港華燃氣有限公司
Towngas China Company Limited

(incorporated in the Cayman Islands with limited liability)
(Stock Code: 1083)

Annual Report
2008

Mission

To provide our customers with a safe, reliable supply of gas and the caring, competent and efficient service they expect, while working to preserve, protect and improve our environment.

Contents

Corporate Information

Board of Directors

Executive Directors
Chan Wing Kin, Alfred *(Chairman)*
Wong Wai Yee, Peter *(Chief Executive Officer)*
Kwan Yuk Choi, James
Ho Hon Ming, John
Ou Yaping
Chen Wei
Shen Lian Jin
Tang Yui Man, Francis
(alternate Director to Ou Yaping)

Independent Non-Executive Directors
Chow Yei Ching
Cheng Mo Chi, Moses
Li Man Bun, Brian David

Authorised Representatives

Chan Wing Kin, Alfred
Ho Hon Ming, John

Company Secretary

Ho Hon Ming, John

Audit Committee

Li Man Bun, Brian David *(Chairman)*
Chow Yei Ching
Cheng Mo Chi, Moses

Remuneration Committee

Chow Yei Ching *(Chairman)*
Cheng Mo Chi, Moses
Li Man Bun, Brian David
Chan Wing Kin, Alfred

Auditor

Deloitte Touche Tohmatsu
Certified Public Accountants
35/F, One Pacific Place
88 Queensway
Hong Kong

Registered Office

P.O. Box 309
Ugland House
Grand Cayman
KY1-1104
Cayman Islands

Head Office and Principal Place of Business

23rd Floor, 363 Java Road
North Point, Hong Kong

Telephone	:	(852) 2963 3298
Facsimile	:	(852) 2561 6618
Stock Code	:	1083
Website	:	www.towngaschina.com

Principal Share Registrar and Transfer Office

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 609
George Town
Grand Cayman
KY1-1107
Cayman Islands

Hong Kong Branch Share Registrar

Computershare Hong Kong Investor Services Limited
Room 1806-1807, 18th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Hong Kong Branch Share Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Legal Advisers

(As to Hong Kong Law)
Woo, Kwan, Lee & Lo

(As to Cayman Islands Law)
Maples and Calder

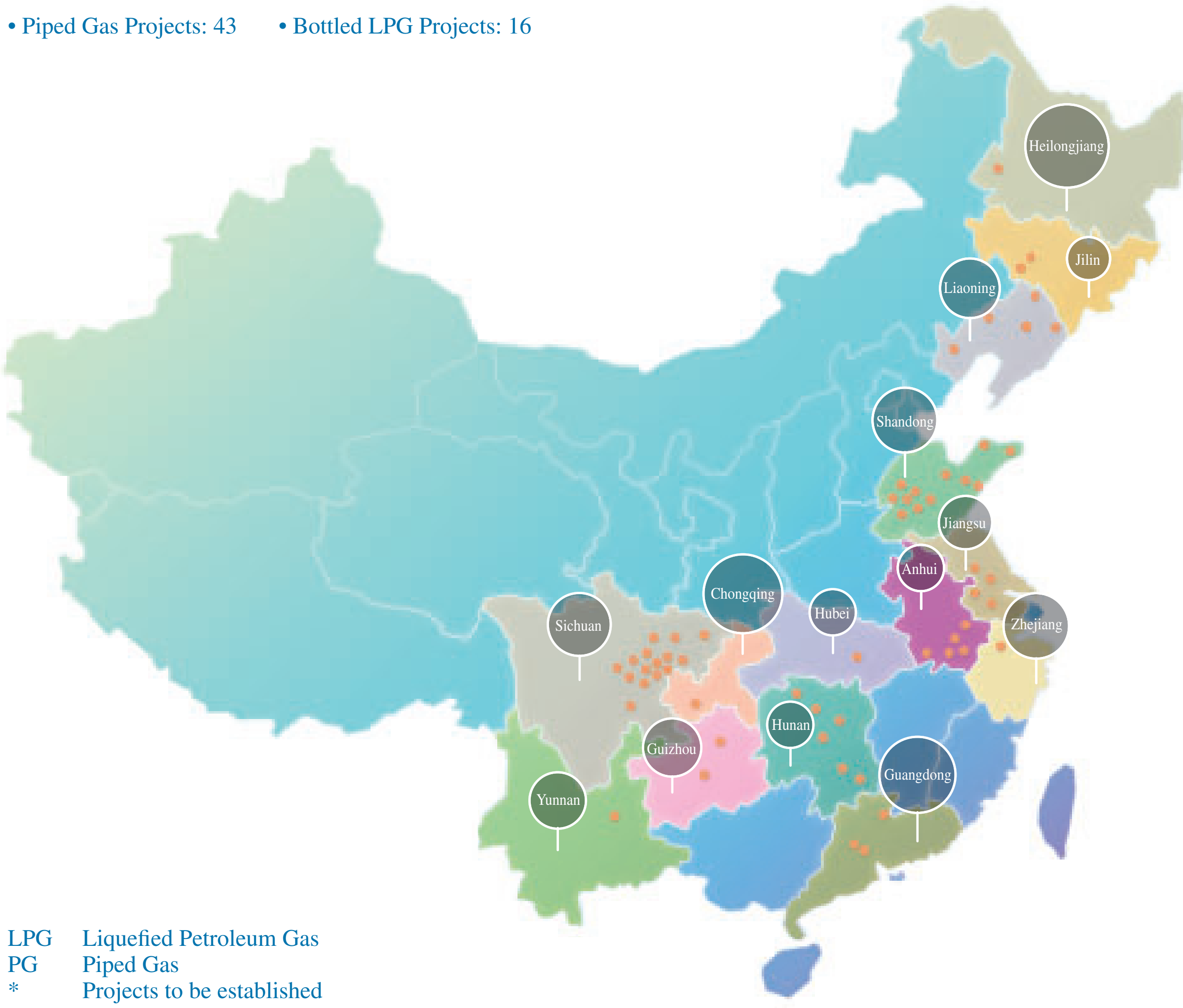
Principal Bankers

Bank of China (Hong Kong) Limited
Bank of China, Shenzhen Branch
Hang Seng Bank Limited

Geographical Coverage

Heilongjiang	• Qiqihar (PG)
Jilin	• Changchun (PG), Gongzhuling (PG)
Liaoning	• Benxi (PG), Chaoyang (PG), Fuxin (PG), Shenyang (PG), Tieling (PG)
Shandong	• Chiping (PG)*, Laoshan (PG), Longkou (PG), Jimo (PG), Jinan (LPG), Jinan West (PG), Jinan Changqing (PG), Taian (PG), Weifang (PG), Weihai (PG), Zibo (PG), Zibo Lubo (PG)
Jiangsu	• Nanjing Gaochun (PG), Nanjing (LPG), Nanjing (Yangzi) (LPG), Yangzhou (LPG)
Zhejiang	• Hangzhou (LPG)
Anhui	• Anqing (PG), Chizhou (PG), Huangshan (PG), Maanshan (PG), Wuhu (LPG)
Sichuan	• Cangxi (PG), Chengdu (PG), Dayi (PG), Jianyang (PG), Lezhi (PG), Mianyang (PG), Pengshan (PG), Pengxi (PG), Pingchang (PG), Weiyuan (PG), Xindu (PG)*, Xinjin (PG)*, Yuechi (PG), Zhongjiang (PG), Ziyang (PG)
Chongqing	• Qijiang (PG)
Guangdong	• Foshan (PG), Qingyuan (PG), Shaoguan (PG)
Hunan	• Changde (LPG), Changsha (LPG), Chenzhou (LPG), Hengyang (LPG), Xiangtan (LPG), Yiyang (LPG)
Guizhou	• Guiyang (LPG), Zunyi (LPG)
Hubei	• Wuhan (LPG)
Yunnan	• Kunming (LPG)

• Piped Gas Projects: 43 • Bottled LPG Projects: 16



LPG Liquefied Petroleum Gas
PG Piped Gas
* Projects to be established

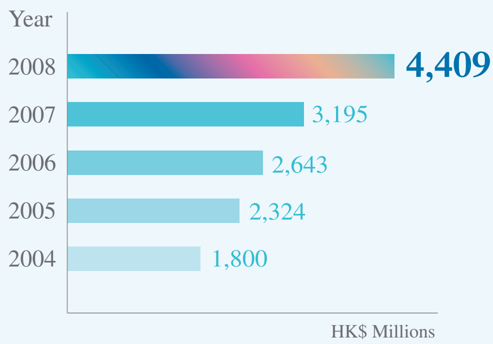
Five Year Financial Summary

	For the year ended 31 December				
	2004 HK$'000	2005 HK$'000	2006 HK$'000	2007 HK$'000	**2008** **HK$'000**
RESULTS					
Turnover	1,800,253	2,324,100	2,642,916	3,195,434	**4,409,198**
Profit (loss) before taxation	331,798	240,997	(229,566)	241,391	**361,126**
Taxation	(19,711)	(35,064)	(17,073)	(37,013)	**(89,939)**
Profit (loss) for the year	312,087	205,933	(246,639)	204,378	**271,187**
Attributable to:					
Equity holders of the Company	285,368	155,777	(256,334)	144,504	**202,282**
Minority interests	26,719	50,156	9,695	59,874	**68,905**
Profit (loss) for the year	312,087	205,933	(246,639)	204,378	**271,187**
	HK cents	HK cents	HK cents	HK cents	**HK cents**
Earnings (loss) per share					
Basic	30.41	16.53	(27.13)	8.36	**10.33**
Diluted	28.33	N/A	N/A	8.30	**10.32**

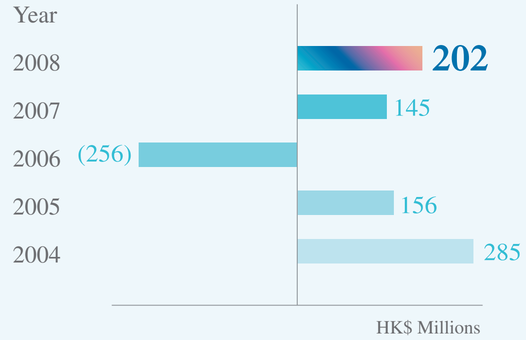
	As at 31 December				
	2004 HK$'000	2005 HK$'000	2006 HK$'000	2007 HK$'000	**2008** **HK$'000**
ASSETS AND LIABILITIES					
Total assets	3,975,669	4,921,745	4,776,596	9,115,192	**10,386,545**
Total liabilities	(2,120,381)	(2,889,401)	(2,737,591)	(2,780,469)	**(3,473,711)**
	1,855,288	2,032,344	2,039,005	6,334,723	**6,912,834**
Equity attributable to holders of the Company	1,522,214	1,642,726	1,536,638	5,730,203	**6,177,801**
Minority interests	333,074	389,618	502,367	604,520	**735,033**
Shareholders' funds	1,855,288	2,032,344	2,039,005	6,334,723	**6,912,834**

Financial Highlights

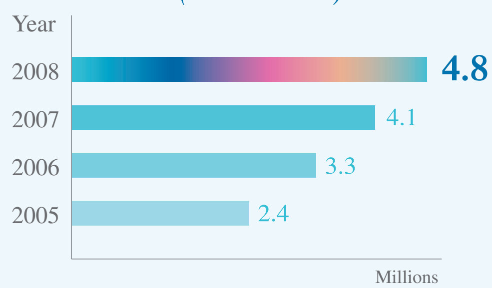
Turnover

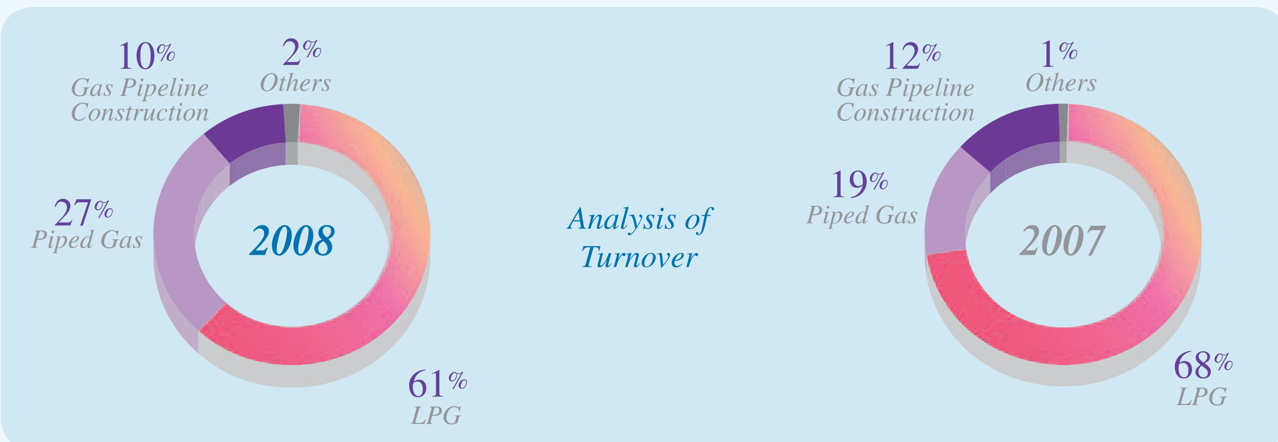


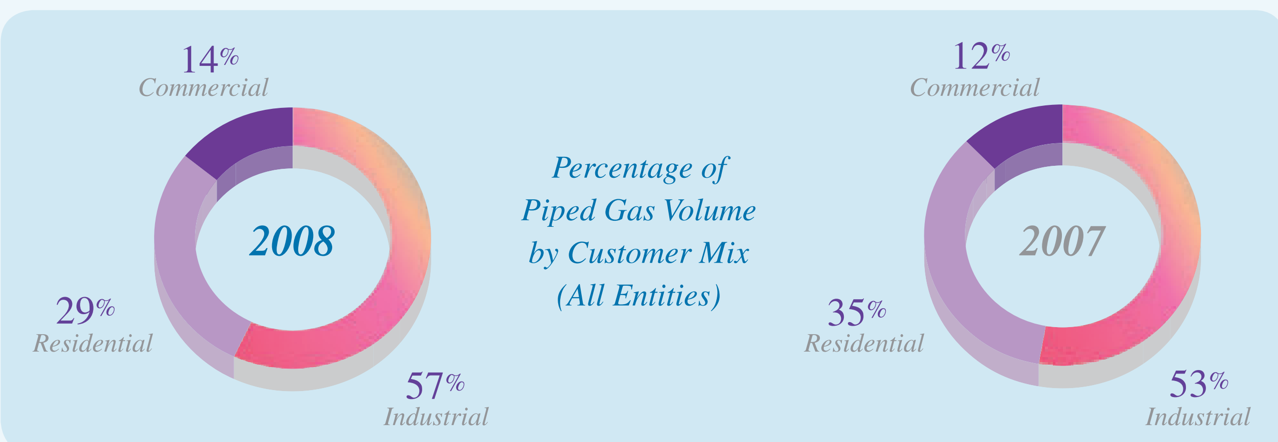
Profit (Loss) Attributable to Equity Holders of the Company



Number of Customers - Piped Gas (All Entities)







Chairman's Statement

Sustained Business Growth

2008 was an important year in the Group's development: a year has passed since the merger of our operations with The Hong Kong and China Gas Company Limited ("HKCG") with a full-scale promotion of the Towngas China brand; we strictly adhered to our corporate mission, prioritising gas safety and customer needs; we served our customers with friendly, professional and efficient services, aligned management resources and executed internal reforms while working to optimise our customer structure, strengthen corporate governance and exercise tighter cost controls. These strategies enabled the Group to enjoy a sustained growth and report a satisfactory result despite the financial tsunami's sweeping impact on the Chinese economy.

The Group's turnover increased by approximately 38.0% to HK$4,409 million in 2008. Earnings before interest, taxation, depreciation and amortisation ("EBITDA") amounted to HK$677 million, an increase of 27.3% from 2007. Profit after tax attributable to shareholders of the Company amounted to HK$202 million, an increase of approximately 40.0% when compared to last year, while earnings per share was 10.33 HK cents. In view of our sustained growth in earnings, the Board of Directors (the "Board"), for the first time in the history of the Company, recommended a cash dividend to shareholders, of one HK cent per share, in appreciation of their support.

The Group's rapid growth in earnings amid the global financial tsunami clearly reflected our improved operating cash flow. These improved management and operating philosophies were fully recognised by international rating agencies. Both Standard & Poor's and Moody's Investors Service upgraded our credit ratings to reflect their confidence in our management and outlook. The enhanced ratings will facilitate the arrangement of bank loans should we need to raise funds for further business expansion.

