

# EXPANDING OPPORTUNITIES

China Gas Holdings Limited Annual Report 2008



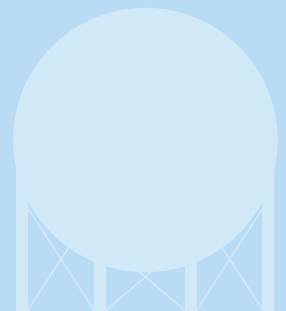
## Vision & Mission

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.

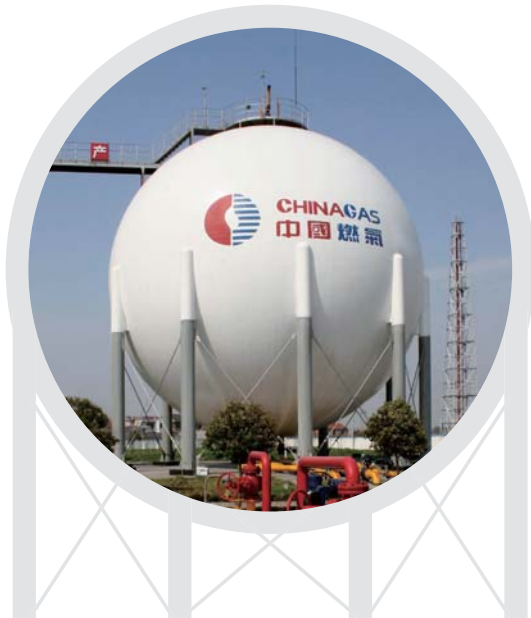
The most valuable asset of China Gas is its people. We give our staff our complete trust and respect, encourage them to fully develop their potential in their positions, and incentivize them to align their interest with the business performance of the Company.

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.



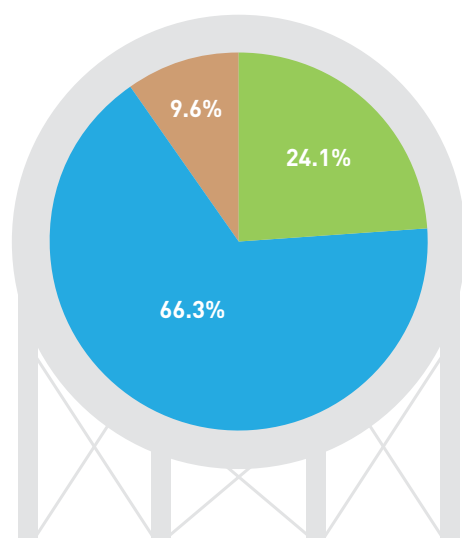
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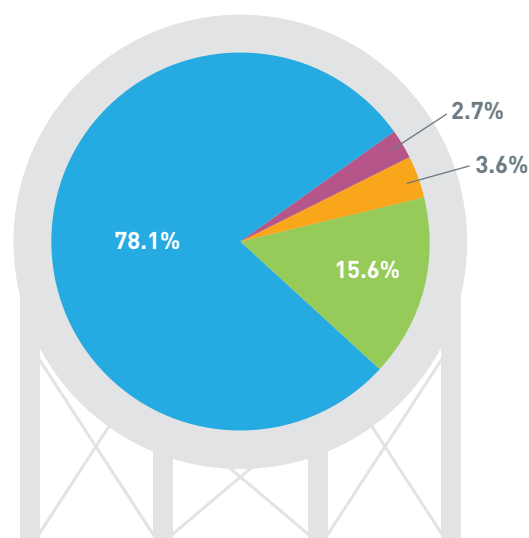
# Financial Statistics

## Turnover by Principal Activities



Gas Pipeline Construction  
Sales of Piped Gas  
Others

## Debt Maturity Profile

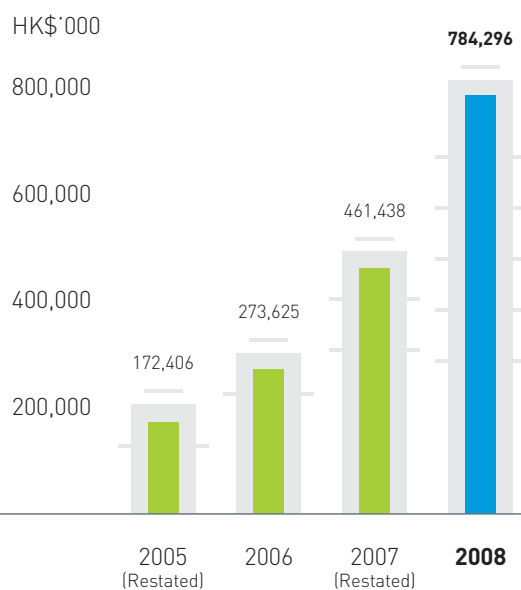


Less than one year  
From second year to fifth year  
From first year to second year  
More than five years

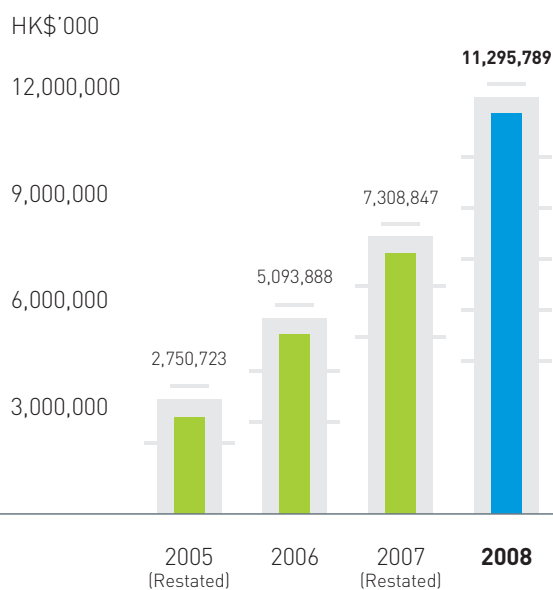
## Financial Ratios

	2008	2007 (Restated)	2006	2005 (Restated)
Basic earnings per share (HK cents)	3.73	6.70	6.15	5.24
Net asset value per share (HK cents)	110.33	75.80	63.85	44.04
Current ratio	2.19	1.65	3.37	3.19
Quick ratio	2.01	1.58	3.24	3.08
Net gearing ratio	1.21	0.74	0.38	0.72
Gross profit margin	29%	34%	48%	60%
Net profit margin	7%	19%	29%	32%
Return on average equity (%)	4.37%	11.30%	11.00%	13.00%
Price to earning ratio				
Year low	41.3	18.0	19.0	7.8
Year high	113.7	30.6	28.5	22.5

## EBITDA



## Total Assets



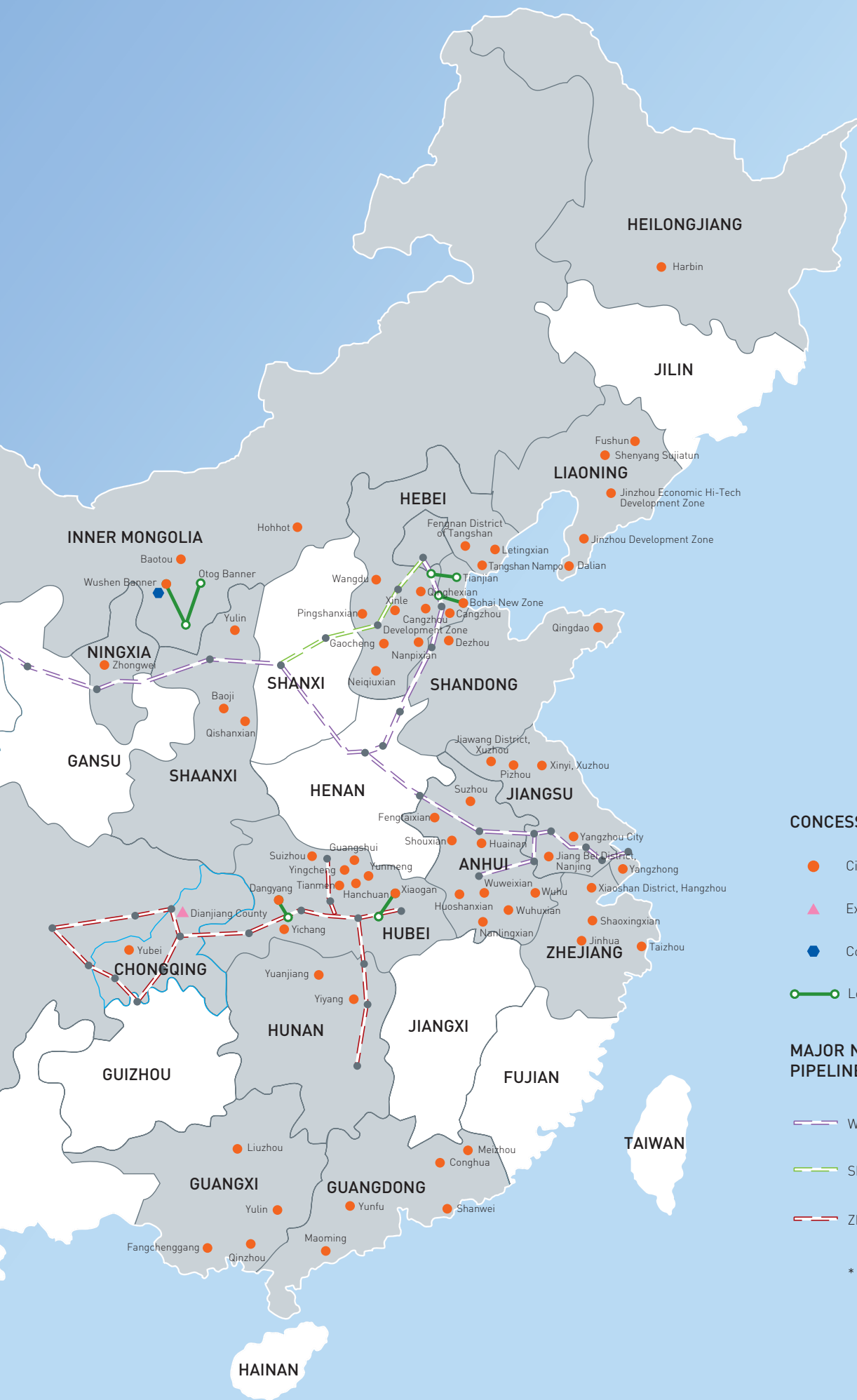
## Formula for Financial Ratios:

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

# Our Solid Foundation



Our goal is continuous  
**DEVELOPMENT**



**CONCESSION LOCATION\***

- City Gas Project
- ▲ Exploration & Production
- ◆ Coal-bed Methane Project
- Long Distance Pipeline Project

**MAJOR NATURAL GAS PIPELINES IN CHINA**

- West-East Gas Pipeline
- Shaanxi-Beijing Pipeline
- Zhongwu Line

\* As of July 20, 2008

# 2008 At a Glance

## Milestones

### July 2007

Completed the 4<sup>th</sup> high pressure long distance gas pipeline of 120 km to supply natural gas to a methanol maker in Inner Mongolia Autonomous Region with an annual capacity of 1 billion m<sup>3</sup>. Currently the daily natural gas distribution volume of this pipeline is more than 1 million m<sup>3</sup>.



### August 2007

China Gas-SK Energy Holdings Co. Ltd., the JV between China Gas and SK Group, gained 50% interest in the Taizhou city piped gas project, which has an urban population of over 1.5 million and targets to boost piped gas usage to reach 90% penetration rate by 2010.

### September 2007

Invested RMB69 million to build the 6<sup>th</sup> high pressure long distance gas pipeline of 46 km with a designed yearly capacity of 325 million m<sup>3</sup>, which starts from Huanghua city and ends at Bohai New Zone in Hebei province.

Acquired 49% equity interest in Chongqing Ding Wang, which specializes in natural gas purification with annual purification capacity of 400 million m<sup>3</sup>.

Signed a cooperation agreement with Wushen Banner Government, Inner Mongolia Autonomous Region, to explore and develop coal bed methane in an area spanning 2,440 km<sup>2</sup> with coal bed methane reserve of about 110-300 billion m<sup>3</sup>.

### October 2007

Invested RMB50 million to secure 100% interest in Meizhou city piped gas project on a 30-year exclusive concession right, which has an urban population of 5 million. ①

Secured the 30-year exclusive city gas concession and CNG business in Bohai New Zone, which is the base of heavy chemical industry and advanced manufacturing industry in Hebei province. Initial yearly gas consumption in this region will exceed 350 million m<sup>3</sup>.

Set up a wholly-owned company to supply natural gas on a 30-year exclusive concession to Sujiatun district, the industrial zone in Shenyang which clusters many big industrial users.

Acquired 48% equity interest in Harbin Zhongqing Gas for RMB477 million. Harbin is the capital of Heilongjiang province, and currently Harbin Zhongqing Gas serves 1,000,000 residential and 3,000 industrial and commercial users. By 2011, annual natural gas consumption will reach 1 billion m<sup>3</sup>.

### November 2007

Secured the 30-year concession right to supply natural gas in Yulin city, one of China's largest energy bases in Shaanxi

province, with yearly natural gas consumption expected to reach 77,280,000 m<sup>3</sup> by 2010.

### March 2008

To invest RMB318 million for 53% interest in Zhongyou Hua Dian Energy Co. Ltd., the largest LPG distributor in China, which owns 11 LPG terminals with total berthing capacity of about 220,000 tons, LPG storage capacity of over 270,000 m<sup>3</sup>, and dimethyl ether (DME) production capability of 130,000 tons. In May 2008, increased stake by acquiring an additional 30% at a consideration of RMB180 million.

### April 2008

To invest RMB100 million to set up a wholly-owned company which is to possess the 30-year exclusive piped gas concession rights in Yunfu city, Guangdong province.

China Gas-SK Energy Holdings Co. Ltd. acquired 50% interest in Jinhua city piped gas project, a city that has an urban population of 1,000,000 with yearly natural gas demand expected to reach 400 million m<sup>3</sup> by 2015.

### May 2008

To invest RMB80 million to set up a wholly-owned company which is to develop piped gas project in Shanwei City, Guangdong province. ②



③

## Awards

China Gas won four awards in FinanceAsia's 2008 Asia's Best Company Poll under the China category: "Best Mid-Cap", "Best Investor Relations", "Best Corporate Governance", and "Best CFO". ③

China Gas received the "Outstanding Natural Gas Provider" award in the 3<sup>rd</sup> Capital China Outstanding Enterprise Awards; it was the third time the Group won this honor. ④

China Gas won the "2007 Top Ten Most Impressive Enterprises" award, which was organized by "博燃網" (Gasshow.com) - the gas industry portal in China. It is the 4<sup>th</sup> time China Gas received this award consecutively.

④





# 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 Gelinias  
Kim Joong Ho

### 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 Registrar 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](http://www.chinagasholdings.com.hk)

			As at 20 July 2008		As at 31 March 2008					
Province	Operational Location	Total Population	Urban Population	Connectable Domestic Households	Accumulated Connected Domestic Households	Accumulated Connected Industrial Users	Accumulated Connected Commercial Users	Length of Pipelines (km)		
								Total length	Length for branch	
City Gas	Anhui	Wuhu	2,304,000	1,050,000	313,000	167,276	18	342	1,422	872
		Huainan	2,065,000	1,500,000	469,000	81,314	4	107	610	426
		Shouxian	1,300,000	150,000	47,000	2,738	-	-	21	8
		Suzhou	5,707,000	425,000	133,000	52,900	2	78	315	159
		Wuhuxian	394,000	80,000	25,000	5,102	9	20	46	7
		Nanlingxian	540,000	125,000	39,000	3,885	-	-	60	12
		Huoshanxian	365,000	80,000	32,000	536	-	-	11	-
		Fengtaixian	580,000	90,000	28,000	994	-	3	14	5
		Wuweixian	1,400,000	180,000	56,000	440	-	-	15	1
	Hubei	Yichang	3,990,000	1,209,000	378,000	97,465	5	227	882	468
		Xiaogan	883,000	230,000	72,000	34,322	3	43	295	150
		Hanchuan	1,061,000	173,000	54,000	20,191	25	9	189	111
		Yingcheng	669,000	175,000	55,000	19,887	3	49	156	92
		Yunmeng	579,000	117,000	37,000	14,201	3	29	129	86
		Suizhou	2,580,000	782,000	244,000	40,975	6	37	381	215
		Tianmen	1,621,000	200,000	63,000	7,835	1	15	77	32
		Dangyang	560,000	140,000	44,000	203	1	3	30	1
		Guangshui	899,000	125,000	39,000	-	-	-	-	86
	Hunan	Yiyang, Yuanjian	4,600,000	860,000	269,000	42,292	-	6	487	346
	Jiangsu	Pizhou	1,580,000	230,000	72,000	20,294	-	7	155	61
		Yangzhong	273,000	88,000	28,000	22,247	7	120	307	67
		Jiang Bei District, Nanjing	1,200,000	1,200,000	375,000	65,336	-	-	450	196
		Jiawang District, Xuzhou	500,000	180,000	56,000	1,244	-	-	12	4
		Xinyi, Xuzhou	990,000	160,000	50,000	6,947	1	2	59	21
		Yangzhou City	4,570,000	1,220,000	381,000	108,292	2	256	830	344
	Zhejiang	Xiaoshan District, Hangzhou	1,157,000	1,157,000	362,000	1,712	5	-	50	5
		Shaoxingxian	710,000	500,000	156,000	-	-	-	-	-
		Taizhou	600,000	600,000	160,000	-	-	-	-	-
		Jinhua	4,592,000	923,000	288,000	-	-	-	-	-
	Hebei	Cangzhou	6,670,000	470,000	147,000	-	-	-	-	-
		Cangzhou Economic Development Zone	20,000	20,000	6,000	628	4	2	14	2
		Nanpixian	760,000	52,000	16,000	1,069	2	1	25	3
		Qinghexian	340,000	72,000	23,000	69	-	-	1	-
		Wangdu City	230,000	32,000	10,000	1,319	8	4	29	4
		Tangshan Nampo	170,000	72,000	23,000	5,928	-	5	43	18
		Letingxian, Xinle, Gaocheng, Pingshanxian, Fengnan District of Tangshan, Neiqiuxian	4,320,000	788,000	246,000	52,094	22	70	439	159
		Bohai New Zone	750,000	750,000	234,000	-	-	-	-	-
		Guangxi Zhuang Autonomous Region	Yulin	5,990,000	677,000	188,000	12,942	-	18	111
	Qinzhou	3,260,000	400,000	125,000	9,222	-	15	74	28	
	Liuzhou	3,580,000	1,300,000	406,000	79,857	1	368	748	240	
	Fangchenggang	718,000	200,000	63,000	75	-	-	1	-	
	Shaanxi	Baoji	3,720,000	1,020,000	319,000	163,387	24	352	981	491
		Qishanxian	458,000	150,000	47,000	-	-	-	-	-
		Yulin	3,370,000	500,000	156,000	-	-	-	-	-
	Guangdong	Maoming	6,700,000	1,200,000	375,000	3,000	-	2	17	9
		Conghua	630,000	300,000	94,000	4,687	-	-	42	14
		Meizhou	1,237,000	886,000	250,000	-	-	-	-	-
		Yunfu	2,600,000	260,000	100,000	-	-	-	-	-
		Shanwei	3,150,000	350,000	109,000	-	-	-	-	-
	Liaoning	Fushun	2,260,000	1,415,000	442,000	198,178	1	5,958	490	246
		Dalian	6,020,000	3,123,000	976,000	-	-	-	-	-
		Jinzhou Economic Hi-Tech Development Zone	80,000	80,000	25,000	-	-	-	-	-
		Shenyang Sujiatun	430,000	430,000	112,000	-	-	-	-	-
Dalian Jinzhou Development Zone		830,000	450,000	140,625	-	-	-	-	-	
Chongqing	Yubei	920,000	877,000	274,000	56,188	-	5,511	654	483	
Shandong	Dezhou	5,616,000	1,598,000	475,000	94,849	15	557	525	313	
	Qingdao	7,560,000	2,790,000	940,000	442,060	1	1,713	2,829	1,325	
Inner Mongolia Autonomous Region	Hohhot	2,580,000	1,700,000	531,000	225,515	5	3,223	887	539	
	Wuzhen Banner	95,000	30,000	9,000	4,407	-	-	151	12	
	Baotou	2,100,000	1,300,000	406,000	78,942	3	173	671	256	
Heilongjiang	Harbin	10,000,000	5,000,000	1,562,000	-	-	-	-	-	
Ningxia Hui Autonomous Region	Zhongwei	1,060,000	560,000	175,000	-	-	-	-	-	
<b>Sub-total</b>		<b>136,493,000</b>	<b>42,801,000</b>	<b>13,329,625</b>	<b>2,253,044</b>	<b>181</b>	<b>19,325</b>	<b>15,821</b>	<b>7,870</b>	
Pipeline	Inner Mongolia Autonomous Region	Otog Banner						-	-	
		Wushen Banner						1	119	
	Tianjin	Tianjin							1	21
		Hubei	Xiaogan						1	202
	Hebei	Dangyang							1	54
Hebei	Huanghua							-	-	
E&P	Chongqing	Dianjiang County								
CBM	Inner Mongolia Autonomous Region	Wushen Banner								
<b>Total</b>		<b>136,493,000</b>	<b>42,801,000</b>	<b>13,329,625</b>	<b>2,253,044</b>	<b>185</b>	<b>19,325</b>	<b>16,217</b>	<b>7,870</b>	



# PLANNING FOR THE FUTURE

one success at a time

China Gas is not one to rest on its laurels. Offering no room for complacency, the Group is constantly seeking advancement; hence, the securing of more piped gas concession rights, which, as of July 2008, entitles it to provide “green” energy to 68 cities in China.

By also being the only city gas operator to own long distance gas pipelines in the country, which now stands at six lines, the Group is in a strong position to secure upstream gas sources, and enhance its competitive edge. Having recently reached an agreement to explore coal-bed methane in Inner Mongolia, and with several initiatives set for implementation; China Gas is planning for the future – today.



# Chairman's Statement

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 2008 annual report.

## Financial Results

In the past financial year ended March 31, 2008, turnover amounted to HK\$2,552,075,000, profit for the year was HK\$166,286,000 and profit attributable to shareholders was HK\$119,774,000. Earnings per share was HK3.73 cents.

Over the past financial year, the Group connected a total of 903,262 new household users, 72 new industrial users and 8,874 new commercial users, representing a year-on-year growth of approximately 66.1%, 26.3% and 2.2% respectively. As at March 31, 2008, the Group's total connected residential customers came to 2,253,044 households, connected industrial customers 185 users and commercial customers 19,325 users, representing a year-on-year growth of approximately 67.0%, 43.4% and 85.0% respectively. During the past financial year, the Group sold a total of 1,148,859,000 m<sup>3</sup> piped gas, an approximately 165.8% year-on-year growth, of which 1,043,523,000 m<sup>3</sup> was piped natural gas, representing a year-on-year growth of 191.7%, and 105,336,000 m<sup>3</sup> was other piped gases. This demonstrated a rapid growth in our sales of piped gas.

## Final Dividend and Closure of Registrar of Members

The Board recommended the payment of a final dividend of HK1.2 cent (2007: HK1.2 cent) per share for the year ended March 31, 2008.

