1. GENERAL

The Company is a public limited company incorporated in the Cayman Islands on 16 November 2000 under the Companies Law (Revised) Chapter 22 of the Cayman Islands as an exempted company with its shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office and principal place of business of the Company is disclosed in the Corporate Information of the Annual Report.

The consolidated financial statements are presented in Hong Kong dollars ("HKD"). The reason for selecting HKD as its presentation currency is because the Company is a public company incorporated in Cayman Islands with the shares listed on the Stock Exchange, where most of its investors are located in Hong Kong.

The Company is an investment holding company. Its subsidiaries are principally engaged in the sale and distribution of liquefied petroleum gas ("LPG") and natural gas (collectively referred as "Gas Fuel") in the People's Republic of China (the "PRC") including the sale of LPG in bulk and in cylinders, the provision of piped LPG and natural gas, construction of gas pipelines, the operation of city gas pipeline network, the operation of Gas Fuel automobile refilling stations, and the sale of LPG and natural gas household appliances.

Pursuant to a special resolution passed at the annual general meeting held on 23 May 2007, the name of the Company was changed from Panva Gas Holdings Limited (百江燃氣控股有限公司) to Towngas China Company Limited (港華燃氣有限公司) with effect from that date.

The presentation of the financial statements has been changed in the current year to align with those presentation adopted by its major shareholder for consistent analysis of the users of the financial statements. The analysis of expenses of the consolidated income statement has been changed from analysis by function to nature, the line items of previously reported cost of sales, gross profit, distribution and selling expenses and administrative expenses have been changed to analysis by nature as disclosed in the note 8 operating profit before returns on investments accordingly.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1 January 2007.

HKAS 1 (Amendment)	Capital disclosures
HKFRS 7	Financial instruments: Disclosures
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) – INT 8	Scope of HKFRS 2
HK(IFRIC) – INT 9	Reassessment of embedded derivatives
HK(IFRIC) – INT 10	Interim financial reporting and impairment

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

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

HKAS 1 (Revised)	Presentation of financial statements [1]
HKAS 23 (Revised)	Borrowing costs [1]
HKFRS 8	Operating segments [1]
HK(IFRIC) – INT 11	HKFRS 2: Group and treasury share transactions [2]
HK(IFRIC) – INT 12	Service concession arrangements [3]
HK(IFRIC) – INT 13	Customer loyalty programmes [4]
HK(IFRIC) – INT 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction [3]

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

The directors of the Company anticipate that the application of these standards or interpretations may have impact on the results and the financial position of the Group but the directors are still assessing the impact.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

Where necessary, adjustments are made to the financial statements of the 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.

Goodwill

Goodwill arising on acquisitions prior to 1 January 2002

Goodwill arising on an acquisition of net assets and operations of another entity 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 subsidiaries at the date of acquisition.

For previously capitalised goodwill arising on acquisitions prior to 1 January 2002, the Group has discontinued amortisation from 1 January 2002 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired (see the accounting policy below).

Goodwill arising on acquisitions on or after 1 January 2002

Goodwill arising on an acquisition of a business for which the agreement date is on or after 1 January 2002 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of business is presented separately in the consolidated balance sheet.

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

On subsequent disposal of the relevant cash – generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisitions")

A discount on acquisition arising on an acquisition of subsidiaries for which an agreement date is on or after 1 January 2002 represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in profit or loss. A discount on acquisition arising on an acquisition of an associate is included as income in the determination of the investor's share of results of the associate in the period in which the investment is acquired.

Discount on acquisition arising on acquisition of additional interests in a subsidiary

Discount on acquisition arising on acquisition of additional interests in a subsidiary represents the excess of the carrying value of the net assets of the subsidiary attributable to the additional interest acquired over the cost of acquisition of the additional interests.

Investments in associates

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

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of net assets of the associate, less any identified impairment losses. When the Group's share of losses of an associate equals or exceeds its interest in the 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.

Goodwill arising on acquisitions prior to 1 January 2002

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of the associate recognised at the date of acquisition is recognised as goodwill. From 1 January 2002 onwards, the Group has discontinued amortisation of goodwill and such goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in associates (Continued)

Goodwill arising on acquisitions on or after 1 January 2002

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, profit and losses are eliminated to the extent of the Group's interest in the relevant associate.

Joint ventures

Jointly controlled entities

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

Jointly controlled entities are accounted for using the equity method

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities 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 jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), 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 jointly controlled entity.

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

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

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.

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

Revenue from gas supply is recognised when gas is used.

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

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

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

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost less accumulated depreciation, and any 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, at the following rates per annum:

Buildings	3% to 6%
Furniture and fixtures	18% to 20%
Gas pipelines	3%
Leasehold improvements	15%
Motor vehicles	6% to 18%
Plant and equipment	6% to 10%

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Construction in progress

Construction in progress, which includes all development expenditure and other direct costs attributable to such projects, is stated at cost less any accumulated impairment losses. It is not depreciated until completion of construction. The costs of completed construction works are transferred to other categories of property, plant and equipment.

Exclusive operating rights for city pipeline network

Exclusive operating rights for city pipeline network are stated at cost less accumulated amortisation and any identified impairment loss. The cost incurred for the acquisition of exclusive operating rights is capitalised and amortised on a straight line basis over the estimated useful life of twenty to thirty years.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Construction contracts

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

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

Impairment (other than goodwill)

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

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

Financial assets

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

Effective interest method

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

Income is recognised on an effective interest basis for debt instruments

Loans and receivables

Loans and receivables (including trade receivables, other receivables, deposits, amounts due from minority shareholders, loans to jointly controlled entities and bank balances) 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 are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

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

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired (see accounting policy on impairment loss on financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Impairment of financial assets

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Impairment of financial assets (Continued)

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

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

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

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.

Bank and other borrowings and guaranteed senior notes

Interest-bearing bank loans and other loans are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method. Any difference between the proceeds (net of transaction cost) and the settlement or redemption of borrowings is recognised over the terms of the borrowings in accordance with the Group's accounting policy for borrowing costs.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

Effective interest method (Continued)

Convertible bonds

Convertible bonds issued by the Company that contain both the liability and conversion option components are classified separately into respective items on initial recognition. Conversion option that will be settled 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 classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest rate of similar non-convertible debts. The difference between the proceeds of the issue of the convertible bonds and the fair value assigned to the liability component, representing the conversion option for the holder to convert the bonds into equity, is included in equity (convertible bonds reserve).

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in convertible bonds reserve until the conversion option is exercised (in which case the balance stated in convertible bonds reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible bonds reserve will be released to the retained earnings. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that related to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component are charged directly to equity. 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.

Other financial liabilities

Other financial liabilities including trade payables, other payables, amounts due to minority shareholders and loan from a shareholder are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted before 7 November 2002

The financial impact of share options granted is not recorded in the Company's balance sheet until such time as the options are exercised, and no charge is recognised in the consolidated income statement in respect of the value of options granted 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 as share premium. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

Share options granted after 7 November 2002 and vested after 1 January 2006

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 estimates, if any, is recognised in profit or loss, with a corresponding adjustment to share options 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 earnings.

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

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

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, 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 period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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 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 a reduction of rental expense over the lease term on a straight line basis.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

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

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the 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 year, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

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

Goodwill and fair value adjustments arising on acquisitions of foreign operations prior to 1 January 2005 are treated as non-monetary foreign currency items of the acquirer and reported using the historical exchange rate prevailing at the date of the acquisition.

Borrowing costs

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

Retirement benefits cost

Payments to defined contribution retirement benefit schemes including, state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme ("MPF Scheme") are charged as expenses when employees have rendered service entitling them to the contributions.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 3, management has made various estimates based on past experience, expectations of the future and other information. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material 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 the present value. Where the actual cash flows are less than expected, a material impairment loss may arise. At 31 December 2007, the carrying amount of goodwill is HK$2,180,291,000. Details of the recoverable amount calculation are disclosed in note 18.

Income taxes

As at 31 December 2007, no deferred tax asset is recognised in the Group's balance sheet in relation to the estimated unused tax losses of HK$98,400,000 due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future assessable profits or taxable temporary differences will be available in the future. In cases where the actual future assessable profits generated are more than expected, a material recognition of deferred tax asset may arise, which would be recognised in the consolidated income statement for the period in which such recognition takes place.

Estimated impairment of trade receivable

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). As at 31 December 2007, the carrying amount of trade receivable is HK$92,589,000.

5. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debt, which includes borrowings the loans from a shareholder disclosed in notes 26 and 27, equity attributable to equity holders of the Company, comprising issued share capital and reserves.

5. CAPITAL RISK MANAGEMENT (Continued)

The Group's management reviews the capital structure on a semi-annual basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital. The Group has a target gearing ratio of 40% determined as the proportion of net debt excluding shareholder's loan to equity. Based on the management's recommendations, the Group expects to increase its gearing ratio closer to 25% through the issue of new debt.

The gearing ratio at the year end was as follows:

	2007 HK$'000	2006 HK$'000
Debt (i)	1,977,361	2,062,715
Cash and cash equivalents	(786,961)	(614,479)
Net debt	1,190,400	1,448,236
Less: the loan from a shareholder	(193,750)	–
Net debt excluding the loan from a shareholder	996,650	1,448,236
Equity (ii)	5,730,203	1,536,638
Net debt to equity	20.8%	94.2%
Net debt excluding the loan from a shareholder to equity ratio	17.4%	94.2%

(i) Debt is defined as long- and short-term borrowings, as detailed in notes 26 and 27.

(ii) Equity includes all capital and reserves of the Group excluding minority interests.