Mainland Economy and Gas Industry Development

2008 was a most unusual year. The People's Republic of China ("China") was hit by one of the worst snowstorms in history, the May 12 Wenchuan earthquake in Sichuan and the global financial tsunami. Nevertheless, the Beijing Olympics, in all its brilliance, proudly proclaimed the rise of China and the resurgence of Chinese civilization on the world stage. With a 9% growth in 2008, China's GDP surpassed Germany to rank among the top three in the world. At the same time, the gas-fired Olympic flame that lit up the "bird's nest" symbolised the dawn of a natural gas era for the country.

Despite the global financial tsunami and its negative impact on China's economic growth, the fall in property prices, stock prices, foreign trade and industrial output, China's economic fundamentals remain in good health on comparison to other large-scale economies overseas. The Chinese government has announced a list of major economic stimulants in order to maintain a steady economic growth by boosting domestic demand, improving the economy structure and revitalising internal investment such as interest rate cuts and additional fiscal spending of RMB 4 trillions on infrastructural projects. External factors may still have a noticeable negative impact on the Chinese economy in the short term and even in the medium term, but it will not change the long-term growth trend in China's economy. As there are still enormous potentials for the urbanisation, industrialisation and modernisation processes, the huge potential market for the development of the natural gas industry is guaranteed.

Chairman's Statement

Following the completion and commissioning of several major gas infrastructure projects such as the first phase of the West-East Pipeline, the Shaanxi-Beijing Pipeline, Zhongxian-Wuhan Pipeline, Sichuan-to-East Pipeline, and the liquefied natural gas terminal projects in Guangdong and Fujian, China embarked on the construction of the second pipeline in the West-East Gas Transmission Project in 2008. The second West-East Pipeline, with a total length of approximately 9,100 km and an annual transmission capacity of 30 billion cubic metres, will extend all the way to Jiangxi, Guangdong and Guangxi, as a new source of gas supply. The 1,300 km China-Kazakhstan Natural Gas Pipeline, designed to transmit 30 billion cubic metres of gas annually, also commenced construction in mid-2008. As at the year end, China has also confirmed officially proven gas reserves in excess of 100 billion cubic metres in the Xinjiang Kelameili gas field.

With the discovery of these large gas reserves, significant progresses in the gas infrastructure projects and the importation of gas in substantial volumes, the development of China's natural gas trunk pipeline system will eventually cover all the country's major populated and economic regions. The problems associated with gas sourcing and supply which have hindered the development of the gas industry are gradually being resolved. The arrival of the "China Gasification" era has now been accelerated. We believe the gas industry is positioned for a long term sustainable development well into the future, enabling Towngas China, one of the country's largest city piped gas suppliers, to enjoy continuous and robust growth.

Business Development and Strategic Plans

In light of the financial tsunami during the year, adjustments were made to the pace of investment and assessment criteria, strengthened the development and operation of existing projects, and applied stricter cost controls within the Group. In line with our long-term development strategy, the Group continued to focus on the piped gas market in 2008. New projects were established in the Jinhai Economic Zone in Shenyang and in Huangshan of the Anhui Province and signed an agreement to acquire a project in Xinjin of the Sichuan Province. In addition, shortly before the publication of this annual report, the Group entered into agreements to acquire a project in Chiping of the Shandong Province and a project in Xindu of the Sichuan Province. These new investments and acquisitions will help to consolidate the Group's market position and bolster our ability to sustain continuous growth and development. At the same time, several new projects in southern, central and southwestern China are currently being assessed; we expect to keep on building our investment portfolio in these regions.

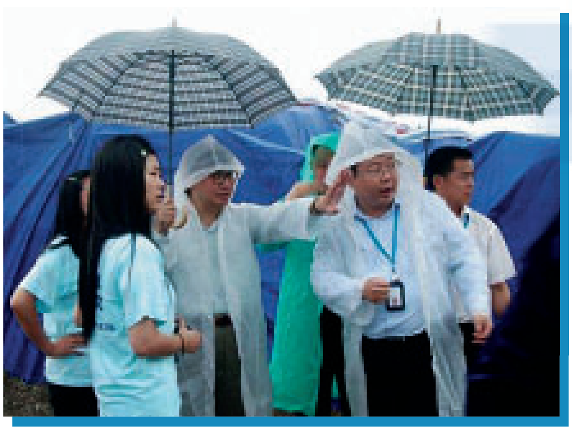
Social Responsibility and Mission

As part of our efforts to fulfill our social responsibilities and to give back to the community, we have continuously pushed for environmental protection and actively participated in charities. The May 12 Wenchuan earthquake took a heavy toll in Sichuan. Fortunately, our 13 project companies in the province sustained only moderate losses from the catastrophe.

With the Group's predetermined emergency action plan responded swiftly after the earthquake, we were able to ensure a safe and continuous supply of gas for our residential, commercial and industrial customers in the region. We were also able to move quickly in organising emergency support for the quake victims, when more than 100 employees volunteered from the Henderson Land Group, Hong Kong and China Gas Group and Towngas China Group rushed to the scene from Hong Kong and different parts of the mainland, to support the relief aid. Often working in remote, dangerous and grueling conditions, the volunteers' unselfishness and sacrifices have been widely recognised by the government and people of Sichuan. Keen to lend a helping hand, employees across the board, contributed both money and their time in raising a total donation, from the Group and from our employees, of over RMB 2 million, the largest sum of relief funds raised by the Group to date. The money was used to buy badly-needed relief supplies, which were delivered to the quake survivors in the shortest time possible. While much remains to be done in the province, we feel that we have at least lent a helping hand when it was sorely needed.

The Group is a staunch believer in the value of a healthy corporate culture. We believe it is crucial to the success of sustaining a healthy existence and the long-term development of an enterprise.

Mr. Alfred Chan represented the Group to present 1,500 pairs of crutches to an orthopedic hospital in Sichuan for earthquake victims.



Mr. Alfred Chan supervised the earthquake relief aid program in Mianyang, Sichuan Province.

Chairman's Statement

Further Integration

In 2008, the Group continued to strengthen communications with HKCG, mutually benefited through further integration of operational and management aspects.

In 2009, the Group entered into an agreement with Shanxi Hong Kong & China Coalbed Gas Company Limited, an HKCG subsidiary, to deliver liquefied coalbed methane from Jincheng to our gas companies in Shaoguan, Qingyuan and Foshan as a supplementary gas source which should, result in an increased use of natural gas and lowered operating costs.

Assimilation was a major theme for the Group in 2008. By achieving speedy assimilation that successfully integrates the resources of the two companies, we were able to produce greater synergies, enhance our management and operating standards as well as corporate value.

Prospects

On the one hand, we will continue to expand our city gas portfolio through mergers and acquisitions. On the other, we will closely monitor the ever changing environment in China's economy and the gas industry, so as to continuously fine tune our development strategies and operation models accordingly. With these measures, despite the challenges imposed by the recent down turn in the pace of economic development in the mainland, the Group anticipates a stable progression in 2009.

The Group's priorities for 2009 are as follows:

Overcome the impact of the financial tsunami

The impact of the 2008 financial tsunami has been enormous, and there are no clear signs of the crisis abating as yet. Although the crisis has not seriously affected the industry or the Group up to the present moment, we cannot rule out the possibility that it might have a negative impact on the gas industry should the financial crisis worsen. As a part of the Group's prudent practice, apart from continuing with our existing crisis handling strategies, precautionary measures will be taken to prevent against potential damage from the financial crisis by closely monitoring the situation and adopt further initiatives and strategies as and when necessary.

Develop new piped gas projects

Rapid market expansion and growth, realised through mergers and acquisitions, has been an essential instrument in sustaining the Group's growth potential. In 2009 we will continue to adhere to this strategy. The Group will continue to enjoy the strong backing of HKCG, and will adopt even more prudent investment strategies on a stricter selective basis, to improve the quality of new undertakings while strictly controlling the risks involved.

Maximise the potential of existing projects and improve service quality

The Group has a substantial customer base in mainland China, yet there are still many prospective customers in the regions where we operate. While China's economy continues to grow at a rapid pace, inland provinces are just entering the urbanisation and industrialisation stages. Furthermore, current demand for gas for industrial, commercial and vehicular usage still outstrips supply. Building on the foundations of our existing projects, the Group will further penetrate these markets while working to enhance service standards, improve customer structure, increase the proportion of higher margin businesses, and thus enhance our profitability.

Acknowledgement

On behalf of the Board, I would like to thank all staff for their dedication and hard work, and to thank all shareholders and investors for their long-standing support.

Chan Wing Kin, Alfred
Chairman

Hong Kong, 16 March 2009

Financial Review

For the year ended 31 December 2008, the Group booked a record turnover of HK$4,409 million, a significant increase of 38.0% when compared to 2007. Operating profit before returns on investments increased to HK$228 million, representing an increase of approximately 34.3%. EBITDA was HK$677 million, an increase of approximately 27.3% from 2007. Profit after tax attributable to shareholders of the Company amounted to HK$202 million, an increase of 40.0% when compared to last year.

Turnover

For the year ended 31 December 2008, the Group booked a record turnover of HK$4,409 million, a significant increase of 38.0% when compared to 2007. The increase is mainly attributable by the following businesses:

Piped Gas Business

Sales increased significantly during 2008 from HK$602 million to HK$1,180 million, equating to an increase of 96.0%. The increase is mainly contributed by a 65.8% increase in the total volume sold and a slight increase in the average selling price in 2008. The total volume sold during the year amounted to 582 million cubic metres, an increase of 231 million cubic metres from 2007, of which new subsidiaries contributed approximately 80% of the increase while the remaining 20% being the organic growth of the existing subsidiaries. The total number of piped gas customers as at 31 December 2008 was approximately 1,703,000 households, representing an increase of approximately 236,000 from 2007, of which around 100,100 households were existing customers of newly acquired subsidiaries.

Gas Pipeline Construction Business

Construction revenue amounted to HK$448 million during the year, with an increase of 18.0% when compared to 2007. The increase is contributed by the increase in the number of new direct connection of gas pipelines to customers from 117,400 households in 2007 to around 135,900 households in 2008.

Liquefied Petroleum Gas Business

The turnover increasing by HK$534 million to HK$2,694 million in 2008 is mainly attributed by a general increase in Liquefied Petroleum Gas ("LPG") price in 2008. The sale of LPG in bulk decreased by 50,349 tonnes comparing to 2007, however, the decrease was off-set by the strong growth in the retail sale of 50,330 tonnes, representing a decrease of 15.7% and an increase of 40.2% respectively.

Operating Expenses

Operating expenses increased from HK$3,026 million in 2007 to HK$4,181 million in 2008, representing an increase of 38.2%. The increase is mainly due to increases in stores and materials used, staff costs, depreciation and amortization and other expenses of 35.8%, 40.0%, 19.6% and 86.1% respectively. The addition of three new subsidiaries contributed to approximately HK$718 million of the increase.

Financial Review

Stores and Materials Used

Stores and materials used increased from HK$2,474 million in 2007 to HK$3,359 million in 2008. The increase in stores and materials used is in-line with the increase in the turnover, mainly attributed by higher LPG prices and a general growth in the businesses of the Group during the year. The three new subsidiaries contributed to approximately 66.7% of the increase.

Staff Costs

Staff costs increased from HK$232 million in 2007 to HK$325 million in 2008. The increase in staff costs is mainly attributed by the addition of three new subsidiaries during the year accounting for HK$44 million of the increase and the impact of the new labour law.

Other Expenses

The increase in other expenses is mainly attributed by the addition of three new subsidiaries during the year accounting for HK$69 million of the increase, repairs and maintenance relating to the Sichuan earthquake of HK$8 million, and general increases in existing operating subsidiaries.

Financial Expenses

Financial expenses decreasing from HK$178 million in 2007 to HK$145 million is mainly attributed by the repayment of the Company's 5 year convertible bonds on maturity on 23 April 2008, and the purchase of US$8 million of the Company's guaranteed senior notes from the market during October and November this year.

Share of Results of Associates

Share of results of associates increased from HK$106 million in 2007 to HK$146 million in 2008, representing an increase of approximately 38.2%. The increase is mainly attributed to the increase in the volume of piped gas sold of 179 million cubic metres to a total of 874 million cubic metres and the increase of the number of customers by 134,000 households, representing increases of approximately 25.7% and 15.4% respectively.

Shaoguan


Weihai

Share of Results of Jointly Controlled Entities

Share of results of Jointly Controlled Entities ("JCEs") increased from HK$51 million in 2007 to HK$62 million in 2008. The increase is mainly attributed to the increase in the volume of piped gas sold of 100 million cubic metres to a total of 385 million cubic metres and the total number of JCEs customers of approximately 82,600 households, of which around 32,500 households were existing customers of new JCEs, representing increases of approximately 35.2% and 8.5% respectively.

Financial Resources and Position

As at 31 December 2008, total borrowings amounted to HK$2,264 million, an increase of HK$286 million, representing an increase of 14.5% from the year ended 2007. Of which, HK$440 million are loans from HKCG due between 2 to 5 years, HK$1,106 million relates to the guaranteed senior notes due in 2011 and HK$400 million and HK$100 million are loans borrowed from banks in Hong Kong due between 2 to 5 years and within 1 year respectively.

As at 31 December 2008, the Company has un-drawn but committed facilities amounted to HK$203 million and as of the date of this announcement, the Company has obtained an additional facility from a bank in Shenzhen of RMB200 million and arranged another facility from a bank in Hong Kong of HK$250 million.

Cash and cash equivalents amounted to HK$864 million as at 31 December 2008 which are mostly denominated in Renminbi, Hong Kong Dollars and United States Dollars.

As at 31 December 2008, total assets pledged had a book value of HK$11 million securing bank loans amounting to HK$1 million. Shares of certain BVI incorporated companies have been pledged to secure the guaranteed senior notes. The Group had no material contingent liabilities as at the balance sheet date.

The Group ended the year with a current ratio of 1.2 times, an EBITDA interest coverage ratio of 4.9 times and a gearing ratio (net debt excluding HKCG loans ("ND") to equity attributable to shareholders of the Company plus ND) of 13.4%.

Convertible Bonds Redemption

On 23 April 2008, the Company's 5 year convertible bonds issued in 2003 were fully repaid on maturity. The total amount repaid plus the redemption premium amounted to US$26.7 million.

Ratings Upgrade

On 28 April 2008, the ratings agency Moody's Investor Service upgraded the Company's senior unsecured bond rating to Baa3 and also assigned a Baa3 issuer rating to the Company. The outlook is stable. The upgrade reflects the Company's stronger financial and operational outlook.

Reduction of the Guaranteed Senior Notes

During the months of October and November 2008, the Company purchased from the market its guaranteed senior notes amounted to US$8 million at an average price of 94.469.

Business Review

In 2008, the Group achieved another remarkable year with highly positive results against the backdrop of a rapidly deteriorating operating environment. The Group forged ahead with an innovative and "can do" spirit, overcoming the unprecedented challenges posed by the country's severe snowstorms, the earthquake in Sichuan, as well as the fallout from the global financial tsunami. Investment was scaled up in new projects and screening was carried out more rigorously than ever before, resulting in satisfactory business development in terms of both quality and quantity. In our existing projects, the Group built on HKCG's century-old experience and industry exposure, working conscientiously and with commitment, to achieve both higher standards and greater expertise to bring in excellent business results.

Riding Out the Financial Tsunami

The financial tsunami dealt a severe blow to the mainland's economy in 2008. According to economic data published by the state, every aspect of the country's economy has been affected in varying degrees by this global crisis. In the gas market, the impact on the residential, commercial and industrial sectors varied as the slowdown affected new housing projects and lowered property prices, dampened consumer sentiment and reduced demand for industrial output. Responding proactively, the Group introduced a set of measures devised to tap opportunities in this changing business climate.

Firstly, the Group improved staff morale, enhancing the sense of belonging and commitment by stating clearly and openly that the Group would ride out the crisis hand-in-hand with our employees, while avoiding layoffs as far as possible. Secondly, the economic downswing has given the Group even more opportunities for business expansion in view of weaker peer competition. However, the Group has been selective, adopting a more prudent approach to pre-investment appraisals with stricter criteria and procedures, while also negotiating better prices and conditions. As a result, significant improvements over the previous year were seen in both the quality and quantity of our investments in 2008.