The registrar of members of the Company will be closed from August 19, 2008 to August 26, 2008, 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 18, 2008. The final dividend, if approved by the shareholders in the annual general meeting of the Company to be held on August 26, 2008, is expected to be paid to qualified persons on or before September 29, 2008.

## New Projects Development

For new projects development, the Group had secured 11 new city gas projects in seven provinces/autonomous regions/directly-administered cities as of July 20, 2008. Of these city gas projects, one was in each of Heilongjiang Province and Ningxia Hui Autonomous Region, being

the Group's first investment in these regions; whilst three were in Guangdong Province, two in each of Zhejiang Province and Liaoning Province; as well as one in each of Hebei Province and Shaanxi Province. The city gas project in Heilongjiang Province was situated in Harbin City, the capital city of Heilongjiang Province with population of about 10 million. In addition, the Group also invested in one long distance gas pipeline project in Huanghua City, Hebei Province with annual production capacity of 325 million m<sup>3</sup> per year and one coal-bed methane gas project in Wushen Banner, Inner Mongolia during the same period.

## Financing

In the last financial year, the Group obtained strong financing support from various international banks.

In June 2007, the Group obtained a revolving facility of US\$85 million from Royal Bank of Scotland and other commercial banks. In September 2007, the Group also obtained a syndicated loan of US\$90 million from The Bank of China (Hong Kong) Limited and other commercial banks. The interest rate on these two credit 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 Group's credibility in the banking community, and the recognition of the Group's business prospects.

## Our Shareholders

Our efforts began to see recognition from many international investors. Oman Investment Fund and SK E&S Co. Ltd became our shareholders upon the acquisition of the Company's shares in the open market in November 2007 and June 2008 respectively. Based on the existing number of issued shares of the Company, Oman Investment Fund and SK E&S Co. Ltd currently hold approximately 4.85% and 4.98% of the issued share capital of the Company respectively. Oman Investment Fund is managed by the Ministry of Finance of the Oman Sultanate Government; whereas SK E&S Co. Ltd is an energy company under the Korean SK Group. The shareholder base of the Company has gained further international exposure with the addition of these international investors.

Following Hai Xia Finance Holdings Limited's introduction as the founding and major shareholder of the Company in 2002, four international strategic shareholders joined the Company over the past five years, namely China Petroleum & Chemical Corporation, GAIL (India) Limited, Oman Oil Company, S.A.O.C. and Asian Development Bank. Through interactive communication and co-operation, our business has undergone a more diversified development, rendering the Company an ideal business cooperation platform between domestic and overseas energy companies.

## Our Board

Apart from the appointment of Mr. Mark Gelinas as the non-executive director of the Company in July 2007, there was no change to the composition of the Board during the financial year. Over the past year, the Board operated smoothly and all the Board members actively participated in board meetings as well as discussed and exchanged views from time to time on matters relating to the business development direction and financing of the Group as well as industry trend and state policies. I strongly believe that such composition of our Board will, for sure, drive the business momentum for the Group. We will continue to ensure the Board to maintain high standards of governance and leverage on its expertise and experience to lead the Group to become a global natural gas company.

## Snowstorm and Sichuan Earthquake

In late January 2008, a series of snowstorms hit most of the areas in the PRC when most of the expressways were blocked due to heavy snow. Road transport was severely affected. Many infrastructure facilities including electric cables were damaged. The Group, as one of the major gas providers in the PRC, has to ensure stable, safe and continuous gas supply amidst such severe weather conditions. To achieve this, our frontline staff worked around the clock and made every effort to guarantee continuous gas supply to the users in these affected areas. During that period, no facilities of the Group were damaged as a result of the snowstorm, nor did our gas supply experience any interruption. I would like to take this opportunity to express my sincere gratitude to all our frontline staff for their hard work and commitments during the snowstorm.

The catastrophic earthquake that struck Sichuan in mid-May 2008 has caused hundreds of thousands of people dead or missing, and resulted in substantial economic loss to the society. People from various regions of the PRC and from all around the world reached out their helping hands to raise funds for the Sichuan victims. Our staff in different regions of the PRC also actively participated in the fundraising activities, and raised and remitted more than RMB3 million within such a short period of time.

## Prospects

Over the past financial year, apart from further investment in the downstream city gas projects and the midstream long distance gas pipeline projects, the Group's investment strategies also focused on strengthening the investment in the upstream natural gas supply market. We invested in a coal bed methane project in Inner Mongolia. Recently, we have also acquired Zhejiang Zhongyou Hua Dian Group which is principally engaged in the procurement, import, storage and distribution of liquefied petroleum gas.

Going forward, in terms of city gas distribution, the Group will continue to actively seek investment opportunities for gas projects in large and medium-sized cities with reasonable investment returns in the coming financial year. For upstream natural gas development and distribution, we will commence our LPG wholesale and retail business after completion of our acquisition of Zhejiang Zhongyou Hua Dian Group by making use of its existing loading and storage capacities and distribution network as well as the license granted by the Ministry of Commerce to the Group in December 2006 to engage in the import/export and wholesale of fuels such as natural gas, liquefied natural gas, liquefied petroleum gas (LPG), methanol and dimethyl ether in the PRC. This move will facilitate the Group to further improve its gas supply system and expand its gas user base, thereby substantially enhancing the Group's sustainable income and profit growth.

Amid escalating inflation and soaring energy prices all over the world, it will have a considerable impact on the fast-growing economy of China. Under such macro-economic environment, the future development of the Group will face both challenges and opportunities. Given the roaring oil prices, the Group expects that most customers, especially industrial users will shift to natural gas from other fuels as the domestic natural gas price is far below the price of the equivalently-valued petroleum and petro byproducts, generating substantial growth potential for the fuel gas business of the Group. In addition, in preparation for 2008 Beijing Olympics over the years, there is an increasing concern and awareness for environmental protection among the central government and regional governments as well as the general public. This has encouraged the use of clean energy, resulting in unprecedented recognition and support from the government and the public for the application of natural gas in various areas.

The Group has always placed high regards on its reliable, safe and clean gas supply and quality services to our customers. We manage our facilities in each place of business in a responsible manner, aiming to provide quality living standard and actively participating in social activities there. We have been able to gain the support from these local governments and customers in our places of operation. The Group is fully aware of the importance and impact of corporate social responsibility. In the days ahead, the Group will continue to strengthen its social responsibilities through different forms of activities.

Lastly, I would like to express my thanks to our 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 23, 2008



CN



# DELIVERING EXCELLENCE

at every level

Being one of the civil-used Compressed Natural Gas (CNG) operators in China, the Group has seen its CNG business make significant strides in recent years. Accounting for 10.1% of total natural gas volume sold, as well as sales of 105,476,000 m<sup>3</sup> in FY2008 – a three-fold increase over the previous year, China Gas has at the same time established trust with an expanded portfolio of clients. With residential users growing by 67%, and industrial and commercial clients up 43% and 85% respectively within the past 12 months alone, the Group has proven itself to be a piped gas operator with a full spectrum of capabilities and a clear understanding of its customers' needs.



# Management Discussion And Analysis

## Industry Outlook

Energy is a crucial material foundation for the economic development of a society, and hence its structure has important and far-reaching impacts on the overall economic structure. As the Chinese government steps up its efforts in developing an energy-saving and environmental-friendly community, much emphasis has been placed on the promotion and application of clean energy and alternative energy. Enhancing energy resource utilization rate, energy-saving and reducing emission have become the fundamental national policies.

As a highly-efficient and clean energy that is easy to store and transport, natural gas plays an increasingly important role in social development and enhancing people's living standard. The application of natural gas is the best way to improve the environment and facilitate sustainable economic development. In addition, it is also the major channel to rationalize energy structure and identify alternative energy for coal in the PRC. Since 2005, demand for natural gas in the PRC has increased rapidly with an average annual growth of 15%. It is expected that the overall energy demand attributable to natural gas in the PRC will grow from 2.5% in 2005 to 5.3% in 2010. Whilst in terms of volume, demand for natural gas will reach 100 billion m<sup>3</sup>, however, as the estimated supply volume is only approximately 80 billion m<sup>3</sup>, a bottleneck of more than 20 billion m<sup>3</sup> emerges. By 2020, demand for natural gas will exceed 200 billion m<sup>3</sup>.

On 30 August 2007, the "Natural Gas Utilization Policy", which was prepared by National Development and Reform Commission (NDRC), was officially promulgated in order to alleviate the shortage of natural gas and facilitate the scientific application of natural gas. Such policy has taken account into the social, environmental and economic benefits of natural gas application, and classified the four major natural gas areas of city gas, industrial gas, natural gas power generation and natural gas chemicals into four types, namely the priority class, the permitted class, the restricted

*From left to right:*

Safe natural gas supply

Promising prospects for  
China Gas





class and the prohibited class, so as to further strengthen the systematic development direction of conferring city gas as the preferred natural gas application.

According to the "Natural Gas Pipeline Network and the Eleventh Five Year Plan" issued by the Chinese government, by 2010, the backbone natural gas pipeline network in the PRC will be extended from the current length of 28,000 km to 44,000 km. Natural gas supply will be provided from west to east, from Sichuan to eastern China, from northern China to southern China, from offshore to inland, and in the form of proximity supply. Meanwhile, the national grid of natural gas pipeline network will be substantially established. This has formed a natural gas supply framework that extends from west to east, north to south and connects the inland with the coast. It will certainly provide reliable assurance and valuable opportunities for the development of the Group's city gas supply projects.



## Business Review

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 the PRC.

For the year ended March 31, 2008, turnover of the Group amounted to HK\$2,552,075,000 (year ended March 31, 2007: HK\$1,236,469,000), increased by 106.4% over the same period of last year. Gross profit amounted to HK\$746,119,000 (year ended March 31, 2007: HK\$419,764,000), increased by 77.7%. Profit for the year was HK\$166,286,000, decreased by 29.6%. Earnings per share was HK3.73 cents (year ended March 31, 2007: HK6.70 cents). Pursuant to the new Hong Kong Accounting Standards, the Group shall reflect the movement of fair values of all

its financial derivative instruments (including convertible bonds) in the income statement from the financial year 2006. In June 2005, the Group issued US\$40 million convertible bonds at an exercise price of HK\$1.731 per share, of which US\$38 million were exercised during the year. As the market price of such US\$38 million bonds upon conversion and the share price as at March 31, 2008 were both higher than the exercise price of HK\$1.731, the Group shall recognize a reduction of fair value of HK\$163,173,000 for the entire US\$40 million convertible bonds in the income statement for the year in accordance to the new accounting standards. In addition, provisions in the amount of HK\$79,623,000 and HK\$57,190,000 were made for the amounts due from customers for contract work and trade and other receivables respectively. Accordingly, the Group's profit after tax and profit attributable to shareholders were HK\$166,286,000 and HK\$119,774,000 respectively, after deducting such non-cash impairment and provisions. Excluding the change in fair value of financial derivative instruments, provisions for amounts due from customers for contract work and provision for trade and other receivables during the year and over the same period last year, the Group's profit after tax was HK\$435,780,000 and profit attributable to shareholders was HK\$389,268,000, an increase by 74.5% and 81.6% respectively over the same period last year. Earnings per share was HK12.13 cents, an increase of 69.5%.

### New Projects Expansion

Since the last financial year, the Group's project expansion has gradually shifted to large to medium-sized cities. As at July 20, 2008, the Group had secured a total of 68 city piped gas projects (with exclusive concession rights) in 16 provinces, autonomous regions and directly-administered cities, six long distance natural gas pipeline projects, one coal bed methane gas exploration project and one natural gas company with exploration right.

The new projects include 11 city piped gas projects (with exclusive concession rights) in regions of Taizhou City and Jinhua City in Zhejiang Province, Meizhou City, Shanwei City and Yunfu City in Guangdong Province, Bohai New Area in Hebei Province, Sujiatun District of Shenyang and Dalian Jinzhou Development Zone in Liaoning Province, Harbin City in Heilongjiang Province, Yulin City in Shaanxi Province and Zhongwei City in Ningxia Hui Autonomous Region; one long distance gas pipeline project in Hebei Province; and one coal bed methane gas project in Inner Mongolia.

Set out below is the 11 new city piped gas projects secured by the Group as at July 20, 2008:

Province/Autonomous Region/ Directly-Administered Cities	City/Districts
Zhejiang Province Guangdong Province Hebei Province Liaoning Province  Heilongjiang Province Shaanxi Province Ningxia Hui Autonomous Region	Taizhou City, Jinhua City Meizhou City, Shanwei City, Yunfu City Bohai New Area Sujiatun District of Shenyang, Dalian Jinzhou Development Zone Harbin City Yulin City Zhongwei City

The above new projects cover a connectable city population of approximately 10,709,000 (approximately 3,286,000 households). The connectable city population covered by the Group's gas projects has increased to approximately 42,800,000 (approximately 13,329,000 households) as of July 2008, representing an increase by 33.7% compared to 2007.

In addition to the newly invested city piped gas projects, the Group also invested in one additional long distance natural gas pipeline project in Huanghua City of Hebei Province. Accordingly, the number of long distance gas pipeline projects owned by the Group has increased from last year's five to this year's six.

## 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 17 processing stations, high-pressure gas pipelines of 243 km, city medium and low-pressure gas pipeline of approximately 3,068 km and branch and customer pipeline network of 3,073 km.

As at March 31, 2008, the Group accomplished piped gas supply in 50 cities, and had built 56 processing stations, high-pressure gas pipelines of approximately 814 km, medium to low-pressure gas pipelines of approximately 7,534 km and branch and customer pipeline network of 7,870 km. Designed gas supply capacity of the processing stations reached 8,638,611 m<sup>3</sup> per day.

*From left to right:*

Gas tanks

City gas pipeline network





From left to right below:

Training centre in Hohhot, Inner Mongolia

Customer service centre in Hohhot, Inner Mongolia



## Business Review

### Residential Customers

During the financial year, the Group completed natural gas connections for 280,230 domestic households, increased by approximately 70.3% over the same period of last year. The average connection fee of residential users was RMB2,295.

During the financial year, the Group acquired a total of 623,032 residential users who were primarily from Dezhou and Qingdao projects. As at March 31, 2008, the Group had a total of 2,253,044 residential users, increased by 64.8% over the same period of last year, representing 20.6% of the total connectable domestic households.



## 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 56 industrial customers and 1,852 commercial customers and acquired 16 industrial customers and 7,022 commercial customers. Industrial users are primarily in the petrochemical, porcelain making, building material productions, metallurgy and glass making industry.

As at March 31, 2008, the Group had a total of 185 industrial customers and 19,325 commercial customers, increased by 43.4% and 84.7% respectively compared with the last period. During the financial year, connection fee for industrial users was calculated on the basis of the contracted daily gas volume at the average rate of RMB 30 per m<sup>3</sup> and the average connection fee paid by commercial customers was RMB 47,533 per customer.

During the financial year, the Group recorded gas connection income of HK\$615,282,000, representing approximately 24.1% of the Group's total revenue for the year, an increase of approximately 58.9% over the same period of last year.

### Sale of Piped Gas

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

The Group sold a total of 1,043,523,000 m<sup>3</sup> of natural gas, a substantial increase of 191.7% as compared to the same period of last year, of which 150,720,000 m<sup>3</sup> was sold to residential users, 236,577,000 m<sup>3</sup> to city industrial users and 117,750,000 m<sup>3</sup> to commercial users, 105,476,000 m<sup>3</sup> to CNG vehicle drivers and 433,000,000 m<sup>3</sup> to long-distance pipeline industrial users and other users.

During the financial year, gas sold to industrial users represented approximately 64.2% of the total natural gas volume sold, commercial users approximately 11.3%, residential users approximately 14.4% and CNG vehicles approximately 10.1%. 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\$1,691,159,000, representing approximately 66.3% of the Group's total revenue for the year, an increase of approximately 125.5% over the same period of last year.





As at March 31, 2008, the daily natural gas supply capacity of the Group reached 3,931,089 m<sup>3</sup>, increased by approximately 143.0% over the same period of last year, of which the actual domestic usage was approximately 515,238 m<sup>3</sup>/day, actual industrial usage approximately 2,475,731 m<sup>3</sup>/day, actual commercial usage approximately 528,970 m<sup>3</sup>/day, and actual CNG vehicles usage approximately 411,150 m<sup>3</sup>/day. As of June 30, 2008, the total natural gas supply of the Group had exceeded 4,660,000 m<sup>3</sup> per day.

In the past financial year, average selling price (pre tax) was RMB1.75 per m<sup>3</sup> for residential users, RMB1.84 per m<sup>3</sup> for industrial users, RMB1.85 per m<sup>3</sup> for commercial users, and RMB1.95 per m<sup>3</sup> for CNG vehicles.

The core business of the Group is natural gas supply. However, some of the projects are still selling piped coal gas and liquefied petroleum gas (LPG). During such period, piped coal gas and LPG sales income from Fushun, Liuzhou, Yangzhou and Qingdao was recorded. A total of 105,336,000 m<sup>3</sup> piped coal gas and LPG was sold during the financial year, of which 86,334,000 m<sup>3</sup> was sold to residential customers, 14,055,000 m<sup>3</sup> to industrial customers and 4,948,000 m<sup>3</sup> to commercial customers.

## Natural Gas Joint Venture Companies

For the year ended March 31, 2008, revenue contribution of the Group's major subsidiaries/ 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 (%)
Hohhot	355,678	13.94
Wuhu Zhongran	272,488	10.68
Baotou Zhongran	267,746	10.49
Dangyang Zhongran	260,020	10.19
Qingdao	213,845	8.38
Baoji Zhongran	209,292	8.20
Liuzhou Zhongran	145,899	5.72
Yichang Zhongran	99,111	3.88
Xiaogan Zhongran	74,666	2.93
Huainan Zhongran	69,205	2.71
Chongqing	69,056	2.71
Fushun Zhongran	65,710	2.57
Beijing Zhongran Xiangke	55,599	2.18
Xiaogan China Gas	44,806	1.76
Hanchuan Zhongran	43,720	1.71
Yangzhou Zhongran	40,811	1.60
Suzhou Zhongran	32,293	1.27
Nanjing Zhongran	31,413	1.23
Baotou Station Gas	30,124	1.18
<b>Total</b>	<b>2,381,482</b>	<b>93.33</b>

## CNG Refilling Stations for Vehicles

The Group currently owns 49 CNG refilling stations for vehicles, with a daily capacity in excess of 430,000 m<sup>3</sup>. Sales income from CNG took up 10.1% of the Group's total sales income of natural gas in the financial year, an increase of approximately 364.1% compared to the same period last year. In future, the Group will invest further in CNG refilling stations for vehicles with an aim to increasing its share of the market.



Gas meters in processing station

### Other Projects Development

In September 2007, the Group signed a cooperation agreement with the People's Government of Wushen Banner, Inner Mongolia Autonomous Region to explore, construct and operate a coal bed methane project in Ordos city. Pursuant to the cooperation agreement, the Group will develop a block of 2,440 square kilometers in area in the Nalinhe region of Ordos City in Inner Mongolia for coal bed methane exploration and extraction. The Group will make use of new techniques and crafts for comprehensive coal bed methane processing, utilization, liquefaction, pipeline transmission and application. The initial field for exploration and development will span 600 square kilometers. Coal bed methane is similar to normal natural gas in structure, with methane as the major component. It is a highly-efficient clean energy source and can be transmitted through natural gas pipelines. The development and utilization of coal bed methane could present enormous business opportunities for the Group.

In March 2008, the Group acquired 53% interest in Zhongyou Hua Dian Group and subsequently in May, the Group further acquired 30% additional interest. The Group had in total acquired 83% interest in Zhongyou Hua Dian Group. Zhongyou Hua Dian Group principally engages in the sales of LPG import and petrochemical products. Its major investments include four large petrochemical product storage and logistic bases in Xiaomen Island of Wenzhou, Nansha of Guangzhou, Jingjiang of Jiangsu and Fangchenggang of Guangxi where each location contains a LPG terminal with a capacity of 50,000-ton grade. Meanwhile, Zhongyou Hua Dian Group also owns seven small LPG terminals with a capacity ranging from 2,000-ton grade to 5,000-ton grade in Shantou, Fuzhou, Jingjiang, Wenzhou and Haiyan. All terminals are well equipped with terminal transportation pipelines and storage facilities that could satisfy the berthing and docking of foreign and domestic ships with a total berthing capacity of 220,000 tons. In addition,

Zhongyou Hua Dian Group possesses four first-class, nine second-class and twenty-two third-class LPG storages, equipped with three sets of dimethyl ether production systems with total LPG storage of 274,715 m<sup>3</sup>, chemical storage 78,000 m<sup>3</sup> and annual dimethyl ether production capacity of 130,000 tons. Zhongyou Hua Dian Group has built up a comparatively complete sales and logistic allocation system of petrochemical products in the southeastern coastal areas of the PRC and is currently the largest LPG trading enterprise in the PRC.

## Gross Profit Margin and Net Profit Margin

During the financial year, the Group realized revenue of HK\$2,552,075,000 (2007: HK\$1,236,469,000), an increase of approximately 106.4% over the same period of last year; gross profit of HK\$746,119,000 (2007: HK\$419,764,000), representing 29.2% of the Group's overall gross profit margin (2007: 33.9%); net profit of HK\$166,286,000 (2007: HK\$236,249,000), representing an overall net profit margin of 6.5% (2007: 19.1%).

## 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, 2008, the Group has approximately 9,785 employees, an increase of approximately 33.3% 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

*From left to right:*

Customer-oriented high quality services

Regular check-up at gas station





*From left to right:*

Regular inspection at  
CNG station

City gas pipeline

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, the Group was named "Capital's Outstanding PRC Natural Gas Supplier" three years in a row by Capital Magazine. 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.

Moreover, the Group was granted four awards, namely second prize in "The Best Mid-Cap Company" and "The Best CFO", ranked the third in "The Best Investor Relations" and ranked the fourth in "The Best Corporate Governance" categories in the Mainland China section in the 2008 Asia's top companies polled organized by FinanceAsia, one of the leading financial magazines in Asia Pacific. This demonstrates that China Gas' effort in corporate management, investor relations and corporate governance are recognized by the investing community.

The Group was elected by a dedicated gas industry portal in the PRC – "博燃網" (Gasshow.com) as one of the "Top Ten Most Impressive Enterprises" in its "2007 Gasshow Performance Ranking" for four 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, 2008, the total assets of the Group was HK\$11,295,789,000, increased by approximately 54.5% as compared to March 31, 2007.

As at March 31, 2008, the Group's cash on hand was HK\$1,674,641,000 (March 31, 2007: HK\$1,512,347,000). The Group's total bank loans and other borrowings amounted to HK\$5,781,515,000 (March 31, 2007: HK\$2,929,233,000) of which approximately 2.7%, 3.6%, 15.6% and 78.1% 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 2.19 (March 31, 2007: 1.65) and the net gearing ratio was 1.21 (March 31, 2007: 0.74). The calculation of net gearing ratio was based on the net borrowings of HK\$4,460,300,000 (total borrowings of HK\$6,134,941,000 less bank balances and cash of HK\$1,674,641,000) and the net assets of HK\$3,675,460,000 as at March 31, 2008.

## Capital Structure

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 occurs. The Bonds have been listed on The Hong Kong Stock Exchange since June 1, 2006. As at June 30, 2008, a total of US\$38,000,000 of the Bond had been converted into a total of 171,230,491 ordinary shares of the Company.