6. FINANCIAL INSTRUMENTS

Category of financial instruments

	2007 HK$'000	2006 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalent)	1,147,811	860,929
Available-for-sales financial assets	171,209	170,528
Financial liabilities		
Amortised cost	2,173,687	2,259,646

Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale equity investments, loans to jointly controlled entities, trade and other receivables, amounts due from minority shareholders, bank balances and cash, borrowings, amounts due to minority shareholders, trade and other payables and loan from a shareholder. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these expenses to ensure appropriate measures are implemented on a timely and effective manner.

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Currency risk

Certain bank balances, loan from a shareholder, and guaranteed senior notes are denominated in foreign currencies which expose the Group to foreign currency risk.

Details of the Group's bank balances, loan from a shareholder, and guaranteed senior notes denominated in United States Dollar (''USD'') at the balance sheet date are set out in notes 23, 26 and 27.

The Group currently does not have a foreign currency hedging policy but the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Sensitivity analysis

The following table details the Group's sensitivity to a reasonably possible change of 2% in exchange rate of USD against RMB while all other variables are held constant. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at each balance sheet date for a 2% change in foreign currency rates.

The sensitivity analysis includes bank balances, loan from a shareholder, and guaranteed senior notes where the denomination of the balances is in a currency other than the currency of the respective group entities. A positive number below indicates an increase in profit for the year or decrease in loss for the year where RMB strengthen 2% against USD. For a 2% weakening of RMB against USD, there would be an equal and opposite impact on the profit/loss for the year, and the balances below would be negative.

	2007 HK$'000	2006 HK$'000
Profit or loss for the year	22,406	30,041

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank and other loans, fixed-rate short-term bank fixed deposits, loans to jointly controlled entities, convertible bonds and guaranteed senior notes. The cash flow interest rate risk relates primarily to floating-rate bank loans and the loan from a shareholder. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise. The fair value interest rate risk on bank deposits is insignificant as the fixed deposits are short-term.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of Hong Kong Interbank Offered Rate arising from the Group's HKD loan and the loan from a shareholder and the fluctuation of basic borrowing rate announced by People's Bank of China arising from the Group's RMB bank loans.

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Interest rate risk (Continued)

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for financial instruments at the balance sheet date. For variable-rate bank loans and loan from a shareholder, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2007 would decrease/increase by HK$2,217,000 (2006: nil). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

The Group's sensitivity to interest rates has increased during the current year mainly due to the increase in variable rate debt instruments.

Credit risk

At 31 December 2007, the Group's maximum exposure to credit risk, which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties, is arising from the carrying amount of the respective financial 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 balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

The credit risk of loans to jointly controlled entities is concentrated in four jointly controlled entities.

The credit risk on bank balances is limited because the counterparties have high credit ratings.

Management does not expect any counterparty to fail to meet its obligations.

Liquidity risk

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

The Group relies on bank and other borrowings as a significant source of liquidity. As at 31 December 2007, the Group had available unutilised short-term bank loan facilities HK$100,000,000 (2006: HK$99,500,000).

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

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

	Weighted average effective interest rate %	Less than 1 month HK$'000	1 – 3 months HK$'000	3 months to 1 year HK$'000	1 – 5 years HK$'000	5 + years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2007 HK$'000
2007								
Trade payables	–	39,307	75,536	35,575	–	–	150,418	150,418
Other payables	–	19,674	–	–	–	–	19,674	19,674
Amount due to minority shareholders	–	26,234	–	–	–	–	26,234	26,234
Loan from a shareholder	4.25%	–	–	8,900	229,352	–	238,252	193,750
Convertible bonds	6.48%	–	–	210,445	–	–	210,445	206,173
Bank loans	5.69%	1,160	41,332	45,049	266,115	–	353,656	279,116
Other loans	2.65%	46,334	–	7,490	58,902	28,294	141,020	137,846
Guaranteed senior Notes	8.69%	–	47,633	47,633	1,440,551	–	1,535,817	1,160,476
		132,709	164,501	355,092	1,994,920	28,294	2,675,516	2,173,687

	Weighted average effective interest rate %	Less than 1 month HK$'000	1 – 3 months HK$'000	3 months to 1 year HK$'000	1 – 5 years HK$'000	5 + years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2006 HK$'000
2006								
Trade payables	–	62,064	35,480	53,735	–	–	151,279	151,279
Other payables	–	20,300	–	–	–	–	20,300	20,300
Amount due to minority shareholders	–	25,352	–	–	–	–	25,352	25,352
Convertible bonds	6.48%	–	–	3,423	376,898	–	380,321	349,506
Bank loans	6.49%	2,301	2,680	25,136	10,027	–	40,144	36,000
Other loans	2.52%	46,438	–	1,852	32,916	54,019	135,225	119,823
Guaranteed senior Notes	8.69%	–	63,938	63,938	2,061,500	–	2,189,376	1,557,386
		156,455	102,098	148,084	2,481,341	54,019	2,941,997	2,259,646

6. FINANCIAL INSTRUMENTS (Continued)

Fair value

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

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

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group currently organises its operations into two business segments, namely sale and distribution of Gas Fuel and related products, and gas pipeline construction. These divisions are the basis on which the Group reports its primary segment information. The principal activities of the business segments are as follows:

Sale and distribution of Gas Fuel and related products	–	Sale of LPG in bulk and in cylinders, provision of piped LPG and natural gas, and sale of LPG and natural gas household appliances
Gas pipeline construction	–	Construction of gas pipeline networks

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

	Sale and distribution of Gas Fuel and related products HK$'000	Gas pipeline construction HK$'000	Consolidated HK$'000
For the year ended 31 December 2007			
REVENUE			
External	2,815,805	379,629	3,195,434
Segment results	81,525	173,917	255,442
Other income			92,523
Unallocated corporate expenses			(85,633)
Finance costs			(178,048)
Share of results of associates			105,772
Share of results of jointly controlled entities			51,335
Profit before taxation			241,391
Taxation			(37,013)
Profit for the year			204,378

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

	Sale and distribution of Gas Fuel and related products HK$'000	Gas pipeline construction HK$'000	Consolidated HK$'000
For the year ended 31 December 2006			
REVENUE			
External	2,311,696	331,220	2,642,916
Segment results	33,384	30,634	64,018
Other income			86,390
Unallocated corporate expenses			(63,737)
Finance costs			(178,422)
Share of results of associates			(13,664)
Changes in fair value of derivative financial instruments			(124,151)
Loss before taxation			(229,566)
Taxation			(17,073)
Loss for the year			(246,639)

The assets and liabilities of the Group are substantially attributable to sale and distribution of Gas Fuel and related products, an analysis of segment assets and liabilities is not presented.

Geographical segments

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

8. OPERATING PROFIT BEFORE RETURNS ON INVESTMENTS

	2007 HK$'000	2006 HK$'000
Revenue	3,195,434	2,642,916
Less expenses:		
Stores and materials used	2,473,824	2,123,916
Staff costs	232,322	146,742
Depreciation, amortisation and release of prepaid lease payments	147,853	113,613
Other expenses	171,626	258,364
	169,809	281

9. OTHER INCOME

Other income mainly comprised of:

	2007 HK$'000	2006 HK$'000
Dividend income from available-for-sale investments	32,948	11,083
Interest income	17,872	29,988
Discount on acquisition of additional interest in a subsidiary	1,491	4,500
Gain on disposal of property, plant and equipment	1,202	1,701
Discount on acquisition of subsidiaries	–	24,085
Gain on disposal of held-for-trading investments	–	11,338
Imputed interest on loans to jointly controlled entities	3,981	–

10. FINANCE COSTS

	2007 HK$'000	2006 HK$'000
Interest on:		
– bank and other borrowings wholly repayable within five years	11,126	3,454
– bank and other borrowings not wholly repayable within five years	2,040	4,446
– convertible bonds	9,827	25,097
– guaranteed senior notes	119,639	131,336
	142,632	164,333
Net interest expense on interest rate swaps	–	12,874
	142,632	177,207
Loss on repurchase of guaranteed senior notes	33,370	–
Bank charges	2,046	1,215
	178,048	178,422

11. PROFIT (LOSS) BEFORE TAXATION

	2007 HK$'000	2006 HK$'000
Profit (loss) before taxation has been arrived at after charging:		
Directors' remuneration (note 12)	23,100	12,138
Share-based payments for other staff	4,028	4,468
Other staff costs	200,666	124,433
Retirement benefit scheme contributions (excluding directors)	27,628	17,841
Total staff costs	255,422	158,880
Allowance for doubtful debts	–	40,000
Amortisation of intangible assets	5,155	4,107
Auditor's remuneration	7,951	6,327
Cost of Goods Sold	2,608,967	2,238,179
Depreciation of property, plant and equipment	136,127	104,584
Impairment loss recognised in respect of available-for-sale investments	–	983
Loss on deemed disposal of interest in an associate	652	–
Operating lease rentals in respect of land and buildings	14,792	10,927
Release of prepaid lease payments	6,571	4,922
Share of tax of associates (included in share of results of associates)	11,821	12,597
Share of tax of jointly controlled entities (included in share of results of jointly controlled entities)	902	–

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The emoluments paid or payable to each of the 16 (2006: 12) directors were as follows:

Year ended 31 December 2007

	Chen Wei HK$'000	Cheung Hon Kit HK$'000	Chan Wing Kin, Alfred HK$'000	Cheng Mo Chi HK$'000	Chow Yei Ching HK$'000	Kwan Yuk Choi, James HK$'000	Ho Hon Ming, John HK$'000	Li Fujun HK$'000	Li Man Bun Brian David HK$'000	Li Xiao Ru HK$'000	Ou Yaping HK$'000	Shen Lian Jin HK$'000	Tang Yui Man, Francis HK$'000	Wong Wai Yee, Peter HK$'000	Zhang Keyu HK$'000	Zhang Ke HK$'000	Total HK$'000
Fees	–	125	200	400	400	200	200	–	400	125	–	–	–	200	–	250	2,500
Other emoluments																	
Salaries and other benefits	6,519	–	–	–	–	–	–	60	–	–	750	1,104	1,050	–	140	–	9,623
Retirement benefit scheme contributions	61	–	–	–	–	–	–	1	–	–	12	20	1	–	2	–	97
Share-based payments	734	–	2,592	–	–	2,160	2,160	–	–	–	–	1,209	734	2,160	79	–	11,828
Value of share-based payments forfeited during the year	–	(474)	–	–	–	–	–	–	–	(474)	–	–	–	–	–	–	(948)
Total emoluments	7,314	(349)	2,792	400	400	2,360	2,360	61	400	(349)	762	2,333	1,785	2,360	221	250	23,100