In line with this prudent approach to financial management, all our project companies were required to rigorously enhance management controls over their operations, to minimise the negative market impact. Development plans have been adjusted according to prevailing market conditions, cost controls strengthened, inessential tasks and expenses scrapped, while the expenses of existing projects have also been reviewed. Anticipating a potential fall in market demand, Group companies are improving their core strengths, sharpening their competitive edge and upgrading operating standards. At the same time, to improve profitability and hedge against market risks, member companies have been looking into dividing target markets into different segments, discovering new potential, improving customer structures, perfecting customer services as well as refining price-setting mechanisms. The year-on-year gains in our customer base, sales volumes and gross profit, reflected by the year-end figures, testify to the effectiveness of these measures.

Superior Quality Service Programme

Our Superior Quality Service ("SQS") programme, rooted in the principle of "customers first", expands our "customer" commitments to include both external customers (consumers) and internal customers (employees) as service targets. The programme promotes an all-round approach to meeting customer needs while also creating value. Continuous improvement and creative thinking are emphasised throughout every SQS project process, from the initial problem to analysis and ultimately to the most effective solution.

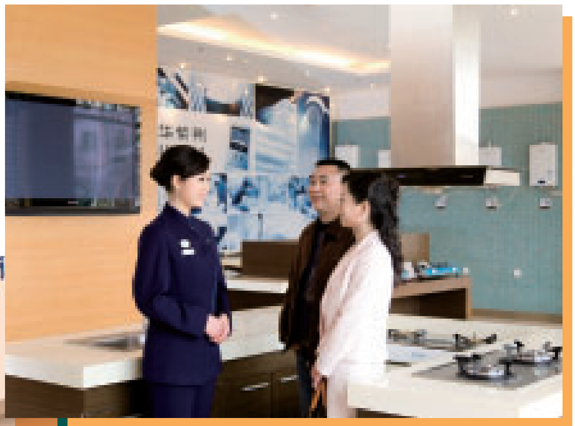
Ensuring the smooth implementation of SQS, a Towngas China Customer Service Department oversees the programme's overall operations, while individual companies operate their own dedicated units to implement their respective SQS projects. Year-on-year, the Group continues to promote this concept of service excellence and ongoing improvement with the completion of a number of SQS projects and a variety of promotional activities. Our joint venture companies thus benefit from improvements in teamwork, creativity, learning attitudes, problem solving skills and quality awareness, as staff members work together to overcome the challenges posed by their SQS projects.

In 2008, the study of an "emergency replacement gas source for cities" by the "Timely Help" team from Anqing Hong Kong and China Gas won the championship in the inaugural *Real Dragon Cup* nation-wide QC project presentation contest organised by the China Quality Association. The award reaffirms the substantial benefits of our SQS programme to our joint venture companies.

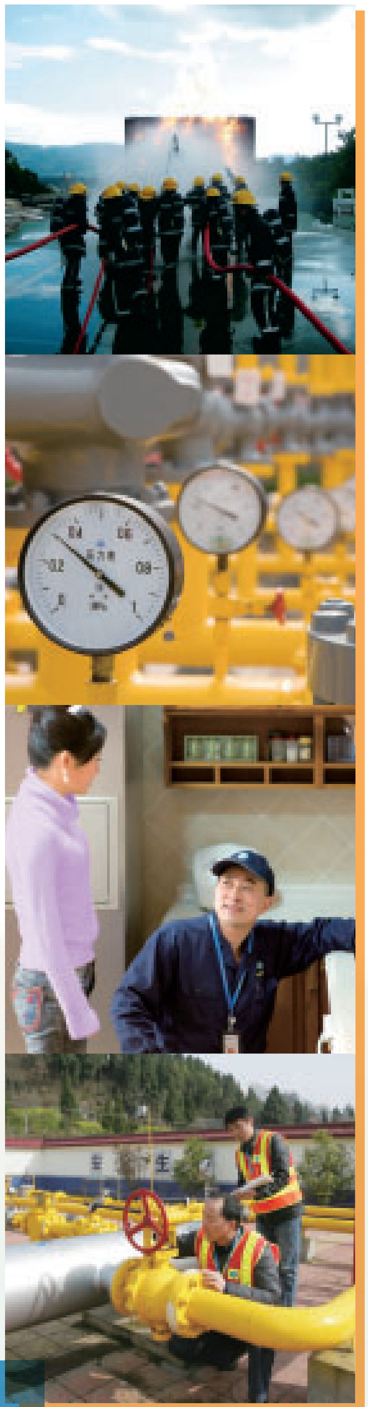
Customer Service

In 2008, the Group enhanced our overall customer service standards with the rigorous promotion of our Bauhinia range, our house brand gas appliances. Many joint venture companies opened one-stop customer centres, modeled on our HKCG's Customer Centres in Hong Kong, offering customers enhanced levels of service and convenience. The promotion focused on the improved design and service efficiency that underpins the Bauhinia product range. In addition to the Bauhinia hotplates, built-in hobs and water-heaters sold in these customer centres, the marketing campaign focused on the professionalism of staff while also assuring customers of the high standards of gas safety that these appliances and our services would bring into their homes.

During the year, the Group unified our corporate image, standardising the logos of our subsidiary companies. A uniform logo of corporate design and consistent signage was applied to office supplies, staff uniforms, company vehicles, gas cylinders as well as company premises, to ensure a unique and unified corporate identity.



Customer centre to provide one-stop service to our customers



Safety and Risk Management

A gas enterprise cannot thrive without solid safety foundations. As such, our Safety and Risk Management Department implemented a range of measures during the year to enhance safety management standards among our mainland ventures, so that risks can be suppressed to the lowest possible level.

In July 2008, for the first time in our history, the Group launched a round of safety and risk management audits on all our subsidiaries. Audits on 18 subsidiaries have been completed, and the exercise continues for the rest of our subsidiaries.

To facilitate the development of safety management systems across our mainland operations, the Group compiled and published *Safety and Risk Management System Model Documents, A Guide to Corporate Risk Management for Mainland Joint Ventures and A Guide to Safe Operation in Confined Spaces* in a CD format. The Group assisted in the setting up of regional safety committees in Sichuan, northeastern China, Shandong and southern China, and also organised five regional safety and risk management workshops to encourage experience sharing among the 110 participants from our various joint ventures. These measures offer practical help as our joint venture companies develop and implement their own safety and risk management systems.

The Group also introduced additional training opportunities for our mainland ventures, enhancing their knowledge of safety and risk management. Senior officials from the Hong Kong Fire Services and representatives from the Green Council also participated in our *2008 Nation-wide Safety and Risk Management Workshop*. At the seminar, discussions were held to promote an exchange of professional knowledge and experience among the participants, including some 170 delegates from our various joint ventures. Among our many training programmes, the Group also organised a train-the-trainers course in fire safety and risk management in partnership with the Fire Services in Hong Kong.

Also participating in the annual work safety quiz co-organised by the State Administration of Work Safety, the All China Federation of Trade Unions and the China Association of Work Safety, we were very proud to be named as winners of the quiz.

Engineering and Procurement

Building on HKCG's foundations of 147 years of experience in the gas industry in Hong Kong, together with our gas industry experience on the mainland in the past decade or so, the Group compiled several guides on engineering project management. These guides were distributed to our joint venture companies in a bid to help them produce their own individual guidelines based on both Group requirements as set out in the original guides and the unique conditions of their own local markets.

In our gas engineering projects, the Group made the best use of our large team of professionals and our strong technical expertise, standardising project management requirements and marshalling leading specialists in the industry to tackle challenging issues. Our project companies also met stringent requirements on design, construction and installation, to achieve the highest possible engineering standards.

The Group's achievements have been such that it was invited by the national taskforce on standardisation to assist in the drafting of national guidelines for gas engineering projects in China.

During the year, the Group promoted joint procurement even further to achieve cost savings, administrative benefits, standardisation as well as better quality guarantees.

SCADA system successfully implemented in Mianyang HKCG

Business Review

New Acquisitions

In line with our progressive approach to grow our gas business portfolio on the mainland, the Group acquired three new projects in Anhui Province, northeastern China and Sichuan Province in 2008 and two new projects in Shangdong Province and Sichuan Province in 2009.

Piped Gas Project in Huangshan, Anhui Province

Through a tender offer in May 2008, the Group acquired the rights to develop a piped city gas project in Huangshan city, Anhui Province. The Group holds a 100% equity interest in the project company, which has a registered capital of RMB 40 million. The project owns the exclusive rights for 30 years to supply piped gas to the Tunxi district, including the Huangshan Economic Development Zone, in the city of Huangshan.

Inaugurated in 2009, the project company expects to serve around 20,000 residential customers with a total annual gas consumption of approximately 30 million cubic metres by 2015.

Huangshan is a world class tourist city with a well-developed hotel and catering industry. Rich tourism resources and an ever-expanding immigrant population are driving the city's rapid development, which in turn is guaranteeing the growth potential of its gas market. The project will create synergies with our other piped city gas projects in Anhui, including the ones in Maanshan, Anqing and Chizhou, HKCG's city gas project in Tongling as well as our midstream investments in the province.

Promote our quality services to new areas of operation

Piped Gas Project in Jinhai Economic Zone in Shenyang, Liaoning Province

The Group acquired the rights to develop a piped city gas project in the Jinhai Economic Zone in Shenyang, Liaoning Province in July 2008. The Group holds a 100% equity interest in the project company, which has a registered capital of US$8 million. The project has 30-year exclusive rights to supply piped gas to the Jinhai Economic Zone in Shenyang.

A brand-new undertaking, this project, to supply natural gas mainly to industrial customers, is scheduled for commissioning in 2009. The economic zone's gas consumption is estimated to reach approximately 35 million cubic metres by 2014, increasing to 100 million cubic metres in the long term.

In developing its advanced equipment manufacturing and associated industries, the Jinhai Economic Zone will build on the success of Shenyang's equipment manufacturing base while also capitalising on the nation's revitalisation strategy for its northeastern regions and Liaoning's "Western Shenyang Industrial Corridor" project. The casting and forging businesses moving into the area are creating strong demand for natural gas to power their production. There will also be synergies between this project and our existing piped gas projects in the province, those in the cities of Chaoyang, Fuxin, Benxi and Tieling, for example as well as our projects in Qiqihar, Heilongjiang Province, and HKCG's projects in Yingkou city in Liaoning Province and Jilin city in Jilin Province.

Piped Gas Project in Xinjin, Sichuan Province

The Group acquired a 60% equity stake in each of Xinjin Diyuan Natural Gas Co. Ltd. and Xinjin Nanfang Natural Gas Co. Ltd., both established in Xinjin, Sichuan Province, for a total consideration of RMB60 million in December 2008.

Focally developed as the southern gateway to Chengdu, Xinjin is rapidly establishing itself as Chengdu's backyard and an integral part of the Chengdu metropolis. With Chengdu at the forefront of the state's policy to integrate the development of rural and urban areas, Xinjin is expected to see rapid growth and development.

The project's gas sales volumes amounted to 12.3 million cubic metres in 2007, with 31% of sales being attributed to residential customers and 69% to commercial and industrial customers. Gas sales volumes are expected to reach 66 million cubic metres by 2012 and to exceed 100 million cubic metres in the long term. In addition to these piped city gas businesses, investments have also been made in the compressed natural gas filling stations business to capture the high growth in gas consumption for vehicles.

These new investments have added tremendous synergies to our businesses in Sichuan, while at the same time enabling the building of a greater sphere of influence in the province for the Group.

Business Review

Shortly before the publication of this annual report, the Group acquired two additional projects in Chiping, Shandong Province and Xindu, Sichuan Province, paving the way for our prosperous and ongoing business development in 2009.

Piped Gas Project in Chiping, Shandong Province

The Group acquired an 85% equity interest in a piped city gas project in Chiping, Shandong Province, in early March 2009. The project has a registered share capital of RMB40 million and 30-year exclusive gas supply rights.

Located in the northwestern part of Shandong Province, Chiping County is located about 100 km away from the provincial capital Jinan. As one of China's key manufacturing and processing bases for aluminium products, Chiping provides a strong appeal for major aluminium and copper firms as well as vehicle parts manufacturers, textiles and medicine companies. The county has one of the fastest growing economies in Shandong Province.

The project's gas sales amounted to approximately 5.6 million cubic metres in 2008. Gas sales are projected to reach 52 million cubic metres by 2015.

Not only will this project reinforce the Group's presence in the natural gas market of Shandong, it will also benefit from the synergies gained between this project and our other piped gas operations in the province, including those in Jinan and Zibo.

Piped Gas Project in Xindu, Sichuan Province

The Group entered into an agreement on 3 March 2009 to develop a piped city gas project in Xindu district, Chengdu, Sichuan Province for a total consideration of RMB253 million. Upon completion of the deal, Sichuan Huachuan Gas Company Limited will become a wholly owned subsidiary of the Group to be renamed as Xindu Hong Kong and China Gas Company Limited, Cheng Du. The company has an operating period of 30 years.

Xindu, was a renowned city in the ancient state of Shu, whose history dates back to 2,800 years ago. Travel to and from Xindu is extremely convenient as the district is just 16 km away from downtown Chengdu. Xindu's major industries include machinery and equipment(aviation), electronics, food, medicines and furniture.

The project's gas sales amounted to approximately 69 million cubic metres in 2008. Gas sales are projected to reach 100 million cubic metres by 2015.

The project's gas sales to residential and industrial customers have already reached a high level. With the huge potential for growth in industrial gas consumption, the project is set to bring in attractive returns for the Group.

Employee Training and Development

As at 31 December 2008, the Group had 17,685 employees, 99% of whom work in China. Employee salaries and bonuses were determined on the basis of individual performance.

Apart from fulfilling customer needs, serving the community and creating value for shareholders, the Group also continued to improve our environmental performance. The Group sees these factors as the keys to success in recruiting, nurturing, developing and retaining talent.

The Group has promised it would do its utmost to avoid layoffs, despite the immense challenges posed by the slowing economy and depressed market conditions in 2008. The Group is determined to join hands with our people to weather the storm, while at the same time boosting a sense of commitment and belonging to the Group. Encouraging improvements in productivity, employee remuneration is linked to job performance. The Group cares for our employees and believe that a people-oriented employee policy is beneficial to our long term development as it builds stronger team bonds and a healthy corporate culture.

2008 China JVs management conference

2008 nation-wide safety and risk management workshop

Business Review

The Group continued to attach great importance to employee training, custom-designing different training courses to meet the different professional requirements of our staff at every level. This training commitment helps to ensure that the Group will meet both our short-term operating requirements as well as our mid- to long-term development needs.

Talent development, another key aspect of our employee policy, was achieved through the implementation of our Leadership Competency Model hand-in-hand with succession planning. Together with HKCG in Hong Kong, the Group entered into collaboration with the Chinese University of Hong Kong's Asia-Pacific Institute of Business, and the Tsinghua University in Beijing, to run advanced management courses with a strategic focus on our senior executives. Our succession plans also prepare suitable candidates for taking up top management roles in the future.

Our management trainee programme continued to build a talent pool with the identification and grooming of the right people. Prior to joining the programme, trainees were required to have practical work experience. The Group's wide range of professional training for employees has resulted in improved levels of professionalism in safety and risk management, engineering, financial management and marketing.

The Group is committed to cultivating a people-oriented corporate culture that values harmony and integration. During the year, our "Professional Managers' Club" continued to deliver personal care to employees while our internal newsletter "Ming Qi" began to publish staff contributions so that they now have an extra channel to express their views. Calligraphy and painting competitions provided an opportunity to showcase their artistic talents and recreational activities were also organised to foster team spirit.

The Group believes that a united, dynamic and creative workforce is indispensable to a thriving corporation. The Group will continue to care for our employees, helping them to sharpen their competitive edge and develop their full potential.

Corporate Culture

The Group is a staunch believer in the value of a healthy and responsible corporate culture. The Group believes it is crucial to sustaining our own healthy existence and long-term development.

Understanding that a company's survival relies on the support of its customers, the Group follows HKCG's century-old tradition of putting customers first. As such, in addition to exhausting every means to provide customers with a safe and reliable gas supply, the Group also works to keep them satisfied by constantly enhancing our service quality. The Group endeavours to attract, nurture and develop talent of every kind by creating a desirable working environment and encourage our employees to enhance their professional skills and grow with the Group. The Group fosters positive and balanced working relationships with all our stakeholders in the production chain, including both government officials and suppliers. The Group promotes environmental awareness and the use of natural gas while gradually phasing out coal-fired gas production techniques, to cut the emission of greenhouse gases and preserve our environment.