## Financial Resources

In June 2007, the Group obtained a revolving facility totaling US\$85 million granted by the Royal Bank of Scotland and other commercial banks. Such facility was used by the Group as general working capital and interest rate for this facility was calculated at USD LIBOR plus 1.2% per annum. In addition, the Group also obtained a bank loan totaling US\$90 million granted by Bank of China (Hong Kong) Limited together with five other commercial banks in September 2007. Such bank loan was used by the Group to settle the US\$60 million syndicated loan granted in April 2005; while the remaining would be used as general working capital. Interest rate for this syndicated loan was charged at USD LIBOR plus 1.05% per annum.

No significant foreign exchange risk is expected as the Group's cash, borrowings, income and expenses are settled in Hong Kong dollars, RMB or US dollars. In addition, the Group's financing strategy is to invest in domestic projects through US dollars and RMB denominated borrowings. Currently, due to lower costs of US dollars borrowings to RMB loans, the Group's existing financing strategy is predominately US dollars based so to control the overall financing costs. Meanwhile, as RMB appreciation is expected to continue in the foreseeable future, and the Group's operating income is entirely denominated in RMB, it is expected that the Group may further lower the borrowing costs through repaying foreign debts in RMB. Nevertheless, the Group will from time to time review and adjust the Group's financing strategy based on the RMB and US dollars interest rate and exchange rate movements.

During the period, the Group had long-term US-denominated loans totaling US\$265,000,000. As the interest charged on the bank loans and revolving facility 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. Through these interest rate swaps, the Group was able to save approximately 1% interest cost on these US dollars liabilities.

The Group's operating and capital expenditures are funded by operating cash income, subscription monies from strategic investors, bank loans, the Bonds, revolving facilities 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, 2008, the Group pledged certain property, plant and equipment and prepaid lease payments having a net carrying value of approximately HK\$6,296,700 and HK\$22,181,000 (2007: HK\$356,842,000 and HK\$21,030,000) respectively, investment properties having a net carrying value of HK\$20,100,000 (2007: HK\$18,000,000), and other trade receivables having a net carrying value of HK\$24,232,000 (2007: Nil) and certain subsidiaries pledged their equity investments in other 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 for property, plant and equipment contracted for but not provided in the financial statements as at March 31, 2008 was HK\$201,256,000 (2007: HK\$392,357,000) and HK\$119,897,000 (2007: HK\$56,006,000) respectively, and such commitments would require a substantial part of the Group's present cash and external borrowings. The Group has promised to acquire shares of some Chinese enterprise and set up Sino-foreign joint venture companies in China.

### Contingent Liabilities

As at March 31, 2008, the Group did not have any material contingent liabilities (as at March 31, 2007: Nil).

**Liu Ming Hui**  
Managing Director

July 23, 2008



# Corporate Social Responsibility

The Company recognizes the importance of corporate social responsibility and aims to respect the social, economic and environmental interests so as to fulfill our commercial and social responsibilities.

## Employee Relations

Treating people fairly, providing them with training, support and equipment they need to perform better at work 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 provided 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 provide altogether 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 fully equipped with the skills required for facing the challenges in a fast-changing market and environment. Furthermore, the Company believes that keeping employees updated of the Group's latest 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 newsletters.

## Connecting with the Society

### Charity donation and activities

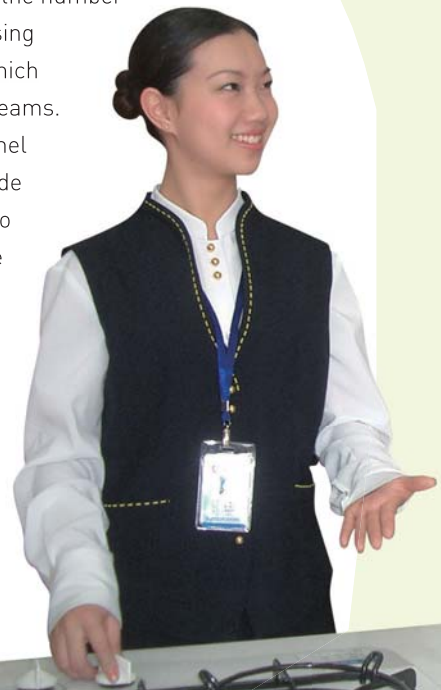
Our staffs had actively participated in charity activities in Hong Kong and China, including The Community Chest's Casual Dress Day, making donations for supporting the

local service hotline in the regions that we operate. We also give a hand to the under-privileged individuals in the society.

The Group's employees donated altogether over RMB3 million for the China snowstorm and Sichuan Earthquake.

### Service commitment

To enhance the living quality for people in China is the goal that the Group always strives toward. As one of the energy suppliers in China, we actively promote the use of natural gas, which has high performance, clean and environmental friendly. From design to construction and connection to gas supply, we stick to the principles of "People-Oriented" and "Promoting Harmony". We support the policies that are good for people in different local governments, such as development of new cities, reformation of old cities and natural conservation. We will also ensure the ancillary gas projects are at high quality and complete on schedule. With the people's acceptance of using natural gas as major consumption energy keep rising, the number of households to subscribe for using natural gas increase everyday, which put pressure on our installation teams. However, our installation personnel will commit to their duty, to provide convenient and effective service to users by all means, and fulfill the promise of installation work.





From left to right:

Mr. Liu Ming Hui, Managing Director of China Gas, and his daughter donated HK\$2 million to Sichuan

With people-oriented culture, the Group provides professional on-the-job training to its staff

China Gas strives to ensure safe natural gas supply

We had also participated in the "520 World Metrology Day". The main purpose of this activity is to encourage participants to use the International System of Units and to assure the consistency of measurement results. Our participation will enhance our standard and general acceptability in the measurement of gas volume.

### Safety Responsibility

Work safety is always the Group's primary commitment for all employees. We strictly implement and follow the guiding principles "Safety First, Caution Take" and "Who is in-charge, Who is responsible" so as to establish our own safety principles. We have taken effort to reinforce our staff's awareness on safety in workplace, establish a standard workflow in compliance with safety requirements, provide additional training on operating technique, and, in particular, implement the system of accountability in operation safety at various levels that enables us to conduct our safety supervision in a well defined and organized manner.

In terms of safety awareness in local communities, our staff at various business locations will from time to time educate our residential, industrial and commercial customers on the correct use of gas meters and safety usage of natural gas, by holding talks, communicating through

radio, television and newspapers, and distribution of promotional materials. We also provides free gas appliances inspection and maintenance service to our customers, and participate in fire drills jointly with local fire services departments at various business locations.

### Environmental Protection

The Company cares about the environment involves various aspects. As a natural gas supplier as the main consumption energy, the Group makes a major contribution to the cause of cleaner air since natural gas is regarded as a green energy that can effectively reduce environmental pollution. Moreover, our Hong Kong office had joined the "Energy Conservation Charter 2006 - Suitable Room Temperature" in the last financial year. The objective of this program is to reduce electricity consumption through maintaining an optimal indoor temperature in offices, so that the emission of carbon dioxide can be reduced and cleaner air and a better living environment can be achieved. On the other hand, in the areas of paper usage, process waste at printers and the disposal of packaging waste and overdue in-house magazines, the Group is committed to benefiting the environment by using recycled paper for printing of annual reports, circulars and in-house magazines. The Company encourages all employees to reuse 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.



# Corporate Governance Report

China Gas Holdings Limited (the "Company", together with its subsidiaries, the "Group") is committed to attain high standards of corporate governance that help to ensure that:

- satisfactory and sustainable return is generated to shareholders;
- assets are safeguarded;
- delivery of high-quality services to the customers;
- risk and opportunity are understood and properly managed; and
- high standards of ethics are maintained.

## Compliance with the Code

The Company has complied with 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 ("Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the financial year ended March 31, 2008 other than the term of the appointment of non-executive directors.

## The Board of Directors

The primary role of the Board of Directors (the "Board" or the "Directors") is to protect and enhance long-term shareholders' 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.

### Board Composition

The Board consists of 13 members, five of whom are executive directors and eight are non-executive directors. With over 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.

During the financial year ended March 31, 2008, Mr. Mark Gelinas was nominated by Oman Oil Company and appointed as a Non-Executive Director and Mr. Harrison Blacker resigned as Non-Executive Director of the Company. Mr. Kim Joong Ho was nominated by the Korean SK group and appointed as a Non-Executive Director of the Company in July 2008.

Details of the Directors are disclosed under the "Biographical Details of Directors" of the 2008 annual report. Members of the Board have a complimentary range of energy, 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.

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.

### Chairman and Managing Director

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.

### **Operation of the Board**

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 expense as and when it is considered necessary for the proper discharge of their duties as Directors.

Regular Board meetings in a particular year are usually scheduled towards the end of the immediately preceding year to give all Directors adequate time to plan their schedules to attend. At least 14 days formal notice would be given before each regular meeting. Meeting agenda of board meetings or committee meetings is generally distributed at least seven business days before the meeting date. 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 for each meeting of the Board and its committees and any significant concerns raised by any Director are recorded in the minutes. Directors are given an opportunity to comment on draft Board minutes and final version of Board minutes is placed on record within a reasonable time after the Board meeting.

If a substantial shareholder or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter will be dealt with in accordance with applicable rules and regulations and, if appropriate, an independent Board Committee will be set up to deal with the matter.

To provide a more manageable process and better control, certain power of the Board's has been delegated to committees. There are four primary 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 may be formed from time to time to look into specific areas as and when the need arises.

### **Responsibilities of Directors**

Newly appointed directors will receive related materials and documents about the Group so as to ensure proper understanding of his/her duties as a director of a Hong Kong listed company and of the operations of the Group.

### **Securities Transactions**

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules. A copy of the Model Code is sent to each Director of the Company. A reminder is also sent to all Directors one month before the date of the Board meetings to approve the Group's half-yearly and annual results reminding them that they cannot deal in the securities of the Company until such results have been published.

The Board confirmed that for the financial year ended March 31, 2008, all of the Directors of the Company have complied with the Model Code set out in Appendix 10 of the Listing Rules.

Directors' interests as at March 31, 2008 in the shares of the Company during the financial year are shown as follows:

Name of Director	Nature of Interest	No. of Shares held	Percentage of Shareholdings (%)
Liu Ming Hui	Personal	383,410,000 (L)	11.51
		118,500,000 (S)	3.56

L: Long position

S: Short position

#### Attendance rate of individual directors at Board meetings

The Board meet every quarter and additional meetings would be arranged if and when necessary. Four regular meetings were held during the financial year ended March 31, 2008 and the Board reviewed matters including business development of the Group, the Company's annual and interim financial statements and notifiable transactions of the Company.

The attendance record of each member of the Board in respect of the Board meetings is set out in the table below.

Name of Directors	Meetings for the financial year ended March 31, 2008	Attendance rate (%)
<b>Executive Directors</b>		
Li Xiao Yun (Chairman)	3/4	75
Xu Ying (Vice-Chairman)	3/4	75
Liu Ming Hui (Managing Director)	4/4	100
Zhu Wei Wei	4/4	100
Ma Jin Long	3/4	75
<b>Non-Executive Directors</b>		
Feng Zhuo Zhi	3/4	75
Mark Gelinias (Note 1)	3/3	100
R.K. Goel	2/4	50
Joe Yamagata	4/4	100
<b>Independent Non-Executive Directors</b>		
Zhao Yu Hua	4/4	100
Mao Er Wan	3/4	75
Wong Sin Yue, Cynthia	4/4	100

Note:

1. Appointed as Non-Executive Director on July 20, 2007

## Operational Management of the Group

The Board delegates the operational management of the Group to the Managing Director and Executive Directors (except the Chairman of the Board who is not involved 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 68 operating units located in 16 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 the Executive Committee, the Remuneration Committee, the Nomination Committee and the Audit Committee. The terms of reference of all the committees have been approved by the Board and details of their respective 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, monitors the operations of all operating units and ensures that funding is adequate for the Group's investment projects.

As set out in the terms of reference, the duties and authorities of the Executive Committee mainly include:

- (i) to review the financial information of the Company;
- (ii) to discuss and make decisions on matters relating to the management and operations of the Company;
- (iii) to assess whether the proposed transaction to be entered into is a notifiable transaction in accordance to the Listing Rules and make recommendations to the Board thereof; and
- (iv) to review and discuss any other matters, as may from time to time be delegated by the Board.

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; and (ii) conversion rights attached to the convertible bonds. During the financial year, a total of 56,560,000 shares and 171,230,491 shares were issued under the share options scheme and upon the conversion of the convertible bonds.

In order to further assist the Executive Committee, sub-committees are formed for the purpose of performing detailed due diligence reviews 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 the three Independent Non-Executive Directors and the Managing Director. The Committee is not currently independently advised by remuneration consultants but it consults with the Managing Director of the Board as and when needed.

The primary responsibilities of the Remuneration Committee are, inter alia, (i) to recommend to the Board on policy and structure for remuneration of all directors and senior management and to establish a formal and transparent procedure for developing policy on such remuneration; (ii) to determine specific remuneration packages of all Executive Directors and senior management; (iii) to make recommendations to the Board of

the remuneration of Non-Executive Directors; (iv) ensure appropriate disclosure in relation to remuneration issues in accordance to the Listing Rules for inclusion in annual report, financial statements and other relevant documents; and (v) to approve all services agreements made between the Company and Executive Directors.

The remuneration of the Executive Directors and other directors may comprise salary/fee, other allowances and mandatory 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, 2008 are summarized in below table:

	Salary/Fees		Contributions to retirement benefits scheme		Total	
	2008	2007	2008	2007	2008	2007
<b>Executive Directors</b>						
Li Xiao Yun (Note 3)	3,000,000	370,000	-	-	3,000,000	370,000
Xu Ying	11,590,060	1,200,000	12,000	12,000	11,602,060	1,212,000
Liu Ming Hui	15,392,102	-	12,000	-	15,404,102	-
Zhu Wei Wei	588,000	520,000	12,000	12,000	600,000	532,000
Ma Jin Long	120,000	180,000	-	-	120,000	180,000
<b>Non-Executive Directors</b>						
Feng Zhuo Zhi	120,000	120,000	-	-	120,000	120,000
Harrison Blacker (Note 1)	36,667	122,000	-	-	36,667	122,000
R.K. Goel	120,000	40,000	-	-	120,000	40,000
Joe Yamagata	120,000	54,000	-	-	120,000	54,000
Mark Gelinas (Note 2)	83,333	-	-	-	83,333	-
<b>Independent Non-Executive Directors</b>						
Zhao Yu Hua	240,000	200,000	-	-	240,000	200,000
Mao Er Wan	240,000	200,000	-	-	240,000	200,000
Wong Sin Yue, Cynthia	240,000	200,000	-	-	240,000	200,000

Remuneration of each member of the Board for the financial year ended March 31, 2008 (All figures are in HK\$)

Notes:

1. Resigned as director on July 20, 2007
2. Appointed as director on July 20, 2007
3. For the two financial years ended March 31, 2007 and March 31, 2008, the Company incurred share-based payment expenses of HK\$138,000 for each financial year 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.

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-term 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 employees during the financial year ended March 31, 2008.

The interests of directors who have options to subscribe for ordinary shares of the Company, together with movements during the financial year are shown as below tables:

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 <sup>#</sup>
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, 2007	Granted during year	Exercised during year	As at March 31, 2008
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

Interest of each member of the Board in share options for the financial year ended March 31, 2008

The Human Resources Department provides administrative support and implements the approved remuneration packages and other human resources related decisions approved by the Remuneration Committee.

The Committee met twice during the financial year to review and approve the remuneration packages for two Executive Directors and the discretionary bonus to be paid to the senior management. The attendance record of each member of the Committee in respect of the Committee meetings are set out in the table below.

Name of Members	Meetings for the financial year ended March 31, 2008	Attendance rate (%)
Wong Sin Yue, Cynthia (Chairman)	2/2	100
Zhao Yu Hua	2/2	100
Mao Er Wan	2/2	100
Liu Ming Hui	2/2	100



### 3. Nomination Committee

The Nomination Committee consists of five members with the three Independent Non-Executive Directors, the Vice Chairman and the Managing Director.

The primary responsibilities of the Nomination Committee are, inter alia, to (i) review the structure, size and composition of the Board and make recommendations to the Board with regard to any changes that are deemed necessary; (ii) identify and nominate candidates to fill Board vacancies for the Board's approval; and (iii) review and recommend to the Board those directors who are retired but eligible and presenting themselves for re-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.

At present, both Non-Executive Directors and Independent Non-Executive Directors are not appointed for a fixed term and this deviates from the code provisions 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 financial year ended March 31, 2008, 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
Liu Ming Hui	29 Apr 2002	-
Zhu Wei Wei	5 Sept 2002	18 Aug 2005
Feng Zhuo Zhi	20 May 2005	18 Aug 2005
Zhao Yu Hua	20 Nov 2002	18 Aug 2005
Kim Joong Ho	23 July 2008	-

The Committee met once during the financial year to review and recommend to the Board the appointment and resignation of non-executive directors and to review and consider those directors who are presenting themselves for election at the 2007 AGM. The attendance record of each member of the Committee in respect of the Committee meetings is set out in the table below.

Name of Members	Meetings for the financial year ended March 31, 2008	Attendance rate (%)
Mao Er Wan (Chairman)	1/1	100
Zhao Yu Hua	1/1	100
Wong Sin Yue, Cynthia	1/1	100
Xu Ying	1/1	100
Liu Ming Hui	1/1	100

## 4. Audit Committee

The Audit Committee consists of the three Independent Non-Executive Directors. 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 reviews and monitors external auditors' independence and effectiveness of audit process and recommends the appointment and re-appointment of the external auditors.

The work performed by the Audit Committee in the past financial year included:

- i. review of the risk assessment work conducted by the external consultant and with the assistance of the external consultant to examine the Group's internal control system;
- ii. review of the Company's annual financial statements for the year ended March 31, 2007, the annual results announcement, and recommendation thereof to the Board for approval;
- iii. recommendation to the Board to re-appoint Deloitte Touche Tohmatsu as external auditors of the Company for the financial year 2008 pending shareholders approval at the 2007 AGM;
- iv. review of the Company's interim financial statements for the six months ended September 30, 2007 and the interim results announcement, and recommendation thereof to the Board for approval;
- v. review of 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, 2007;
- vi. review and approval of the appointment of external consultant to carry out risk assessment and to examine the Group's internal control system; and
- vii. approval of the annual audit fee.

The Committee met four times during the financial year 2008 and the attendance record of each of member of the committee is set out below:

Name of Members	Meetings for the financial year ended March 31, 2008	Attendance rate (%)
Zhao Yu Hua (Chairman)	3/4	75
Mao Er Wan	4/4	100
Wong Sin Yue, Cynthia	4/4	100

The Audit Committee has reviewed the amount of remuneration paid and payable in connection with the audit services provided by Deloitte Touche Tohmatsu for the fiscal year 2008.

Audit Services	Amount HK\$
Final results for the year ended March 31, 2008 (to be agreed)	3,200,000
Final results for the year ended March 31, 2007	2,800,000

## 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 it in fulfilling this responsibility by carrying out a risk assessment and conducting reviews on the system of internal control commencing from last financial year.

While the Board has the overall responsibility to ensure that sound and effective internal control is 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.

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

- i. in-house internal audit function has been set up to oversee the effectiveness and efficiency of the Group's internal control system;
- ii. engaging a professional consultancy firm to carry out detailed internal control review of high-risk areas;
- iii. implementing remedial action to rectify the gaps identified in control reviews;
- iv. conducting risk assessment to ensure key risks facing the Group are identified and appropriate risk management measures are in place; and
- v. implementating an office automation system which enables authorised users to share information across the Group and enhance internal communication.

### Way forward

As a continuous process to improve the Group's system of internal control, several initiatives are currently under consideration:

- i. further enhance the internal audit function to independently monitor the effectiveness of internal control across the Group;
- ii. develop an enterprise risk management framework to enable the Group to handle uncertainties and associated risks and opportunities effectively; and
- iii. conduct risk assessment at operating units such that major risks are identified and managed properly.

## Communication

The Board and the senior management recognize the importance of maintaining good relations and communications with all its shareholders.

### Shareholders and Investors

The Board reports to shareholders on the performance of the Company through the publication of interim and final results each year. 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](http://www.chinagasholdings.com.hk)) and hard copies are available upon request to the Company Secretary.

The Board also recognises the importance of establishing a good relationship with analysts and investors. Our Investors Relations Department, headed by the Chief Financial Officer, is dedicated for communication with institutional investors and analysts. In the last financial year, the Investors Relations Department conducted over 100 meetings with analysts and investors in Hong Kong, five analyst briefings, six international investors conference, six overseas roadshows and our Chief Financial Officer was interviewed by Bloomberg on two occasions.

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

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

## The Annual General Meeting

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.

The most recent AGM was held on 29 August 2007. The agenda items of that AGM were:

- Receiving the report of the Directors and the audited accounts for the year ended March 31, 2007
- Declaration of final dividends
- Re-electing of Directors and authorised the Directors to set the Directors' remuneration
- Re-appointing the auditors and authorising the Directors to set their remuneration

- A general mandate authorising the Directors to make share repurchases
- A general mandate authorising the Directors to allot and issue shares up to 20% of the then issued share capital

All resolutions put to shareholders were duly passed at the meeting and the Managing Director and senior management of the Company were available at the meeting to answer questions.

## Shareholdings and Shareholders Information

### 1. Share Capital as of March 31, 2008

Authorised share capital	HK\$90,000,000 comprising 9,000,000,000 ordinary shares of HK\$0.01 each
Issued and fully paid-up capital	HK\$33,314,440 comprising 3,331,444,020 ordinary shares of HK\$0.01 each

### 2. Location of Shareholders as at March 31, 2008

Location of Shareholders (Note 1)	Number of shares held	% of the issued share capital
Hong Kong	2,511,444,020 (Note 2)	75.40
China	210,000,000	6.30
India	210,000,000	6.30
Netherlands	40,000,000	1.20
Oman	210,000,000	6.30
Philippines	150,000,000	4.50
Total	3,331,444,020	100.00

Notes:

1. The location of shareholders is prepared according to the addresses of shareholders registered in the register of members of the Company.
2. These shares include 2,420,693,420 shares registered in the name of HKSCC Nominees Limited which may hold these shares on behalf of its clients in or outside of Hong Kong.

## 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 with 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 Independent Auditor's Report on page 53 of the 2008 Annual Report.

## Corporate Social Responsibility

The Group recognizes the importance of corporate social responsibility and has made considerable efforts to participate in different forms of community activities. Details of these activities are set out on pages 30 to 31 of the 2008 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 development. The Company will take further steps that can embed risk assessment and internal control further into the Group's operations, and will deal with areas for improvement which come to the Board's attention from time to time.

# Biographical Details of Directors

## Executive Directors

**Mr. Li Xiao Yun**, aged 52, 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 46, 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 45, is a Director of the Company since April 2002 and appointed as Managing Director of the Company since July 2002. Mr. Liu received his Doctor of Business Administration degree from Preston University, USA. He has over 20 years working experience in government authorities and Chinese enterprises.

**Mr. Ma Jin Long**, aged 41, 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 35, 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 52, 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 54, 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 57, 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 41, 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. Kim Joong Ho**, aged 58, appointed as a non-executive Director of the Company in July 2008. Mr. Kim graduated from Yonsei University, Korea majoring in Chemical Engineering. He is currently the President and Chief Executive Officer of SK E&S Co. Limited, a subsidiary of SK Group which is specializing in city gas distribution, power generation and energy-related business and services. Mr. Kim joined SK Group since 1977 and had over 30 years of experience in energy related business.