Year ended 31 December 2006

	Chen Wei HK$'000	Cheung Hon Kit HK$'000	Fok Kin Ning Canning HK$'000	Ge Ming HK$'000	Li Fujun HK$'000	Li Xiao Ru HK$'000	Ou Yaping HK$'000	Shen Lian Jin HK$'000	Tang Yui Man Francis HK$'000	To Chi Keung, Simon HK$'000	Zhang Keyu HK$'000	Zhang Ke HK$'000	Total HK$'000
Fees	–	250	–	128	–	250	–	–	–	–	–	125	753
Other emoluments													
Salaries and other benefits	3,336	–	–	–	130	–	750	889	750	–	605	–	6,460
Retirement benefit scheme contributions	51	–	–	–	9	–	12	12	12	–	9	–	105
Share-based payments	1,247	332	–	–	–	332	–	831	1,247	–	831	–	4,820
Total emoluments	4,634	582	–	128	139	582	762	1,732	2,009	–	1,445	125	12,138

Employees' emoluments:

For the year ended 31 December 2007, the five highest paid individuals of the Group included five (2006: four) directors of the Company, details of their emoluments are included above.

The emoluments of the remaining one highest paid individual for the year ended 31 December 2006 were amounted to HK$1,585,000, representing salaries and other benefits paid, retirement benefit scheme contributions and share-based payments, amounted to HK$820,000, HK$12,000 and HK$753,000 respectively.

During the year, no remuneration was paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived or agreed to waive any remunerations for the year ended 31 December 2007.

13. TAXATION

	2007 HK$'000	2006 HK$'000
The charge comprises:		
PRC Enterprise Income Tax		
– current year	52,502	17,475
– underprovision in prior years	–	810
Deferred taxation (note 28)		
– taxation credit for the year	(1,089)	(1,212)
– attributable to a change in tax rate	(14,400)	–
	37,013	17,073

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

The tax rate applicable for all other PRC subsidiaries ranges from 15% to 33%.

Pursuant to the relevant laws and regulations in the PRC, certain of the Company's PRC subsidiaries are entitled to exemption from PRC Enterprise Income Tax for the first two years commencing from their first profit-making year of operation and thereafter, these PRC subsidiaries will be entitled to a 50% relief from PRC Enterprise Income Tax for the following three years. The reduced tax rate for the relief period ranges from 12% to 16.5%. PRC Enterprise Income Tax has been provided for after taking these tax incentives into account. These tax incentives will be expired by the year 2012.

On 16 March 2007, the People's Republic of China promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate to 25% from 1 January 2008. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

13. TAXATION (Continued)

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

	2007 HK$'000	2006 HK$'000
Profit (loss) before taxation	241,391	(229,566)
Tax at the applicable rate of 33% (2006: 33%) (Note)	79,659	(75,757)
Tax effect of expenses that are not deductible for tax purposes	73,930	119,574
Tax effect of income that are not taxable for tax purposes	(9,858)	(5,804)
Tax effect of income that is exempted from PRC Enterprise Income Tax in determining taxable profit	(15,364)	(30,369)
Effect of different tax rates of subsidiaries entitled to a 50% reduction in PRC Enterprise Income Tax rates	(6,823)	(5,440)
Effect of different tax rates of subsidiaries operating in different provinces	(16,185)	(8,391)
Tax effect of share of results of associates	(34,905)	4,509
Tax effect of share of results of jointly controlled entities	(16,941)	–
Tax effect of utilisation of tax losses not previously recognised	(5,926)	(427)
Tax effect of tax losses not recognised	3,826	18,368
Decrease in opening deferred tax liability resulting from a decrease in applicable tax rate	(14,400)	–
Underprovision of taxation in previous years	–	810
Tax charge for the year	37,013	17,073

Note: The tax rate of 33% represents PRC Enterprise Income Tax which is applicable to most of the Group's operations in the PRC for both years.

At the balance sheet date, the Group has unused tax losses of HK$98,400,000 (2006: HK$109,733,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Such unrecognised tax losses will expire within five years.

14. EARNINGS (LOSS) PER SHARE

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

	2007 HK$'000	2006 HK$'000
Earnings (loss) for the purposes of basic and diluted earnings (loss) per share, being profit (loss) for the year attributable to equity holders of the Company	144,504	(256,334)

	Number of shares	
	'000	'000
Weighted average number of shares for the purposes of basic earnings (loss) per share	1,728,201	945,871
Effects of dilutive potential ordinary shares:		
Share options	11,802	
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,740,003	

The denominator for the purpose of calculating basic loss per share in 2006 have been adjusted to effect the bonus element in the rights issued under the open offer of shares during the year ended 31 December 2007.

The computation of diluted earnings per share does not assume the conversion of the Company's outstanding convertible bonds since their exercise would result in an increase in profit per share.

No diluted loss per share has been presented in the year ended 31 December 2006 as the then outstanding share options and convertible bonds of the Company are anti-dilutive since their exercise or conversion would result in a decrease in loss per share.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Gas pipelines HK$'000	Motor vehicles HK$'000	Plant and equipment HK$'000	Construction in progress HK$'000	Total HK$'000
COST								
At 1 January 2006	118,280	1,159	13,024	1,406,868	36,471	209,080	56,335	1,841,217
Currency realignment	7,969	–	585	60,980	1,598	10,036	2,118	83,286
Additions	48,214	–	13,332	161,439	30,564	19,267	433	273,249
Acquired on acquisition of subsidiaries	98,178	–	3,877	282,994	9,165	73,356	1,190	468,760
Disposals	(7,180)	(1,159)	(1,854)	(18,092)	(8,346)	(3,686)	–	(40,317)
Transfer	48	–	–	59,595	–	–	(59,643)	–
At 31 December 2006	265,509	–	28,964	1,953,784	69,452	308,053	433	2,626,195
Currency realignment	20,718	–	2,122	153,923	5,032	23,958	2,972	208,725
Additions	33,666	319	21,820	410,769	18,217	30,571	50,520	565,882
Acquired on acquisition of subsidiaries	20,300	–	–	124,790	–	24,298	40,832	210,220
Disposals	(9,163)	–	(4,023)	(40,536)	(9,078)	(29,813)	–	(92,613)
Transfer	–	–	–	28,410	–	–	(28,410)	–
At 31 December 2007	331,030	319	48,883	2,631,140	83,623	357,067	66,347	3,518,409
DEPRECIATION								
At 1 January 2006	10,477	522	5,752	77,548	15,760	55,324	–	165,383
Currency realignment	557	–	325	4,175	702	2,195	–	7,954
Provided for the year	10,439	261	6,497	66,473	12,062	8,852	–	104,584
Eliminated on disposals	(704)	(783)	(655)	(85)	(5,231)	(922)	–	(8,380)
At 31 December 2006	20,769	–	11,919	148,111	23,293	65,449	–	269,541
Currency realignment	1,986	2	630	13,841	1,863	6,067	–	24,389
Provided for the year	12,762	46	6,227	85,400	8,307	23,385	–	136,127
Eliminated on disposals	(479)	–	(2,153)	(13,425)	(4,070)	(1,996)	–	(22,123)
At 31 December 2007	35,038	48	16,623	233,927	29,393	92,905	–	407,934
CARRYING VALUES								
At 31 December 2007	295,992	271	32,260	2,397,213	54,230	264,162	66,347	3,110,475
At 31 December 2006	244,740	–	17,045	1,805,673	46,159	242,604	433	2,356,654

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

At the balance sheet date, the Group pledged certain of its buildings and gas pipelines with an aggregate carrying value of HK$14,822,000 (2006: HK$30,037,000) to secure banking facilities granted to the Group.

16. PREPAID LEASE PAYMENTS

	2007 HK$'000	2006 HK$'000
Balance at the beginning of the year	155,377	86,265
Currency realignment	12,261	5,657
Additions	1,902	16,561
Acquired on acquisition of subsidiaries	13,521	51,816
Charge for the year	(6,571)	(4,922)
Balance at the end of the year	176,490	155,377
Analysis for reporting purpose:		
Non-current portion	171,227	150,785
Current portion	5,263	4,592
	176,490	155,377

The amount represented medium-term land use rights situated in the PRC.

17. INTANGIBLE ASSETS

	HK$'000
COST	
At 1 December 2006	10,295
Currency realignment	5,045
Acquired on acquisition of subsidiaries	126,750
At 31 December 2006	142,090
Currency realignment	11,737
Acquired on acquisition of subsidiaries	41,401
At 31 December 2007	195,228
AMORTISATION	
At 1 January 2006	1,326
Currency realignment	130
Provided for the year	4,107
At 31 December 2006	5,563
Currency realignment	618
Provided for the year	5,155
At 31 December 2007	11,336
CARRYING VALUES	
At 31 December 2007	183,892
At 31 December 2006	136,527

The intangible assets represent the Group's exclusive operating rights for city pipeline network.