As the Group benefits from China's overall economic growth and the gas industry's rapid development, the Group recognises that as a pacesetter in the mainland's gas industry, the Group not only makes profits, but at the same time also holds ourselves accountable to shareholders. The Group is obliged to shoulder major social responsibilities.

Since our inception, the Group has carried out a variety of community service programmes to lend Group support to the needy. Every year, hand-in-hand with our employees, the Group offers help and assistance to underprivileged members of our society, as well as children in poverty-stricken areas who are deprived of education opportunities. Our cumulative contributions have exceeded a million dollars.


港华紫荆
BAUHINIA


港华燃气
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Biographical Details of Directors

Mr. Chan Wing Kin, Alfred, *B.B.S., B.Sc. (Eng), M. Sc. (Eng), C. Eng., F.H.K.I.E., F.I.Mech.E., F.I.G.E.M., F.E.I.*, aged 58, has been the Chairman and an Executive Director of the Company since 1 March 2007. Currently, Mr. Chan is the Managing Director of HKCG (a public listed company in Hong Kong and a substantial shareholder of the Company) and holds directorship in various subsidiaries of HKCG. He is also an Independent Non-Executive Director of Standard Chartered Bank (Hong Kong) Limited. He is a Member of the Eleventh Wuhan Committee of the Chinese People's Political Consultative Conference and a Standing Director of China Gas Association. Mr. Chan is also a General Committee Member of The Chamber of Hong Kong Listed Companies for the year 2008-2009. Mr. Chan received the Executive Award under the DHL/ SCMP Hong Kong Business Awards 2005 and the Director of the Year Awards – Listed Companies (SEHK – Hang Seng Index Constituents) Executive Directors from The Hong Kong Institute of Directors in 2006. Mr. Chan is a Chartered Engineer and Fellow of The Institution of Mechanical Engineers, Fellow of The Hong Kong Institution of Engineers, Fellow of The Institution of Gas Engineers & Managers and Fellow of The Energy Institute.

Chan Wing Kin, Alfred   Kwan Yuk Choi, James   Wong Wai Yee, Peter   Ho Hon Ming, John   Ou Yaping

Mr. Wong Wai Yee, Peter, *M.B.A., C.M.A., A.C.S., A.C.I.S.*, aged 57, has been an Executive Director and the Chief Executive Officer of the Company since 1 March 2007. Currently, Mr. Wong is the Head – China Business of HKCG (a public listed company in Hong Kong and a substantial shareholder of the Company). Mr. Wong also holds directorship in various subsidiaries of HKCG. Mr. Wong is a professional accountant and a chartered company secretary. Mr. Wong was formerly a director of Certified Management Accountants Society of British Columbia, Canada and the president of its Hong Kong branch. He is a member of the Advisory Board of the Department of Accounting of Hong Kong Shue Yan University. Mr. Wong has over 32 years of experience in corporate finance, management and international working experience.

Mr. Kwan Yuk Choi, James, *J.P., B.Sc. (Eng), M.B.A., C.Eng., F.H.K.I.E., F.I.G.E.M., F.I.Mech.E., F.E.I., F.C.I.B.S.E.*, aged 57, has been an Executive Director of the Company since 1 March 2007. Currently, Mr. Kwan is an executive director and the chief operating officer of HKCG (a public listed company in Hong Kong and a substantial shareholder of the Company) and holds directorship in various subsidiaries of HKCG. He is currently a member of the Gas Safety Advisory Committee of the Hong Kong Special Administrative Region and a Member of the Twelfth Nanjing Committee of the Chinese People's Political Consultative

Chen Wei | Shen Lian Jin | Chow Yei Ching | Cheng Mo Chi, Moses | Li Man Bun, Brian David

Conference. He was President of The Institution of Gas Engineers UK (currently known as The Institution of Gas Engineers & Managers) in 2000/2001 and The Hong Kong Institution of Engineers in 2004/2005. Mr. Kwan is a Chartered Engineer and Fellow of The Institution of Mechanical Engineers, Fellow of The Hong Kong Institution of Engineers, Fellow of The Institution of Gas Engineers & Managers, Fellow of The Energy Institute and Fellow of Chartered Institution of Building Services Engineers.

Mr. Ho Hon Ming, John, *F.C.A., F.C.P.A., B.A. (Hons.)*, aged 52, has been an Executive Director and the Company Secretary of the Company since 1 March 2007. Currently, Mr. Ho is the chief financial officer and the company secretary of HKCG (a public listed company in Hong Kong and a substantial shareholder of the Company) and holds directorship in various subsidiaries of HKCG. Mr. Ho is a Fellow of the Institute of Chartered Accountants in England and Wales and also a Fellow of The Hong Kong Institute of Certified Public Accountants. Mr. Ho has over 30 years of experience in accounting, corporate finance and investments.

Mr. Ou Yaping, aged 47, has been an Executive Director of the Company since 16 November 2000 and is an indirect shareholder of the Company. He is also the chairman and the executive director of Sinolink Worldwide Holdings Limited ("Sinolink") and Enerchina Holdings Limited ("Enerchina"). Sinolink and Enerchina are public listed companies in Hong Kong and Enerchina is a substantial shareholder of the Company. Mr. Ou holds a Bachelor's degree in Engineering Management from Beijing Institute of Technology in China and is also the vice chairman of the board and a part-time professor of Beijing Institute of Technology. He was previously employed by a number of trading companies and investment companies, both in Hong Kong and China. Mr. Ou has over 23 years of experience in investing, trading and corporate management.

Mr. Chen Wei, aged 47, has been an Executive Director of the Company since 8 January 2001. Mr. Chen holds directorship in various subsidiaries of the Group. He is also an executive director of Sinolink and an executive director and the chief executive officer of Enerchina. Sinolink and Enerchina are public listed companies in Hong Kong and Enerchina is a substantial shareholder of the Company. Mr. Chen holds a Bachelor's degree in Engineering Management from Beijing Institute of Technology in China. He was previously employed by a number of other large organizations and has over 23 years of experience in engineering, business administration, market development and management.

Mr. Shen Lian Jin, aged 46, has been an Executive Director since 21 April 2004. Mr. Shen also holds directorship in various subsidiaries of the Group. He holds a Bachelor of Arts degree in Chinese language from Anhui Normal University in China. Mr. Shen has over 19 years of experience in operational management, business administration and market development. He joined the Company in 2000, and is responsible for brand building, development and management of the Company's project.

Dr. Chow Yei Ching, aged 73, has been an Independent Non-Executive Director since 23 May 2007 and has acted as the chairman of the Remuneration Committee and a member of the Audit Committee of the Company. Dr. Chow is the founder and chairman of Chevalier Group which consists of two public listed companies in Hong Kong, Chevalier International Holdings Limited and Chevalier Pacific Holdings Limited. He is also an independent non-executive director of each of Van Shung Chong Holdings Limited and Shaw Brothers (Hong Kong) Limited (being delisted on 18 March 2009) and a non-executive director of Television Broadcasts Limited, all being public listed companies in Hong Kong. Dr. Chow is currently the Honorary Consul of the Kingdom of Bahrain in Hong Kong.

Mr. Cheng Mo Chi, Moses, aged 59, has been an Independent Non-Executive Director since 23 May 2007 and has acted as the member of both the Audit Committee and the Remuneration Committee of the Company. Mr. Cheng is a practising solicitor and the senior partner of Messrs. P.C. Woo & Co.. Mr. Cheng was a member of the Legislative Council of Hong Kong between 1991 and 1995. He is the founder chairman of the Hong Kong Institute of Directors of which he is now the Honorary President and Chairman Emeritus. Mr. Cheng currently holds directorships in City Telecom (H.K.) Limited, China COSCO Holdings Company Limited, China Mobile Limited, China Resources Enterprise, Limited, Guangdong Investment Limited, Hong Kong Exchanges and Clearing Limited, Kader Holdings Company Limited, Galaxy Entertainment Group Limited (formerly known as K. Wah Construction Materials Limited), Liu Chong Hing Investment Limited and Tian An China Investments Company Limited, all being public listed companies in Hong Kong. His other directorships in public listed companies in the last three years include Beijing Capital International Airport Company Limited, Shui On Construction and Materials Limited, Stockmartnet Holdings Limited, COL Capital Limited, Pokfulam Development Company Limited, Kingsway Brewery Holdings Limited and Quality HealthCare Asia Limited, all being public listed companies in Hong Kong.

Mr. Li Man Bun, Brian David, aged 34, has been an Independent Non-Executive Director since 23 May 2007 and has acted as the chairman of the Audit Committee and a member of the Remuneration Committee of the Company. Mr. Li currently serves as General Manager & Head of Wealth Management Division of The Bank of East Asia, Limited in Hong Kong. He is an Associate of the Institute of Chartered Accountants in England and Wales and holds an MBA from Stanford University as well as an MA and BA from the University of Cambridge.

Mr. Tang Yui Man, Francis, aged 46, has been the alternate Director to Mr. Ou Yaping, an Executive Director of the Company since 1 March 2007. He is also the chief executive officer and an executive director of Sinolink and an executive director of Enerchina. Sinolink and Enerchina are public listed companies in Hong Kong and Enerchina is a substantial shareholder of the Company. Mr. Tang holds a Bachelor's degree in Computer Studies from the University of Victoria in Canada and a Master of Business Administration degree from The City University of New York in the United States. Mr. Tang has over 21 years of experience in management, accounting and finance.

Biographical Details of Directors

Notes:

1. The Directors' interests in shares of the Company, if any, within the meaning of Part XV of the SFO as at 31 December 2008 are disclosed in the section headed "Directors' Interests or Short Positions in Shares, Underlying Shares and Debentures" in this Annual Report.

2. Save as disclosed in the Directors' respective biographical details under "Biographical Details of Directors" section, the Directors (a) have not held any directorships in other publicly listed companies, whether in Hong Kong or overseas, during the last three years; and (b) do not have any other relationships with any Directors, senior management or substantial or controlling shareholders of the Company.

3. The current amounts of Directors' fees have been determined by the remuneration committee and the Board with reference to market rates, directors' workload and required commitment. The details of the emoluments of the Directors on a named basis are disclosed in Note 12 to the consolidated financial statements.

4. Mr. Ou Yaping, Mr. Chen Wei and Mr. Shen Lian Jin had respectively entered into director's service contracts with the Company, all of which will expire on 1 January 2010. None of the other Directors have signed director's service contracts with the Company. The Independent Non-Executive Directors, i.e. Dr. Chow Yei Ching, Mr. Cheng Mo Chi, Moses and Mr. Li Man Bun, Brian David, have specific term of office for three years expiring on 22 May 2010. All Directors are subject to retirement by rotation in accordance with the Company's Articles of Association. Accordingly, each Director is required to retire by rotation once every three years and that not less than one-third (or the number nearest to one-third) of the existing Directors shall retire from office every year at the Company's Annual General Meeting. A Director's specific term of appointment, therefore, cannot exceed three years. Every retiring Director shall be eligible for re-election at the Annual General Meeting of the Company.

5. Subsequent to the date of this Annual Report, Mr. Shen Lian Jin resigned as an Executive Director of the Company on 19 March 2009.

The Board have pleasure in presenting their Report and the audited consolidated financial statements for the year ended 31 December 2008.

Principal Activities

The Company acts as an investment holding company and the principal activities of its subsidiaries are the sale and distribution of gas fuel in China including the provision of natural gas, construction of gas pipelines, the operation of city gas pipeline network, the operation of gas fuel automobile refilling stations, and the sale and distribution of LPG and the sale of natural gas and LPG household appliances. Particulars of its principal subsidiaries are set out in note 40 to the consolidated financial statements.

Results and Final Dividend

The results of the Group for the year ended 31 December 2008 are set out in the consolidated income statement on page 64.

The Directors recommend the payment of a final dividend out of share premium account of one HK Cent (2007: Nil) per share to shareholders whose name are on the register of members of the Company on 11 May 2009. Subject to approval by shareholders at the Annual General Meeting ("AGM") to be held on 11 May 2009 and compliance with the Companies Law of the Cayman Islands, the final dividend will be paid on or about 1 June 2009 and the register of members of the Company will be closed from Thursday, 7 May 2009 to Monday, 11 May 2009 (both days inclusive), during which period no transfer of shares of the Company will be registered.

Reserves

Details of the movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 67.

The Company's reserves available for distribution to shareholders at 31 December 2008, amounted to HK$3,342 million. (2007: HK$3,452 million) subject to the applicable statutory requirements under the laws of the Cayman Islands.

Financial Summary

A summary of the results, assets and liabilities of the Group for each of the five years ended 31 December 2008 is set out on page 4.

Report of the Directors

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the year are set out in note 16 to the consolidated financial statements.

Share Capital

Details of movements in the share capital of the Company during the year are set out in note 30 to the consolidated financial statements.

Directors

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

Executive Directors:

Mr. Chan Wing Kin, Alfred *(Chairman)*
Mr. Wong Wai Yee, Peter *(Chief Executive Officer)*
Mr. Kwan Yuk Choi, James
Mr. Ho Hon Ming, John *(Company Secretary)*
Mr. Ou Yaping
Mr. Chen Wei
Mr. Shen Lian Jin
Mr. Tang Yui Man, Francis
(alternate director to Mr. Ou Yaping)

Independent non-executive Directors:

Dr. Chow Yei Ching
Mr. Cheng Mo Chi, Moses
Mr. Li Man Bun, Brian David

Subsequent to the date of this Annual Report, Mr. Shen Lian Jin resigned as an executive Director of the Company on 19 March 2009.

In accordance with the Article 112 of the Articles of Association, Mr. Chan Wing Kin, Alfred, Mr. Kwan Yuk Choi, James and Mr. Chen Wei shall retire from office by rotation at the forthcoming AGM and, being eligible, will offer themselves for re-election.

The Company has received an annual confirmation of independence from each of the independent non-executive Directors pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company considers all of independent non-executive Directors to be independent.

Directors *(Continued)*

Each of the independent non-executive Directors was appointed for a period commencing from his appointment date and subject to retirement by rotation at the AGM.

None of the Directors proposed for re-election at the forthcoming AGM has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

The biographical details of the Directors of the Company are set out on pages 30 to 34 of this Annual Report.

Directors' Interests or Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2008, the interests or short positions of the Directors and chief executive in the shares of the Company (the "Shares"), underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required pursuant to: (a) divisions 7 to 9 of Part XV of the SFO, to be notified to the Company and the Stock Exchange; (b) section 352 of Part XV of the SFO, to be entered in the register referred to therein; or (c) the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange, were as follows:

(a) Long positions in Shares and underlying Shares

Name of Director	Capacity	Interest in Shares: Personal interest	Interest in Shares: Corporate interest	Total interest in Shares	Interest in underlying Shares pursuant to share options	Aggregate interest	Approximate percentage of the Company's issued share capital as at 31.12.2008
Chan Wing Kin, Alfred	Beneficial owner	–	–	–	3,618,000	3,618,000	0.19%
Wong Wai Yee, Peter	Beneficial owner	–	–	–	3,015,000	3,015,000	0.16%
Kwan Yuk Choi, James	Beneficial owner	–	–	–	3,015,000	3,015,000	0.16%
Ho Hon Ming, John	Beneficial owner	–	–	–	3,015,000	3,015,000	0.16%
Ou Yaping	Beneficial owner and interest in controlled corporations	3,618,000	530,487,245 *(Note)*	534,105,245	–	534,105,245	27.28%

Directors' Interests or Short Positions in Shares, Underlying Shares and Debentures *(Continued)*

(a) Long positions in Shares and underlying Shares *(Continued)*

Name of Director	Capacity	Interest in Shares: Personal interest	Interest in Shares: Corporate interest	Total interest in Shares	Interest in underlying Shares pursuant to share options	Aggregate interest	Approximate percentage of the Company's issued share capital as at 31.12.2008
Chen Wei	Beneficial owner	1,600,000	–	1,600,000	6,633,000	8,233,000	0.42%
Shen Lian Jin	Beneficial owner	301,500	–	301,500	3,015,000	3,316,500	0.17%
Chow Yei Ching	Beneficial owner	1,600,000	–	1,600,000	–	1,600,000	0.08%
Tang Yui Man, Francis (alternate Director to Ou Yaping)	Beneficial owner	–	–	–	3,015,000	3,015,000	0.15%

Note: The 530,487,245 Shares represent the aggregate of (i) 344,046,568 Shares held by Kenson Investment Limited ("Kenson") and 186,440,677 Shares held by Supreme All Investment Limited ("Supreme All"), both wholly-owned subsidiaries of Enerchina. As approximately 36.76% of the issued share capital of Enerchina was held by Asia Pacific Promotion Limited ("Asia Pacific") as at 31 December 2008 and Mr. Ou Yaping is the sole beneficial owner of Asia Pacific, Mr. Ou Yaping is deemed under the SFO to be interested in such 530,487,245 Shares.