### Independent Non-Executive Directors

**Mr. Zhao Yu Hua**, aged 40, 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 45, 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, 2008.

## 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 19, 20 and 50, respectively, to the consolidated financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended March 31, 2008 are set out in the consolidated income statement on page 55.

The Board resolved to recommend the payment of a final dividend of HK1.2 cent (2007: HK1.2 cent) per ordinary share.

The final dividend will be paid on or about September 29, 2008 to shareholders whose names appear on the Registrar of Members of the Company on the date of the forthcoming annual general meeting.

The final dividend, if approved by the shareholders, is expected to be payable on or about September 29, 2008.

## 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 155.

## 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 consolidated income statement, amounting to HK\$85,825,000.

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 16 and 17 to the consolidated financial statements respectively.

## MAJOR PROPERTIES

Details of the major properties of the Group at March 31, 2008 are set out on page 156.

## 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 36 and 38 respectively to the consolidated financial statements.



During the year, a total of 7,000,000 shares were issued for the conversions of subscription rights attached to the conversion bonds and 171,230,491 shares were issued for the conversions of convertible bonds. At the balance sheet date, the Company had outstanding convertible bonds of US\$2,000,000 (approximate HK\$15,600,000).

## DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserve available for distribution to shareholders as at March 31, 2008 comprised the accumulated profits of HK\$44,105,000.

## 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 Gelinis (appointed on July 20, 2007)  
Mr. Jo Yamagata  
Mr. R. K. Goel  
Mr. Harrison Blacker (resigned on July, 20 2007)  
Mr. Kim Joong Ho (appointed on July 23, 2008)

### 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. Liu Ming Hui, Mr. Zhu Wei Wei, Mr. Feng Zhuo Zhi, Mr. Zhao Yu Hua and Mr. Kim Joong Ho 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, 2008 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, 2008, 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 ("Mr. Liu")	Personal	383,410,000 (L) 118,500,000 (S)	11.51 3.56

L: Long position

S: Short position

Note: Among these 383,410,000 Shares, 264,910,000 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, 2008, 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	4.05%
Mr. Xu Ying	95,000,000	Beneficial owner	95,000,000	2.85%
Mr. Zhu Wei Wei	10,000,000	Beneficial owner	10,000,000	0.30%
Mr. Li Xiao Yun	10,000,000	Beneficial owner	10,000,000	0.30%
Mr. Ma Jin Long	9,240,711	Beneficial owner	9,240,711	0.28%
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%

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, 2008, 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, 2007	Granted during the financial year ended March 31, 2008	Exercised during the financial year ended March 31, 2008	Lapsed during the financial year ended March 31, 2008	Outstanding as at March 31, 2008
<b>Directors</b>							
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
Sub-total			263,640,711	-			263,640,711
Other employees	9.1.2004 to 1.8.2014	0.80	63,321,000	-	(13,700,000)	(400,000)	49,110,000
	3.20.2007 to 10.5.2014	0.71	131,660,000	-	(43,310,000)	-	88,350,000
	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
	9.19.2008 to 9.18.2017	2.32	-	3,000,000	-	-	3,000,000
Sub-total			353,170,000	3,000,000	(57,010,000)	(400,000)	298,760,000
Total			616,810,711	3,000,000	(57,010,000)	(400,000)	562,400,711

## SUBSTANTIAL SHAREHOLDERS

As at March 31, 2008, 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	518,410,000 (L) 118,000,000 (S)	15.56 3.56
Hai Xia	2	Beneficial owner	340,000,003 (L) 150,000,003 (S)	10.21 4.50
China Petroleum & Chemical Corporation		Beneficial owner	210,000,000 (L)	6.30
GAIL (India) Limited		Beneficial owner	210,000,000 (L)	6.30
Oman Oil Company, S.A.O.C.	3	Beneficial owner	237,567,060 (L)	7.13

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, 2008, 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 13,651,060 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 27,567,060 shares were purchased in aggregate. After such purchases, the total number of shares held by OOC is 237,567,060 shares.

Save as disclosed herein, as at March 31, 2008, 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 40% of total purchases of the Group, with the largest supplier accounted for approximately 10%.

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 46 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/her 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, 2008.

## POST BALANCE SHEET EVENTS

Details of the significant events occurring after the balance sheet date are set out in note 49 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 23, 2008

# 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 154, which comprise the consolidated balance sheet as at March 31, 2008, 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, 2008 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 23, 2008

# CONSOLIDATED INCOME STATEMENT

For the year ended March 31, 2008

	Notes	Year ended March 31, 2008 HK\$'000	Year ended March 31, 2007 HK\$'000 (Restated)
Revenue	7	2,552,075	1,236,469
Cost of sales		(1,805,956)	(816,705)
Gross profit		746,119	419,764
Other income	9	187,474	100,093
Distribution costs		(110,296)	(44,593)
Administrative expenses		(342,556)	(173,961)
Change in fair value of investment properties		85,825	4,650
Change in fair value of held-for-trading investments		(1,232)	33,446
Net gain on disposal of available-for-sale investments		1,144	-
Impairment loss recognised in respect of available-for-sale investments		-	(2,200)
Impairment loss on amounts due from customers for contract work		(79,623)	-
Allowance for trade and other receivables		(57,190)	(9,201)
Finance costs	10	(240,029)	(107,796)
Change in fair value of derivative financial instruments	30	(166,884)	(4,307)
Discount on acquisition of additional interest in a subsidiary	40	108	-
Discount on acquisition of associates, a jointly controlled entity and businesses	11	19,191	28,269
Share of results of associates	19	138,013	5,742
Profit before taxation		180,064	249,906
Taxation	12	(13,778)	(13,657)
Profit for the year	13	166,286	236,249
Attributable to:			
Equity holders of the Company		119,774	200,789
Minority interests		46,512	35,460
		166,286	236,249
Earnings per share	15		
Basic		HK3.73 cents	HK6.70 cents
Diluted		HK3.25 cents	HK5.85 cents

# CONSOLIDATED BALANCE SHEET

At March 31, 2008

	Notes	March 31, 2008 HK\$'000	March 31, 2007 HK\$'000 (Restated)
<b>Non-current assets</b>			
Investment properties	16	219,100	133,275
Property, plant and equipment	17	5,566,276	3,083,300
Prepaid lease payments	18	397,301	201,927
Interests in associates	19	214,291	75,278
Available-for-sale investments	21	18,376	23,149
Goodwill	22	418,247	299,965
Other intangible assets	23	319,658	98,451
Deposits for acquisition of property, plant and equipment	25	128,492	146,551
Prepayment for acquisition of a subsidiary and an associate	44(i), (vi)	566,988	280,255
Loan receivable	26	15,000	15,000
Deferred tax assets	39	34,203	–
		<b>7,897,932</b>	4,357,151
<b>Current assets</b>			
Inventories	27	285,530	137,032
Amounts due from customers for contract work	28	283,426	444,552
Trade and other receivables	29	935,715	719,326
Derivative financial instruments	30	10,976	33,298
Amount due from an associate	31	158,617	42,071
Prepaid lease payments	18	6,878	5,229
Held-for-trading investments	32	42,074	57,841
Pledged bank deposits	33	164,597	29,417
Bank balances and cash	33	1,510,044	1,482,930
		<b>3,397,857</b>	2,951,696
<b>Current liabilities</b>			
Trade and other payables	34	1,348,652	859,399
Derivative financial instruments	30	4,264	59,314
Amounts due to customers for contract work	28	12,247	5,721
Taxation		15,072	15,682
Bank and other borrowings – due within one year	35	157,061	686,781
Obligation to inject capital into a jointly controlled entity	41	–	157,965
Convertible bonds	38	14,334	–
		<b>1,551,630</b>	1,784,862
<b>Net current assets</b>		<b>1,846,227</b>	1,166,834
<b>Total assets less current liabilities</b>		<b>9,744,159</b>	5,523,985

# CONSOLIDATED BALANCE SHEET

At March 31, 2008

	Notes	March 31, 2008 HK\$'000	March 31, 2007 HK\$'000 (Restated)
Equity			
Share capital	36	<b>33,314</b>	30,962
Reserves		<b>3,085,973</b>	2,327,587
Equity attributable to equity holders of the Company		<b>3,119,287</b>	2,358,549
Minority interests		<b>556,173</b>	334,256
Total equity		<b>3,675,460</b>	2,692,805
Non-current liabilities			
Amount due to a minority shareholder of a subsidiary	37	<b>339,092</b>	311,411
Bank and other borrowings – due after one year	35	<b>5,624,454</b>	2,242,452
Convertible bonds	38	–	273,457
Deferred taxation	39	<b>105,153</b>	3,860
		<b>6,068,699</b>	2,831,180
		<b>9,744,159</b>	5,523,985

The consolidated financial statements on pages 55 to 154 were approved and authorised for issue by the Board of Directors on July 23, 2008 and are signed on its behalf by:

\_\_\_\_\_  
DIRECTOR

\_\_\_\_\_  
DIRECTOR

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended March 31, 2008

	Attributable to equity holders of the Company											Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Employee share-based		Investment revaluation reserve HK\$'000	Properties revaluation reserve HK\$'000	Special reserve HK\$'000	Statutory funds HK\$'000	Accumulated profits HK\$'000	Total HK\$'000	Minority interests HK\$'000	
			compensation reserve HK\$'000	Translation reserve 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-sale 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	-	-	-	-	-	-	-	-	200,789	200,789	35,460	236,249
Total recognised income for the year	-	-	-	111,070	(2,640)	-	-	-	200,789	309,219	54,886	364,105
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
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	42,328	42,328
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, as restated	30,962	1,442,638	42,875	119,592	(7,899)	1,601	1,602	15,621	711,557	2,358,549	334,256	2,692,805

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended March 31, 2008

	Attributable to equity holders of the Company											
	Share capital	Share premium	Employee share-based compensation		Investment revaluation reserve	Properties revaluation reserve	Special reserve	Statutory funds	Accumulated profits	Total	Minority interests	Total
			reserve	Translation reserve								
			HK\$'000	HK\$'000								
At April 1, 2007, as restated	30,962	1,442,638	42,875	119,592	(7,899)	1,601	1,602	15,621	711,557	2,358,549	334,256	2,692,805
Increase in fair value of available-for-sale investments	-	-	-	-	591	-	-	-	-	591	-	591
Exchange gain on translation of operations outside Hong Kong	-	-	-	164,098	-	-	-	-	-	164,098	35,159	199,257
Net income recognised directly in equity	-	-	-	164,098	591	-	-	-	-	164,689	35,159	199,848
Release upon disposal of available-for-sale investments	-	-	-	-	(1,144)	-	-	-	-	(1,144)	-	(1,144)
Profit for the year	-	-	-	-	-	-	-	-	119,774	119,774	46,512	166,286
Total recognised income for the year	-	-	-	164,098	(553)	-	-	-	119,774	283,319	81,671	364,990
Recognition of equity-settled share based payments	-	-	6,458	-	-	-	-	-	-	6,458	-	6,458
Exercise of share options	570	41,140	-	-	-	-	-	-	-	41,710	-	41,710
Exercise of subscription rights	70	7,826	-	-	-	-	-	-	-	7,896	-	7,896
Conversion of convertible bonds	1,712	458,262	-	-	-	-	-	-	-	459,974	-	459,974
Acquisitions of subsidiaries	-	-	-	-	-	-	-	-	-	-	93,129	93,129
Capital contribution from minority shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	-	91,815	91,815
Acquisition of additional interest in a subsidiary	-	-	-	-	-	-	-	-	-	-	(429)	(429)
Dividends paid by subsidiaries to its minority shareholders	-	-	-	-	-	-	-	-	-	-	(44,269)	(44,269)
Dividends paid	-	-	-	-	-	-	-	-	(38,619)	(38,619)	-	(38,619)
Transfer	-	-	-	-	-	-	-	62,073	(62,073)	-	-	-
At March 31, 2008	33,314	1,949,866	49,333	283,690	(8,452)	1,601	1,602	77,694	730,639	3,119,287	556,173	3,675,460

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 Company's PRC subsidiaries.

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 the Company of HK\$382,038,000 against the amount standing to the credit to the share premium account of the Company.

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended March 31, 2008

	2008 HK\$'000	2007 HK\$'000 (Restated)
<b>OPERATING ACTIVITIES</b>		
Profit before taxation	<b>180,064</b>	249,906
Adjustments for:		
Change in fair value of investment properties	<b>(85,825)</b>	(4,650)
Net gain on disposal of available-for-sale investments	<b>(1,144)</b>	-
Impairment loss recognised in respect of available-for-sale investments	-	2,200
Impairment loss on amounts due from customers for contract work	<b>79,623</b>	-
Allowance for trade and other receivables	<b>57,190</b>	9,201
Adjustment in liability component of convertible bonds	-	(10,642)
Depreciation of property, plant and equipment	<b>189,383</b>	96,769
Release of prepaid lease payments	<b>8,401</b>	2,191
Amortisation of intangible assets	<b>7,936</b>	2,660
Loss (gain) on disposal of property, plant and equipment	<b>8,253</b>	(20)
Interest expense	<b>240,029</b>	107,796
Share of results of associates	<b>(138,013)</b>	(5,742)
Discount on acquisition of additional interest in a subsidiary	<b>(108)</b>	-
Discount on acquisition of associates, a jointly controlled entity and businesses	<b>(19,191)</b>	(28,269)
Share-based payments	<b>6,458</b>	4,896
Interest income	<b>(54,712)</b>	(40,530)
Change in fair value of derivative financial instruments	<b>166,884</b>	4,307
Operating cash flows before movements in working capital	<b>645,228</b>	390,073
Increase in inventories	<b>(113,670)</b>	(8,306)
Decrease in amounts due from customers for contract work	<b>108,642</b>	30,623
Increase in trade and other receivables	<b>(175,949)</b>	(239,358)
Decrease (increase) in held-for-trading investments	<b>15,767</b>	(57,841)
Increase in trade and other payables	<b>177,576</b>	49,442
Increase in amounts due to customers for contract work	<b>6,526</b>	4,512
Cash from operations	<b>664,120</b>	169,145
PRC Enterprise Income Tax paid	<b>(32,472)</b>	-
<b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b>	<b>631,648</b>	169,145

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended March 31, 2008

	NOTES	2008 HK\$'000	2007 HK\$'000 (Restated)
<b>INVESTING ACTIVITIES</b>			
Interest received		54,712	40,530
Dividend from pre-acquisition profit received from an associate		-	1,296
Increase in loan receivable		-	(15,000)
Increase in amount due from an associate		(119,523)	(42,071)
Deposits paid for acquisition of property, plant and equipment		(128,492)	(118,745)
Increase in pledged bank deposits		(135,180)	(29,417)
Purchase of additional interest in a subsidiary		(321)	(21,939)
Addition of property, plant and equipment		(1,093,762)	(666,024)
Addition of prepaid lease payments		(95,206)	(29,535)
Proceeds from disposal of property, plant and equipment		4,486	5,258
Acquisition of subsidiaries, net of cash and cash equivalents acquired	40	1,641	(52,025)
Acquisition of jointly controlled entities, net of cash and cash equivalents acquired	41	(88,923)	8,624
Acquisition of businesses, net of cash and cash equivalents acquired	42	(532,668)	(77,806)
Acquisition of associates		-	(64,651)
Capital injection into a jointly controlled entity	41	(157,965)	-
Prepayment of acquisition of a subsidiary and an associate		(286,733)	(280,255)
Proceeds from disposal of available-for-sale investments		5,570	-
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(2,572,364)</b>	<b>(1,341,760)</b>
<b>FINANCING ACTIVITIES</b>			
Interest paid		(238,790)	(71,773)
Proceeds from issue of ordinary shares		49,606	208,213
Dividends paid		(38,619)	(29,237)
New bank and other borrowings raised		2,944,169	1,260,078
Repayments of bank and other borrowings		(906,875)	(585,984)
Repayments of obligations under a finance lease		-	(64)
(Repayments to) advance from a minority shareholder of a subsidiary		(6,716)	51,936
Capital contribution from minority interests of subsidiaries		91,815	-
Dividends paid by subsidiaries to its minority shareholders		(44,269)	-
<b>NET CASH GENERATED FROM FINANCING ACTIVITIES</b>		<b>1,850,321</b>	<b>833,169</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(90,395)</b>	<b>(339,446)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>		<b>1,482,930</b>	<b>1,727,130</b>
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>		<b>117,509</b>	<b>95,246</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>		<b>1,510,044</b>	<b>1,482,930</b>
<b>ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Bank balances and cash		1,510,044	1,482,930



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the 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 50.

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 ("HKFRSs")

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") that are effective for accounting periods beginning on or after January 1, 2007.

HKAS 1 (Amendment)	Capital disclosures
HKFRS 7	Financial instruments: Disclosures
HK(IFRIC) – INT 8	Scope of HKFRS 2
HK(IFRIC) – INT 9	Reassessment of embedded derivatives
HK(IFRIC) – INT 10	Interim financial reporting and impairment
HK(IFRIC) – INT 11	HKFRS 2 – group and treasury share transactions

The application of new HKFRSs had no material effect on how the Group's 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 applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior years under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) *(Continued)*

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

HKAS 1 (Revised)	Presentation of financial statements <sup>1</sup>
HKAS 23 (Revised)	Borrowing costs <sup>1</sup>
HKAS 27 (Revised)	Consolidated and separate financial statements <sup>2</sup>
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation <sup>1</sup>
HKFRS 2 (Amendment)	Vesting conditions and cancellations <sup>1</sup>
HKFRS 3 (Revised)	Business combinations <sup>2</sup>
HKFRS 8	Operating segments <sup>1</sup>
HK(IFRIC) – INT 12	Service concession arrangements <sup>3</sup>
HK(IFRIC) – INT 13	Customer loyalty programmes <sup>4</sup>
HK(IFRIC) – INT 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after January 1, 2009.

<sup>2</sup> Effective for annual periods beginning on or after July 1, 2009.

<sup>3</sup> Effective for annual periods beginning on or after January 1, 2008.

<sup>4</sup> Effective for annual periods beginning on or after July 1, 2008.

The adoption of HKFRS 3 (revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after July 1, 2009. HKAS 27 (revised) will affect the accounting treatment for changes in a parent’s ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange 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 fair values, as explained in the accounting policies set out below.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **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.

### **Acquisition of additional interest in a subsidiary**

On acquisition of additional interest in a subsidiary, goodwill is calculated as the difference between the consideration paid for the additional interest and the carrying amount of the net assets of the businesses attributable to the additional interest acquired. If the Group's additional interest in the net assets of the subsidiaries exceeds the consideration paid for the additional interest, the excess is recognised as income in the consolidated income statement.

### **Business combinations**

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Goodwill**

#### **Capitalised goodwill arising on acquisitions prior to April 1, 2004**

Goodwill arising on an acquisition of net assets or businesses 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 acquiree at the date of acquisition.

For previously capitalised goodwill arising on acquisitions of net assets and operations another entity or a jointly controlled entity 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 business 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 relevant business or jointly controlled entity at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

On acquisition of additional interest in businesses, 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 businesses acquired by the Group are recognised as goodwill.

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

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.

On subsequent disposal of a business 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **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.

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 business or a jointly controlled entity (see above).

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

When a group entity transacts with a jointly controlled entity of the Group, 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 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 the 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.

Revenue from sales of petroleum, natural gas, coke 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, which include land and buildings held for use in the production or supply of goods and services or for administrative purposes, other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

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

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Construction in progress**

Construction in progress represents property, plant and equipment in the course of construction for production or for the Group's 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.

### **Investment properties**

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

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

### **Leasehold land held for undetermined future use**

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **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 reference to the value of work carried out during the year 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.

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, coke, 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.

### **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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Leasehold land and building**

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

### **Foreign currencies**

In preparing the financial 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.

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 entities 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 state-managed retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **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.

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the year 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 or 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **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.

### ***Effective interest method***

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

### **Financial assets at fair value through profit or loss**

Financial assets at fair values through profit or loss comprise financial assets classified as held for trading. A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

At each balance sheet date subsequent to initial recognition, held-for-trading investments are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 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, 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 (see accounting policy on impairment loss on financial assets below).

##### *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated or not classified as (a) loans and receivables, (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.

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

#### **Impairment of financial assets**

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

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

For loans and receivables, objective evidence of impairment could include:

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Financial instruments** *(Continued)*

#### **Impairment of financial assets** *(Continued)*

For trade receivables that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include Group's past experience of collecting payments and observable changes in national or local economic conditions that correlate with default on receivables.

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

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

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

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity.

#### **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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Financial instruments** *(Continued)*

#### **Financial liabilities and equity** *(Continued)*

##### ***Effective interest method***

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. Interest expense is recognised on an effective interest basis.

##### *Financial liabilities*

Financial liabilities including trade and other payables, amount due to a minority shareholder of a subsidiary, bank and other borrowings are subsequently measured at amortised cost, using the effective interest method.

##### *Convertible bonds that 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 option derivatives that 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 option derivative. The redemption option derivatives represent the redemption at the option of the bond holders before the maturity date. 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.

### **Derivative 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Financial instruments** *(Continued)*

#### **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.

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 after November 7, 2002 and vested on or after January 1, 2005

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Equity settled share-based payment transactions** *(Continued)*

Share options granted to employees on or before November 7, 2002 or vested after November 7, 2002 and vested before January 1, 2005

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.

### **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".

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

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets, to determine whether there is any indication that those assets have suffered an impairment loss. In addition, intangible assets with indefinite useful lives are tested for impairment annually, and whenever there is an indication that they may be impaired. 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.

## 4. RESTATEMENTS

During the year ended March 31, 2007, the Group acquired certain jointly controlled entities and businesses of which the fair values of the identifiable assets, liabilities and contingent liabilities acquired were determined provisionally. During the year, the Group made certain fair value adjustments, with reference to the valuation reports, to the carrying amounts of the identifiable assets and liabilities of the jointly controlled entities and businesses acquired as a result of completing the initial accounting. The adjustment, to the fair values at the acquisition date of the identifiable assets, liabilities and contingent liabilities were made as if initial accounting had been completed on the acquisition date.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 4. RESTATEMENTS *(Continued)*

The cumulative effects of the above restatements on the consolidated balance sheet as at March 31, 2007 are summarised below:

	<b>As at March 31, 2007</b>	<b>Subsequent fair value adjustments</b>	<b>As at March 31, 2007</b>
	HK\$'000	HK\$'000	HK\$'000
	(originally stated)		(restated)
Other intangible assets	83,006	15,445	98,451
Deferred taxation	–	(3,860)	(3,860)
Other assets and liabilities	2,598,214	–	2,598,214
<b>Total effect on assets and liabilities</b>	<b>2,681,220</b>	<b>11,585</b>	<b>2,692,805</b>
Accumulated profits	700,871	10,686	711,557
Minority interests	333,357	899	334,256
Other reserves items	1,646,992	–	1,646,992
<b>Total effect on equity</b>	<b>2,681,220</b>	<b>11,585</b>	<b>2,692,805</b>

The effects of the above restatements on the results for the current and prior years are as follows:

	<b>2008</b>	2007
	HK\$'000	HK\$'000
Increase in discount on acquisition of associates, a jointly controlled entity and businesses	–	11,084
Increase in amortisation of intangible assets	<b>(532)</b>	(532)
Decrease in taxation	<b>134</b>	134
<b>(Decrease) increase in profit for the year</b>	<b>(398)</b>	10,686
Attributable to:		
Equity holders of the Company	<b>(398)</b>	10,686
<b>(Decrease) increase in basic earnings per share</b>	<b>HK(0.01) cents</b>	HK0.36 cents
<b>(Decrease) increase in diluted earnings per share</b>	<b>HK(0.01) cents</b>	HK0.31 cents

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 4. RESTATEMENTS *(Continued)*

Analysis of (decrease) increase in profit of the year by line item presented according to their functions:

	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Increase in cost of sales	<b>(532)</b>	(532)
Increase in discount on acquisition of associates, a jointly controlled entity and businesses	–	11,084
Decrease in taxation	<b>134</b>	134
(Decrease) increase in profit for the year	<b>(398)</b>	10,686

## 5. 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, 2008 was HK\$418,247,000 (2007: HK\$299,965,000) with no impairment loss recognised. Details of the value in use calculation are set out in note 24.