18. GOODWILL

	HK$'000
At 1 January 2006	55,412
Currency realignment	492
Acquired on acquisition of subsidiaries	12,737
At 31 December 2006	68,641
Currency realignment	650
Acquired on acquisition of subsidiaries	2,111,000
At 31 December 2007	2,180,291

Goodwill acquired in a business combination is allocated to cash generating units ("CGUs") that are expected to benefit from that business combination. The management considers each subsidiary represents a separate CGU for the purpose of goodwill impairment testing. At the balance sheet date, the carrying amount of goodwill mainly represents goodwill arising from the acquisition of Hong Kong & China Gas (Qingdao) Limited ("Qingdao"), Hong Kong & China Gas (Zibo) Limited ("Zibo"), Hong Kong & China Gas (Yantai) Limited ("Yantai"), Hong Kong & China Gas (Weifang) Limited ("Weifang"), Hong Kong & China Gas (Weihai) Limited ("Weihai"), Hong Kong & China Gas (Taian) Limited ("Taian"), Hong Kong & China Gas (Maanshan) Limited ("Maanshan"), Hong Kong & China Gas (Anqing) Limited ("Anqing") and other subsidiaries of HK$278,329,000, HK$299,351,000, HK$506,763,000, HK$116,330,000, HK$231,596,000, HK$204,903,000, HK$243,209,000 and HK$230,519,000 respectively.

The recoverable amounts of CGUs are determined from 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 year. Management estimates discount rates of 8% 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 of 4% to 6% are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The value in use calculations is derived from cash flow projections based on the most recent financial budgets approved by management for the next 5 years. Cash flows beyond that 5 year period have been extrapolated using a declining growth rate from 4% to 6% per annum, which is based on industry growth forecasts. The directors of the Company considered no impairment loss is necessary at 31 December 2007.

19. INTEREST IN ASSOCIATES

	2007 HK$'000	2006 HK$'000
Cost of investments in associates	632,702	520,128
Share of post-acquisition profits, and other reserves net of dividends received	163,024	35,243
Goodwill on acquisition of associates	95,398	89,569
	891,124	644,940

Details of the Group's associates as at 31 December 2007 are as follows:

Name of associate	Place of establishment and operations	Percentage of equity interest attributable to the Group	Principal activities
Foshan Panva Gas Group Ltd. 佛山市燃氣集團有限公司	PRC – Sino-foreign equity joint venture	43%	Provision of LPG, natural gas and related services and gas pipeline construction
Changchun Gas Holdings Limited 長春燃氣控股有限公司	PRC – Sino-foreign equity joint venture	48%	Production and distribution of natural gas, coal gas, LPG, metallurgical coke and coke oil
Shandong Panva Gas Co., Ltd. 山東百江燃氣有限公司	PRC – Sino-foreign equity joint venture	48%	Provision of LPG, natural gas and related services and gas pipeline construction
Zibo Lubo Gas Company Ltd. 淄博綠博燃氣有限公司	PRC – Sino-foreign equity joint venture	27%	Provision of natural gas and related services and gas pipeline construction

19. INTEREST IN ASSOCIATES (Continued)

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

	2007 HK$'000	2006 HK$'000
Total assets	3,466,483	2,643,201
Total liabilities	(1,686,535)	(1,479,272)
Net assets	1,779,948	1,163,929
Revenue	2,649,062	1,677,135
Profit (loss) for the year	249,427	(27,377)

20. INTERESTS IN JOINTLY CONTROLLED ENTITIES/LOANS TO JOINTLY CONTROLLED ENTITIES

	2007 HK$'000
Acquired on acquisition of subsidiaries during the period	457,649
Share of post-acquisition profits, net of dividends received	51,335
Currency realignment	23,651
Share of net assets	532,635
Loans to jointly controlled entities	147,569

20. INTERESTS IN JOINTLY CONTROLLED ENTITIES/LOANS TO JOINTLY CONTROLLED ENTITIES (Continued)

At 31 December 2007, the Group had interests in the following significant jointly controlled entities registered in PRC:

Name of entity	Form of business structure	Principal place of operation	Proportion of nominal value of registered capital held by the Group	Principal activity
Zibo Hong Kong and China Gas Company Limited 淄博港華燃氣有限公司	Sino-foreign equity joint venture	Southern Part of Zibo Shandong Province, PRC	50%	Provision of natural gas and related services and gas pipeline construction
Weifang Hong Kong and China Gas Company Limited 濰坊港華燃氣有限公司	Sino-foreign equity joint venture	Weifang, Shandong Province, PRC	50%	Provision of natural gas and related services and gas pipeline construction
Weihai Hong Kong and China Gas Company Limited 威海港華燃氣有限公司	Sino-foreign equity joint venture	Weihai, Shandong Province, PRC	50%	Provision for natural gas and related service and gas pipeline construction
Taian Taishan Hong Kong and China Gas Company Limited 泰安泰山港華燃氣有限公司	Sino-foreign equity joint venture	Taian, Shandong Province, PRC	50%	Provision of natural gas and related services and gas pipeline construction
Maanshan Hong Kong and China Gas Company Limited 馬鞍山港華燃氣有限公司	Sino-foreign equity joint venture	Maanshan, Anhui Province, PRC	50%	Provision of natural gas and related services and gas pipeline construction
Anqing Hong Kong and China Gas Company Limited 安慶港華燃氣有限公司	Sino-foreign equity joint venture	Anqing, Anhui Province, PRC	50%	Provision for coal gas and petroleum gas and related service and gas pipeline construction

20. INTERESTS IN JOINTLY CONTROLLED ENTITIES/LOANS TO JOINTLY CONTROLLED ENTITIES (Continued)

At 31 December 2007, the aggregate amount of assets and liabilities recognised in the consolidated financial statements in relation to the Group's interests in jointly controlled entities are as follows:

	HK$'000
Current assets	150,340
Non-current assets	853,109
Current liabilities	196,425
Non-current liabilities	274,389
Income	381,677
Expenses	330,342

The loans to jointly controlled entities are carried at amortised cost with the following details:

Principal amount	Maturity date	Interest rate	Effective interest rate	Carrying amount 2007 HK$'000	Carrying amount 2006 HK$'000
RMB37,650,000	December 2014	Nil	6.12%	**26,345**	–
RMB35,000,000	July 2014	Nil	6.12%	**25,065**	–
RMB42,530,000	July 2013	Nil	6.12%	**32,012**	–
RMB53,000,000	April 2009	4.86%	4.86%	**57,336**	–
RMB10,550,000	February 2016	Nil	6.12%	**6,811**	–
				147,569	–

The principal and interest will be receivable on the maturity date for each loan.

21. AVAILABLE-FOR-SALE INVESTMENTS

	2007 HK$'000	2006 HK$'000
Unlisted shares in the PRC, at cost	**171,209**	170,528

At the balance sheet date, investments in unlisted equity securities issued by private entities established in the PRC are measured at cost less impairment 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.

22. INVENTORIES

	2007 HK$'000	2006 HK$'000
Finished goods	45,759	25,005
Consumables	106,853	71,732
	152,612	96,737

23. TRADE RECEIVABLES/OTHER FINANCIAL ASSETS

Trade receivables

The Group has a policy of allowing an average credit period ranging from 0 to 180 days to its customers. The following is an aged analysis of trade receivables at the balance sheet date:

	2007 HK$'000	2006 HK$'000
0 to 90 days	72,719	66,021
91 to 180 days	17,073	62,970
181 to 360 days	2,797	3,682
	92,589	132,673

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$6,261,000 (2006: HK$3,763,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

Aging of trade receivables which are past due but not impaired

	2007 HK$'000	2006 HK$'000
61 – 90 days	278	81
91 – 180 days	3,186	–
181 – 360 days	2,797	3,682
Total	6,261	3,763

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

The Directors determined that such receivables neither past due nor impaired are of good credit quality with no history of default.

23. TRADE RECEIVABLES/OTHER FINANCIAL ASSETS (Continued)

Other financial assets

The bank balances carry interest at prevailing market rates range from 3.0% to 5.5% per annum.

At the balance sheet date, included in the bank balances and cash are following amount denominated in currency other than the functional currency of the relevant entity to which it relates.

	2007 HK$'000	2006 HK$'000
United States Dollar	233,939	55,337

24. AMOUNTS DUE FROM/TO MINORITY SHAREHOLDERS

The amounts due from minority shareholders are of trade nature with credit terms comparable to normal trade debtors and trade creditors, with average age of 90 days (2006: 90 days). The amount due to minority shareholders are unsecured and interest-free.

25. TRADE PAYABLES

The following is an aged analysis of trade payables as at the balance sheet date:

	2007 HK$'000	2006 HK$'000
0 to 90 days	104,235	80,366
91 to 180 days	9,743	30,384
181 to 360 days	10,661	13,954
Over 360 days	25,779	26,575
	150,418	151,279

26. BORROWINGS

	2007 HK$'000	2006 HK$'000
Bank loans – secured	28,665	11,473
Bank loans – unsecured	250,451	24,527
Other loans – unsecured	137,846	119,823
Convertible bonds (note a)	206,173	349,506
Guaranteed senior notes (note b)	1,160,476	1,557,386
	1,783,611	2,062,715
Carrying amount repayable:		
On demand or within one year	315,524	110,964
More than one year but not exceeding two years	76,789	355,324
More than two years but not exceeding five years	1,363,681	29,218
More than five years	27,617	1,567,209
	1,783,611	2,062,715
Less: Amount due within one year shown under current liabilities	(315,524)	(110,964)
Amount due after one year	1,468,087	1,951,751

Notes:

(a) The Company issued the 2% convertible bonds of US$50,000,000 on 23 April 2003. The bonds are convertible into shares of the Company on or after 7 June 2003 and up to 9 April 2008. The convertible bonds are listed on the Luxembourg Stock Exchange. The conversion price at which each share shall be issued upon conversion is HK$3.8043 per share (adjusted to account for the effect of the issue of additional new shares), subject to adjustment for, subdivision on consolidation of shares, bonus issues, rights issues and other dilutive events. The outstanding unconverted principal amount of the bonds US$24,707,000 (2006: US$43,880,000) will be redeemed on 23 April 2008 at 108.119%. Interest of 2% is payable per annum. The effective interest rate of the convertible bonds is 6.48% per annum. At 31 December 2007, the market value of the convertible bonds amounted to US$27,425,000 (equivalent to approximately of HK$213,913,000). During the year, the principal amount of US$19,173,000 (2006: US$3,845,000) of the convertible bonds were converted into ordinary shares of the Company.