Details of the Directors' interests in share options granted by the Company are set out under the heading "Directors' Rights to Acquire Shares" below.

(b) Long Positions in Debentures

Name of Director	Capacity	Amount of Debentures: Personal interest	Amount of Debentures: Corporate interest	Aggregate Amount
Chan Wing Kin, Alfred	Beneficial owner	Nominal amount of US$1,000,000 of 8.25% Guaranteed Senior Notes due 2011	–	Nominal amount of US$1,000,000

Directors' Rights to Acquire Shares

Pursuant to the Company's share option schemes, the Company has granted to certain Directors options to subscribe the Shares, details of which as at 31 December 2008 were as follows:

Name of Director	Date of grant	Exercisable period	Number of Shares subject to outstanding options as at 01.01.2008	As at 31.12.2008		
				Exercise price (as adjusted, if applicable) HK$	Number of Shares subject to outstanding options	Approximate percentage of the Company's issued share capital
Chan Wing Kin, Alfred	16.03.2007	16.03.2008 – 27.11.2015	1,080,000	3.811	1,085,400	0.06%
	16.03.2007	16.03.2009 – 27.11.2015	1,080,000	3.811	1,085,400	0.06%
	16.03.2007	16.03.2010 – 27.11.2015	1,440,000	3.811	1,447,200	0.07%
Wong Wai Yee, Peter	16.03.2007	16.03.2008 – 27.11.2015	900,000	3.811	904,500	0.05%
	16.03.2007	16.03.2009 – 27.11.2015	900,000	3.811	904,500	0.05%
	16.03.2007	16.03.2010 – 27.11.2015	1,200,000	3.811	1,206,000	0.06%
Kwan Yuk Choi, James	16.03.2007	16.03.2008 – 27.11.2015	900,000	3.811	904,500	0.05%
	16.03.2007	16.03.2009 – 27.11.2015	900,000	3.811	904,500	0.05%
	16.03.2007	16.03.2010 – 27.11.2015	1,200,000	3.811	1,206,000	0.06%
Ho Hon Ming, John	16.03.2007	16.03.2008 – 27.11.2015	900,000	3.811	904,500	0.05%
	16.03.2007	16.03.2009 – 27.11.2015	900,000	3.811	904,500	0.05%
	16.03.2007	16.03.2010 – 27.11.2015	1,200,000	3.811	1,206,000	0.06%
Chen Wei	04.04.2001	01.01.2003 – 03.04.2011	1,809,000	0.473	1,809,000	0.09%
	04.04.2001	01.01.2004 – 03.04.2011	1,809,000	0.473	1,809,000	0.09%
	19.11.2004	31.12.2005 – 30.03.2011	904,500	3.483	904,500	0.05%
	19.11.2004	31.12.2006 – 30.03.2011	904,500	3.483	904,500	0.05%
	19.11.2004	31.12.2007 – 30.03.2011	1,206,000	3.483	1,206,000	0.06%

Directors' Rights to Acquire Shares *(Continued)*

Name of Director	Date of grant	Exercisable period	Number of Shares subject to outstanding options as at 01.01.2008	As at 31.12.2008: Exercise price (as adjusted, if applicable) HK$	As at 31.12.2008: Number of Shares subject to outstanding options	As at 31.12.2008: Approximate percentage of the Company's issued share capital
Shen Lian Jin	19.11.2004	31.12.2005 – 30.03.2011	603,000	3.483	603,000	0.03%
	19.11.2004	31.12.2006 – 30.03.2011	603,000	3.483	603,000	0.03%
	19.11.2004	31.12.2007 – 30.03.2011	804,000	3.483	804,000	0.04%
	16.03.2007	16.03.2008 – 27.11.2015	300,000	3.811	301,500	0.02%
	16.03.2007	16.03.2009 – 27.11.2015	300,000	3.811	301,500	0.02%
	16.03.2007	16.03.2010 – 27.11.2015	400,000	3.811	402,000	0.02%
Tang Yui Man, Francis (alternate Director to Ou Yaping)	19.11.2004	31.12.2005 – 30.03.2011	904,500	3.483	904,500	0.05%
	19.11.2004	31.12.2006 – 30.03.2011	904,500	3.483	904,500	0.05%
	19.11.2004	31.12.2007 – 30.03.2011	1,206,000	3.483	1,206,000	0.06%

Notes:

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

2. During the year, no option was granted to or exercised by the Directors and no option held by the Directors had lapsed or was cancelled.

3. The exercise prices per Share under the 2005 Main Board Scheme had been adjusted during the year. Please refer to the section headed "Share Option Schemes" below for details.

4. These options represent personal interest held by the Directors as beneficial owners.

Save as stated above, as at 31 December 2008, there were no other interests or short positions of the Directors in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) recorded in the register maintained by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Share Option Schemes of the Company

(a) Pre-GEM Share Option Scheme

The Company approved a pre-GEM listing share option scheme (the "Pre-GEM Scheme") by resolutions of the then sole shareholder of the Company dated 4 April 2001. The purpose of the Pre-GEM Scheme was to recognize the contribution of certain Directors and employees of members of the Group and group members of Sinolink to the growth of the Group and/or to the listing of the Shares on GEM Board.

As at 31 December 2008, the outstanding number of Shares in respect of which options had been granted under the Pre-GEM Scheme was 3,618,000 (2007: 4,180,800), representing 0.18% (2007: 0.21%) of the existing share capital of the Company as at the date of this report.

Share options were granted under the Pre-GEM Scheme in 2001 in consideration of HK$1.00 per grant, at an exercise price of HK$0.57, being the issue price of the Shares on listing on GEM Board. The exercise price was subsequently adjusted to HK$0.475 upon capitalization of Shares in 2002. 50% of options under the Pre-GEM Scheme are exercisable from 1 January 2003 with the remaining 50% exercisable from 1 January 2004. The options under the Pre-GEM Scheme are exercisable on a cumulative basis until the expiry date on 3 April 2011. The options under the Pre-GEM Scheme were granted to recognize the then past and present contributions of the grantees to the Group.

The Pre-GEM Scheme ended on the date on which dealings in the Shares commenced on GEM Board (i.e. 20 April 2001), and no further options would be offered or granted after that date. The provision of the Pre-GEM Scheme shall remain in full force and effect.

(b) 2001 GEM Share Option Scheme

Pursuant to a share option scheme approved by the resolution of the sole shareholder of the Company dated 4 April 2001 (the "2001 GEM Scheme"), the Company might 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. The exercise price of the share option would be determined at the higher of the average of closing prices of the Shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the option, the closing price of the Shares on the Stock Exchange on the date of grant or the nominal value of the Shares.

The 2001 GEM Scheme remained in force for a period of 10 years commencing on 4 April 2001.

The share options granted under the 2001 GEM Scheme are exercisable at any time for a period to be determined by the Directors, which shall not be less than 3 years and not more than 10 years from the date of grant.

Share Option Schemes of the Company *(Continued)*

As at 31 December 2008, the outstanding number of shares in respect of which options had been granted under the 2001 GEM Scheme was 15,265,950 (2007: 15,909,150), representing 0.78% (2007: 0.81%) of the existing share capital of the Company as at the date of this Annual Report.

Options granted under the 2001 GEM Scheme should be taken up within 28 days of the date of grant, upon payment of HK$1.00 per grant.

The total number of Shares in respect of which options might be granted under the 2001 GEM Scheme was not permitted to exceed 10% of the Shares in issue at any point in time without prior approval from the Company's shareholders. No option might be granted to any one employee which if exercised in full would result in the total number of Shares already issued and issuable to him under all the options previously granted to him and the said option exceeding 25% of the number of Shares issued and issuable under all the options which might be granted under the 2001 GEM Scheme or any other share option schemes at the time it has proposed to grant the relevant options to that employee.

The 2005 GEM Scheme has replaced the 2001 GEM Scheme and there will be no options granted under the 2001 GEM 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 2001 GEM Scheme shall remain in full force and effect.

(c) 2005 GEM Share Option Scheme

Pursuant to a share option scheme approved by the resolution of the Company's shareholders at the annual general meeting held on 26 April 2005 (the "2005 GEM 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 might 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 the Shares. The exercise price of the share option would be determined at the higher of the average of closing prices of the Shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the option, the closing price of the Shares on the Stock Exchange on the date of grant or the nominal value of the Shares.

The 2005 GEM Scheme remained in force for a period of 10 years commencing on the date of adoption of the scheme, i.e. 18 May 2005.

The share options under the 2005 GEM Scheme are exercisable at any time for a period to be determined by the Directors, which shall not more than 10 years after the date of grant.

At 31 December 2008, no option was granted under the 2005 GEM Scheme.

Share Option Schemes of the Company *(Continued)*

Options granted under the 2005 GEM Scheme should be taken up within 28 days of the date of grant, upon payment of HK$1.00 per grant.

The total number of Shares in respect of which options might be granted under the 2005 GEM Scheme was not permitted to exceed 10% of the Shares in issue at the date of approval of the 2005 GEM Scheme without prior approval from the Company's shareholders. No option might be granted in any 12-month period to any one employee which if exercised in full would result in the total number of Shares already issued and issuable to him under all the options previously granted to him and the said option exceeding 1% of the number of Shares issued and issuable under all the options which might be granted under the 2005 GEM Scheme or any other share option schemes at the time it has proposed to grant the relevant options to that employee.

2005 GEM Scheme ended on the date on which dealings in the Shares commenced on Main Board (i.e. 8 December 2005), and no further options would be offered or granted after that date.

(d) 2005 Main Board Share Option Scheme

Pursuant to a share option scheme adopted by the shareholders of the Company at an extraordinary general meeting held on 28 November 2005 ("2005 Main Board Scheme") and approved by the shareholders of Enerchina and Sinolink pursuant to an ordinary resolution passed at 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 contributions to the Group, to subscribe for Shares in the Company. The exercise price of the share option will be determined at the higher of the average of closing prices of the Shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the option, the closing price of the Shares on the Stock Exchange on the date of grant or the nominal value of the Shares.

2005 Main Board Scheme will remain in force for a period of 10 years commencing on 28 November 2005.

The share options under 2005 Main Board Scheme are exercisable at any time for a period to be determined by the Directors, which shall not more than 10 years after the date of grant.

As at 31 December 2008, the outstanding number of shares in respect of which options had been granted under 2005 Main Board Scheme was 18,853,800 (2007: 18,760,000), representing 0.96% (2007: 0.96%) of the existing share capital of the Company as at the date of this Annual Report.

Options granted under 2005 Main Board Scheme must be taken up within 28 days of the date of grant, upon payment of HK$1.00 per grant.

Share Option Schemes of the Company *(Continued)*

The total number of Shares in respect of which options may be granted under 2005 Main Board Scheme is not permitted to exceed 10% of the Shares in issue on the date of approval of 2005 Main Board Scheme without prior approval from the Company's shareholders. No option may be granted in any 12-month period to any one employee which if exercised in full would result in the total number of Shares already issued and issuable to him under all the options previously granted to him and the said option exceeding 1% of the number of Shares issued and issuable under all the options which may be granted under 2005 Main Board Scheme or any other share option schemes at the time it is proposed to grant the relevant options to that employee.

Details of specific categories of options are as follows:

Option type	Date of grant	Exercise period	Exercise price HK$
Pre-GEM Scheme:			
Pre-GEM Options	04.04.2001	01.01.2003 – 03.04.2011	0.473
	04.04.2001	01.01.2004 – 03.04.2011	0.473
2001 GEM Scheme:			
2001 GEM Options	13.11.2001	13.02.2002 – 13.02.2007	0.940
	13.11.2001	13.05.2002 – 13.02.2007	0.940
	13.11.2001	13.11.2002 – 13.02.2007	0.940
2004 GEM Options	19.11.2004	31.12.2005 – 30.03.2011	3.483
	19.11.2004	31.12.2006 – 30.03.2011	3.483
	19.11.2004	31.12.2007 – 30.03.2011	3.483
2005 Main Board Scheme:			
2006 Options	03.10.2006	04.10.2007 – 27.11.2015	2.796 *(Note 3)*
	03.10.2006	04.04.2008 – 27.11.2015	2.796 *(Note 3)*
	03.10.2006	04.10.2008 – 27.11.2015	2.796 *(Note 3)*
2007 Options	16.03.2007	16.03.2008 – 27.11.2015	3.811 *(Note 3)*
	16.03.2007	16.03.2009 – 27.11.2015	3.811 *(Note 3)*
	16.03.2007	16.03.2010 – 27.11.2015	3.811 *(Note 3)*

Share Option Schemes of the Company *(Continued)*

The following table discloses movements to the share options during the year:

	Option types	Date of Grant	Exercise Period	Exercise Price *(Note 3)*	Outstanding at 01.01.2008	Grant/ Adjustment during the year	Exercised during the year *(Note 4)*	Lapsed during the year	Outstanding at 31.12.2008	Weighted average closing price of shares immediately before the date(s) on which options were exercised *(Note 5)* HK$
Category 1: Directors										
Chan Wing Kin,	2007	16.03.2007	16.03.2008 – 27.11.2015	3.811	1,080,000	5,400	–	–	1,085,400	–
Alfred	Options	16.03.2007	16.03.2009 – 27.11.2015	3.811	1,080,000	5,400	–	–	1,085,400	–
		16.03.2007	16.03.2010 – 27.11.2015	3.811	1,440,000	7,200	–	–	1,447,200	–
Wong Wai Yee,	2007	16.03.2007	16.03.2008 – 27.11.2015	3.811	900,000	4,500	–	–	904,500	–
Peter	Options	16.03.2007	16.03.2009 – 27.11.2015	3.811	900,000	4,500	–	–	904,500	–
		16.03.2007	16.03.2010 – 27.11.2015	3.811	1,200,000	6,000	–	–	1,206,000	–
Kwan Yuk Choi,	2007	16.03.2007	16.03.2008 – 27.11.2015	3.811	900,000	4,500	–	–	904,500	–
James	Options	16.03.2007	16.03.2009 – 27.11.2015	3.811	900,000	4,500	–	–	904,500	–
		16.03.2007	16.03.2010 – 27.11.2015	3.811	1,200,000	6,000	–	–	1,206,000	–
Ho Hon Ming,	2007	16.03.2007	16.03.2008 – 27.11.2015	3.811	900,000	4,500	–	–	904,500	–
John	Options	16.03.2007	16.03.2009 – 27.11.2015	3.811	900,000	4,500	–	–	904,500	–
		16.03.2007	16.03.2010 – 27.11.2015	3.811	1,200,000	6,000	–	–	1,206,000	–
Chen Wei	Pre-GEM	04.04.2001	01.01.2003 – 03.04.2011	0.473	1,809,000	–	–	–	1,809,000	–
	Options	04.04.2001	01.01.2004 – 03.04.2011	0.473	1,809,000	–	–	–	1,809,000	–
	2004 GEM	19.11.2004	31.12.2005 – 30.03.2011	3.483	904,500	–	–	–	904,500	–
	Options	19.11.2004	31.12.2006 – 30.03.2011	3.483	904,500	–	–	–	904,500	–
		19.11.2004	31.12.2007 – 30.03.2011	3.483	1,206,000	–	–	–	1,206,000	–
Shen Lian Jin	2004 GEM	19.11.2004	31.12.2005 – 30.03.2011	3.483	603,000	–	–	–	603,000	–
	Options	19.11.2004	31.12.2006 – 30.03.2011	3.483	603,000	–	–	–	603,000	–
		19.11.2004	31.12.2007 – 30.03.2011	3.483	804,000	–	–	–	804,000	–
	2007	16.03.2007	16.03.2008 – 27.11.2015	3.811	300,000	1,500	–	–	301,500	–
	Options	16.03.2007	16.03.2009 – 27.11.2015	3.811	300,000	1,500	–	–	301,500	–
		16.03.2007	16.03.2010 – 27.11.2015	3.811	400,000	2,000	–	–	402,000	–