### **Impairment on amounts due from customers for contract work**

At each balance sheet date, management reconsidered the recoverability of its amounts due from customers for contract work based on its assessment and the likelihood of ultimately collecting the amounts from its customers. In determining whether impairment is required, the Group takes into consideration of the construction progress and the progress payments received from its customers. Impairment is recognised for those contracts that may not honored by the customers and is recognised on the difference between the estimated future cash flows expected to be received discounted using the ordinary effective interest rate and the carrying value. During the year, the Group has recognised impairment loss on amounts due from customers for contract work of HK\$79,623,000 (2007: nil). If more customers fail to honor the terms of agreement than expected, additional impairment is required.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 5. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

### **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.

### **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.

### **Deferred taxation**

As at March 31, 2008, the Group has unused tax losses of HK\$520,802,000 (2007: HK\$326,241,000) available for offset against future profits. No deferred tax asset in relation to these 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 acquisitions of businesses/assets, in which the carrying amount at March 31, 2008 was HK\$319,658,000 (2007: HK\$98,451,000). The business of the cash generating unit ("CGU") continues to progress in a satisfactory manner. Detailed valuation 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. Any change in the business environment may lead to the change of expected future cashflows in the future. If the future recoverable amounts falls below the carrying amounts, additional impairment is required.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 5. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

### Fair value of derivatives financial instruments

The management of the Group uses their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments and convertible bonds with embedded derivatives, assumptions are made based on quoted market rates adjusted for specific features of the instrument.

## 6. FINANCIAL INSTRUMENTS

### Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the borrowings, amount due to a minority shareholder of a subsidiary and convertible bonds disclosed in notes 35, 37 and 38 respectively, and equity attributable to equity holders of the Company, comprising issued share capital disclosed in note 36, reserves and accumulated profits as disclosed in consolidated statements of changes in equity. The management reviews the capital structure by considering the cost of capital and the risks associated with each class of capital. In view of this, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt. The Group's overall strategy remains unchanged throughout the year.

### Categories of financial instruments

	2008 HK\$'000	2007 HK\$'000
Financial assets		
Available-for-sale investments	18,376	23,149
Held-for-trading investments	42,074	57,841
Loans and receivables (including cash and cash equivalents)	2,371,312	1,954,278
Derivative financial assets	10,976	33,298
Financial liabilities		
Amortised cost	6,619,169	4,063,140
Derivative financial liabilities	4,264	59,314

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, held-for-trading investments, loan receivable, amount due from an associate, trade and other receivables, derivative financial instruments, trade and other payables, amounts due from/to minority shareholders of subsidiaries, bank and other borrowings 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.

### Market risks

#### *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 foreign currencies may have positive or negative impact on the results of operations of the Group.

As at balance sheet date, the Group has convertible bonds, certain bank balances and borrowings denominated in United States dollars ("USD"), Hong Kong dollars and Japanese Yen ("JPY"), which are the currencies other than the functional currency of respective group entities. The carrying amounts of the Group's foreign currency denominates monetary assets and liabilities are as follows:

	Assets		Liabilities	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
USD	51,408	41,157	2,100,419	1,296,940
Hong Kong dollars	22,172	429,076	-	-
JPY	-	-	44,574	57,190

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

#### Market risks *(Continued)*

##### Sensitivity analysis

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against respective foreign currencies and all other variables were held constant. 5% is the sensitivity rate used by management in the assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding respective foreign currencies denominated monetary items and adjusts its translation at the year end for a 5% change in foreign currencies rates. A positive number below indicates an increase in profit for the year where RMB strengthen 5% against relevant currency. For a 5% weakening of RMB against respective foreign currencies, there would be an equal and opposite impact on the profit for the year.

	2008 HK\$'000	2007 HK\$'000
Increase in profit for the year	<b>104,287</b>	57,868

##### Interest rate risks

The Group manages its interest rate exposure based on interest rate level as well as potential impact on the Group's financial position arising from volatility. Interest rate swap is the hedging instrument most commonly used by the Group to manage interest rate exposure.

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 35 and 38 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.

The Group's cash flow interest rate risk primarily relates to variable-rate bank and other borrowings (see note 35 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.

##### Sensitivity analysis

The sensitivity analyses have been determined based on the exposure to interest rate for both floating-rate borrowings and interest rate swap, together with the interest capitalised to construction in progress at the balance sheet date. A 100 basis point change is used when reporting cash flow interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. If the interest rate of variable rate borrowings and interest rate swap, together with the interest capitalised to construction in progress had been 100 basis point higher/lower and all other variables were held constant, the Group's profit for the year, after taking account of interest capitalised would decrease/increase by HK\$9,753,000 (2007: HK\$10,279,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### **Financial risk management objectives and policies** *(Continued)*

#### **Market risks** *(Continued)*

##### *Equity 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.

##### *Sensitivity analysis*

The sensitivity analysis below have been determined based on the exposure to equity price risks of listed equity instrument of listed equity instruments at the reporting date. A 10 percent change is used when reporting equity price risk internally to key management personnel and represents management's assessment of the reasonably possible change in equity price.

For the year ended March 31, 2008, if the market bid prices of the listed investments had been 10 percent higher/lower and all other variables were held constant, the Group's profit for the year would increase/decrease by HK\$4,207,000 (2007: HK\$5,784,000) and the Group's investment revaluation reserve will increase/decrease by HK\$1,177,000 (2007: HK\$1,675,000) respectively. This is mainly attributable to the changes in fair values of the listed held-for-trading investments and available-for-sale investments respectively.

##### *Credit risk*

As at March 31, 2008, 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.

Other than concentration of credit risk on amount due from an associate, the Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers. In order to minimise the credit risk on amount due from an associate, the directors of the Company closely monitors the subsequent settlement and does not grant long credit period to the counterparty. In this regard, the directors of the Company consider that the Group's credit risk is significant reduced.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### **Financial risk management objectives and policies** *(Continued)*

#### **Market risks** *(Continued)*

##### *Credit risk (Continued)*

The policy of allowances for doubtful debts of the Group is based on the evaluation of collectibility and aging analysis of accounts and on management's estimate. In determining whether impairment is required, the Group takes into consideration of aging status and likelihood of collection. Specific allowance is only made for receivables that are unlikely to be collected and is recognised on the difference between the estimated future cash flows expected to receive discounted using the original effective interest rate and the carrying value. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance may be required.

##### *Liquidity risk*

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. In addition to issuance of new shares and convertible bonds, the Group also relies on borrowings as a significant source of liquidity. The management monitors the utilization of borrowings.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

#### Market risks *(Continued)*

##### Liquidity tables

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

	Weighted average effective interest rate %	Repayable on demand HK\$'000	Less than 1 month HK\$'000	Between 1 to 3 months HK\$'000	Between 3 months to 1 year HK\$'000	Between 1 to 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount at balance sheet date HK\$'000
At March 31, 2008								
Trade payables	N/A	-	94,110	186,476	79,082	-	359,668	359,668
Other payables	N/A	-	26,587	55,246	29,388	-	111,221	111,221
Amounts due to minority shareholders of subsidiaries	N/A	13,339	-	-	-	-	13,339	13,339
Bank and other borrowings								
- fixed rate	4.97%	-	-	-	164,867	5,689,577	5,854,444	4,714,191
- floating rate	6.48%	-	-	-	-	1,413,137	1,413,137	1,067,324
Convertible bonds	4.5%	-	-	-	-	16,198	16,198	14,334
Amount due to a minority shareholder of a subsidiary	2%	-	-	-	-	373,001	373,001	339,092
		13,339	120,697	241,722	273,337	7,491,913	8,141,008	6,619,169
At March 31, 2007								
Trade payables	N/A	-	117,440	98,721	88,116	-	304,277	304,277
Other payables	N/A	-	38,699	119,720	59,813	-	218,232	218,232
Amounts due to minority shareholders of subsidiaries	N/A	26,529	-	-	-	-	26,529	26,529
Bank and other borrowings								
- fixed rate	4.67%	-	-	-	718,854	1,410,576	2,129,430	1,830,338
- floating rate	5.43%	-	-	-	-	1,397,246	1,397,246	1,098,896
Convertible bonds	4.5%	-	-	-	-	337,900	337,900	273,457
Amount due to a minority shareholder of a subsidiary	2%	-	-	-	-	342,552	342,552	311,411
		26,529	156,139	218,441	866,783	3,488,274	4,756,166	4,063,140

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 6. 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.

## 7. REVENUE

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

	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Sales of piped gas	<b>1,691,159</b>	750,101
Gas connection fees	<b>615,282</b>	387,243
Sales of coke and gas appliances	<b>244,146</b>	97,590
Rental income	<b>960</b>	936
Dividend income	<b>528</b>	599
	<b>2,552,075</b>	1,236,469

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 8. BUSINESS AND GEOGRAPHICAL SEGMENTS

### Business segments

The Group is currently organized into five operating divisions – sales of piped gas, gas connection, sales of coke and gas appliances, property investment and, financial and securities investment. These principal operating activities are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

2008

	Sales of piped gas HK\$'000	Gas connection HK\$'000	Sales of coke and gas appliances HK\$'000	Property investment HK\$'000	Financial and securities investment HK\$'000	Consolidated HK\$'000
REVENUE	1,691,159	615,282	244,146	960	528	2,552,075
SEGMENT RESULT	223,018	111,071	5,844	84,547	410	424,890
Unallocated corporate revenue						103,597
Unallocated corporate expenses						(98,714)
Finance costs						(240,029)
Change in fair value of derivative financial instruments						(166,884)
Discount on acquisition of associates, a jointly controlled entity and businesses						19,191
Share of results of associates						138,013
Profit before taxation						180,064
Taxation						(13,778)
Profit for the year						166,286
ASSETS						
Segment assets	7,933,955	911,895	42,772	219,100	60,649	9,168,371
Interests in associates						214,291
Unallocated corporate assets						1,913,127
Consolidated total assets						11,295,789
LIABILITIES						
Segment liabilities	810,262	326,801	82,246	100	-	1,219,409
Unallocated corporate liabilities						6,400,920
Consolidated total liabilities						7,620,329
OTHER INFORMATION						
Additions to goodwill	118,282	-	-	-	-	118,282
Additions to intangible assets	229,143	-	-	-	-	229,143
Additions to property, plant and equipment	2,309,216	-	-	-	-	2,309,216
Additions to property, plant and equipment (unallocated)						15,905
						2,325,121
Loss on disposal of property, plant and equipment	6,852	-	-	-	-	6,852
Loss on disposal of property, plant and equipment (unallocated)						1,401
						8,253

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

### Business segments *(Continued)*

2008 *(Continued)*

	Sales of piped gas HK\$'000	Gas connection HK\$'000	Sales of coke and gas appliances HK\$'000	Property investment HK\$'000	Financial and securities investment HK\$'000	Consolidated HK\$'000
Amortisation of intangible assets	7,936	-	-	-	-	7,936
Release of prepaid lease payments	8,035	-	-	-	-	8,035
Release of prepaid lease payments (unallocated)						366
						8,401
Depreciation of property, plant and equipment	182,525	-	-	-	-	182,525
Depreciation of property, plant and equipment (unallocated)						6,858
						189,383
Impairment loss on amounts due from customers for contract work	-	79,623	-	-	-	79,623
Allowance for trade and other receivables	-	57,190	-	-	-	57,190
Change in fair value of investment properties	-	-	-	85,825	-	85,825

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

### Business segments *(Continued)*

2007 (restated)

	Sales of piped gas HK\$'000	Gas connection HK\$'000	Sales of coke and gas appliances HK\$'000	Property investment HK\$'000	Financial and securities investment HK\$'000	Consolidated HK\$'000
REVENUE	750,101	387,243	97,590	936	599	1,236,469
SEGMENT RESULT	113,969	166,055	1,526	5,586	34,045	321,181
Unallocated corporate revenue						74,772
Unallocated corporate expenses						(67,955)
Finance costs						(107,796)
Change in fair value of derivative financial instruments						(4,307)
Discounts on acquisition of associates, a jointly controlled entity and businesses						28,269
Share of results of associates						5,742
Profit before taxation						249,906
Taxation						(13,657)
Profit for the year						236,249
ASSETS						
Segment assets	4,662,215	805,492	8,318	133,275	107,050	5,716,350
Interest in associates						75,278
Unallocated corporate assets						1,517,219
Consolidated total assets						7,308,847
LIABILITIES						
Segment liabilities	621,404	218,339	3,880	210	-	843,833
Unallocated corporate liabilities						3,772,209
Consolidated total liabilities						4,616,042
OTHER INFORMATION						
Additions to goodwill	24,590	-	-	-	-	24,590
Additions to intangible assets	101,111	-	-	-	-	101,111
Additions to property, plant and equipment	1,223,976	-	-	-	-	1,223,976
Additions to property, plant and equipment (unallocated)						38,317
						1,262,693
Loss on disposal of property, plant and equipment	4,651	-	-	-	-	4,651
Gain on disposal of property, plant and equipment (unallocated)						(4,671)
						(20)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

### Business segments *(Continued)*

#### 2007 (restated) *(Continued)*

	Sales of piped gas HK\$'000	Gas connection HK\$'000	Sales of coke and gas appliances HK\$'000	Property investment HK\$'000	Financial and securities investment HK\$'000	Consolidated HK\$'000
Amortisation of intangible assets	2,660	-	-	-	-	2,660
Release of prepaid lease payments	1,848	-	-	-	-	1,848
Release of prepaid lease payments (unallocated)						343
						2,191
Depreciation of property, plant and equipment	92,793	-	-	-	-	92,793
Depreciation of property, plant and equipment (unallocated)						3,976
						96,769
Allowance for trade and other receivables	-	9,201	-	-	-	9,201
Change in fair value of investment properties	-	-	-	4,650	-	4,650

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

### Geographical segments

The Group's operations are located in Hong Kong and the PRC. The Group's financial and securities investment divisions are located in Hong Kong. The Group's sales of piped gas, gas pipeline construction and sales of coke and gas appliances are carried out in the PRC. Property investment is carried out in both Hong Kong and PRC.

The following table provides an analysis of the Group's revenue by geographical market:

	<b>2008</b> <b>HK\$'000</b>	2007 HK\$'000
Hong Kong	<b>1,488</b>	1,535
PRC	<b>2,550,587</b>	1,234,934
	<b>2,552,075</b>	1,236,469

The following is an analysis of the carrying amount of segment assets by geographical area in which the assets are located:

	<b>2008</b> <b>HK\$'000</b>	2007 HK\$'000
Hong Kong	<b>239,382</b>	156,150
PRC	<b>8,928,989</b>	5,560,200
	<b>9,168,371</b>	5,716,350

Additions to property, plant and equipment are all located in the PRC in both years.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 9. OTHER INCOME

	2008 HK\$'000	2007 HK\$'000
Interest income	54,712	40,530
Subsidies from PRC governmental authorities:		
– compensation of loss incurred in liquefied gas/coal gas operation (note a)	12,192	2,127
– subsidy for replacement of pipelines for natural gas supply (note b)	18,818	20,827
– tax refund (note c)	5,583	2,673
Sundry income	18,703	17,171
Profit on sales of industrial materials	16,383	2,563
Repairs and maintenance services fee	4,917	1,898
Foreign exchange gain	56,166	1,662
Adjustment in liability component of convertible bonds (note 38)	–	10,642
	<b>187,474</b>	<b>100,093</b>

Notes:

- (a) For the year ended March 31, 2008, pursuant to notice of compensation dated August 28, 2007 issued by the relevant government authority in the PRC, 撫順中燃城市發展有限公司 (“撫順中燃”), a subsidiary of the Company, received a compensation from the government authority to subsidise for the increase in cost of sales of natural gas by reference to monthly purchase volume by 撫順中燃 for the year ended March 31, 2008.

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, received 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.

- (b) For the year ended March 31, 2008, 撫順中燃 received an one-off subsidy of HK\$13,776,000 from 撫順市財政局 for setting up pipeline network for the customers in new urban areas and replacement of old pipeline network of the natural gas users in Fushun city. All the required work has been completed by 撫順中燃. In addition, 淮南中燃城市發展有限公司 (“淮南中燃”), a subsidiary of the Company, received subsidies of HK\$5,042,000 from 淮南市財政局 for its additional costs incurred in certain gas connection contracts in which the connection fee is fixed by the relevant government authority in the PRC.

For the year ended March 31, 2007, 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 the PRC by way of tax refund for natural gas business operated in the PRC.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 10. FINANCE COSTS

	2008 HK\$'000	2007 HK\$'000
Interest on:		
Bank loans and other borrowings wholly repayable within five years	132,228	110,844
Bank loans and other borrowings not wholly repayable within five years	210,714	45,506
Obligations under a finance lease	-	1
Convertible bonds (note 38)	1,781	14,225
	<b>344,723</b>	170,576
Less: Net interest income on interest rate swaps	<b>(21,001)</b>	(9,215)
Interest capitalised to construction in progress	<b>(83,693)</b>	(53,565)
	<b>240,029</b>	107,796

Borrowing costs capitalised during the year arose on the general borrowing pool and calculated by applying a capitalisation rate of 1.9% (2007: 2.2%) to expenditure on qualifying assets.

## 11. DISCOUNT ON ACQUISITION OF ASSOCIATES, A JOINTLY CONTROLLED ENTITY AND BUSINESSES

	2008 HK\$'000	2007 HK\$'000 (restated)
Discount on acquisition of associates (note 19)	-	5,568
Discount on acquisition of a jointly controlled entity (note 41)	-	20,603
Discount on acquisition of businesses (note 42)	19,191	2,098
	<b>19,191</b>	28,269

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 12. TAXATION

	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000 (restated)
PRC Enterprise Income Tax	<b>31,755</b>	13,791
Deferred taxation (note 39)	<b>(17,977)</b>	(134)
	<b>13,778</b>	13,657

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group had no assessable profit derived in Hong Kong 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 Company 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 entities will be entitled to a 50% relief from PRC Enterprise Income Tax for the following three years ("Tax preference"). 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.

On March 16, 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On December 6, 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations changes the PRC Enterprise Income Tax rate to 25% and will affect the PRC group entities of the Company from January 1, 2008.

On December 26, 2007, the State Council of the PRC issued a circular on the implementation of transitional preferential policies for PRC Enterprise Income Tax. Entities that are currently entitled to preferential tax rates under the old PRC Enterprise Income Tax Law can gradually transit to the new tax rate of 25% within 5 years after the enforcement of the New Law at a tax rate of 18%, 20%, 22%, 24% and 25% in year 2008, 2009, 2010, 2011 and 2012 respectively.

Entities that originally enjoy the Tax preference can continue enjoying the tax preference based on the original tax rate until after the expiration of the tax preference. Entities that did not start Tax preference before 2008 because they were still in loss position shall start the Tax preference from 2008.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 12. 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	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000 (restated)	2008 HK\$'000	2007 HK\$'000 (restated)
(Loss) profit before taxation	<b>(280,778)</b>	(36,256)	<b>460,842</b>	286,162	<b>180,064</b>	249,906
Tax at the domestic income tax rate	<b>(49,136)</b>	(6,345)	<b>152,078</b>	94,433	<b>102,942</b>	88,088
Tax effect of share of profit of associates	-	-	<b>(45,544)</b>	(1,896)	<b>(45,544)</b>	(1,896)
Tax effect of expenses not deductible for tax purpose	<b>26,971</b>	5,513	<b>2,619</b>	3,451	<b>29,590</b>	8,964
Tax effect of income not taxable for tax purpose	<b>(2,947)</b>	(8,005)	<b>(18,444)</b>	(11,972)	<b>(21,391)</b>	(19,977)
Tax effect of estimated tax losses not recognised	<b>25,112</b>	8,837	<b>16,851</b>	15,527	<b>41,963</b>	24,364
Effect of tax exemption granted to certain PRC entities	-	-	<b>(93,782)</b>	(85,886)	<b>(93,782)</b>	(85,886)
Taxation	-	-	<b>13,778</b>	13,657	<b>13,778</b>	13,657

Note: The applicable tax rate for Hong Kong is 17.5% (2007: 17.5%) and applicable tax rate for the PRC is 33% from April 1, 2007 to December 31, 2007 and tax rate of 25% from January 1, 2008 to March 31, 2008 (2007: 33%).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 13. PROFIT FOR THE YEAR

	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000 (restated)
Profit for the year has been arrived at after charging (crediting):		
Auditor's remuneration	<b>3,620</b>	2,800
Depreciation of property, plant and equipment	<b>189,383</b>	96,769
Release of prepaid lease payments	<b>8,401</b>	2,191
Amortisation of intangible assets included in cost of sales	<b>7,936</b>	2,660
Minimum lease payments for operating leases in respect of:		
– rented premises	<b>9,994</b>	8,429
– equipments	<b>8,092</b>	–
	<b>18,086</b>	8,429
Loss (gain) on disposal of property, plant and equipment	<b>8,253</b>	[20]
Share of tax of associates (included in share of results of associates)	<b>21,101</b>	1,438
Staff costs:		
Directors' emoluments (see below)	<b>32,064</b>	3,474
Salaries and allowances of other staff	<b>176,689</b>	99,313
Contributions to retirement benefit scheme contributions of other staff	<b>37,451</b>	15,445
Less: amount capitalised in construction in progress	<b>(12,367)</b>	[4,921]
	<b>233,837</b>	113,311
Cost of inventories/contract cost recognised as expenses in respect of:		
Sales of piped gas	<b>1,348,615</b>	644,826
Gas connection	<b>155,874</b>	84,854
Sales of coke and gas appliances	<b>285,248</b>	86,493
	<b>1,789,737</b>	816,173
Rental income from investment properties less outgoings of HK\$369,000 (2007: HK\$42,000)	<b>(4,801)</b>	[894]

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 13. PROFIT FOR THE YEAR *(Continued)*

### Emoluments of directors and employees

#### Directors

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

#### 2008

	Directors' fees	Salaries and other benefits	Performance related incentive payments	Share-based payments	Contributions to retirement benefits scheme	Total emoluments
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Executive directors						
Mr. Li Xiao Yun	3,000	-	-	138	-	3,138
Mr. Xu Ying	-	7,188	4,402	-	12	11,602
Mr. Liu Ming Hui	-	7,188	8,204	-	12	15,404
Mr. Ma Jin Long	-	120	-	-	-	120
Mr. Zhu Wei Wei	-	588	-	-	12	600
Non-executive directors						
Mr. Feng Zhuo Zhi	120	-	-	-	-	120
Mr. Mark Gelinas	83	-	-	-	-	83
Mr. R.K. Goel	120	-	-	-	-	120
Mr. Jo Yamagata	120	-	-	-	-	120
Mr. Harrison Blacker	37	-	-	-	-	37
Independent non-executive directors						
Mr. Zhao Yu Hua	240	-	-	-	-	240
Dr. Mao Er Wan	240	-	-	-	-	240
Ms. Wong Sin Yue, Cynthia	240	-	-	-	-	240
	4,200	15,084	12,606	138	36	32,064