(b) The Company issued US$200,000,000 8.25% guaranteed senior notes due 2011 (the "Guaranteed Senior Notes") on 23 September 2004. The Guaranteed Senior Notes are listed on the Singapore Exchange Securities Trading Limited. The Guaranteed Senior Notes bear interest at 8.25% per annum, payable semi-annually in arrears. At any time prior to 23 September 2007, the Company may redeem up to 35% of the principal amount of the Guaranteed Senior Notes with the net cash proceeds of one or more sales of the Company's shares in an offering at a redemption price of 108.25% of the principal amount of the Guaranteed Senior Notes, plus accrued and unpaid interest, if any, to the redemption date. The effective interest rate of Guaranteed Senior Notes is 8.69%. At 31 December 2007, the market value of the Guaranteed Senior Notes amounted to US$160,208,000 (equivalent to approximately of HK$1,249,622,000). The outstanding principal amount of the Guaranteed Senior Notes will be repaid in 2011 at 100%.

26. BORROWINGS (Continued)

Notes: (Continued)

(b) (Continued)

During the year, the Company purchased the Guaranteed Senior Notes with a principal amount of US$51,000,000 at prices ranging from US$105.50 to US$108.25 in the open market. At the balance sheet date, Guaranteed Senior Notes with a principal amount of US$149,000,000 are still outstanding in the market.

(c) The bank and other loans mainly comprise of:

	Maturity date	Effective interest rate	Carrying amount 2007 HK$'000	2006 HK$'000
Floating-rate bank loans:				
Unsecured HKD bank loan of HKD200,000,000 at Hong Kong Interbank Offered Rate + 0.55%	6 December 2010	4.4%	200,772	–
Unsecured RMB bank loan of RMB46,500,000 at 90% of basic borrowing rate announced by People's Bank of China	Revolving credit settle within 6 months from date of drawdown	5.427% to 5.832%	49,679	–
Fixed rate other loans:				
Unsecured RMB other loans of RMB103,820,000	Partial repayment matured and instalment repayment for two years	2.55% to 2.8%	104,596	94,077
Other secured bank loans and other loans		2.55% to 8.31%	61,915	61,746
Total bank loans and other loans			416,962	155,823

27. LOAN FROM A SHAREHOLDER

The amount represents an unsecured loan denominated in USD, bears interest at 1.25% plus the Hong Kong Interbank Offered Rate per annum and is repayable in the fifth year from December 2007 (the date of the relevant draw down of the loan). At 31 December 2007, the effective interest rate is 4.25% per annum.

28. DEFERRED TAXATION

The following is the major deferred tax liability recognised and movements thereon during the current year:

Intangible assets

	2007 HK$'000	2006 HK$'000
At 1 January 2007	43,140	–
Acquired on acquisition of subsidiaries during the year	19,368	42,801
Currency realignment	2,954	1,551
Credit to consolidated income statement during the year (note 13)	(1,089)	(1,212)
Effect of change in tax rate	(14,400)	–
At 31 December 2007	49,973	43,140

29. SHARE CAPITAL

	Number of shares	HK$'000
Authorised:		
Shares of HK$0.10 each	3,000,000,000	300,000
Issued and fully paid:		
Shares of HK$0.10 each	1,956,350,330	195,635

A summary of the movements in the authorised share capital is as follows:

	Number of shares	HK$'000
At 1 January 2006 and 31 December 2006	2,000,000,000	200,000
Increase in authorised share capital (note a)	1,000,000,000	100,000
At 31 December 2007	3,000,000,000	300,000

A summary of the movements in the issued and fully paid capital of the Company is as follows:

	Number of shares	HK$'000
At 1 January 2006	942,250,891	94,225
Issue of shares on exercise of share options (note b)	8,169,000	817
Issue of shares on conversion of convertible bonds (note c)	7,883,445	788
At 1 January 2007	958,303,336	95,830
Issue of shares on exercise of share options (note b)	9,752,150	975
Issue of shares on conversion of convertible bonds (note c)	39,310,614	3,931
Issue of shares on acquisition of subsidiaries (note d)	772,911,729	77,291
Issue of shares on open offer (note e)	176,072,501	17,608
At 31 December 2007	1,956,350,330	195,635

Notes:

(a) Pursuant to a resolution passed in the annual general meeting of the Company on 23 May 2007, the authorised share capital of the Company increased to HK$300,000,000 by the creation of an additional 1,000,000,000 shares of HK$0.10 each of the Company.

29. SHARE CAPITAL (Continued)

Notes: (Continued)

(b) During the year ended 31 December 2006, the Company allotted and issued 2,710,000, 4,529,000 and 930,000 shares of HK$0.10 each for cash at the exercise price of HK$0.475, HK$0.940 and HK$3.500 per share respectively as a result of the exercise of share options.

During the year ended 31 December 2007, the Company allotted and issued 1,990,000, 1,870,000, 1,200,000, 532,650, 3,919,500 and 240,000 shares of HK$0.10 each for cash at the exercise price of HK$3.500, HK$0.940, HK$0.475, HK$3.483, HK$0.473 and HK$2.810 per share respectively as a result of the exercise of share options.

(c) During the year ended 31 December 2006, US$3,845,000 of the issued convertible bonds were converted into 7,883,445 shares of HK$0.10 each of the Company at HK$3.8043 per share. US$19,173,000 (equivalent to approximately of HK$149,549,000) of the issued convertible bonds were converted into 39,310,614 shares of HK$0.10 each of the Company at HK$3.8043 per share during the year ended 31 December 2007.

(d) During the year ended 31 December 2007, the Company allotted and issued 772,911,729 ordinary shares of HK$0.10 each at the price of HK$3.77 for acquisition of certain subsidiaries as detailed in note 31.

(e) During the year ended 31 December 2007, the Group allotted and issued 176,072,501 ordinary shares of HK$0.10 each at the price of HK$4.00 as a result of open offer to the then existing share holders.

All the shares which were issued during the year rank pari passu with the then existing shares in all respects.

30. RESERVES

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

Capital reserve represents the deemed contribution arising from waiver of loans from the minority shareholders of the subsidiaries.

31. ACQUISITION OF SUBSIDIARIES

The summary of the acquisition of subsidiaries, the net assets acquired in the transactions and the goodwill or discount arising on acquisitions during the year ended 31 December 2007 is as follows:

On 1 March 2007, the Group acquired 100% equity interest in Qingdao, Zibo, Yantai, Weifang, Weihai, Taian, Maanshan and Anqing, which are all engaged in the operation of piped gas assets and related business in PRC at an aggregate consideration of HK$2,913,877,000. This transaction has been accounted for by the acquisition method of accounting.

The fair value of the intangible assets of the subsidiaries acquired and their jointly controlled entities, which are the exclusive operating rights for city pipeline network, has been determined by reference to professional valuation which is based on discounted cash flow method with reference to the operating environment of each of the operating entities.

31. ACQUISITION OF SUBSIDIARIES (Continued)

The aggregate net assets acquired in the transaction, and the goodwill arising on acquisition, are as follows:

	Acquirees' carrying amount before acquisition	Fair value adjustments	Fair value
	HK$'000	HK$'000	HK$'000
Net assets acquired:			
Property, plant and equipment	210,220	–	210,220
Prepaid lease payments	13,521	–	13,521
Intangible assets	4,861	36,540	41,401
Interest in associates	28,927	–	28,927
Interest in jointly controlled entities	324,263	133,386	457,649
Loans to jointly controlled entities	133,730	–	133,730
Inventories	5,147	–	5,147
Trade receivables	6,451	–	6,451
Other receivables, deposits and prepayments	21,359	–	21,359
Bank balances and cash	8,278	–	8,278
Trade payables	(28,087)	–	(28,087)
Other payables and accrued charges	(8,490)	–	(8,490)
Borrowings	(46,082)	–	(46,082)
Deferred taxation	(8,800)	(10,568)	(19,368)
Net assets acquired	665,298	159,358	824,656
Minority interests			(21,779)
Goodwill arising on acquisition			2,111,000
Total consideration			2,913,877
Satisfied by:			
Issue of new shares (772,911,729 shares @ HK$3.77)			2,913,877
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries, representing bank balances and cash acquired			8,278

The goodwill on acquisition of the above subsidiaries represents value obtainable from synergies with the Group and opportunities for the Group to bring its expertise to the proposition and access to the region of PRC that are provided by the above newly acquired subsidiaries.

The subsidiaries acquired during the year contributed HK$103,391,000 to the Group's turnover and a profit of HK$66,738,000 to the Group's profit before taxation for the year between the date of acquisition and the balance sheet date.

31. ACQUISITION OF SUBSIDIARIES (Continued)

If the acquisition had been completed on 1 January 2007, total group revenue for the period would have been HK$3,219,504,000 and profit for the year would have been HK$220,228,000. The pro forma information is for illustrative purpose only and is not necessarily an indicative revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2007, nor is it intended to be a projection of future results.

The summary of the acquisition of subsidiaries, the net assets acquired in the transactions and the goodwill or discount arising on acquisitions during the year ended 31 December 2006 is as follows:

(a) On 1 January 2006, the Group acquired 61.67%, 90% and 80% equity interest in Qiqihar Panva Gas Co., Ltd. ("Qiqihar Panva"), Chaoyang Panva Gas Co., Ltd. ("Chaoyang Panva") and Tieling Panva Gas Co., Ltd. ("Tieling Panva"), respectively, at an aggregate consideration of HK$182,583,000.