Share Option Schemes of the Company *(Continued)*

	Option types	Date of Grant	Exercise Period	Exercise Price *(Note 3)*	Outstanding at 01.01.2008	Grant/ Adjustment during the year	Exercised during the year *(Note 4)*	Lapsed during the year	Outstanding at 31.12.2008	Weighted average closing price of shares immediately before the date(s) on which options were exercised *(Note 5)* HK$
Tang Yui Man, Francis	2004 GEM Options	19.11.2004	31.12.2005 – 30.03.2011	3.483	904,500	–	–	–	904,500	–
		19.11.2004	31.12.2006 – 30.03.2011	3.483	904,500	–	–	–	904,500	–
		19.11.2004	31.12.2007 – 30.03.2011	3.483	1,206,000	–	–	–	1,206,000	–
Total for Directors					25,258,000	68,000	–	–	25,326,000	–
Category 2: Other Participants	Pre-GEM Options	04.04.2001	01.01.2003 – 03.04.2011	0.473	80,400	–	(80,400)	–	–	3.53
		04.04.2001	01.01.2004 – 03.04.2011	0.473	482,400	–	(482,400)	–	–	3.53
	2004 GEM Options	19.11.2004	31.12.2007 – 30.03.2011	3.483	643,200	–	(643,200)	–	–	4.07
Total for Other Participants					1,206,000	–	(1,206,000)	–	–	
Category 3: Employees	2004 GEM Options	19.11.2004	31.12.2005 – 30.03.2011	3.483	1,597,950	–	–	–	1,597,950	–
		19.11.2004	31.12.2006 – 30.03.2011	3.483	2,412,000	–	–	–	2,412,000	–
		19.11.2004	31.12.2007 – 30.03.2011	3.483	3,216,000	–	–	–	3,216,000	–
	2006 Options	03.10.2006	04.10.2007 – 27.11.2015	2.796	1,080,000	5,400	–	–	1,085,400	–
		03.10.2006	04.04.2008 – 27.11.2015	2.796	1,320,000	6,600	–	–	1,326,600	–
		03.10.2006	04.10.2008 – 27.11.2015	2.796	1,760,000	8,800	–	–	1,768,800	–
	2007 Options	16.03.2007	16.03.2008 – 27.11.2015	3.811	300,000	1,500	–	–	301,500	–
		16.03.2007	16.03.2009 – 27.11.2015	3.811	300,000	1,500	–	–	301,500	–
		16.03.2007	16.03.2010 – 27.11.2015	3.811	400,000	2,000	–	–	402,000	–
Total for Employees					12,385,950	25,800	–	–	12,411,750	
All categories					38,849,950	93,800	(1,206,000)	–	37,737,750	

Share Option Schemes of the Company *(Continued)*

Notes:

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

2. During the year, no share option was cancelled or had lapsed under any share option schemes.

3. After the specific approval granted by the shareholders at the annual general meeting of the Company held on 16 May 2008 for the adjustments to the outstanding share options granted under the 2005 Main Board Scheme (details of which are contained in the circular issued by the Company on 23 April 2008), the exercise price of the 2006 Options was adjusted from HK$2.810 per Share to HK$2.796 per Share and the exercise price of the 2007 Options was adjusted from HK$3.830 per Share to HK$3.811 per Share.

4. During the year, no new option was granted. As a result of the adjustments as described in Note 3 above, the number of Shares issuable under the outstanding options granted under the 2005 Main Board Scheme was increased by a total of 93,800 for all the three categories of participants.

5. During the year, the weighted average closing price of the Shares immediately before the date of exercise of the share options by Other Participants was between the range of HK$3.53 and HK$4.07.

Arrangements to Purchase Shares or Debentures

Other than the share option schemes disclosed above, at no time during the year was the Company, its holding company, fellow subsidiaries or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' Interests in Contracts of Significance

Other than as disclosed in note 34 to the financial statements, there are no contracts of significance to which the Company, its holding company, fellow subsidiaries or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Competing Business

During the year and up to the date of this report, the following Directors are considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules, as set out below:

Mr Chan Wing Kin, Alfred, the Chairman of the Company, is the Managing Director of HKCG and Mr Kwan Yuk Choi, James, an executive director of the Company, is an executive director of HKCG.

Competing Business *(Continued)*

HKCG and its subsidiaries ("HKCG Group") are principally engaged in the production, distribution and marketing of gas and related activities in Hong Kong and China. Although some of the businesses carried out by the HKCG Group are similar to the businesses carried out by the Group, they are of different scale and/or in different locations. Therefore, the Directors are of the view that the businesses of the HKCG Group do not compete directly with the businesses of the Group.

Save as disclosed above, none of the Directors had any interest in any business (apart from the Group's business) which competes or is likely to compete, either directly or indirectly with the Group's business.

Substantial Shareholders

As at 31 December 2008, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of Directors, the following shareholders (other than the Directors or chief executives of the Company as disclosed above) had notified the Company of relevant interests and short positions in the issued share capital of the Company:

Long positions in Shares and underlying Shares in the Company

Name of Shareholder	**Capacity**	**Aggregate interest in Shares**	**Approximate percentage of the Company's issued share capital as at 31.12.2008**
Lee Shau Kee	Interest of controlled corporations	893,172,901 *(Note 1)*	45.63%
Rimmer (Cayman) Limited ("Rimmer")	Trustee	893,172,901 *(Note 2)*	45.63%
Riddick (Cayman) Limited ("Riddick")	Trustee	893,172,901 *(Note 2)*	45.63%
Hopkins (Cayman) Limited ("Hopkins")	Interest of controlled corporations	893,172,901 *(Note 2)*	45.63%
Henderson Development Limited ("HD")	Interest of controlled corporations	893,172,901 *(Note 2)*	45.63%

Substantial Shareholders *(Continued)*

Name of Shareholder	Capacity	Aggregate interest in Shares	Approximate percentage of the Company's issued share capital as at 31.12.2008
Henderson Land Development Company Limited ("HLD")	Interest of controlled corporations	893,172,901 *(Note 2)*	45.63%
Faxson Investment Limited ("Faxson")	Interest of controlled corporations	893,172,901 *(Note 2)*	45.63%
HKCG	Interest of controlled corporations	893,172,901 *(Note 3)*	45.63%
Towngas International Company Limited ("TICL")	Interest of controlled corporations	850,202,901 *(Note 3)*	43.43%
Hong Kong & China Gas (China) Limited ("HK&CG (China)")	Beneficial owner	850,202,901 *(Note 3)*	43.43%
Asia Pacific	Interest of controlled corporations	530,487,245 *(Note 4)*	27.10%
Enerchina	Interest of controlled corporations	530,487,245 *(Note 4)*	27.10%
Kenson	Beneficial owner	344,046,568 *(Note 4)*	17.58%
Supreme All	Beneficial owner	186,440,677 *(Note 4)*	9.52%

Substantial Shareholders *(Continued)*

Notes:

1. The entire issued share capital of Rimmer, Riddick and Hopkins were owned by Dr. Lee Shau Kee. Dr. Lee Shau Kee was therefore taken to be interested in the same 893,172,901 Shares as set out in Notes 2 and 3 below by virtue of Part XV of the SFO.

2. Rimmer and Riddick as trustees of respective discretionary trusts, held units in a unit trust ("Unit Trust"). Hopkins as trustee of the Unit Trust owned all the issued ordinary shares of HD. HD was entitled to exercise or control the exercise of more than one-third of the voting power at general meetings of HLD. HLD through its subsidiaries (including Faxson) was entitled to exercise or control the exercise of more than one-third of the voting power at general meetings of HKCG. Each of Rimmer, Riddick, Hopkins, HD, HLD and Faxson was therefore taken to be interested in the same 893,172,901 Shares which HKCG is deemed interested in as described in Note 3 below by virtue of Part XV of the SFO.

3. As HK&CG(China) was a wholly-owned subsidiary of TICL, which in turn was a wholly-owned subsidiary of HKCG, each of TICL and HKCG was therefore taken to be interested in the 850,202,901 Shares held by HK&CG (China) by virtue of Part XV of the SFO. In addition, HKCG was also taken to be interested in (1) the 40,470,000 Shares held by its indirect wholly-owned subsidiary, Planwise Properties Limited; and (2) the 2,500,000 Shares held by its indirect wholly-owned subsidiary, Superfun Enterprises Limited.

4. Enerchina is interested in the entire issued share capital of Kenson and Supreme All. Enerchina was owned as to approximately 36.76% by Asia Pacific as at 31 December 2008. Therefore, by virtue of Part XV of the SFO, the 344,046,568 Shares and 186,440,677 Shares in which Kenson and Supreme All are interested respectively duplicate with the interest in Shares held by Enerchina and Asia Pacific. Mr. Ou Yaping is the sole beneficial shareholder of Asia Pacific and is deemed under Part XV of the SFO to have an interest in the Shares held by, Kenson, Supreme All, Enerchina and Asia Pacific.

Save for the shareholders as disclosed herein, the Directors are not aware of any persons who, as at 31 December 2008, were entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and were also, as a practicable matter, able to direct or influence the management of the Company.

Short positions in Shares and underlying Shares in the Company

As at 31 December 2008, the Company had not been notified of any short positions being held by any substantial shareholder in the Shares or underlying Shares of the Company.

Other Persons

As at 31 December 2008, the Company had not been notified of any interests or short positions being held by any person (other than the Directors and chief executives and the substantial shareholders as disclosed above) in the share capital of the Company that was required to be disclosed under Division 2 and 3 of Part XV of the SFO and the Listing Rules.

Connected Transaction

During the year under review, there was no transaction or arrangement needed to be disclosed as a connected transaction in accordance with the Listing Rules. The related party transactions as set out in note 34 to the consolidated financial statements are connected transactions/continuing connected transactions exempted from disclosure and independent shareholders' approval requirements under the Listing Rules.

Liquefied Coalbed Methane Purchase Transactions

On 16 January 2009, the Company and HKCG entered into an agreement (the "Agreement") for a term commencing from 16 January 2009 up to 30 June 2010 in respect of the purchase of liquefied coalbed methane by members of the Group from members of the HKCG Group ("Transactions"). As HKCG is a substantial shareholder of the Company, members of the HKCG Group are connected persons of the Company under the Listing Rules. Thus, the entering into of the Agreement and the Transactions constitute continuing connected transactions of the Company subject to the reporting and announcement requirements but are exempted from the independent shareholder's approval requirements under the Listing Rules. Details of the Agreement and the Transactions were set out in the announcement of the Company dated 16 January 2009. The Transactions are subject to the annual cap amounts of RMB53,000,000 (approximately HK$60,227,273) and RMB43,000,000 (approximately HK$48,863,636) for the year ending 31 December 2009 and for the six months ending 30 June 2010 respectively. The Company will conduct annual review and disclose relevant details of the Transactions in its respective annual reports for the financial years of 2009 and 2010 in accordance with the Listing Rules.

Donations

During the year the Group made charitable and other donations amounting to approximately HK$3.5 million.

Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

Major Customers and Suppliers

During the year, the five largest suppliers of the Group in aggregate accounted for about 36.75% of its operating costs for the year. Purchases from the largest supplier accounted for about 18.97% of its operating costs. None of the Directors, their associates, or any shareholder (who to the knowledge of the Directors owned more than 5% of the Company's Share capital) had any interest in the Group's five largest suppliers. The percentage of the turnover attributable to the Group's five largest customers is less than 30% during the year.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new Shares on pro-rata basis to existing shareholders.

Purchase, Sale or Redemption of The Company's Listed Securities

On 23 April 2008, the Company fully repaid its 5 year convertible bonds on maturity which were issued in 2003 and listed on the Luxembourg Stock Exchange. During October and November 2008, the Company purchased from the market a portion of its guaranteed senior notes which are listed on the Singapore Exchange Securities Trading Limited. Please refer to the paragraphs headed "Convertible Bonds Redemption" and "Reduction of the Guaranteed Senior Notes" above for details.

Save as disclosed above, there was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the year ended 31 December 2008.

Emolument Policy

As at 31 December 2008, the Group had 17,685 employees. Approximately 99% of the Group's employees are located in China. The Group remunerates its employees based on their individual performance, job nature and responsibility. Moreover, the Group provides training and various benefits for its employees including medical welfare, provident funds, bonuses and other incentives. The Group also encourages its employees to pursue a balanced life and provides a good working environment for its employees to maximise their potential and contribution to the Group.

The emoluments of the Directors are decided by the remuneration committee of the Company, having regard to the Company's operating results, individual performance and comparable market statistics. No Director, or any of his associates, and executive, is involved in dealing his own remuneration.

The Company has adopted share option schemes as an incentive to Directors and eligible employees, details of the schemes is set out in note 37 to the consolidated financial statements and under the heading "Share Option Schemes of the Company" in this report.

Corporate Governance

Details of the corporate governance of the Group are set out in the section headed "Corporate Governance Report" in this annual report.

Auditor

The consolidated financial statements of the Company for the year ended 31 December 2008 have been audited by Messrs. Deloitte Touche Tohmatsu ("Deloitte"). A resolution will be submitted to the forthcoming AGM of the Company to re-appoint Deloitte as the auditor of the Company.

On behalf of the Board
Ho Hon Ming, John
Executive Director and Company Secretary

Hong Kong, 16 March 2009

Corporate Governance Report

The Directors and other members of the management team of the Company are dedicated to maintain high standards of corporate governance. They will continue to exercise leadership, enterprise, integrity and judgment so as to achieve continuing prosperity and to act in the best interests of the Company and its shareholders in a transparent and responsible manner. Strategic development with prudence and adherence to ethical principles form the cores of the Company's corporate governance practices.

The Company continues to devote efforts on promoting good corporate governance so as to ensure its ability to attract investment, protect the rights of shareholders and stakeholders, and enhance shareholders' value.

Code on Corporate Governance Practices

The Company has adopted the code provisions in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Listing Rules as its own code on corporate governance practices since 2005. Amid the latest amendments to the Listing Rules which became effective on 1 January 2009, the Company has taken various measures to cope with the latest development in the corporate governance regime.

The Company complied with the code provisions as set out in the Code throughout the year ended 31 December 2008. The application of the Code is stated in the following paragraphs.

Board of Directors

Composition

As at the date of this Annual Report, the Board comprises eleven members (including one alternate Director) as detailed below:

Executive Directors:

Mr. Chan Wing Kin, Alfred *(Chairman)*
Mr. Wong Wai Yee, Peter *(Chief Executive Officer)*
Mr. Kwan Yuk Choi, James
Mr. Ho Hon Ming, John *(Company Secretary)*
Mr. Ou Yaping
Mr. Chen Wei
Mr. Shen Lian Jin
Mr. Tang Yui Man, Francis *(alternate Director to Mr. Ou Yaping)*

Independent non-executive Directors:

Dr. Chow Yei Ching
Mr. Cheng Mo Chi, Moses
Mr. Li Man Bun, Brian David

Subsequent to the date of this Annual Report, Mr. Shen Lian Jin resigned as an Executive Director of the Company on 19 March 2009.

Board of Directors *(Continued)*

All Directors have distinguished themselves in their field of expertise, and have exhibited high standards of personal and professional ethics and integrity.

Each independent non-executive Director has confirmed, in accordance with the guidelines for assessing independence set out in Rule 3.13 of the Listing Rules that he is independent of the Company and the Company also considers that they are independent.

There is no relationship (including financial, business, family or other material relationship) between any members of the Board.

Pursuant to the Articles of Association, at least one third of the Directors shall retire from office but are eligible for re-election by shareholders at each AGM of the Company and each Director shall retire on a rotational basis at least once every three years.

During the year ended 31 December 2008, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive director possessing appropriate professional qualification, or accounting or related financial management expertise.

The term of office for Dr. Chow Yei Ching, Mr. Cheng Mo Chi, Moses and Mr. Li Man Bun, Brian David, being the independent non-executive Directors, shall expire on 22 May 2010 subject to retirement by rotation in accordance with the Articles of Association.

Function

The Board, headed by the Chairman, is responsible for formulation and approval of the Group's development, business strategies, policies, annual budgets and business plans, recommendation of any dividend and supervision of management.

The executive Directors are responsible for day-to-day management of the Company's operations and financial management are delegated to the management. The executive Directors conduct meetings with senior management of the Group, at which operational issues and financial performance are evaluated.

The Company considers that internal control system and risk management function are essential, and the Board plays an important role in implementing and monitoring internal control system and risk management function.

Board of Directors *(Continued)*

Matters specifically decided by the Board and those reserved for management are reviewed by the Board.