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 13. PROFIT FOR THE YEAR *(Continued)*

### Emoluments of directors and employees *(Continued)*

#### Directors *(Continued)*

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. R.K. Goel	40	–	–	–	40
Mr. Jo Yamapata	54	–	–	–	54
Mr. Suresh Raghavanachari	106	–	–	–	106
Mr. Harrison Blacker	122	–	–	–	122
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

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 and HK\$7,200,000 respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 13. PROFIT FOR THE YEAR *(Continued)*

### Emoluments of directors and employees *(Continued)*

#### Employees

Of the five individuals with the highest emoluments in the Group, three (2007: one) were/was director(s) of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining two (2007: four) individuals were as follows:

	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Salaries and other benefits	<b>10,782</b>	8,661
Retirement benefit scheme contributions	<b>24</b>	107
	<b>10,806</b>	8,768

Their emoluments were within the following bands:

	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
	<b>No. of</b>	No. of
	<b>employee</b>	employee
Nil to HK\$1,000,000	-	2
HK\$3,000,001 to HK\$3,500,000	<b>1</b>	1
HK\$3,500,001 to HK\$4,000,000	-	1
HK\$7,500,001 to HK\$8,000,000	<b>1</b>	-

## 14. DIVIDENDS

	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Final dividend paid in respect of 2007 of HK\$0.012 (2006: HK\$0.01) per share	<b>38,619</b>	29,237

The final dividend in respect of 2008 of HK\$0.012 (2007: HK\$0.012) per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 15. EARNINGS PER SHARE

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

	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000 (restated)
Earnings for the purpose of basic earnings per share, being profit for the year attributable to equity holders of the Company	<b>119,774</b>	200,789
Adjustment for the effect of dilutive potential ordinary shares:		
Change in fair value of stock subscription option	<b>(5,400)</b>	(2,100)
Change in fair value of embedded derivatives 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	<b>114,374</b>	199,712

	<b>2008</b>	2007
	<b>'000</b>	'000
Weighted average number of ordinary shares for the purposes of basic earnings per share	<b>3,209,579</b>	2,995,323
Adjustment for effect of dilutive potential ordinary shares:		
Share options (note a)	<b>312,319</b>	228,419
Stock subscription option (note b)	<b>751</b>	10,740
Convertible bonds (note c)	-	179,087
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>3,522,649</b>	3,413,569

Notes:

- (a) Weighted average number of ordinary shares for the purpose of the computation of diluted earnings per share has taken into account the effect of the options with a dilutive effect.
- (b) Weighted average number of ordinary shares for the purpose of computation of diluted earnings per share has taken into account the effect of the potential issuance of shares upon exercise of the stock subscription option.
- (c) The computation of diluted earnings per share does not assume the conversion of convertible bonds for the year ended March 31, 2008 as the conversion would result in an increase in profit per share.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 16. INVESTMENT PROPERTIES

	HK\$'000
At April 1, 2006	44,450
Acquired on acquisition of a jointly controlled entity (note 41)	84,175
Change in fair value	4,650
At April 1, 2007	133,275
Change in fair value	85,825
At March 31, 2008	219,100

The Group's investment properties are analysed as follows:

	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Properties held under medium term leases:		
– in Hong Kong	<b>58,100</b>	49,100
– in the PRC	<b>161,000</b>	84,175
	<b>219,100</b>	133,275

The fair value of the Group's investment properties in Hong Kong at March 31, 2008 have been arrived at on the basis of a valuation carried out at these dates by Asset Appraisal Limited. The resulting surplus of HK\$9,000,000 (2007: HK\$4,650,000) was credited to consolidated income statement. Asset Appraisal Limited has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation was arrived at by reference to comparable market transactions for similar properties.

The fair value of the Group's investment properties in the PRC have been arrived at on the basis of a valuation carried out at these dates by CB Richard Ellis Limited. The resulting surplus of HK\$76,825,000 (2007: Nil) credited to consolidated income statement. CB Richard Ellis Limited has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation was arrived at by reference to the standard land prices and the sales evidence as available in the locality.

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and 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
<b>COST</b>							
At April 1, 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 subsidiaries	-	-	3,095	-	-	-	3,095
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
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 April 1, 2007	263,564	1,608,880	922,124	349,071	16,044	85,329	3,245,012
Additions	28,323	49,776	1,066,512	48,763	11,841	24,836	1,230,051
Acquired on acquisition of a subsidiary	-	-	1,030	3,137	90	224	4,481
Acquired on acquisition of jointly controlled entities	7,176	103,075	4,648	1,174	212	423	116,708
Acquired on acquisition of businesses	48,347	458,720	404,081	49,966	1,934	10,833	973,881
Disposals	(7,875)	-	-	(5,131)	(502)	(3,796)	(17,304)
Reclassification	83,083	1,000,877	(1,116,425)	32,465	-	-	-
Exchange realignment	27,511	181,762	117,881	35,853	1,508	8,209	372,724
At March 31, 2008	450,129	3,403,090	1,399,851	515,298	31,127	126,058	5,925,553
<b>DEPRECIATION AND IMPAIRMENT</b>							
At April 1, 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 April 1, 2007	15,613	67,040	-	50,588	5,905	22,566	161,712
Provided for the year	13,107	103,653	-	50,303	5,348	16,972	189,383
Eliminated on disposals	(269)	-	-	(1,712)	(275)	(2,309)	(4,565)
Exchange realignment	1,091	5,047	-	4,443	422	1,744	12,747
At March 31, 2008	29,542	175,740	-	103,622	11,400	38,973	359,277
<b>CARRYING VALUES</b>							
At March 31, 2008	420,587	3,227,350	1,399,851	411,676	19,727	87,085	5,566,276
At March 31, 2007	247,951	1,541,840	922,124	298,483	10,139	62,763	3,083,300

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 17. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The carrying value of leasehold land and buildings of the Group shown above comprises:

	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
In Hong Kong		
Long lease	<b>6,253</b>	6,522
In PRC		
Long lease	<b>95,774</b>	38,890
Medium term lease	<b>318,560</b>	202,539
	<b>420,587</b>	247,951

The pipelines of the Group are located in the PRC.

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:

Leasehold land and 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, 2008, interest capitalised in construction in progress amounted to HK\$83,693,000 (2007: HK\$53,565,000).

During the year, the Group is in the process of obtaining title deeds from relevant government authorities for its buildings in the PRC amounting to HK\$28,737,000 (2007: HK\$39,222,000). 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, 2008, the directors considered that the leasehold land element of the buildings with the carrying value of HK\$40,530,000 (2007: HK\$19,145,000) cannot be separately identified.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 18. PREPAID LEASE PAYMENTS

	2008 HK\$'000	2007 HK\$'000
The Group's prepaid lease payments comprise:		
Leasehold land in Hong Kong		
Long lease	22,182	21,032
Leasehold land in the PRC		
Long lease	120,429	102,832
Medium term lease	261,568	83,292
	<b>404,179</b>	207,156
Analysed for reporting purposes as:		
Non-current portion	397,301	201,927
Current portion	6,878	5,229
	<b>404,179</b>	207,156

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

## 19. INTERESTS IN ASSOCIATES

	2008 HK\$'000	2007 HK\$'000
Cost of investments in associates – unlisted	66,402	65,402
Share of pre-acquisition dividend	(1,296)	(1,296)
Share of post-acquisition profit (net of dividend received)	143,617	5,604
Discount on acquisition of associates	5,568	5,568
	<b>214,291</b>	75,278

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 19. INTERESTS IN ASSOCIATES *(Continued)*

The Group had interests in the following associates:

Name of entity	Form of business structure	Place of registration/ incorporation	Principal place of operation	Class of capital	Proportion of nominal value of registered/ issued capital held by the Group		Principal activities
					2008 %	2007 %	
北京宏達斯特燃氣技術開發公司	Sino-foreign equity joint venture	PRC	PRC	Registered	<b>22.10</b>	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	<b>19.60</b> (note)	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	<b>44.00</b>	44.00	Trading of natural gas, gas pipeline construction and property investment
重慶鼎發實業股份有限公司 ("重慶鼎發")	Sino-foreign equity joint venture	PRC	PRC	Registered	<b>38.69</b>	38.69	Exploration, collection transportation, purification and sales of natural gas
重慶市渝北區佳渝天然氣有限公司	Sino-foreign equity joint venture	PRC	PRC	Registered	<b>47.83</b>	-	Trading 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 ended March 31, 2007, a discount on acquisition of HK\$5,568,000 arising on the acquisition of 川東燃氣 and 重慶鼎發 had been included as income in the determination of the Group's share of profit of associates.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 19. INTERESTS IN ASSOCIATES *(Continued)*

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

	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Total assets	<b>1,216,139</b>	431,629
Total liabilities	<b>(709,492)</b>	(238,958)
Net assets	<b>506,647</b>	192,671
The Group's share of associates' net assets	<b>214,291</b>	75,278
Revenue	<b>283,193</b>	155,174
Change in fair value of investment properties	<b>264,722</b>	-
Profit for the year	<b>312,412</b>	16,916
The Group's share of results of associates for the year	<b>138,013</b>	5,742

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 20. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

The Group had interests in the following significant jointly controlled entities:

Name of entity	Form of business structure	Place of registration/ incorporation	Principal place of operation	Class of capital	Proportion of nominal value of registered/issued capital held by the Group		Principal activity
					2008 %	2007 %	
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)	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)	50.0 (note b)	Trading of natural gas and gas pipeline construction
揚州中燃城市燃氣發展有限公司 ("揚州中燃")	Sino-foreign equity joint venture	PRC	PRC	Registered	50.0 (note b)	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)	50.0 (note b)	Trading of natural gas and gas pipeline construction
德州中燃城市燃氣發展有限公司 ("德州中燃")	Sino-foreign equity joint venture	PRC	PRC	Registered	49.0 (note c)	-	Trading of natural gas and gas pipeline construction
蕪湖中燃新福利汽車燃氣有限公司 ("蕪湖新福利")	Sino-foreign equity joint venture	PRC	PRC	Registered	50.0 (note b)	-	Natural gas refill service and gas station administration
重慶鼎旺化工有限公司 ("重慶鼎旺")	Equity joint venture	PRC	PRC	Registered	49.0 (note d)	-	Purifying technology service of natural gas
China Gas - SK Energy Holdings Company Limited ("SK Energy")	Incorporated	Hong Kong	Hong Kong	Ordinary	50.0 (note e)	-	Trading of natural gas and gas pipeline construction
China Oman Energy Company Limited ("China Oman")	Incorporated	Bermuda	Hong Kong	Ordinary	50.0 (note f)	-	Development of energy import projects from Middle East to PRC
泰能天然氣有限公司 ("泰能天然氣")	Equity joint venture	PRC	PRC	Registered	51.0 (note g)	-	Trading of natural gas

\* English name is for identification purposes only.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 20. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES *(Continued)*

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 the Board of Directors 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 the Board of Directors 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.
- (c) The Group holds 49% of the issued share capital of 德州中燃 and four out of the eight directors of 德州中燃 are appointed by the Group, hence the Group controls 50% of the voting power in the Board of Directors meeting. As all the decisions made in the Board of Directors meeting require at least 2/3 votes from all of the directors, 德州中燃 is accounted for as a jointly controlled entity.
- (d) The Group holds 49% of the issued share capital of 重慶鼎旺 through a wholly owned subsidiary, 中國燃氣投資有限公司 (“中燃投資”). Two out of the five directors of 重慶鼎旺 are appointed by the Group, hence the Group controls 40% of the voting power in the Board of Directors meeting. As all the decisions made in the Board of Directors meeting require more than 1/2 votes from all of the directors, these companies are accounted for as a jointly controlled entity.
- (e) The Group holds 50% of the issued share capital of SK Energy and three out of the six directors of SK Energy are appointed by the Group, hence the Group controls 50% of the voting power in general meeting. As all the decisions made in the Board of Directors meeting require more than 1/2 votes from all of the directors, SK Energy are accounted for as a jointly controlled entity.
- (f) The Group holds 50% of the issued share capital of China Oman and two out of the four directors of China Oman are appointed by the Group, hence the Group controls 50% of the voting power in general meeting. As all the decisions made in the Board of Directors meeting require more than 1/2 votes from all of the directors, China Oman are accounted for as a jointly controlled entity.
- (g) The Group holds 51% of the issued share capital of 泰能天然氣 and four out of the eight directors of 泰能天然氣 are appointed by the Group, hence the Group controls 50% of the voting power in general meeting. As all the decisions made in the Board of Directors meeting require more than 1/2 votes from all of the directors, 泰能天然氣 are accounted for as a jointly controlled entity.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 20. 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:

	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Current assets	<b>721,065</b>	414,782
Non-current assets	<b>1,735,097</b>	722,488
Current liabilities	<b>648,663</b>	376,628
Non-current liabilities	<b>315,237</b>	152,689
Revenue	<b>805,340</b>	193,880
Profit for the year	<b>131,550</b>	30,163

## 21. AVAILABLE-FOR-SALE INVESTMENTS

	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Equity securities listed in Hong Kong, at fair value	<b>11,767</b>	16,746
Unlisted equity securities, at cost less impairment	<b>3,017</b>	3,017
Club debenture, at fair value	<b>3,592</b>	3,386
	<b>18,376</b>	23,149

Equity securities listed in Hong Kong are stated at fair value. The fair values of listed equity securities are based on quoted market bid price. Change in fair value of the listed equity securities classified as available-for-sale investments for the year ended March 31, 2008 with an increase of HK\$591,000 (2007: decrease of HK\$2,640,000) was recognised in the investment revaluation reserve. During the year, the Group disposed of available-for-sale investments with the carrying value of HK\$5,570,000 and a net gain on disposal of HK\$1,144,000 was credited to consolidated income statement.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 21. AVAILABLE-FOR-SALE INVESTMENTS *(Continued)*

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 Company are of the opinion that their fair values cannot be measured reliably. During the year ended March 31, 2007, impairment loss of HK\$2,200,000 was recognised, as in the opinion of the directors, the investment could not demonstrate a predictable 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. No fair value change was recognised in both years.

## 22. GOODWILL

	HK\$'000
<hr/>	
COST	
At April 1, 2006	275,375
Arising on:	
Acquisition of additional interest in a subsidiary (note 40)	24,590
<hr/>	
At April 1, 2007	299,965
Arising on:	
Acquisition of businesses (note 42)	118,282
<hr/>	
At March 31, 2008	418,247
<hr/>	
CARRYING AMOUNTS	
At March 31, 2008	418,247
<hr/>	
At March 31, 2007	299,965
<hr/>	

The Group tests for impairment of goodwill annually and in the financial year in which the acquisition takes place, or more frequently if there are indications that goodwill might be impaired. Particulars regarding impairment testing on goodwill are disclosed in note 24.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 23. OTHER INTANGIBLE ASSETS

	<b>Exclusive rights of natural gas operations</b>	<b>Contracted customer base</b>	<b>Technical expertise</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>COST</b>				
At April 1, 2006	–	–	–	–
Acquired on acquisition of subsidiaries (note 40)	70,134	15,000	–	85,134
Acquired on acquisition of a jointly controlled entity (note 41)	11,981	–	–	11,981
Acquired on acquisition of businesses (note 42)	3,996	–	–	3,996
At March 31, 2007, as restated	86,111	15,000	–	101,111
Acquired on establishment of jointly controlled entities (note 41)	2,547	–	13,637	16,184
Acquired on acquisition of businesses (note 42)	212,959	–	–	212,959
At March 31, 2008	301,617	15,000	13,637	330,254
<b>AMORTISATION</b>				
At April 1, 2006	–	–	–	–
Charge for the year	2,366	294	–	2,660
At March 31, 2007, as restated	2,366	294	–	2,660
Charge for the year	5,868	1,500	568	7,936
At March 31, 2008	8,234	1,794	568	10,596
<b>CARRYING VALUES</b>				
At March 31, 2008	293,383	13,206	13,069	319,658
At March 31, 2007	83,745	14,706	–	98,451

Note: The exclusive rights of natural gas operation, contracted customer base and technical expertise are amortised on a straight-line method over the period of 30 years, 10 years and 20 years respectively. Particulars regarding impairment testing on other intangible assets are disclosed in note 24.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 24. IMPAIRMENT TESTING ON GOODWILL AND OTHER INTANGIBLE ASSETS

Management considered each subsidiary represents a separate CGU for the purpose of goodwill and other intangible assets impairment testing. The carrying amounts of goodwill, exclusive rights of natural gas operations, contracted customer base and technical expertise allocated as follows:

	Goodwill		Exclusive rights of natural gas operations		Contracted customer base		Technical expertise	
	2008	2007	2008	2007	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Clever Decision Enterprise Limited	141,716	141,716	-	-	-	-	-	-
宿州中燃城市燃氣發展有限公司 〔“宿州中燃”〕	44,802	44,802	-	-	-	-	-	-
北京中油翔科科技有限公司	15,540	15,540	-	-	-	-	-	-
柳州中燃	65,981	65,981	-	-	-	-	-	-
Positive Rise Energy Limited 〔“Positive Rise”〕	100,086	-	92,948	-	-	-	-	-
包頭市燃氣有限公司〔“包頭燃氣”〕	-	-	24,642	-	-	-	-	-
China City Natural Gas Investment Limited〔“CGNGIL”〕	-	-	65,968	68,300	-	-	-	-
呼和浩特中燃	-	-	11,182	11,582	-	-	-	-
撫順中燃	-	-	3,730	3,863	-	-	-	-
杭州東能管道燃氣有限公司 〔“杭州東能”〕	-	-	92,451	-	-	-	-	-
德州中燃	-	-	2,462	-	-	-	-	-
China Gas Investment Development Limited〔“CGIDL”〕	-	-	-	-	13,206	14,706	-	-
China Oman	-	-	-	-	-	-	13,069	-
Other subsidiaries	50,122	31,926	-	-	-	-	-	-
	<b>418,247</b>	<b>299,965</b>	<b>293,383</b>	<b>83,745</b>	<b>13,206</b>	<b>14,706</b>	<b>13,069</b>	<b>-</b>

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 24. IMPAIRMENT TESTING ON GOODWILL AND OTHER INTANGIBLE ASSETS

*(Continued)*

The Group prepares cash flows forecasts derived from the most recent financial budgets approved by management for the next five years, which is the general development period for natural gas business and extrapolates cash flows for the following five 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, 2008.

## 25. 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 had been transferred to property, plant and equipment and details of this related party transaction are set out in note 48(i).

## 26. LOAN RECEIVABLE

	2008 HK\$'000	2007 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	<b>15,000</b>	15,000

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

## 27. INVENTORIES

	2008 HK\$'000	2007 HK\$'000
Construction materials	<b>231,546</b>	102,699
Consumables, spare parts and coke materials	<b>38,932</b>	14,838
Natural gas	<b>15,052</b>	19,495
	<b>285,530</b>	137,032

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 28. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
<hr/>		
Contracts in progress at balance sheet date:		
Contract costs incurred plus recognised profits less recognised losses	<b>391,350</b>	555,723
Less: Progress billings	<b>(120,171)</b>	(116,892)
	<b>271,179</b>	438,831
<hr/>		
Analysed for reporting purposes as:		
Amounts due from customers for contract work	<b>283,426</b>	444,552
Amounts due to customers for contract work	<b>(12,247)</b>	(5,721)
	<b>271,179</b>	438,831
<hr/>		

At March 31, 2008 and 2007, there were no retention monies held by customers for contract work performed. At March 31, 2008, advances received from customers for contract work amounted to HK\$230,340,000 (2007: HK\$103,451,000) which were included in trade and other payables.

During the year ended March 31, 2008, the Group recognised losses of HK\$79,623,000 in respect of contract costs incurred. Directors of the Company reviewed the recoverable amounts of contract costs incurred plus recognised profits and identified certain projects are unlikely to be completed in foreseeable future. In the opinion of directors of the Company, the amounts are unlikely to be recovered from its customers and accordingly, losses are recognised in full in the consolidated income statement.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 29. 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:

	2008 HK\$'000	2007 HK\$'000
0-180 days	271,250	240,170
181-365 days	67,857	64,483
Over 365 days	141,809	43,451
Total trade receivables before accumulated allowances	480,916	348,104
Less: Accumulated allowances	(79,187)	(20,201)
Trade receivables	401,729	327,903
Deposits paid for construction materials	77,027	44,519
Deposits paid for purchase of natural gas	81,825	47,833
Advances payments to contractors	72,477	28,231
Other receivables, deposits and prepayments	219,271	216,089
Amounts due from minority shareholders of subsidiaries	40,506	9,012
Amounts due from shareholders of a jointly controlled entity	42,880	21,161
Fund in securities brokers	-	24,578
	935,715	719,326

The trade receivables with carrying amount of HK\$271,250,000 (2007: HK\$240,170,000) are neither past due nor impaired at the reporting date for which the Group believes that the amounts are considered recoverable.

The Group has policies for allowance of bad and doubtful debts which are based on the evaluation of collectability and age analysis of accounts and on the management's judgement including the credit creditworthiness, collaterals and the past collection history of each customer.

During the year ended March 31, 2008, the Group made an allowance of HK\$57,190,000 (2007: HK\$9,201,000) in respect of the trade receivables, which was past due at the reporting date with long age and slow repayments were received from respective customers since the due date. The directors considered the related receivables maybe impaired and specified allowance is made.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 29. TRADE AND OTHER RECEIVABLES *(Continued)*

Movement in the allowance for bad and doubtful debts:

	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Balance at the beginning of the year	<b>20,201</b>	10,780
Exchange differences	<b>1,796</b>	220
Charge for the year	<b>57,190</b>	9,201
Balance at the end of the year	<b>79,187</b>	20,201

In determining the recoverability of the trade receivables, the Group considers any change in the credit quality of the trade receivables from the date credit was initially granted up to the reporting date. The trade receivables past due but not provided for were either subsequently settled as at the date of this report or no historical default of payments by the respective customers. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for bad and doubtful debts.

Included in the Group's trade receivables are debtors, with a carrying amount of HK\$130,479,000 (2007: HK\$87,733,000) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amount are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these trade receivable is 310 days (2007: 295 days) as at March 31, 2008.

