltd.*	PRC	Wholly owned foreign enterprise	Registered HK$2,000,000	–	100	Trading of natural gas and gas pipeline
蕪湖縣中燃城市燃氣發展有限公司 Wuhuxian Zhongran City Gas Development Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB10,000,000	–	100	Trading of natural gas and gas pipeline construction
欽州中燃城市燃氣發展有限公司 Qinzhou Zhongran City Gas Development Co., Ltd.*	PRC	Wholly owned foreign enterprise	Registered RMB20,000,000	–	100	Trading of natural gas and gas pipeline construction
揚中中燃城市燃氣發展有限公司 Yangzhong Zhongran City Gas Development Co., Ltd.*	PRC	Wholly owned foreign enterprise	Registered US$1,000,000	–	100	Trading of natural gas and gas pipeline construction
天門中燃城市燃氣發展有限公司 Tianmen Zhongran City Gas Development Co., Ltd.*	PRC	Wholly owned foreign enterprise	Registered RMB10,000,000	–	100	Trading of natural gas and gas pipeline construction
寶鷄中燃 Baoji Zhongran City Gas Development Co., Ltd.	PRC	Sino-foreign equity joint venture	Registered RMB265,725,000	–	64	Trading of natural gas and gas pipeline construction

51. PARTICULAR OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation or registration/ operations	Form of business structure	Paid up issued share capital/registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company Directly %	Indirectly %	Principal activities
南京中燃城市燃氣發展有限公司 Nanjing Zhongran City Gas Development Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB200,000,000	–	100	Trading of natural gas and gas pipeline construction
欽州中燃城市燃氣發展有限公司 Qinzhou Zhongran City Gas Development Co., Ltd.*	PRC	Wholly owned foreign enterprise	Registered RMB20,000,000	–	100	Trading of natural gas and gas pipeline construction
玉林中燃城市燃氣發展有限公司 Yulin Zhongran City Gas Development Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB20,000,000	–	100	Trading of natural gas and gas pipeline construction
烏審旗中燃城市燃氣發展有限公司	PRC	Wholly-owned foreign enterprise	Registered RMB50,000,000	–	100	Trading of natural gas and gas pipeline construction
撫順中燃 Fushun Zhongran City Gas Development Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB133,330,000	–	100	Trading of natural gas and gas pipeline construction
無為中燃城市燃氣發展有限公司 Wuwei Zhongran City Gas Development Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB18,000,000	–	100	Trading of natural gas and gas pipeline construction
China Gas Corporate Services Limited	HK	Incorporated	Ordinary HK$2.00	100	–	Nominee and secretarial services
Iwai Style Limited	HK	Incorporated	Ordinary HK$2.00	–	100	Provision of management services to the Group

* *English name is for identification purposes only.*

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

Note: The deferred shares, which are not held by the Group, practically carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of the company or to participate in any distribution on winding up.

None of the subsidiaries had any debt securities outstanding at the end of the year.

Financial Summary

	For the year ended March 31,				
	2003	2004	2005	2006	**2007**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
		(Restated)	(Restated)		
RESULTS					
REVENUE	85,537	376,491	411,389	630,522	**1,236,469**
(LOSS) PROFIT BEFORE TAXATION	(64,825)	117,005	133,875	182,550	**239,354**
TAXATION CREDIT (CHARGE)	(1,861)	(1,344)	(1,493)	(2,482)	**(13,791)**
(LOSS) PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	(66,686)	115,661	132,382	156,736	**190,103**

	At March 31,				
	2003	2004	2005	2006	**2007**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
	(Restated)	(Restated)	(Restated)		
ASSETS AND LIABILITIES					
TOTAL ASSETS	501,507	1,342,279	2,752,985	5,093,888	**7,293,402**
TOTAL LIABILITIES	(297,049)	(748,484)	(1,666,995)	(2,973,122)	**(4,612,182)**
TOTAL EQUITY	204,458	593,795	1,085,990	2,120,766	**2,681,220**

The results of the year ended March 31, 2004 and 2005 and the assets and liabilities as at March 31, 2003, 2004 and 2005 have been restated as a result of the adoption of new HKFRS. Details of the effects of the changes in accounting policies are set out in the Company's annual report for the year ended March 31, 2006. The adoption of new HKFRS has no significant impact on the results for the year ended March 31, 2003.

Particulars of Major Properties

Location	Type	Group's interest (%)	Lease term
Leasehold land and buildings			
In Hong Kong:			
16/F., AXA Centre No. 151 Gloucester Road, Wan Chai Hong Kong	Office premises	100	Long lease
In the People's Republic of China:			
深圳市濱河大道5002號 聯合廣場B座1301室	Commercial	100	Medium term lease
北京市宣武門廣安門南街6號	Office premises	100	Medium term lease
Investment properties			
No. 28-30 Kai Tak Road Kowloon City Kowloon Hong Kong	Vacant land	100	Medium term lease

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