In addition, Directors may seek independent professional advice in appropriate circumstances at the Company's expenses.

The Articles of Association sets out the responsibilities and proceedings of the Board. The Board meets regularly at least four times a year to consider operational reports of the Company and policies. Significant operational policies have to be discussed and passed by the Board.

The Board held four regular Board meetings (within the meanings of the Code) during the year ended 31 December 2008 at approximately quarterly intervals. Due notices and Board papers were given to all Directors prior to each meeting in accordance with the Articles of Association and the Code. Details of individual attendance of each of the Directors are set out below:

	Attendance/ Number of Meeting
Executive Directors	
Mr. Chan Wing Kin, Alfred *(Chairman)*	4/4
Mr. Wong Wai Yee, Peter *(Chief Executive Officer)*	4/4
Mr. Kwan Yuk Choi, James	4/4
Mr. Ho Hon Ming, John *(Company Secretary)*	4/4
Mr. Ou Yaping	3/4
Mr. Chen Wei	4/4
Mr. Shen Lian Jin	3/4
Mr. Tang Yui Man, Francis *(alternate Director to Mr. Ou Yaping)*	1/4
Independent Non-executive Directors	
Dr. Chow Yei Ching	4/4
Mr. Cheng Mo Chi, Moses	4/4
Mr. Li Man Bun, Brian David	4/4

Board of Directors *(Continued)*

Chairman and Chief Executive Officer

The Chairman of the Board is Mr. Chan Wing Kin, Alfred and the Chief Executive Officer is Mr. Wong Wai Yee, Peter. Such division of responsibilities allows a balance of power between the Board and the management of the Group, and ensures the independence and accountability of each of the Board and management of the Group. The Chairman oversees the Board so that it acts in the best interests of the Group. With the support of the executive Directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and that they receive adequate and reliable information in a timely manner. The Chairman has overall responsibility for providing leadership, vision and direction regarding business development.

The Chief Executive Officer, who is assisted by other executive Directors, is responsible for the day-to-day business management and operations of the Group for formulating and successfully implementing policies and for maintaining an effective executive support team. The Chief Executive Officer is accountable to the Board for keeping the Chairman and all Directors fully informed of all major business developments and issues.

Responsibilities

In the course of discharging their duties, the Directors act in good faith, with due diligence and care, and in the best interests of the Company and its shareholders. Their responsibilities include:

- attending regular Board meetings focusing on business strategy, operational issues and financial performance;
- active participation on the boards of subsidiaries and associated companies;
- approval of annual budgets for each operating company covering strategy, financial and business performance, key risks and opportunities;
- monitoring the quality, timeliness, relevance and reliability of internal and external reporting;
- monitoring and managing potential conflicts of interest of the Board, senior management and shareholders;
- consideration of misuse of corporate assets and abuse in related party transactions; and
- ensuring processes are in place to maintain the overall integrity of the Company, including financial statements, relationships with suppliers, customers and other stakeholders, and compliance with all laws and ethics.

To enable the Directors to meet their obligations, an appropriate organizational structure is in place with clearly defined responsibilities and limits of authority.

Board Committees

The Company has set up a number of committees of the Board, including the Remuneration Committee and the Audit Committee, with specific terms of reference relating to their authority and duties, which strengthen the Board's functions and enhance its expertise.

Remuneration Committee

The Remuneration Committee comprises one executive Director, Mr. Alfred Chan Wing Kin, and three independent non-executive Directors, Dr. Chow Yei Ching, Mr. Cheng Mo Chi, Moses and Mr. Li Man Bun, Brian David and is chaired by Dr. Chow Yei Ching.

The terms of reference of the Remuneration Committee was revised during the year ended 31 December 2008 in order to afford more flexibility to the operation of the Remuneration Committee in line with the common practices of listed companies in Hong Kong and it fully complied with the Code.

The Remuneration Committee's responsibilities include the review and consideration of the Company's remuneration policy for Directors and senior management, the determination of remuneration packages for executive Directors and senior management including benefits in kind, pension rights and compensation payments, and recommendations relating to remuneration of non-executive Directors.

During the year ended 31 December 2008, the Remuneration Committee:

- reviewed the adjustments made to the outstanding options granted under the 2005 Share Option Scheme;
- reviewed the amendments made to the 2005 Share Option Scheme;
- reviewed the amendments made to Terms of Reference of the Remuneration Committee;
- reviewed the changes in remuneration package of several executive Directors;
- conducted the annual review of an executive Director's remuneration pursuant to his service contract; and
- reviewed the Directors' fees for the year ended 31 December 2008.

Board Committees *(Continued)*

The Remuneration Committee held 3 meetings during the year ended 31 December 2008 with individual attendance as follow:

Members of Remuneration Committee	Attendance/Number of Meeting
Dr. Chow Yei Ching	3/3
Mr. Cheng Mo Chi, Moses	3/3
Mr. Li Man Bun, Brian David	2/3
Mr. Chan Wing Kin, Alfred	3/3

The Group remunerates its employees based on their individual performance, job nature and responsibilities. The Group also provides training and various benefits for its employees including medical welfare, provident funds, bonuses and other incentives. The Group also encourages its employees to pursue a balanced life and provides a good working environment to maximize their potential and also contribution to the Group.

Audit Committee

The Audit Committee comprises Mr. Li Man Bun, Brian David (being the Chairman of the Audit Committee), Dr. Chow Yei Ching and Mr. Cheng Mo Chi, Moses, all of whom are independent non-executive Directors.

The Audit Committee reports directly to the Board and reviews financial statements and internal control, to protect the interests of the Company's shareholders.

The Audit Committee meets regularly with the Company's external auditor to discuss various accounting issues, and reviews the effectiveness of internal controls. Written terms of reference, which describe the authority and duties of the Audit Committee are regularly reviewed and updated by the Board. Amendments were made to the terms of reference of the Audit Committee in order to align with the latest amendments to the Code in January 2009.

During the year ended 31 December 2008, the Audit Committee:

- reviewed the financial statements for the year ended 31 December 2007 and for the six months ended 30 June 2008;
- reviewed the effectiveness of the internal control system;
- reviewed the external auditor's findings; and
- reviewed and approved remuneration of auditor for the year ended 31 December 2008.

Board Committees *(Continued)*

The Audit Committee held two meetings during the year ended 31 December 2008 with individual attendance as follow:

Members of Audit Committee	Attendance/Number of Meeting
Mr. Li Man Bun, Brian David	2/2
Dr. Chow Yei Ching	2/2
Mr. Cheng Mo Chi, Moses	2/2

Nomination of Directors

The selection and appointment of a Director are determined by the full Board directly. The Directors will select those proposed new Directors based on their skills, experience and, in the opinion of the Directors, those who are able to make a positive contribution to the performance of the Board. The Board also reviews its composition to ensure that the Board has a balance of knowledge and experience appropriate for the requirements of the business of the Company.

Model Code for Securities Transactions by Directors

The Company had adopted the Model Code set out in Appendix 10 of the Listing Rules (the "Model Code") as the code of conduct regarding securities transactions by the Directors. All Directors who held office as at 31 December 2008, following specific enquiry made by the Company, confirm that they have complied with the required standard set out in the Model Code throughout the year of 2008.

The Company has further adopted a formal model code for securities transactions by its relevant employees ("Code for Relevant Employees") in February 2008, who may have access to the Company's price-sensitive information during the course of their employment, on terms no less exacting than the required standard set out in the Model Code.

The Model Code and the Code for Relevant Employees were revised in order to align with the latest amendments to the Listing Rules in February 2009.

External Auditor

The external auditor of the Company is Deloitte. Deloitte provided services in respect of the audit of Company's financial statements which were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") for the year ended 31 December 2008. Deloitte also reviewed the 2008 unaudited interim financial information of the Company, which was prepared in accordance with HKFRSs.

The total fees charged by Deloitte in respect of audit services for the year ended 31 December 2008 amounted to HK$6.5 million.

Description of services performed	HK$
(1) Professional services rendered in connection with the Hong Kong Profit Tax Return for the assessment year of 2007/2008	25,000
(2) Interim review of the financial statements of the Company for the six months ended 30 June 2008	525,000
Total	550,000

Directors' Responsibility in Preparing Financial Statements

The Directors acknowledge that their responsibilities for preparing the financial statements and ensuring that the preparation of the accounts is in accordance with statutory requirements and applicable accounting standards. The statement of the Auditor of the Company regarding their reporting responsibilities for the financial statements is set out in the Auditor's Report on page 63 of this Annual Report.

Going Concern

The Directors, having made appropriate enquiries, consider that the Company has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

Effectiveness of Internal Control System

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. The Group Internal Audit Department and senior management conduct reviews of the effectiveness of the internal control system of the Company and its subsidiaries. The Audit Committee reviews the findings and recommendations of the Internal Audit Department and the senior management in their meetings held twice a year and reports to the Board on such review.

In respect of the year ended 31 December 2008, the Board, through the Audit Committee, reviewed the overall effectiveness of the Group's internal control system, including the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function, and their training programmes and budget. The Board concluded that in general, the Group has set up a sound control environment and has installed necessary control mechanisms to monitor and correct any non-compliances.

Shareholders Communication

The Directors are aware of the importance of maintaining good relations and communications with shareholders.

The Company uses a range of communication tools, such as the AGM, the annual report, various notices, announcements and circulars, to ensure its shareholders are kept well informed of key business imperatives.

The Company has maintained a website at "**www.towngaschina.com**" which is easily accessible and is also a user-friendly forum for corporate communications with its shareholders and the general public. All corporate communications required under the Listing Rules are displayed and can be archived (for documents published in the previous 5 years) on the Company's website and there are established procedures to ensure timely update in compliance with the Listing Rules.

At the 2008 Annual General Meeting held on 16 May 2008, separate resolutions were proposed by the Chairman in respect of each issue itemized on the agenda, including the re-election of the Directors. The Chairman of the Board, chairman of the Audit Committee, chairman of the Remuneration Committee and members of senior management attended the 2008 Annual General Meeting to answer the shareholders' questions.

For the forthcoming 2009 Annual General Meeting, notice to shareholders will be sent at least 20 clear business days before the meeting. For all other general meeting, the notice will be sent at least 10 clear business days.

Deloitte.
德勤

TO THE SHAREHOLDERS OF TOWNGAS CHINA COMPANY LIMITED
港華燃氣有限公司
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Towngas China Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 64 to 144, which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2008 and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong, 16 March 2009

Consolidated Income Statement

For the year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Turnover	7	**4,409,198**	3,195,434
Operating profit before returns on investments	8	**228,132**	169,809
Other income	9	**69,625**	92,523
Share of results of associates		**146,160**	105,772
Share of results of jointly controlled entities		**61,730**	51,335
Finance costs	10	**(144,521)**	(178,048)
Profit before taxation	11	**361,126**	241,391
Taxation	13	**(89,939)**	(37,013)
Profit for the year		**271,187**	204,378
Attributable to:			
Equity holders of the Company		**202,282**	144,504
Minority interests		**68,905**	59,874
		271,187	204,378
Proposed final dividend of One HK Cent (2007: Nil) per ordinary share	14	**19,576**	–
		HK cents	HK cents
Earnings per share	15		
– Basic		**10.33**	8.36
– Diluted		**10.32**	8.30

Consolidated Balance Sheet

At 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Non-current assets			
Property, plant and equipment	16	**3,811,432**	3,110,475
Prepaid lease payments	17	**221,004**	171,227
Intangible assets	18	**195,276**	183,892
Goodwill	19	**2,491,871**	2,180,291
Interests in associates	20	**1,083,075**	891,124
Interests in jointly controlled entities	21	**701,689**	532,635
Loans to jointly controlled entities	21	**101,618**	147,569
Available-for-sale investments	22	**169,968**	171,209
Deposit paid for acquisition of a subsidiary		**–**	344,088
		8,775,933	7,732,510
Current assets			
Inventories	23	**192,510**	152,612
Prepaid lease payments	17	**7,016**	5,263
Loans to a jointly controlled entity	21	**84,781**	–
Trade receivables	24	**101,694**	92,589
Other receivables, deposits and prepayments		**350,589**	341,168
Amounts due from minority shareholders	25	**10,140**	4,089
Bank balances and cash	24	**863,882**	786,961
		1,610,612	1,382,682
Current liabilities			
Trade payables	26	**199,286**	150,418
Other payables and accrued charges		**747,643**	455,164
Amounts due to minority shareholders	25	**27,704**	26,234
Taxation		**174,900**	121,319
Borrowings – amount due within one year	27	**222,950**	315,524
		1,372,483	1,068,659
Net current assets		**238,129**	314,023
Total assets less current liabilities		**9,014,062**	8,046,533

Consolidated Balance Sheet

At 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Non-current liabilities			
Loan from a shareholder	*28*	**440,364**	193,750
Borrowings – amount due after one year	*27*	**1,600,397**	1,468,087
Deferred taxation	*29*	**60,467**	49,973
		2,101,228	1,711,810
Net assets		**6,912,834**	6,334,723
Capital and reserves			
Share capital	*30*	**195,756**	195,635
Reserves		**5,982,045**	5,534,568
Equity attributable to equity holders of the Company		**6,177,801**	5,730,203
Minority interests		**735,033**	604,520
Total equity		**6,912,834**	6,334,723

The consolidated financial statements on pages 64 to 144 were approved and authorised for issue by the Board of Directors (the "Board") on 16 March 2009 and are signed on its behalf by:

Chan Wing Kin, Alfred
DIRECTOR

Li Man Bun, Brian David
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

	Attributable to equity holders of the Company										
	Share capital HK$'000	Share premium HK$'000	Exchange reserve HK$'000	Share option reserve HK$'000	Capital reserve HK$'000 *(note 31)*	General reserves HK$'000 *(note 31)*	Convertible bonds reserve HK$'000	Retained earnings HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2007	95,830	765,581	147,108	26,774	1,101	16,832	44,483	438,929	1,536,638	502,367	2,039,005
Exchange differences arising on translation of operations outside Hong Kong recognised directly in equity	–	–	292,682	–	–	–	–	–	292,682	41,948	334,630
Profit for the year	–	–	–	–	–	–	–	144,504	144,504	59,874	204,378
Total recognised income and expense for the year	–	–	292,682	–	–	–	–	144,504	437,186	101,822	539,008
Issue of shares	99,805	3,703,867	–	(3,954)	–	–	(19,436)	–	3,780,282	–	3,780,282
Expenses incurred in connection with the issue of new shares	–	(38,811)	–	–	–	–	–	–	(38,811)	–	(38,811)
Recognition of equity-settled share based payments	–	–	–	14,908	–	–	–	–	14,908	–	14,908
Lapse of options to retained earnings	–	–	–	(710)	–	–	–	710	–	–	–
Transfer	–	–	–	–	–	23,595	–	(23,595)	–	–	–
Addition on acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	21,779	21,779
Dividends paid to minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	(19,957)	(19,957)
Reduction in minority interests on acquisition of additional interest in a subsidiary	–	–	–	–	–	–	–	–	–	(1,491)	(1,491)
	99,805	3,665,056	–	10,244	–	23,595	(19,436)	(22,885)	3,756,379	331	3,756,710
At 31 December 2007 and 1 January 2008	195,635	4,430,637	439,790	37,018	1,101	40,427	25,047	560,548	5,730,203	604,520	6,334,723
Exchange differences arising on translation of operations outside Hong Kong recognised directly in equity	–	–	234,166	–	–	–	–	–	234,166	45,480	279,646
Profit for the year	–	–	–	–	–	–	–	202,282	202,282	68,905	271,187
Total recognised income and expense for the year	–	–	234,166	–	–	–	–	202,282	436,448	114,385	550,833
Issue of shares	121	3,332	–	(947)	–	–	–	–	2,506	–	2,506
Recognition of equity-settled share based payments	–	–	–	8,644	–	–	–	–	8,644	–	8,644
Transfer of convertible bonds reserve to retained earnings upon redemption	–	–	–	–	–	–	(25,047)	25,047	–	–	–
Transfer	–	–	–	–	–	10,450	–	(10,450)	–	–	–
Addition on acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	4,544	4,544
Capital contribution from minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	44,505	44,505
Dividends paid to minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	(10,013)	(10,013)
Reduction in minority interests on deemed disposal of a subsidiary	–	–	–	–	–	–	–	–	–	(22,908)	(22,908)
	121	3,332	–	7,697	–	10,450	(25,047)	14,597	11,150	16,128	27,278
At 31 December 2008	195,756	4,433,969	673,956	44,715	1,101	50,877	–	777,427	6,177,801	735,033	6,912,834