In respect of trade receivable which are past due but not impaired at the respective balance sheet date, the aged analysis from due date is as follows:

	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
0 – 180 days	<b>67,857</b>	64,483
181 – 365 days	<b>62,622</b>	23,250
	<b>130,479</b>	87,733

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



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 30. DERIVATIVE FINANCIAL INSTRUMENTS

	2008 HK\$'000	2007 HK\$'000
Derivative financial assets:		
Interest rate range accrual swap transactions not qualified for hedge accounting	8,362	17,433
Early redemption option embedded in convertible bonds (note 38(ii)(c))	2,614	15,865
	<b>10,976</b>	33,298
Derivative financial liabilities:		
Embedded conversion option (note 38) (ii)(b)	4,264	52,502
Stock subscription rights granted to Merrill Lynch International ("ML") (note 38 (i))	-	5,400
Mandatory redemption option embedded in convertible bonds (note 38(ii)(d))	-	1,412
	<b>4,264</b>	59,314

### Interest rate swap range accrual swap transactions

Major terms of the outstanding interest rate swap transactions are as follows:

Notional amount	Maturity dates	Pay leg	Receive leg
RMB1,500,000,000 in aggregate	From September 4, 2011 to September 12, 2011	6.6% - 6.65%	Relative movement of 2-year, 10-year and 30-year USD swap rates
US\$200,000,000 in aggregate	From October 12, 2010 to June 13, 2011	From USD LIBOR + 0.60% to USD LIBOR + 2.35%	Relative movement of 2-year, 10-year and 30-year USD swap rates

The net fair values of the outstanding interest rate transactions are measured at the present value of estimated future cash flows discounted based on the applicable yield curves derived from quoted interest rates.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 30. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

### Derivatives embedded in convertible bonds and stock subscription option

Embedded conversion option represents the fair value of the bondholders' option to convert the convertible bonds issued on June 29, 2005 (as detailed in note 38) into equity of the Company.

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.

Stock subscription rights represented the fair value of the option granted to ML to subscribe for new shares of the Company and had been fully exercised by ML during the year. Details of such convertible bond and the subscription arrangement are set out in note 38.

The fair value of the embedded conversion, early redemption option and stock subscription option are 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	
	2008	2007	2008	2007	2008	2007
Conversion price/redemption price/exercise price	<b>HK\$1.731</b>	HK\$1.731	<b>HK\$1.996</b>	HK\$1.996	<b>N/A</b>	HK\$1.128
Expected volatility (note a)	<b>51.27%</b>	36.49%	<b>51.27%</b>	37.74%	<b>N/A</b>	36.53%
Expected life (note b)	<b>0.25 year</b>	1 year	<b>0.25 year</b>	1.25 years	<b>N/A</b>	1.9 years
Risk free rate (note c)	<b>1.31%</b>	3.752%	<b>1.31%</b>	3.785%	<b>N/A</b>	3.823%

Notes:

- (a) Expected volatility for early redemption option was determined by calculating the historical volatility of the Company's share price over 250 trading days; for embedded conversion option was determined by calculating the historical volatility of the Company's share price over 250 trading days.
- (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\$166,884,000 (2007: HK\$4,307,000) was recognised as a change in fair value of derivative financial instruments.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 31. AMOUNT DUE FROM AN ASSOCIATE

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

## 32. HELD-FOR-TRADING INVESTMENTS

	2008 HK\$'000	2007 HK\$'000
Listed securities at fair value		
– Equity securities listed in Hong Kong	42,074	45,045
– Equity securities listed in the PRC	–	12,796
	<b>42,074</b>	57,841

## 33. 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 1.5% to 3.5% per annum (2007: 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\$164,597,000 (2007: 29,417,000) have been pledged to secure short-term bank loans and undrawn facilities and are therefore classified as current assets.

## 34. 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:

	2008 HK\$'000	2007 HK\$'000
0-90 days	234,247	109,511
91-180 days	31,311	77,326
Over 180 days	94,110	117,440
Trade payables	359,668	304,277
Other payables and accrued charges	734,086	425,142
Advance received from customers for contract works	230,340	103,451
Amounts due to minority shareholders of subsidiaries	24,558	26,529
	<b>1,348,652</b>	859,399

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 35. BANK AND OTHER BORROWINGS

	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Bank loans	<b>5,471,132</b>	2,626,599
Mortgage loan	<b>14,416</b>	16,668
Other loans	<b>295,967</b>	285,966
	<b>5,781,515</b>	2,929,233
Secured	<b>4,528,197</b>	1,830,337
Unsecured	<b>1,253,318</b>	1,098,896
	<b>5,781,515</b>	2,929,233
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
The maturity profile of the above loans is as follows:		
On demand or within one year	<b>157,061</b>	686,781
More than one year, but not exceeding two years	<b>205,922</b>	245,181
More than two years, but not exceeding five years	<b>899,345</b>	1,130,856
More than five years	<b>4,519,187</b>	866,415
	<b>5,781,515</b>	2,929,233
Less: Amount due within one year shown under current liabilities	<b>(157,061)</b>	(686,781)
Amount due after one year	<b>5,624,454</b>	2,242,452
Borrowings comprise:		
Fixed-rate borrowings	<b>4,714,191</b>	1,830,337
Floating-rate borrowings	<b>1,067,324</b>	1,098,896
	<b>5,781,515</b>	2,929,233

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 35. BANK AND OTHER BORROWINGS *(Continued)*

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

	2008	2007
Effective interest rate per annum:		
Fixed-rate borrowings	<b>2.10% to 7.83%</b>	2.00% to 7.34%
Floating-rate borrowings	<b>4.17% to 7.83%</b>	5.28% to 7.67%

The details of the Group's borrowings which are denominated in currencies other than the functional currency of the relevant group entities are set out below:

	USD HK\$'000 equivalent	JPY HK\$'000 equivalent
At March 31, 2008	2,100,419	44,574
At March 31, 2007	1,296,940	57,190

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 36. 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, 2006	2,921,563	29,216	–	–	29,216
Issue of new ordinary shares (notes a and b)	157,001	1,570	–	–	1,570
Exercise of share options (note 47)	17,640	176	–	–	176
At March 31, 2007	3,096,204	30,962	–	–	30,962
Issue of new ordinary shares (notes c and d)	178,230	1,782	–	–	1,782
Exercise of share options (note 47)	57,010	570	–	–	570
At March 31, 2008	3,331,444	33,314	–	–	33,314

Notes:

- (a) 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.
- (b) 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 38.
- (c) On May 22, 2007, pursuant to the subscription letter dated October 29, 2003, the Company issued a total of 7,000,000 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 38.
- (d) During the year ended March 31, 2008, the bondholders of the Bond (as defined in note 38) have converted part of the Bond into 171,230,000 ordinary shares of HK\$0.01 each in the Company at a conversion price of HK\$1.731 per share.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 37. 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 a non-current liability as at the balance sheet date.

## 38. CONVERTIBLE BONDS

- (i) 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. The fair value of the stock subscription rights has been recognised as derivative financial instruments as set out in note 30. The stock subscription rights are fully exercised by ML during the year ended March 31, 2008.
- (ii) 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% (2007: 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 38. CONVERTIBLE BONDS *(Continued)*

(ii) *(Continued)*

- (c) Embedded early redemption option of the Bond represents the Company's option to early redeem all or part of the Bond by bond holder on or before June 19, 2010 at the conversion price of HK\$1.7310
- (d) Mandatory redemption option of the Bond represents redemption at the option of the bond holders on June 29, 2008 at 115.314 per cent of the principal amount of the Bond.

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

	<b>Liability</b> HK\$'000	<b>Embedded conversion option</b> HK\$'000	<b>Early redemption option</b> HK\$'000	<b>Mandatory redemption option</b> HK\$'000	<b>Total</b> HK\$'000
At April 1, 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 10)	14,225	-	-	-	14,225
Interest paid	(3,100)	-	-	-	(3,100)
At April 1, 2007	273,457	52,502	(15,865)	1,412	311,506
Change in fair value	-	190,606	(25,981)	(1,412)	163,213
Exercise during the year	(260,362)	(238,844)	39,232	-	(459,974)
Interest charged (note 10)	1,781	-	-	-	1,781
Interest paid	(542)	-	-	-	(542)
At March 31, 2008	14,334	4,264	(2,614)	-	15,984

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.

For the year ended March 31, 2007, the Bond was listed on the Stock Exchange on June 1, 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 was recognised as other income.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 38. CONVERTIBLE BONDS *(Continued)*

From June 4, 2007 to September 19, 2007 ("1st batch conversion") and November 23, 2007 ("2nd batch conversion"), the bond holders exercised US\$26,000,000 and US\$12,000,000 of the Bonds respectively. The fair values of the embedded conversion and early redemption option are calculated by using the Black-Scholes-Merton Option Pricing Model. The inputs into the model were as follows:

	<b>Embedded conversion option</b>		<b>Early redemption option</b>	
	2nd batch conversion	1st batch conversion	2nd batch conversion	1st batch conversion
Share price at conversion	HK\$3.38	HK\$2.62-3.52	HK\$3.38	HK\$2.62-3.52
Conversion price/redemption price	HK\$1.731	HK\$1.731	HK\$1.996	HK\$1.996
Expected volatility	47.20%	46.10%	47.20%	46.10%
Expected life	0.60 year	0.72 year	0.60 year	0.96 year
Risk-free rate	2.35%	4.42%	2.35%	4.42%
Fair value at conversion (in HK\$'000)	83,542	155,302	9,468	29,764

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 39. 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	Revaluation on properties HK\$'000	Tax losses HK\$'000	Intangible assets HK\$'000	Impairment on trade receivables and amounts due from customers for contract work HK\$'000	Total HK\$'000
At April 1, 2006	421	1,063	(1,484)	-	-	-
Charge (credit) to consolidated income statement for the year	73	815	(888)	-	-	-
At April 1, 2007, as originally stated	494	1,878	(2,372)	-	-	-
Acquisition of a jointly controlled entity (note 41)	-	-	-	2,995	-	2,995
Acquisition of businesses (note 42)	-	-	-	999	-	999
Credit to consolidated income statement	-	-	-	(134)	-	(134)
At April 1, 2007, as restated	494	1,878	(2,372)	3,860	-	3,860
Acquisition of a jointly controlled entity (note 41)	-	-	-	637	-	637
Acquisition of businesses (note 42)	-	31,190	-	53,240	-	84,430
(Credit) charge to consolidated income statement for the year	(22)	18,686	(1,553)	(885)	(34,203)	(17,977)
At March 31, 2008	472	51,754	(3,925)	56,852	(34,203)	70,950

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

	2008 HK\$'000	2007 HK\$'000
Deferred tax assets	34,203	-
Deferred tax liabilities	(105,153)	(3,860)
	(70,950)	(3,860)

At March 31, 2008, the Group has estimated unused tax losses of HK\$520,802,000 (2007: HK\$326,241,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$22,428,000 (2007: HK\$13,554,000) of the tax losses. No deferred tax asset has been recognised for the remaining estimated tax losses of HK\$498,374,000 (2007: HK\$312,687,000) due to the uncertainty of future profits streams. Included in unrecognised estimated tax losses are losses of HK\$141,709,000 (2007: HK\$90,645,000) that will expire in 5 years from the year of origination.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 40. ACQUISITION OF SUBSIDIARIES AND ADDITIONAL INTEREST IN A SUBSIDIARY

### Acquisition of assets through establishment of a subsidiary in 2008

On May 21, 2007, the Group established a subsidiary in the PRC, namely 長沙中燃天然氣有限公司 (“長沙中燃”) which the Group owns 70% issued share capital. The Group contributed the capital in cash of US\$1,847,000 and the minority shareholder injected capital in cash of RMB1,608,000 and property, plant and equipment into 長沙中燃.

	HK\$'000
<hr/>	
NET ASSETS ACQUIRED	
Property, plant and equipment	4,481
Bank balances and cash	1,641
<hr/>	
	6,122
Cash injected by the Group	14,286
Minority interest	(6,122)
<hr/>	
Total consideration	14,286
<hr/>	
SATISFIED BY	
Cash injected by the Group	14,286
<hr/>	
NET CASH INFLOW ARISING ON ACQUISITION	
Bank balances and cash acquired	1,641
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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

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

### Acquisition of assets through purchase of subsidiaries in 2007

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

	HK\$'000
<hr/>	
NET ASSETS ACQUIRED	
Property, plant and equipment	3,095
Prepaid lease payments	149
Intangible assets	
– 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)
<hr/>	
Total consideration	70,200
<hr/>	
SATISFIED BY	
Cash consideration	70,200
<hr/>	
NET CASH OUTFLOW ARISING ON ACQUISITION	
Cash consideration paid	(70,200)
Bank balances and cash acquired	48,175
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	(22,025)
<hr/>	

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 40. 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 CGIDL at a total consideration of HK\$30,000,000. CGIDL and its subsidiary has not commenced business at the date of acquisition.

	HK\$'000
<hr/>	
NET ASSETS ACQUIRED	
Intangible assets	
– contracted customer base	15,000
Other receivables	15,000
<hr/>	
Total consideration satisfied by cash and net cash outflow arising on acquisition	30,000
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### Acquisition of additional interest in a subsidiary in 2008

On January 15, 2008, 淮南中燃, a wholly-owned subsidiary of the Company, entered into an agreement with independent third party in relation to the acquisition of the remaining 10% equity interest of a non-wholly owned subsidiary, 壽縣中燃城市燃氣有限公司 (“壽縣中燃”), at a total consideration of RMB315,000. Discount on acquisition arising from the acquisition of additional interest in 壽縣中燃 is HK\$108,000.

### Acquisition of additional interest in a subsidiary in 2007

On January 27, 2007, 中燃投資, a wholly-owned subsidiary of the Company, entered into an agreement 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 for the year ended March 31, 2007 and the remaining consideration was paid in the year ended March 31, 2008.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 41. ACQUISITION OF JOINTLY CONTROLLED ENTITIES

### Establishment of jointly controlled entities in 2008

- (i) On January 1, 2008, a jointly controlled entity, SK Energy, which the Group owns 50% issued share capital, established a jointly controlled entity in the PRC, namely 台州中燃愛思開城市燃氣發展有限公司(“台州中燃”), which SK Energy owns 50% issued share capital. SK Energy contributed the capital in cash of RMB71,200,000 (equivalent to HK\$75,820,000) and the other shareholder contributed the capital in the form of assets and liabilities. The assets and liabilities contributed by the other shareholder enable 台州中燃 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.

	<b>Carrying amount and provisional fair value of net assets injected by the other shareholder of 台州中燃</b>	<b>Carrying amount and provisional fair value of net assets under proportionate consolidation</b>
	HK\$'000	HK\$'000
<hr/>		
NET ASSETS ACQUIRED		
Property, plant and equipment	76,100	19,025
Trade and other receivables	416	104
Bank balances and cash	27,880	6,970
Trade and other payables	(28,576)	(7,144)
	<hr/>	<hr/>
Cash injection by SK Energy	75,820	18,955
	75,820	18,955
	<hr/>	<hr/>
Total cash consideration	151,640	37,910
<hr/>		
NET CASH OUTFLOW ARISING ON ACQUISITION		
Cash paid the Group		(37,910)
Bank balances and cash acquired		25,925
		<hr/>
		(11,985)
		<hr/>

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 41. ACQUISITION OF JOINTLY CONTROLLED ENTITIES *(Continued)*

### Establishment of jointly controlled entities in 2008 *(Continued)*

- (ii) On August 18, 2007, the Group established a jointly controlled entity in the PRC, namely 德州中燃, which the Group owns 49% issued share capital. The Group contributed the capital in cash of RMB104,983,000 (equivalent to HK\$111,195,000) and the other shareholder contributed the capital in the form of assets and liabilities. The assets and liabilities contributed by the other shareholder enable 德州中燃 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 of net asset injected by other shareholder of 德州中燃 HK\$'000	Fair Value adjustments HK\$'000	Provisional fair value of net assets injected by the other fair value adjustments HK\$'000	49% of the provisional fair value of net assets under shareholder of 德州中燃 HK\$'000
<b>NET ASSETS ACQUIRED</b>				
Property, plant and equipment	162,890	(8,398)	154,492	75,701
Prepaid lease payments	7,447	-	7,447	3,649
Intangible assets – exclusive rights of natural gas operations	-	5,198	5,198	2,547
Inventories	4,941	-	4,941	2,421
Trade and other receivables	15,682	(147)	15,535	7,611
Bank balances and cash	19,182	-	19,182	9,399
Trade and other payables	(36,008)	-	(36,008)	(17,643)
Bank borrowings	(53,754)	-	(53,754)	(26,339)
Deferred taxation	-	(1,300)	(1,300)	(637)
	120,380	(4,647)	115,733	56,709
Cash injection by the Group			111,195	54,486
Total consideration			226,928	111,195
<b>SATISFIED BY</b>				
Cash injection to 德州中燃				111,195
<b>NET CASH OUTFLOW ARISING ON ACQUISITION</b>				
Cash paid				(111,195)
Bank balances and cash acquired				63,885
				(47,310)

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 41. ACQUISITION OF JOINTLY CONTROLLED ENTITIES *(Continued)*

### **Establishment of jointly controlled entities in 2008** *(Continued)*

(iii) On May 21, 2007, the Group established a jointly controlled entity in Bermuda, namely China Oman, which the Group owns 50% issued share capital. The Group contributed the capital in cash of US\$3,500,000 (approximately HK\$27,300,000) to subscribe 3,500,000 ordinary shares of China Oman and the other shareholder paid in form of cash of US\$3,500 (approximately HK\$27,000) and agree to contributed the technical expertise with value of US\$3,496,500 (approximately HK\$27,273,000) to subscribe 3,500,000 ordinary shares of China Oman. The technical expertise with carrying amount of HK\$13,637,000, being the portion shared by the Group, represents the committed contribution to China Oman during the operation period of 20 years by the joint venturer of China Oman without any compensation from China Oman for the identification and development of (1) the energy projects related to the oil and gas filed 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 and (2) the importation of energy products into the PRC including liquefied natural gas, liquefied petroleum gas, crude oil and fuel oil from the Middle East or other parts of the world. Acquisition of the technical expertise enhances the Group's competitiveness in the gas supply market in the PRC. The technical expertise contributed by other shareholder was accounted for as an intangible asset and the Group shared 50% on it.

### **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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 41. ACQUISITION OF JOINTLY CONTROLLED ENTITIES *(Continued)*

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

	Carrying amount of net assets injected by other shareholder of 呼和浩特中燃 HK\$'000	Fair value adjustments HK\$'000	Provisional fair value as previously stated injected by other shareholder of 呼和浩特中燃 HK\$'000	Prior year adjustments upon completion of initial accounting HK\$'000	Adjusted fair value of net assets injected by other shareholder of 呼和浩特中燃 HK\$'000	50% of fair value under proportionate consolidation HK\$'000
<b>NET ASSETS ACQUIRED</b>						
Property, plant and equipment	518,598	70,538	589,136	-	589,136	294,568
Investment properties (Note)	79,970	88,380	168,350	-	168,350	84,175
Prepaid lease payments	46,160	50,948	97,108	-	97,108	48,554
Intangible assets – exclusive rights of natural gas operations	-	-	-	23,962	23,962	11,981
Inventories	36,090	-	36,090	-	36,090	18,045
Trade and other receivables	177,930	-	177,930	-	177,930	88,965
Bank balances and cash	96,230	-	96,230	-	96,230	48,115
Trade and other payables	(520,480)	-	(520,480)	-	(520,480)	(260,240)
Bank borrowings	(226,218)	-	(226,218)	-	(226,218)	(113,109)
Deferred taxation	-	-	-	(5,990)	(5,990)	(2,995)
	208,280	209,866	418,146	17,972	436,118	218,059
Cash injection by the Group			394,912	-	394,912	197,456
			813,058	17,972	831,030	415,515
Discount on acquisition						(20,603)
Total consideration						394,912
<b>SATISFIED BY</b>						
Cash injection to 呼和浩特中燃						78,982
Obligation on acquisition						315,930
						394,912
<b>NET CASH INFLOW ARISING ON ACQUISITION</b>						
Cash paid						(78,982)
Bank balances and cash acquired						87,606
						8,624

Note: During the year, based on the updated information from the other shareholder of 呼和浩特中燃, it is considered that the prepaid lease payments of certain leasehold land with fair value of HK\$168,350,000 is held for undetermined use. As such, the amount has been reclassified as investment properties at the date of establishment of 呼和浩特中燃.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 41. ACQUISITION OF JOINTLY CONTROLLED ENTITIES *(Continued)*

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

As at March 31, 2007, the Company had 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 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 proportionate consolidation, the obligation on acquisition as at balance sheet date was HK\$157,965,000 as at March 31, 2007.

### Acquisition of assets through purchase of a jointly controlled entity in 2008

On September 20, 2007, the Group acquired a jointly controlled entity in the PRC, namely 重慶鼎旺, which the Group owns 49% registered capital with a consideration of RMB15,680,000. 重慶鼎旺 has not yet commenced business at date of acquisition.

	<b>Net assets of the jointly controlled entity</b>	<b>49% of net assets under proportionate consolidation</b>
	HK\$'000	HK\$'000
<hr/>		
NET ASSETS ACQUIRED		
Property, plant and equipment	44,862	21,982
Trade and other receivables	3,170	1,553
Bank balances and cash	45	22
Trade and other payables	(1,682)	(824)
Bank borrowings	(13,742)	(6,733)
	<hr/>	<hr/>
	32,653	16,000
<hr/>		
SATISFIED BY		
Cash consideration		16,000
<hr/>		
NET CASH OUTFLOW ARISING ON ACQUISITION		
Cash paid		(16,000)
Bank balances and cash acquired		22
		<hr/>
		(15,978)
<hr/>		

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 42. ACQUISITION OF BUSINESSES

### Acquisition of businesses through purchase of subsidiaries in 2008

- (i) On December 18, 2006, the Group entered into share transfer agreements with two independent third parties pursuant to which the Group acquired 100% of Positive Rise, which holds 100% registered capital of 上海中寶科控燃氣實業有限公司 (“上海中寶”) which in turn holds 51% of registered capital of 泰能天然氣, which is considered as a jointly controlled entity of the Group, at an aggregate consideration of RMB255,950,000 (equivalent to HK\$256,011,000). The acquisition was completed on May 23, 2007.

	<b>Acquirees’ carrying amounts before combination</b>	<b>Fair value adjustments</b>	<b>Fair values</b>
	HK\$’000	HK\$’000	HK\$’000
<b>NET ASSETS ACQUIRED</b>			
Property, plant and equipment	254,575	40,436	295,011
Intangible assets – exclusive rights of natural gas operations	–	93,837	93,837
Inventories	1,409	–	1,409
Trade and other receivables	18,140	–	18,140
Bank balances and cash	30,937	–	30,937
Trade and other payables	(111,933)	–	(111,933)
Bank borrowings	(137,908)	–	(137,908)
Deferred taxation	–	(33,568)	(33,568)
	55,220	100,705	155,925
Goodwill			100,086
Total consideration			256,011
<b>SATISFIED BY</b>			
Cash consideration			256,011
<b>NET CASH OUTFLOW ARISING ON ACQUISITION</b>			
Cash consideration paid			(256,011)
Bank balances and cash acquired			30,937
			(225,074)

上海中寶 is an investment holding company and 泰能天然氣 is engaged in the operation of gas connection and sales of piped gas businesses in the PRC. The goodwill arising on the acquisition of Positive Rise is attributable to the anticipated profitability of the gas connection and sales of piped gas businesses of this group.

Positive Rise contributed to the Group’s revenue and profit of HK\$213,845,000 and HK\$9,523,000 respectively for the year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 42. ACQUISITION OF BUSINESSES *(Continued)*

### Acquisition of businesses through purchase of subsidiaries in 2008 *(Continued)*

- (ii) On June 18, 2007, the Group acquired 80% equity interests in 包頭燃氣 at a consideration of RMB147,040,000 (equivalent to HK\$150,041,000).