	Acquirees' carrying amount before acquisition HK$'000	Fair value adjustments HK$'000	Fair value HK$'000
Net assets acquired:			
Property, plant and equipment	280,371	–	280,371
Prepaid lease payments	30,682	–	30,682
Intangible assets	–	65,154	65,154
Inventories	18,711	–	18,711
Trade receivables	9,381	–	9,381
Other receivables, deposits and prepayments	6,153	–	6,153
Amounts due from minority shareholders	7,650	–	7,650
Bank balances and cash	76,252	–	76,252
Trade payables	(32,461)	–	(32,461)
Other payables and accrued charges	(86,442)	–	(86,442)
Amounts due to shareholders	(1,831)	–	(1,831)
Borrowings	(107,510)	–	(107,510)
Deferred taxation	(973)	(21,501)	(22,474)
	199,983	43,653	243,636
Minority interests			(56,708)
Goodwill			11,333
Discount on acquisition			(15,678)
			182,583
Satisfied by:			
Cash consideration			163,923
Transfer from available-for-sale investments			18,660
			182,583
Net cash outflow arising on acquisition:			
Cash consideration			163,923
Bank balances and cash acquired			(76,252)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries			87,671

31. ACQUISITION OF SUBSIDIARIES (Continued)

(b) On 1 March 2006, the Group acquired 100% equity interest in 深圳北科蘭光能源系統技術有限責任公司 ("Beike Lan Guang Group") at a consideration of HK$85,750,000.

	Acquiree's carrying amount before acquisition HK$'000	Fair value adjustments HK$'000	Fair value HK$'000
Net assets acquired:			
Property, plant and equipment	105,906	–	105,906
Prepaid lease payments	8,342	–	8,342
Intangible assets	–	37,170	37,170
Inventories	3,510	–	3,510
Trade receivables	353	–	353
Other receivables, deposits and prepayments	60,602	–	60,602
Bank balances and cash	821	–	821
Trade payables	(3,443)	–	(3,443)
Other payables and accrued charges	(102,250)	–	(102,250)
Borrowings	(3,604)	–	(3,604)
Deferred taxation	–	(12,266)	(12,266)
	70,237	24,904	95,141
Minority interests			(5,649)
Discount on acquisition			(3,742)
			85,750
Satisfied by:			
Cash consideration			85,750
Net cash outflow arising on acquisition:			
Cash consideration			85,750
Bank balances and cash acquired			(821)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries			84,929

31. ACQUISITION OF SUBSIDIARIES (Continued)

(c) On 1 July 2006, the Group acquired 90% equity interest in 阜新百江燃氣有限公司 Fuxin Panva Gas Co., Ltd. ("Fuxin Panva") at a consideration of HK$71,334,000.

	Acquiree's carrying amount before acquisition HK$'000	Fair value adjustments HK$'000	Fair value HK$'000
Net assets acquired:			
Property, plant and equipment	66,315	–	66,315
Prepaid lease payments	12,792	–	12,792
Intangible assets	–	24,426	24,426
Inventories	2,212	–	2,212
Trade receivables	586	–	586
Other receivables, deposits and prepayments	663	–	663
Amounts due from minority shareholders	10,466	–	10,466
Bank balances and cash	161	–	161
Trade payables	(7,318)	–	(7,318)
Other payables and accrued charges	(13,293)	–	(13,293)
Tax payable	(43)	–	(43)
Borrowings	(4,463)	–	(4,463)
Deferred taxation	–	(8,061)	(8,061)
	68,078	16,365	84,443
Minority interests			(8,444)
Discount on acquisition			(4,665)
			71,334
Satisfied by:			
Cash consideration			51,330
Other payables			20,004
			71,334
Net cash outflow arising on acquisition:			
Cash consideration			51,330
Bank balances and cash acquired			(161)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries			51,169

31. ACQUISITION OF SUBSIDIARIES (Continued)

(d) On 1 October 2006, the Group acquired 50% equity interest in 杭州百江液化氣有限公司 Hangzhou Panva LPG Co., Ltd. ("Hangzhou Panva") at a consideration of HK$24,631,000.

The Group controls more than half of its board of directors of Hangzhou Panva and accordingly Hangzhou Panva was regarded as a subsidiary.

	Acquiree's carrying amount before acquisition HK$'000	Fair value adjustments HK$'000	Fair value HK$'000
Net assets acquired:			
Property, plant and equipment	16,168	–	16,168
Inventories	5,551	–	5,551
Trade receivables	5,925	–	5,925
Other receivables, deposits and prepayments	18,330	–	18,330
Bank balances and cash	7,059	–	7,059
Trade payables	(669)	–	(669)
Other payables and accrued charges	(5,911)	–	(5,911)
	46,453	–	46,453
Minority interests			(23,226)
Goodwill			1,404
Total consideration satisfied by cash			24,631
Net cash outflow arising on acquisition:			
Cash consideration			24,631
Bank balances and cash acquired			(7,059)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries			17,572

These transactions have been accounted for by the purchase method of accounting.

The discount on acquisitions of approximately HK$24 million is attributable to the acquisitions of 61.67% equity interest in Qiqihar Panva, 100% equity interest of Beike Lan Guang Group and 90% equity interest in Fuxin Panva. The discount on acquisitions arising from acquisition of subsidiaries was attributable to the ability of the Group in negotiating the agreed terms of transactions with the vendors.

31. ACQUISITION OF SUBSIDIARIES (Continued)

(d) (Continued)

The goodwill on acquisitions of Chaoyang Panva, Tieling Panva and Hangzhou Panva represents value obtainable from synergies with the Group, expertise the Group brings to the proposition and access to respective markets that the acquisitions provide to the Group.

The subsidiaries acquired during the year contributed HK$313,724,000 to the Group's turnover and a profit of HK$29,452,000 to the Group's loss for the period between the date of acquisition and the balance sheet date.

If the acquisitions had been completed on 1 January 2006, total group revenue for the period would have been HK$2,696,535,000 and loss for the year would have been HK$238,825,000. The pro forma information is for illustrative purpose only and is not necessarily an indicative revenue and results of the Group that actually would have been achieved had the acquisition been completed on 1 January 2006, nor is it intended to be a projection of future results.

The fair value of the intangible assets acquired, which related to the exclusive operating rights for city pipeline network, has been determined by reference to professional valuations.

32. RELATED PARTY TRANSACTIONS

During the year, the following related party transactions took place:

Name of related party	Nature of transactions	2007 HK$'000	2006 HK$'000
Sinolink Worldwide Holdings Limited ("Sinolink") (note a)	Licence fee expense	**163**	976
Shenzhen Sinolink Enterprises Co., Limited (note a)	Rental expense	**306**	367
Hong Kong & China Gas Company Limited (note b)	Loan facility (See note 27)	**193,750**	–

Note:

(a) Mr. Ou Yaping, a director and beneficial shareholder of the Company, has a beneficial interest in these companies.

(b) A substantial shareholder of the Company.

The key management personnel are the directors of the Company. The details of the remuneration paid to them are set out in note 12.

33. OPERATING LEASE COMMITMENTS

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

	2007 HK$'000	2006 HK$'000
Within one year	10,528	7,789
In the second to fifth year inclusive	28,968	18,479
Over five years	23,168	36,411
	62,664	62,679

Operating lease payments represent rental payable by the Group for certain of its office properties. Leases are negotiated for terms up to 20 years.

34. COMMITMENTS

	2007 HK$'000	2006 HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	8,529	27,838
Capital injection contracted for but not provided in the consolidated financial statements in respect of		
– investment in jointly controlled entities	163,462	–
– investment in a subsidiary	37,393	–

35. SHARE OPTIONS

The Company's Pre-GEM Share Option Scheme (the "Pre-GEM Share Option Scheme") and share option scheme (the "Scheme") were adopted pursuant to resolutions passed on 4 April 2001 for providing incentives to directors and eligible employees and, unless otherwise cancelled or amended, will expire on 19 April 2001 and, will expire on 3 April 2011 respectively. Under the Pre-GEM Share Option Scheme and the Scheme, the Board of Directors of the Company may grant options to eligible employees, including executive directors of the Company or any of its subsidiaries, to subscribe for shares in the Company.

35. SHARE OPTIONS (Continued)

Pursuant to a share option scheme adopted by the shareholders of the Company at the annual general meeting held on 24 April 2005 (the "2005 GEM Share Option Scheme") and approved by Sinolink pursuant to an ordinary resolution passed at the annual general meeting of Sinolink held on 18 May 2005, the Company may grant options to the directors or employees of the Company or its subsidiaries, for the recognition of their contributions to the Group, to subscribe for shares in the Company. In addition, pursuant to a share option scheme adopted by the shareholders of the Company at an extraordinary general meeting held on 28 November 2005 (the "New Scheme") and approved by Enerchina Holdings Limited ("Enerchina") and Sinolink pursuant to an ordinary resolution passed at the respective special general meeting of Enerchina and Sinolink pursuant to an ordinary resolution passed at the respective special general meeting of Enerchina and Sinolink held on 28 November 2005, the Company may grant options to the directors or employees of the Company or its subsidiaries, for the recognition of their attributions to the Group, to subscribe for shares in the Company.

The 2005 GEM Share Option Scheme has replaced the Scheme, there will be no options granted under the Scheme in the future but the options granted during its life shall continue to be valid and exercisable in accordance with their terms of issue. The provision of the Scheme shall remain in full force and effect.

The 2005 GEM Share Option Scheme and the New Scheme remained in force for a period of 10 years commencing on the date of adoption of the scheme, i.e. 18 May 2005 and 28 November 2005 respectively.