	Acquiree's carrying amount before combination HK\$'000	Fair value adjustments HK\$'000	Fair values HK\$'000
<b>NET ASSETS ACQUIRED</b>			
Property, plant and equipment	499,139	24,513	523,652
Prepaid lease payments	14,714	52,006	66,720
Intangible assets – exclusive rights of gas operations	–	25,104	25,104
Inventories	10,486	–	10,486
Trade and other receivables	5,209	–	5,209
Bank balances and cash	3,603	–	3,603
Trade and other payables	(19,298)	–	(19,298)
Bank borrowings	(378,530)	–	(378,530)
Deferred taxation	–	(25,406)	(25,406)
	135,323	76,217	211,540
Minority interests			(42,308)
Discount on acquisition			(19,191)
			150,041
<b>SATISFIED BY</b>			
Cash consideration			150,041
<b>NET CASH OUTFLOW ARISING ON ACQUISITION</b>			
Cash consideration paid			(150,041)
Bank balances and cash acquired			3,603
			(146,438)

包頭燃氣 principally engages in the production and sale of liquefied natural gas, coal gas, natural gas and their respective side products, design and operation of the liquefied natural gas and coal gas projects. The discount on acquisition of 包頭燃氣 amounted to HK\$19,191,000 which was recognised in consolidated income statement during the year.

In the opinion of the directors of the Company, as the seller is lack of resources to finance the development plan agreed with the local government in certain large-scale gas connection contracts in the foreseeable future, the introduction of the Group to 包頭燃氣 can improve of financial position of 包頭燃氣 and the continuance of the development plan, therefore, a discount is resulted on this acquisition.

包頭燃氣 contributed to the Group's revenue and profit of HK\$267,746,000 and HK\$59,102,000 respectively for the year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 42. ACQUISITION OF BUSINESSES *(Continued)*

### Acquisition of businesses through purchase of subsidiaries in 2008 *(Continued)*

- (iii) On June 18, 2007, the Group acquired 80% equity interests in 包頭申銀管道工程有限公司 (“包頭申銀”) at a consideration of RMB8,000,000 (equivalent to HK\$8,163,000).

	<b>Acquirees' carrying amounts before combination and fair values</b>
	HK\$'000
<hr/>	
NET ASSETS ACQUIRED	
Property, plant and equipment	3,125
Inventories	3,731
Trade and other receivables	498
Bank balances and cash	4,303
Trade and other payables	(9,258)
	<hr/>
	2,399
Minority interests	(480)
Goodwill	6,244
	<hr/>
	8,163
<hr/>	
SATISFIED BY	
Cash consideration	8,163
<hr/>	
NET CASH OUTFLOW ARISING ON ACQUISITION	
Cash consideration paid	(8,613)
Bank balances and cash acquired	4,303
	<hr/>
	(3,860)
<hr/>	

包頭申銀 principally engages in the design, construction and maintenance of city pipeline projects in the PRC. Goodwill on acquisition of 包頭申銀 amounted to HK\$6,244,000 which is attributable to the anticipated synergy effect of businesses with another newly acquired subsidiary, 包頭燃氣.

包頭申銀 contributed to the Group's revenue and profit HK\$6,784,000 and HK\$628,000 respectively for the year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 42. ACQUISITION OF BUSINESSES *(Continued)*

### Acquisition of businesses through purchase of subsidiaries in 2008 *(Continued)*

- (iv) On June 18, 2007, the Group acquired 80% equity interests in 包頭市申銀天然氣加氣有限公司 (“包頭加氣”) at a consideration of RMB24,000,000 (equivalent to HK\$24,490,000).

	<b>Acquirees' carrying amounts before combination and fair values</b>
	HK\$'000
<hr/>	
NET ASSETS ACQUIRED	
Property, plant and equipment	24,517
Inventories	140
Trade and other receivables	2,693
Bank balances and cash	4,886
Trade and other payables	(7,713)
	<hr/>
	24,523
Minority interests	(4,905)
Goodwill	4,872
	<hr/>
	24,490
<hr/>	
SATISFIED BY	
Cash consideration	24,490
<hr/>	
NET CASH OUTFLOW ARISING ON ACQUISITION	
Cash consideration paid	(24,490)
Bank balances and cash acquired	4,886
	<hr/>
	(19,604)
<hr/>	

包頭加氣 principally engages in the natural gas refill services and gas station administration in the PRC. The goodwill on acquisition of 包頭加氣 amounted to HK\$4,872,000 which is attributable to the anticipated synergy effect of businesses the another newly acquired subsidiary, 包頭燃氣.

包頭加氣 contributed to the Group's revenue and loss of HK\$30,124,000 and HK\$2,139,000 respectively for the year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 42. ACQUISITION OF BUSINESSES *(Continued)*

### Acquisition of businesses through purchase of subsidiaries in 2008 *(Continued)*

- (v) On April 25, 2007, the Group acquired 100% equity interests in 重慶渝北區天然氣有限責任公司 (“重慶渝北”) at a consideration of RMB121,860,000 (equivalent to HK\$124,347,000).

	<b>Acquiree's carrying amounts before combination</b>	<b>Fair value adjustments</b>	<b>Fair values</b>
	HK\$'000	HK\$'000	HK\$'000
<b>NET ASSETS ACQUIRED</b>			
Property, plant and equipment	103,642	–	103,642
Prepaid lease payments	–	7,808	7,808
Interest in an associate	1,000	–	1,000
Inventories	1,948	–	1,948
Trade and other receivables	13,063	–	13,063
Bank balances and cash	25,857	–	25,857
Trade and other payables	(34,099)	–	(34,099)
Deferred taxation	–	(1,952)	(1,952)
	111,411	5,856	117,267
Goodwill			7,080
			124,347
<b>SATISFIED BY</b>			
Cash consideration			124,347
<b>NET CASH OUTFLOW ARISING ON ACQUISITION</b>			
Cash consideration paid			(124,347)
Bank balances and cash acquired			25,857
			(98,490)

重慶渝北 principally engages in the installation of natural gas pipeline network and related facilities and sale of natural gas.

The goodwill arising on the acquisition of 重慶渝北 is attributable on the anticipated profitability of the gas connection and sales of piped gas businesses of this company.

重慶渝北 contributed to the Group's revenue and profit of HK\$61,075,000 and HK\$9,988,000 respectively for the year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 42. ACQUISITION OF BUSINESSES *(Continued)*

### Acquisition of businesses through purchase of subsidiaries in 2008 *(Continued)*

(vi) On September 28, 2007, the Group acquired 51% equity interests in 杭州東能 at a consideration of RMB40,100,000 (equivalent to HK\$40,918,000).

	<b>Acquiree's carrying amounts before combination</b>	<b>Fair value adjustments</b>	<b>Provisional fair values</b>
	HK\$'000	HK\$'000	HK\$'000
<b>NET ASSETS ACQUIRED</b>			
Property, plant and equipment	23,934	–	23,934
Intangible assets – exclusive rights of natural gas operations	–	94,018	94,018
Inventories	855	–	855
Trade and other receivables	3,720	–	3,720
Bank balances and cash	1,716	–	1,716
Trade and other payables	(15,405)	–	(15,405)
Bank borrowings	(5,102)	–	(5,102)
Deferred taxation	–	(23,504)	(23,504)
	9,718	70,514	80,232
Minority interests			(39,314)
			40,918
<b>SATISFIED BY</b>			
Cash consideration			40,918
<b>NET CASH OUTFLOW ARISING ON ACQUISITION</b>			
Cash consideration paid			(40,918)
Bank balances and cash acquired			1,716
			(39,202)

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

杭州東能 is engaged in trading of natural gas pipeline network installation business and sales of natural gas in the PRC.

杭州東能 contributed to the Group's revenue and loss of HK\$9,927,000 and HK\$1,127,000 respectively for the year.

If the above acquisitions had been completed on April 1, 2007, total group revenue for the period would have been HK\$2,606,414,000, and profit for the year would have been HK\$183,712,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had above acquisitions been completed on April 1, 2007, nor is it intended to be projection of future results.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 42. ACQUISITION OF BUSINESSES *(Continued)*

### Acquisition of businesses through establishment of subsidiaries in 2007

During the year ended March 31, 2007, 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 certain 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	Fair value adjustments HK\$'000	Provisional fair value as previously stated HK\$'000	Prior year adjustments upon completion of initial accounting HK\$'000	Fair values HK\$'000
<b>NET ASSETS ACQUIRED</b>					
Property, plant and equipment	139,818	(24,461)	115,357	-	115,357
Prepaid lease payments	27,885	-	27,885	-	27,885
Intangible assets – exclusive rights of natural gas operations	-	-	-	3,996	3,996
Inventories	2,650	-	2,650	-	2,650
Trade and other receivables	25,089	(125)	24,964	-	24,964
Bank balances and cash	3,352	-	3,352	-	3,352
Trade and other payables	(15,727)	-	(15,727)	-	(15,727)
Bank borrowings	(37,625)	-	(37,625)	-	(37,625)
Deferred taxation	-	-	-	(999)	(999)
	145,442	(24,586)	120,856	2,997	123,853
Cash injected by the Group					11,471
Minority interest					(40,597)
Discount on acquisition					(2,098)
Total consideration					92,629
<b>SATISFIED BY</b>					
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
<b>NET CASH OUTFLOW ARISING ON ACQUISITION</b>					
Cash consideration					(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 ended March 31, 2007 of HK\$11,528,000.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 43. OPERATING LEASE ARRANGEMENTS

### The Group as lessee

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

	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>10,441</b>	4,456
In the second to fifth year inclusive	<b>7,318</b>	2,684
After five years	<b>186</b>	-
	<b>17,945</b>	7,140

Operating lease payments represent rentals payable by the Group in respect of leasehold land and buildings and equipments. Leases for rented premises and equipment are negotiated for an average term of two to six 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:

	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>7,898</b>	4,076
In the second to fifth year inclusive	<b>10,278</b>	5,216
After five years	<b>2,181</b>	2,673
	<b>20,357</b>	11,965

Leases are negotiated for an average term of two to ten years.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 44. 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 to be 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 HK\$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 June 26, 2007, a joint venture agreement (“JV agreement”) was entered into between GAIL (India) Limited (“GAIL”) and the Company, pursuant to which a joint venture company will be established in Bermuda (“Bermuda JV”). The business of the Bermuda JV shall be primarily on investment and engagement in the operation and management of projects regarding purchase, sale, processing, distribution, marketing and transportation of natural gas. Pursuant to the terms of the JV agreement, the Company and GAIL will each subscribe for 250,000 JV shares at par in the amount of USD250,000. The transaction has not been completed at the date of this report.
- (iv) On September 6, 2007, the Group entered into a joint venture agreement pursuant to which a joint venture company with registered capital of RMB20,000,000 would be established in Huanghua City, Hebei province for the purpose of building of a natural gas pipeline from Huanghua city to Bohai New Zone. The Group will hold 65% interests in the joint venture company. The transaction has not been completed at the date of this report.
- (v) On September 27, 2007, the Group entered into a joint venture agreement pursuant to which a joint venture company (“Bohai JV”) with registered capital of RMB10,000,000 would be established in Bohai New Area, Hebei province for the investment and operation of natural gas project. The Group will hold 70% interests in Bohai JV. The transaction has not been completed at the date of this report.
- (vi) On October 22, 2007, the Company entered into a conditional agreement with Harbin State Owned Committee pursuant to which the Company agreed to acquire and Harbin State Owned Committee agreed to sell 48% equity interests in Harbin Chongqing Gas Co. Ltd. for an aggregate consideration of RMB477,300,000 (approximately HK\$510,866,000) which have been fully paid in cash as at the balance sheet date. Harbin Chongqing Gas Co. Ltd. is principally engaged in piped-gas suppliers, transport and sales, designs and construction of pipe-gas networks, gas refilling station and relevant facilities. The transaction has not been completed at the date of this report and subject to the approval from the government on the transfer of state owned assets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 44. CAPITAL COMMITMENTS *(Continued)*

(vii) On October 25, 2007, a joint venture agreement was entered into between 中燃投資 and 榆林市城市投資經營集團有限公司 for the establishment of a joint venture company with registered capital of RMB20 million in Yulin city, Shanxi province for the operation of a city gas project in Yulin. The Group will hold 60% interests in the joint venture company. The transaction has not been completed at the date of this report.

Save as disclosed above, as at March 31, 2008, 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\$201,256,000 (2007: HK\$392,357,000) and HK\$119,897,000 (2007: HK\$56,006,000), respectively.

## 45. PLEDGE OF ASSETS

The Group pledged certain property, plant and equipment and prepaid lease payments having a net carrying value of HK\$6,297,000 and HK\$22,181,000 (2007: HK\$356,842,000 and HK\$21,030,000) respectively, investment properties having a carrying value of HK\$20,100,000 (2007: HK\$18,000,000), and other trade receivables having carrying amount of HK\$24,232,000 (2007: nil) and certain subsidiaries pledged their equity investments in other subsidiaries to banks to secure loan facilities granted to the Group.

## 46. 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, 2008 and 2007.

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 47. 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 47. 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, 2008:

Date of grant	Vesting period	Exercisable period	Exercise price per share HK\$	Number of share options at 4.1.2006	Exercised during the year (Note 3)	Lapsed during the year	Number of share options at 3.31.2007	Granted during the year	Exercised during the year (Note 3)	Lapsed during the year	Number of share options at 3.31.2008	
<b>Directors</b>												
1.9.2004	1.9.2004 to 8.30.2004	1.9.2004 to 1.8.2014	0.80	31,240,711	-	-	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	7,400,000	-	-	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	
				263,640,711	-	-	263,640,711	-	-	-	263,640,711	
<b>Other employees</b>												
1.9.2004	1.9.2004 to 8.30.2004	9.1.2004 to 1.8.2014	0.80	68,510,000	(3,240,000)	(2,060,000)	63,210,000	-	(13,700,000)	(400,000)	49,110,000	
10.6.2004	10.6.2004 to 3.19.2005	3.20.2005 to 10.5.2014 (Note 2)	0.71	146,060,000	(14,400,000)	-	131,660,000	-	(43,310,000)	-	88,350,000	
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	
8.23.2007	8.23.2007 to 9.18.2008	9.19.2008 to 9.18.2017	2.32	-	-	-	-	3,000,000	-	-	3,000,000	
				372,870,000	(17,640,000)	(2,060,000)	353,170,000	3,000,000	(57,010,000)	(400,000)	298,760,000	
				636,510,711	(17,640,000)	(2,060,000)	616,810,711	3,000,000	(57,010,000)	(400,000)	562,400,711	
Weighted average exercise price				HK\$0.93	HK\$0.73	HK\$0.80	HK\$0.93	HK\$2.32	HK\$0.74	HK\$0.78	HK\$0.93	
Exercisable at the end of the year								453,510,711				

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, 2007, the exercisable period is changed to the period from March 20, 2005 to October 5, 2014.
- (3) The weighted average share price on exercise dates and the weighted average price immediately before exercise dates are HK\$2.52 (2007: HK\$1.36) per share.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 47. SHARE OPTION SCHEME AND SHARE BASED PAYMENTS *(Continued)*

The consideration received during the year from the directors and employees for taking up the options granted amounted to HK\$10 (2007: HK\$ nil).

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\$6,458,000 (2007: HK\$4,896,000) has been recognised with a corresponding adjustment recognised in the Group's share option reserve.

The options outstanding as at March 31, 2008 have a weighted average remaining contractual life of 7 years (2007: 8 years). During the year ended March 31, 2008, options were granted on August 23, 2007. The estimated fair values of the options granted are HK\$2,579,000. No share option was granted during the year ended March 31, 2007.

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

	<b>Share option grant</b> date August 23, 2007
Weighted average share price	HK\$2.330
Exercise price	HK\$2.320
Expected volatility (note a)	50.89%
Expected life (note b)	3 years
Risk free rate (note c)	4.103%
Expected dividend yield (note d)	0.53%

Notes:

- (a) The expected volatility was determined by calculating the historical volatility of the Company's share price over 260 trade days immediately before share option grant date.
- (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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 48. RELATED PARTY TRANSACTIONS

Apart from the amounts due from/to related parties as disclosed in notes 29, 31, 34 and 37, 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\$105,300,000 and nil respectively (2007: HK\$ HK\$95,334,000 and HK\$144,294,000) from minority shareholders of subsidiaries.

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

	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Short-term benefits	<b>43,022</b>	11,100
Post employment benefits	<b>63</b>	51
	<b>43,085</b>	11,151

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

## 49. POST BALANCE SHEET EVENT

Subsequent to March 31, 2008, the Group entered into conditional agreements with independent third parties for the acquisitions of 83% of Zhejiang Zhongyou Hua Dian Energy Co. Ltd. The consideration of RMB498,000,000 will be satisfied in cash. Details of the acquisitions are set out in the Group's circular dated June 30, 2008. The transaction has not been completed at the date of this report.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 50. PARTICULAR OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries 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		Principal activities
				2008	2007	
				%	%	
Hai Xia Finance Limited	Hong Kong	Incorporated	Ordinary HK\$2	100	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	100	Investment holding, property investment and provision of management services to group companies
Wellgem Asia Limited	Hong Kong	Incorporated	Ordinary HK\$10,000	100	100	Property development
中燃燃氣實業(深圳)有限公司 Zhongran Gas (Shenzhen) Company Limited*	PRC	Wholly-foreign owned enterprises ("WFOE")	Registered US\$29,800,000	100	100	Investment holding and treasury
中燃投資	PRC	WFOE	Registered RMB898,637,000	100	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	60	Trading of natural gas and gas pipeline construction
Elegant Cheer Limited	Hong Kong	Incorporated	Ordinary HK\$10,000	100	100	Property holding
武漢中燃投資有限公司 Wuhan China Natural Gas Investment Company Limited*	PRC	WFOE	Registered RMB69,980,000	100	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	80	Trading of natural gas and gas pipeline construction

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 50. 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		Principal activities
				2008	2007	
				%	%	
蕪湖中燃 Wuhu City Natural Gas Development Company Limited*	PRC	Sino-foreign equity joint venture	Registered RMB100,000,000	<b>90</b>	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	<b>80</b>	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	<b>70</b>	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	<b>80</b>	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	<b>51</b>	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	<b>70</b>	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	<b>95</b>	95	Trading of natural gas and gas pipeline construction
Clever Decision Enterprises Limited	BVI	Incorporated	Ordinary US\$100	<b>100</b>	100	Investment holding
北京通寶華油燃氣技術發展有限公司	PRC	WFOE	Registered RMB20,000,000	<b>100</b>	100	Investment holding
淮南中燃 Huainan China Gas City Gas Development Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB72,000,000	<b>100</b>	100	Trading of natural gas and gas pipeline construction

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 50. 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		Principal activities
				2008	2007	
				%	%	
壽縣中燃	PRC	Sino-foreign equity joint venture	Registered RMB3,000,000	100	90	Trading of natural gas and gas pipeline construction
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	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	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	100	Trading of natural 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	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	100	Trading of natural gas and gas pipeline construction
應城中燃城市燃氣發展有限公司 Yingcheng Jiayu China Gas Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB10,074,000	100	100	Trading of natural gas and gas pipeline construction
當陽中燃天然氣有限公司 Danyang Zhongran Gas Co., Ltd.*	PRC	WFOE	Registered HK\$20,000,000	100	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	WFOE	Registered US\$3,060,000	100	100	Trading of natural gas and gas pipeline
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	75	Trading of natural gas and gas pipeline construction

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 50. 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		Principal activities
				2008	2007	
				%	%	
滄州中燃城市燃氣發展有限公司 Cangzhou Zhongran City Gas Development Co., Ltd.*	PRC	WFOE	Registered HK\$2,000,000	100	100	Trading of natural gas and gas pipeline construction
南皮縣中燃城市燃氣發展有限公司 Nanpixin Zhongran City Gas Development Co., Ltd.*	PRC	WFOE	Registered HK\$2,000,000	100	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	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	WFOE	Registered RMB20,000,000	100	100	Trading of natural gas and gas pipeline construction
揚州中燃城市燃氣發展有限公司 Yangzhou Zhongran City Gas Development Co., Ltd.*	PRC	WFOE	Registered US\$1,000,000	100	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	WFOE	Registered RMB10,000,000	100	100	Trading of natural gas and gas pipeline construction
寶雞中燃城市燃氣發展有限公司 Baoji Zhongran City Gas Development Co., Ltd.	PRC	Sino-foreign equity joint venture	Registered RMB265,725,000	64	64	Trading of natural gas and gas pipeline construction
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	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	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	WFOE	Registered RMB50,000,000	100	100	Trading of natural gas and gas pipeline construction

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2008

## 50. 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		Principal activities
				2008	2007	
				%	%	
撫順中燃 Fushun Zhongran City Gas Development Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB133,330,000	100	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	100	Trading of natural gas and gas pipeline construction
重慶渝北	PRC	Sino-foreign equity joint venture	Registered RMB5,060,000	100	-	Trading of natural gas and gas pipeline construction
包頭燃氣	PRC	Sino-foreign equity joint venture	Registered RMB183,800,000	80	-	Trading of natural gas and gas pipeline construction
包頭加氣	PRC	Sino-foreign equity joint venture	Registered RMB30,000,000	80	-	Natural gas refill services and gas station administration
包頭申銀	PRC	Sino-foreign equity joint venture	Registered RMB10,000,000	80	-	Design, construction and maintenance of city pipeline projects
China Gas Corporate Services Limited	Hong Kong	Incorporated	Ordinary HK\$2	100	100	Nominee and secretarial services
Iwai Style Limited	Hong Kong	Incorporated	Ordinary HK\$2	100	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,				2008 HK\$'000
	2004 HK\$'000 (Restated)	2005 HK\$'000 (Restated)	2006 HK\$'000	2007 HK\$'000 (Restated)	
<b>RESULTS</b>					
REVENUE	376,491	411,389	630,522	1,236,469	<b>2,552,075</b>
(LOSS) PROFIT BEFORE TAXATION	117,005	133,875	182,550	249,906	<b>180,064</b>
TAXATION CREDIT (CHARGE)	(1,344)	(1,493)	(2,482)	(13,657)	<b>(13,778)</b>
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	115,661	132,382	156,736	200,789	<b>119,774</b>

	At March 31,				2008 HK\$'000
	2004 HK\$'000 (Restated)	2005 HK\$'000 (Restated)	2006 HK\$'000	2007 HK\$'000 (Restated)	
<b>ASSETS AND LIABILITIES</b>					
TOTAL ASSETS	1,342,279	2,752,985	5,093,888	7,308,847	<b>11,295,789</b>
TOTAL LIABILITIES	(748,484)	(1,666,995)	(2,973,122)	(4,616,042)	<b>(7,620,329)</b>
TOTAL EQUITY	593,795	1,085,990	2,120,766	2,692,805	<b>3,675,460</b>

The results of the year ended March 31, 2004 and 2005 and the assets and liabilities as at March 31, 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.

## PARTICULARS OF MAJOR PROPERTIES

Location	Type	Group's interest (%)	Lease term
<b><i>Leasehold land and buildings</i></b>			
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13樓及18樓	Commercial	100	Medium term lease
北京市宣武門廣安門南街6號	Office premises	100	Medium term lease
<b><i>Investment properties</i></b>			
No. 28-30 Kai Tak Road Kowloon City Kowloon Hong Kong	Vacant land	100	Medium term lease
Development site located on western side of Gongnong Bing Road Huimin District Hohhot City Inner Mongolia Autonomous Region the PRC	Residential/ Commercial	50	Medium term lease







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