The share options under the 2005 GEM Share Option Scheme (the "2005 GEM Options") and the New Scheme (the "New Scheme Options") are exercisable at any time for a period to be determined by the directors, which shall not be more than 10 years after the date of grant.

No share option is granted under 2005 GEM Share Option Scheme during the year ended 31 December 2006.

The 2005 GEM Options granted or the New Scheme Options granted must be taken up within 28 days of the date of grant, upon payment of HK$l per option.

35. SHARE OPTIONS (Continued)

Movements of the share options, which were all held by directors and senior management, during the year were as follows:

	Number of share options						
	Outstanding at the beginning of the year	Granted during the year	Adjustment during the year (note c)	Exercised during the year	Forfeited during the year	Outstanding at the end of the year	Exercisable share options at the end of the year
For the year ended 31 December 2006							
Pre-GEM Listing options	11,970,000	–	–	(2,710,000)	–	9,260,000	9,260,000
The Scheme							
2001 options (note a)	6,799,000	–	–	(4,529,000)	(300,000)	1,970,000	1,970,000
2004 options (note a)	21,200,000	–	–	(930,000)	(800,000)	19,470,000	11,310,000
New Scheme							
2006 options (note b)	–	5,000,000	–	–	–	5,000,000	–
	39,969,000	5,000,000	–	(8,169,000)	(1,100,000)	35,700,000	22,540,000
Weighted average exercise price	2.159	2.810	N/A	1.077	2.802	2.477	2.033
For the year ended 31 December 2007							
Pre-GEM Listing options	9,260,000	–	40,300	(5,119,500)	–	4,180,800	4,180,800
The Scheme							
2001 options (note a)	1,970,000	–	–	(1,870,000)	(100,000)	–	–
2004 options (note a)	19,470,000	98,600	(2,522,650)	(1,136,800)	15,909,150	15,909,150	
New Scheme							
2006 options (note b)	5,000,000	–	(240,000)	(600,000)	4,160,000	1,500,000	
2007 options (note b)	–	14,600,000	–	–	–	14,600,000	–
	35,700,000	14,600,000	138,900	(9,752,150)	(1,836,800)	38,849,950	21,589,950
Weighted average exercise price	2.477	3.830	2.610	1.399	3.125	3.217	2.853

The weighted average closing price of the Company's shares immediately before the date of exercise of 1,200,000 options on 9 January 2007, 550,000 options on 30 January 2007, 1,320,000 options on 13 February 2007, 910,000 options on 14 May 2007, 480,000 options on 23 May 2007, 600,000 options on 25 May 2007, 482,400 options on 21 June 2007, 351,750 options on 6 August 2007, 3,618,000 options on 25 September 2007 and 240,000 options on 17 December 2007 were HK$4.391, HK$3.891, HK$3.809, HK$4.218, HK$4.209, HK$4.200, HK$4.050, HK$4.530, HK$4.540 and HK$4.230 respectively.

35. SHARE OPTIONS (Continued)

The weighted average price of the Company's shares at the date of exercise of 1,200,000 options on 9 January 2007, 550,000 options on 30 January 2007, 1,320,000 options on 13 February 2007, 910,000 options on 14 May 2007, 480,000 options on 23 May 2007, 600,000 options on 25 May 2007, 482,400 options on 21 June 2007, 351,750 options on 6 August 2007, 3,618,000 options on 25 September 2007 and 240,000 options on 17 December 2007 were HK$4.400, HK$3.690, HK$3.791, HK$4.218, HK$4.200, HK$4.300, HK$4.040, HK$4.400, HK$4.490 and HK$4.120 respectively.

Had all the outstanding vested share options been fully exercised on 31 December 2007, the Company would have received cash proceeds of HK$61,604,000 (2006: HK$45,835,000). Details of specific categories of options are as follows:

Option type	Date of grant	Vesting proportion	Exercisable period	Exercise price HK$	
Pre-GEM Listing options	04.04.2001	50%	01.01.2003 – 03.04.2011	0.473	(note c)
		50%	01.01.2004 – 03.04.2011	0.473	(note c)
2001 options (note a)	13.11.2001	30%	13.02.2002 – 13.02.2007	0.940	
		30%	13.05.2002 – 13.02.2007	0.940	
		40%	13.11.2002 – 13.02.2007	0.940	
2004 options (note a)	19.11.2004	30%	31.12.2006 – 30.03.2011	3.483	(note c)
		30%	31.12.2007 – 30.03.2011	3.483	(note c)
		40%	31.12.2007 – 30.03.2011	3.483	(note c)
2006 options (note b)	03.10.2006	30%	04.10.2007 – 27.11.2015	2.810	
		30%	04.04.2008 – 27.11.2015	2.810	
		40%	04.10.2008 – 27.11.2015	2.810	
2007 options (note b)	16.03.2007	30%	16.03.2008 – 27.11.2015	3.830	
		30%	16.03.2009 – 27.11.2015	3.830	
		40%	16.03.2010 – 27.11.2015	3.830	

The vesting period of share options is from the date of grant until the commencement of the exercisable period.

35. SHARE OPTIONS (Continued)

The fair value of share options granted during year ended 31 December 2007 is HK$1.55 (2006: HK$0.94) per share and was calculated using the Black-Scholes option pricing model. The inputs into the model were as follows:

	2007	2006
Weighted average share price	HK$3.74	HK$2.80
Weighted average exercise price	HK$3.83	HK$2.81
Expected volatility	41.21%	30.03%
Expected life	5.0	5.0
Risk free rate	4.177%	3.961%
Expected dividend yield	0%	0%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 1 year. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

The Group recognised total expenses of HK$14,908,000 (2006: HK$9,288,000) for the year ended 31 December 2007 in relation to share options granted by the Company.

Notes:

a. The 2001 option and 2004 option represented the share options granted under the Scheme.

b. The 2006 and 2007 option represented the share options granted under the New Scheme.

c. The exercise price and number of share options has been adjusted as the result of open offer of ordinary shares during the year.

The Black-Scholes option pricing model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

36. RETIREMENT BENEFIT SCHEMES

The Group's subsidiaries operating in the PRC have participated in defined contribution retirement schemes organised by the relevant local government authorities in the PRC. All PRC employees are entitled to an annual pension equal to a fixed portion of their ending basic salaries at their retirement dates. The Group is required to make specific contributions to the retirement schemes at a rate of 12 to 25 percent of basic salary of its PRC employees and have no further obligation for post-retirement benefits beyond the annual contributions made. Pursuant to these arrangements, the retirement plan contributions charge for the year ended 31 December 2007 amounted to approximately HK$27,610,000 (2006: HK$17,807,000).

36. RETIREMENT BENEFIT SCHEMES (Continued)

The Group has joined a MPF Scheme for all its non-PRC employees. 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 rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the scheme. The retirement benefits scheme contributions arising from the MPF Scheme charged to the consolidated income statement represent contributions payable to the funds by the Group at rates specified in the rules of the scheme. For the year ended 31 December 2007, the Group made retirement benefit scheme contributions amounting to HK$115,000 (2006: HK$127,000).

37. POST BALANCE SHEET EVENT

Pursuant to a conditional sale and purchase agreement (the "Agreement") dated 11 December 2007 entered into by the Group and Shenzhen Huafu Energy Investment Limited ("Shenzhen Huafu"), the Group has agreed to purchase from Shenzhen Huafu its entire equity interests in Mianyang Tianneng Gas Development Company Limited, ("Target Company"). In consideration of the acquisition, the Group paid RMB315 million (approximately HK$337 million) to Shenzhen Huafu and this amount together with related expenses have been included as deposit paid for acquisition of a subsidiary in the consolidated balance sheet. At the balance sheet date, RMB35 million (approximately HK$37 million) of the total consideration out of RMB350 million (approximately HK$374 million) is payable upon completion and has not provided for in the financial statements.

The Target Company operates in Mianyang City of Sichuan Province of the PRC and is engaged in the operation of piped gas assets and related business.

The acquisition was completed on 22 January 2008. The Group is in the process of finalising the relevant information of the Target Company and accordingly, the financial impact of the acquisition to the Group is not disclosed.

38. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2007 and 2006 are as follows:

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2007	2006	
Directly-owned subsidiary					
China Pan River Group Ltd.	BVI – Limited liability company	US$12,821	100%	100%	Investment holding
Panva LPG Investment Holdings Limited	BVI – Limited liability company	US$10,000,000	100%	100%	Investment holding
Hong Kong & China Gas (Qingdao) Limited	BVI – Limited liability company	US$1	100%	–	Investment holding
Hong Kong & China Gas (Zibo) Limited	BVI – Limited liability company	US$1	100%	–	Investment holding
Hong Kong & China Gas (Yantai) Limited	BVI – Limited liability company	US$1	100%	–	Investment holding
Hong Kong & China Gas (Weifang) Limited	BVI – Limited liability company	US$1	100%	–	Investment holding
Hong Kong & China Gas (Weihai) Limited	BVI – Limited liability company	US$1	100%	–	Investment holding
Hong Kong & China Gas (Taian) Limited	BVI – Limited liability company	US$1	100%	–	Investment holding
Hong Kong & China Gas (Maanshan) Limited	BVI – Limited liability company	US$1	100%	–	Investment holding
Hong Kong & China Gas (Anqing) Limited	BVI – Limited liability company	US$1	100%	–	Investment holding
Indirectly-owned subsidiaries					
Benxi Panva Gas Co., Ltd. 本溪百江燃氣有限公司	PRC – Limited liability company	RMB97,824,900	80%	80%	Provision of natural gas and related services and gas pipeline construction
Cangxi Panva Gas Co., Ltd. 蒼溪百江燃氣有限公司	PRC – Limited liability company	RMB8,000,000	100%	100%	Provision of natural gas and related services and gas pipeline construction

38. PARTICULARS OF SUBSIDIARIES (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2007	2006	
Indirectly-owned subsidiaries (Continued)					
Changsha Pan River Enterprises Co., Ltd. 長沙百江能源實業有限公司	PRC – Sino-foreign equity joint venture	RMB40,000,000	60%	60%	Wholesaling and retailing of LPG
Chaoyang Panva Gas Co., Ltd. 朝陽百江燃氣有限公司	PRC – Limited liability company	RMB89,248,000	90%	90%	Provision of natural gas and related services and gas pipeline construction
Chenzhou Pan River Gas Industry Co., Ltd. 郴州百江燃氣實業有限公司	PRC – Sino-foreign equity joint venture	RMB9,000,000	60%	60%	Wholesaling and retailing of LPG
China Overlink Holdings Co., Limited	BVI – Limited liability company	US$1	100%	100%	Investment holding
Dayi Panva Gas Co., Ltd. 大邑百江燃氣有限公司	PRC – Limited liability company	RMB3,300,000	100%	100%	Provision of natural gas and related services and gas pipeline construction
Fuxin Panva Gas Co., Ltd. 阜新百江燃氣有限公司	PRC – Limited liability company	RMB77,200,000	90%	90%	Provision of natural gas and related services and gas pipeline construction
Hangzhou Panva LPG Co., Ltd. ("Hangzhou Panva") 杭州百江液化氣有限公司	PRC – Limited liability company	RMB50,000,000	50% (note c)	50% (note c)	Wholesaling and retailing of LPG
Jianyang Panva Gas Co., Ltd. 簡陽百江燃氣有限公司	PRC – Limited liability company	RMB1,790,000	100%	100%	Provision of natural gas and related services and gas pipeline construction
Jinan Panva Gas Co., Ltd. 濟南百江燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB100,000,000	51%	51%	Provision of natural gas and related services and gas pipeline construction
Jinan Panva LPG Co., Ltd. 濟南百江液化氣有限公司	PRC – Limited liability company	RMB20,000,000	70%	70%	Provision of natural gas and related services and gas pipeline construction

38. PARTICULARS OF SUBSIDIARIES (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2007	2006	
Indirectly-owned subsidiaries (Continued)					
Lezhi Panva Gas Co., Ltd. 樂至百江燃氣有限公司	PRC – Limited liability company	RMB6,960,000	100%	100%	Provision of natural gas and related services and gas pipeline construction
Longkou Hong Kong and China Gas Co Ltd 龍口港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB 30,000,000	100%	–	Provision of natural gas and related services and gas pipeline construction
Nanjing Panva LPG Company Ltd. 南京百江液化氣有限公司	PRC – Sino-foreign equity joint venture	US$6,000,000	55%	55%	Wholesaling and retailing of LPG
Nanjing Panva Pipeline Gas Co., Ltd. 南京百江管道燃氣有限公司	PRC – Sino-foreign equity joint venture	US$1,010,000	100%	100%	Provision of LPG and related services and gas pipeline construction
Pan River Enterprises (Changde) Co., Ltd. 常德百江能源實業有限公司	PRC – Sino-foreign equity joint venture	RMB6,000,000	85%	85%	Wholesaling and retailing of LPG
Pan River Enterprises (Hengyang) Co., Ltd. 衡陽百江能源實業有限公司	PRC – Sino-foreign equity joint venture	RMB6,000,000	84%	84%	Wholesaling and retailing of LPG
Pan River Enterprises (Wuhu) Co., Ltd. 蕪湖百江能源實業有限公司	PRC – Sino-foreign equity joint venture	RMB32,000,000	55%	55%	Wholesaling and retailing of LPG
Pan River Enterprises (Yongzhou) Co., Ltd. 永州百江能源實業有限公司	PRC – Sino-foreign equity joint venture	RMB5,000,000	60%	60%	Wholesaling and retailing of LPG
Pan River Gas (China Southwest) Co., Ltd. ("Southwest Panva") 百江西南燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB57,500,000	50.1%	50.1%	Wholesaling and retailing of LPG

38. PARTICULARS OF SUBSIDIARIES (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group 2007	2006	Principal activities
Indirectly-owned subsidiaries (Continued)					
Pan River Gas (Zunyi) Co., Ltd. 遵義百江燃氣有限公司	PRC – Limited liability company	RMB4,200,000	50.1%	50.1%	Wholesaling and retailing of LPG
Panva (Chizhou) Gas Co., Ltd. 池州百江燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB20,000,000	100%	100%	Provision of LPG and related services and gas pipeline construction
Panva Gas (Yunnan) Co., Ltd. 雲南百江燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB58,840,000	28.53% (note a)	28.53% (note a)	Wholesaling and retailing of LPG
Pengshan Panva Gas Co., Ltd. 彭山百江燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB9,000,000	70%	70%	Provision of natural gas and related services and gas pipeline construction
Pengxi Panva Gas Co., Ltd. 蓬溪百江燃氣有限公司	PRC – Limited liability company	RMB3,590,000	90%	90%	Provision of natural gas and related services and gas pipeline construction
Pingchang Hong Kong and China Gas Company Limited (formerly known as Pingchang Panva Gas Co., Ltd.) 平昌港華燃氣有限公司 (前稱平昌百江燃氣有限公司)	PRC – Limited liability company	RMB4,900,000	90%	90%	Provision of natural gas and related services and gas pipeline construction
Qingdao Dong Yi Hong Kong and China Gas Co., Ltd 青島東億港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB 30,000,000	60%	–	Provision of natural gas and related services and gas pipeline construction
Qingdao Zhongji Hong Kong and China Gas Co., Ltd 青島中即港華燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB 30,000,000	90%	–	Provision of natural gas and related services and gas pipeline construction
Qingyuan Panva Gas Co., Ltd. 清遠百江燃氣有限公司	PRC – Limited liability company	RMB10,000,000	90%	80%	Provision of natural gas and related services and gas pipeline construction

38. PARTICULARS OF SUBSIDIARIES (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group 2007	2006	Principal activities
Indirectly-owned subsidiaries (Continued)					
Qiqihar Panva Gas Co., Ltd. 齊齊哈爾百江燃氣有限公司	PRC – Limited liability company	RMB80,000,000	61.67%	61.67%	Provision of natural gas and related services and gas pipeline construction
Shaoguan Panva Gas Co., Ltd. 韶關百江燃氣有限公司	PRC – Limited liability company	RMB20,000,000	100%	100%	Provision of natural gas and related services and gas pipeline construction
Sichuan Ziyang Hengyuan Compressed Natural Gas Co., Ltd. 四川省資陽恒源壓縮天然氣有限公司	PRC – Limited liability company	RMB800,000	66.6%	66.6%	Provision of compressed natural gas, petroleum and petroleum products to automobiles
Singkong Investments Limited 盛港投資有限公司	Hong Kong – Limited liability company	HK$10,000	100%	100%	Investment holding
Sinolink LPG Investment Limited	BVI – Limited liability company	US$1	100%	100%	Investment holding
Sinolink Power Investment Limited	BVI – Limited liability company	US$1	100%	100%	Investment holding
Tieling Panva Gas Co., Ltd. 鐵岭百江燃氣有限公司	PRC – Limited liability company	RMB49,210,000	80%	80%	Provision of natural gas and related services and gas pipeline construction
Towngas Investments Limited (formerly known as Panriver Investments Company Limited) 港華燃氣投資有限公司（前稱百江投資有限公司）	PRC – Limited liability company	US$200,000,000	100%	100%	Investment holding
Weiyuan Panva Gas Co., Ltd. 威遠百江燃氣有限公司	PRC – Limited liability company	RMB5,000,000	99.5%	99.5%	Provision of natural gas and related services and gas pipeline construction
Xiang Tan Pan River Energy Industry Co., Ltd. 湘潭百江能源實業有限公司	PRC – Sino-foreign equity joint venture	RMB10,000,000	60%	60%	Wholesaling and retailing of LPG

38. PARTICULARS OF SUBSIDIARIES (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group 2007	2006	Principal activities
Indirectly-owned subsidiaries (Continued)					
Yangzhou YPC & Panva Gas Co., Ltd. 揚州揚子石化百江燃氣有限公司	PRC – Limited liability company	RMB10,000,000	**27.5% (note b)**	27.5% (note b)	Wholesaling and retailing of LPG
Yiyang Pan River Enterprises Co., Ltd. 益陽百江能源實業有限公司	PRC – Sino-foreign equity joint venture	RMB5,000,000	**60%**	60%	Wholesaling and retailing of LPG
YPC & Panva Energy Co., Ltd. ("Yangzi Panva") 揚子石化百江能源有限公司	PRC – Sino-foreign equity joint venture	US$7,230,000	**50% (note c)**	50% (note c)	Wholesaling and retailing of LPG
Yuechi Panva Gas Co., Ltd. 岳池百江燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB8,000,000	**90%**	90%	Provision of natural gas and related services and gas pipeline construction
Zhongjiang Panva Gas Co., Ltd. 中江百江燃氣有限公司	PRC – Limited liability company	RMB8,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Zhongjian Pingan Petroleum and Gas Limited Liability Company 中江縣平安氣油有限責任公司	PRC – Limited liability company	RMB3,000,000	**55%**	55%	Provision of compressed natural gas to automobiles
Ziyang Panva Gas Co., Ltd. 資陽百江燃氣有限公司	PRC – Limited liability company	RMB18,890,000	**90%**	90%	Provision of natural gas and related services and gas pipeline construction
深圳北科蘭光能源系統技術有限責任公司	PRC – Limited liability company	RMB58,000,000	**100%**	100%	Investment holding

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

Notes:

a. Southwest Panva holds a 56.94% equity interest.

b. Yangzi Panva holds a 55% equity interest.

c. Hangzhou Panva and Yangzi Panva are subsidiaries of the Company as the Group has the power to appoint or remove the majority of the number of directors of their boards of directors.