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	2008 HK$'000	2007 HK$'000
OPERATING ACTIVITIES		
Profit before taxation	**361,126**	241,391
Adjustments for:		
Interest income	**(11,420)**	(17,872)
Imputed interest on loans to jointly controlled entities	**(5,534)**	(3,981)
Interest expenses	**139,268**	142,632
(Discount) loss on repurchase of guaranteed senior notes	**(3,240)**	33,370
Loss on deemed disposal of an associate	**–**	652
Share of results of associates	**(146,160)**	(105,772)
Share of results of jointly controlled entities	**(61,730)**	(51,335)
Dividends from available-for-sale investments	**(7,375)**	(32,948)
Release of prepaid lease payments	**7,983**	6,571
Amortisation of intangible assets	**9,765**	5,155
Share-based payment expenses	**8,644**	14,908
Depreciation of property, plant and equipment	**159,051**	136,127
Gain on disposal of property, plant and equipment	**(1,387)**	(1,202)
Allowance for doubtful debts	**3,039**	–
Discount on acquisition of additional interest in a subsidiary	**–**	(1,491)
Operating cash flows before movements in working capital	**452,030**	366,205
Increase in inventories	**(39,798)**	(43,218)
(Increase) decrease in trade receivables	**(9,304)**	56,789
(Increase) decrease in other receivables, deposits and prepayments	**(4,568)**	111,153
Increase (decrease) in trade payables	**41,327**	(42,171)
Increase in other payables and accrued charges	**172,778**	50,669
(Decrease) increase in amount due from minority shareholders	**(6,051)**	332
Cash generated from operations	**606,414**	499,759
Interest paid	**(129,862)**	(137,330)
Taxation paid	**(50,760)**	(18,959)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**425,792**	343,470

	Notes	2008 HK$'000	2007 HK$'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(572,167)**	(565,882)
Acquisition of a jointly controlled entity		**(68,027)**	–
Loan to a jointly controlled entity		**(39,000)**	–
Prepaid lease payments		**(37,705)**	(1,902)
Deemed disposal of a subsidiary (net of cash and cash equivalents disposed)	*33*	**(23,311)**	–
Acquisition of an intangible asset		**(9,435)**	–
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	*32*	**(4,251)**	8,278
Dividend received from associates		**14,936**	23,454
Repayment of loan from a jointly controlled entity		**14,739**	–
Interest received		**11,420**	17,872
Dividends from available-for-sale investments		**7,375**	32,948
Proceeds from disposal of property, plant and equipment		**7,861**	71,692
Investments in an associate		**–**	(83,647)
Deposit paid for acquisition of a subsidiary		**–**	(344,088)
NET CASH USED IN INVESTING ACTIVITIES		**(697,565)**	(841,275)
FINANCING ACTIVITIES			
Redemption of convertible bonds		**(208,362)**	–
Repurchase of guaranteed senior notes		**(58,571)**	(424,557)
Repayments of bank and other loans		**(38,549)**	(6,458)
Dividends paid to minority shareholders of subsidiaries		**(10,013)**	(19,957)
Proceeds from open offer of ordinary shares		**–**	704,290
New bank and other loans raised		**348,231**	200,531
New loans from shareholder raised		**246,614**	193,750
Capital contribution from minority shareholders of subsidiaries		**44,505**	–
Issue of shares as a result of the exercise of share options		**2,506**	13,678
Expenses incurred in connection with the issue of new shares		**–**	(38,811)
NET CASH GENERATED FROM FINANCING ACTIVITIES		**326,361**	622,466
NET INCREASE IN CASH AND CASH EQUIVALENTS		**54,588**	124,661
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**786,961**	614,479
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**22,333**	47,821
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTING BANK BALANCES AND CASH		**863,882**	786,961

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

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 its 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.

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 amendments and interpretations ("new Amendments and Interpretations") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of financial assets
HK(IFRIC) – INT 11	HKFRS 2: Group and treasury share transactions
HK(IFRIC) – INT 12	Service concession arrangements
HK(IFRIC) – INT 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction

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

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") *(Continued)*

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

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of financial statements[2]
HKAS 23 (Revised)	Borrowing costs[2]
HKAS 27 (Revised)	Consolidated and separate financial statements[3]
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation[2]
HKAS 39 (Amendment)	Eligible hedged items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate[2]
HKFRS 2 (Amendment)	Vesting conditions and cancellations[2]
HKFRS 3 (Revised)	Business combinations[3]
HKFRS 8	Operating segments[2]
HK(IFRIC) – INT 13	Customer loyalty programmes[4]
HK(IFRIC) – INT 15	Agreements for the construction of real estate[2]
HK(IFRIC) – INT 16	Hedges of a net investment in a foreign operation[5]
HK(IFRIC) – INT 17	Distribution of non-cash assets to owners[3]
HK(IFRIC) – INT 18	Transfer of assets from customers[6]

1 Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009.
2 Effective for annual periods beginning on or after 1 January 2009.
3 Effective for annual periods beginning on or after 1 July 2009.
4 Effective for annual periods beginning on or after 1 July 2008.
5 Effective for annual periods beginning on or after 1 October 2008.
6 Effective for transfer of assets from customers received on or after 1 July 2009.

The adoption of HKFRS 3 (Revised) may affect the accounting treatment for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result on a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other new or revised standards, amendments or interpretations may have impact on the results or 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 certain 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 HKFRSs 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 and up to the effective date of disposal, as appropriate.

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.

Business combinations

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

3. Significant Accounting Policies *(Continued)*

Business combinations *(Continued)*

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

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

Goodwill

Goodwill arising on 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.

3. Significant Accounting Policies *(Continued)*

Goodwill *(Continued)*

Goodwill arising on acquisitions on or after 1 January 2002 (Continued)

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.

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.

3. Significant Accounting Policies *(Continued)*

Investments in associates *(Continued)*

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.

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.

3. Significant Accounting Policies *(Continued)*

Joint ventures *(Continued)*

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.

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.

3. Significant Accounting Policies *(Continued)*

Revenue recognition *(Continued)*

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

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.

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.

3. Significant Accounting Policies *(Continued)*

Exclusive operating rights for city pipeline network and contracted customer base

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

Intangible assets

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

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.

3. Significant Accounting Policies *(Continued)*

Impairment (other than goodwill) *(Continued)*

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.

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 to the net carrying amount on initial recognition.

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

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

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).

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.

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Impairment of financial assets *(Continued)*

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.

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 loss 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.

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

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 to the net carrying value on initial recognition.

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.

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).

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Convertible bonds (Continued)

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.

Derecognition

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire or, the assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and any cumulative gain or loss that had been recognised directly in equity is recognised in consolidated income statement.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in consolidated income statement.

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 option reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained 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 year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax 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.

3. Significant Accounting Policies *(Continued)*

Leasing *(Continued)*

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.

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.

3. Significant Accounting Policies *(Continued)*

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 2008, the carrying amount of goodwill is HK$2,491,871,000 (2007: HK$2,180,291,000). Details of the recoverable amount calculation are disclosed in note 19.

Income taxes

As at 31 December 2008, no deferred tax asset is recognised in the Group's balance sheet in relation to the estimated unused tax losses of HK$60,306,000 (2007: 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 receivables

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 2008, the carrying amount of trade receivables is HK$101,694,000 (2007: 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 the loan from a shareholder and borrowings disclosed in notes 27 and 28, equity attributable to equity holders of the Company, comprising issued share capital and reserves.

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 shareholders loan to equity.

The gearing ratio at the year end was as follows:

	2008 **HK$'000**	2007 HK$'000
Debt (i)	**2,263,711**	1,977,361
Cash and cash equivalents	**(863,882)**	(786,961)
Net debt	**1,399,829**	1,190,400
Equity (ii)	**6,177,801**	5,730,203
Net debt to equity ratio	**22.7%**	20.8%
Net debt excluding the loan from a shareholder to equity ratio	**15.5%**	17.4%

(i) Debt is defined as long- and short-term borrowings, as detailed in notes 27 and 28.

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

6. Financial Instruments

Category of financial instruments

	2008	2007
	HK$'000	HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalent)	**1,162,115**	1,147,811
Available-for-sale investments	**169,968**	171,209
Financial liabilities		
Amortised cost	**2,581,553**	2,173,687

Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale 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.

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 24, 27 and 28.

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.

6. Financial Instruments *(Continued)*

Financial risk management objectives and policies *(Continued)*

Currency risk *(Continued)*

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 but opposite impact on the profit/loss for the year, and the balances below would be negative.

	2008	2007
	HK$'000	HK$'000
Profit for the year	**25,154**	22,406

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 2008 would decrease/increase by HK$3,031,000 (2007: HK$2,217,000). 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 2008, the Group's maximum exposure to credit risk, which will cause a financial loss to the Group due to failure to discharge an obligation by the 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.

6. Financial Instruments *(Continued)*

Financial risk management objectives and policies *(Continued)*

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 loan from a shareholder, bank and other borrowings as a significant source of liquidity. As at 31 December 2008, the Group had available unutilised short-term bank loan facilities of HK$150,000,000 (2007: HK$100,000,000) and unutilised loan facility from a shareholder of HK$53,386,000 (2007: Nil).

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 31.12.2008 HK$'000
2008								
Trade payables	–	30,087	91,368	34,286	39,068	4,477	199,286	199,286
Other payables	–	90,852	–	–	–	–	90,852	90,852
Amount due to minority shareholders	–	27,704	–	–	–	–	27,704	27,704
Loan from a shareholder	4.4%	–	–	19,376	504,614	–	523,990	440,364
Bank loans	6.69%	148,810	6,236	–	480,226	–	635,272	560,714
Other loans	2.28%	15,612	–	–	31,341	121,184	168,137	156,750
Guaranteed senior notes	8.69%	–	45,076	45,076	1,273,054	–	1,363,206	1,105,883
		313,065	142,680	98,738	2,328,303	125,661	3,008,447	2,581,553

6. Financial Instruments *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

	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

Fair value

The fair value of 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 to 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 2008			
REVENUE			
External	3,961,092	448,106	4,409,198
Segment results	142,071	177,409	319,480
Other income			69,625
Unallocated corporate expenses			(91,348)
Finance costs			(144,521)
Share of results of associates			146,160
Share of results of jointly controlled entities			61,730
Profit before taxation			361,126
Taxation			(89,939)
Profit for the year			271,187

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 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

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

	2008	2007
	HK$'000	HK$'000
Revenue	**4,409,198**	3,195,434
Less expenses:		
Stores and materials used	**3,359,495**	2,473,824
Staff costs	**325,343**	232,322
Depreciation, amortisation and release of prepaid lease payments	**176,799**	147,853
Other expenses	**319,429**	171,626
	228,132	169,809

9. Other Income

Other income mainly comprised of:

	2008	2007
	HK$'000	HK$'000
Dividend income from available-for-sale investments	**7,375**	32,948
Interest income	**11,420**	17,872
Discount on acquisition of additional interest in a subsidiary	**–**	1,491
Gain on disposal of property, plant and equipment	**1,387**	1,202
Discount on repurchase of guaranteed senior notes	**3,240**	–
Imputed interest on loans to jointly controlled entities	**5,534**	3,981

10. Finance Costs

	2008 HK$'000	2007 HK$'000
Interest on:		
– bank and other borrowings wholly repayable within five years	**29,919**	11,126
– bank and other borrowings not wholly repayable within five years	**2,778**	2,040
– convertible bonds	**4,115**	9,827
– guaranteed senior notes	**102,456**	119,639
	139,268	142,632
Loss on repurchase of guaranteed senior notes	**–**	33,370
Bank charges	**5,253**	2,046
	144,521	178,048

11. Profit before Taxation

	2008 HK$'000	2007 HK$'000
Profit before taxation has been arrived at after charging:		
Directors' remuneration *(note 12)*	**13,932**	23,100
Share-based payments for other staff	**534**	4,028
Other staff costs	**292,515**	200,666
Retirement benefit scheme contributions (excluding directors)	**32,294**	27,628
Total staff costs	**339,275**	255,422
Allowance for doubtful debts	**3,039**	–
Amortisation of intangible assets	**9,765**	5,155
Auditor's remuneration	**8,525**	7,951
Cost of goods sold	**3,540,920**	2,608,967
Depreciation of property, plant and equipment	**159,051**	136,127
Loss on deemed disposal of interest in an associate	**–**	652
Operating lease rentals in respect of land and buildings	**21,195**	14,792
Release of prepaid lease payments	**7,983**	6,571
Share of tax of associates (included in share of results of associates)	**23,229**	11,821
Share of tax of jointly controlled entities (included in share of results of jointly controlled entities)	**13,705**	902

12. Directors' and Employees' Emoluments

The emoluments paid or payable to each of the 11 (2007: 16) directors were as follows:

	Year ended 31 December 2008										
	Chen Wei HK$'000 (Note b)	**Chan Wing Kin, Alfred HK$'000**	**Cheng Mo Chi HK$'000**	**Chow Yei Ching HK$'000**	**Kwan Yuk Choi, James HK$'000**	**Ho Hon Ming, John HK$'000**	**Li Man Bun Brian David HK$'000**	**Ou Yaping HK$'000 (Note b)**	**Shen Lian Jin HK$'000 (Note b)**	**Wong Wai Yee, Peter HK$'000**	**Total HK$'000**
Fees	**–**	**200**	**400**	**400**	**200**	**200**	**400**	**–**	**–**	**200**	**2,000**
Other emoluments											
Salaries and other benefits	**997**	**–**	**–**	**–**	**–**	**422**	**–**	**200**	**1,123**	**422**	**3,164**
Retirement benefit scheme contributions	**51**	**–**	**–**	**–**	**–**	**42**	**–**	**10**	**–**	**42**	**145**
Performance and discretionary bonus *(Note a)*	**–**	**–**	**–**	**–**	**–**	**578**	**–**	**–**	**–**	**778**	**1,356**
Share-based payments	**–**	**1,924**	**–**	**–**	**1,603**	**1,603**	**–**	**–**	**534**	**1,603**	**7,267**
Total emoluments	**1,048**	**2,124**	**400**	**400**	**1,803**	**2,845**	**400**	**210**	**1,657**	**3,045**	**13,932**

	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	2,089	–	–	–	–	–	–	10	–	–	600	1,062	50	–	55	–	3,866
Retirement benefit scheme contributions	61	–	–	–	–	–	–	1	–	–	12	20	1	–	2	–	97
Performance and discretionary bonus *(Note a)*	4,430	–	–	–	–	–	–	50	–	–	150	42	1,000	–	85	–	5,757
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

Notes:

(a) The performance and discretionary bonus are determined by the Board from time to time with reference his duties and responsibilities and the Company's performance and profitability.

(b) The emoluments of the directors are covered by their service contracts entered into with the Company.

(c) No service contracts were entered by the directors other than those mentioned in note b above.

12. Directors' and Employees' Emoluments *(Continued)*

Employees' emoluments:

For the year ended 31 December 2008, the five highest paid individuals of the Group included five (2007: five) directors of the Company, details of their emoluments are included above.

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 2008.

13. Taxation

	2008	2007
	HK$'000	HK$'000
The charge comprises:		
PRC Enterprise Income Tax		
– current year	**82,448**	52,502
Deferred taxation *(note 29)*		
– taxation charge (credit) for the year	**7,491**	(1,089)
– attributable to a change in tax rate	**–**	(14,400)
	89,939	37,013

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 25% (2007: 15% to 33%).

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. Under the New Law and Implementation Regulation, PRC Enterprise Income Tax was changed to 25% from 1 January 2008 onwards. 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)*

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 7.5% to 12.5%. 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.

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

	2008	2007
	HK$'000	HK$'000
Profit before taxation	**361,126**	241,391
Tax at the applicable rate of 25% (2007: 33%) *(Note)*	**90,282**	79,659
Tax effect of expenses that are not deductible for tax purposes	**87,482**	73,930
Tax effect of income that are not taxable for tax purposes	**(2,023)**	(9,858)
Tax effect of income that is exempted from PRC Enterprise Income Tax in determining taxable profit	**(17,262)**	(15,364)
Effect of different tax rates of subsidiaries entitled to a 50% reduction in PRC Enterprise Income Tax rates	**(9,793)**	(6,823)
Effect of different tax rates of subsidiaries operating in different provinces	**(11,953)**	(16,185)
Tax effect of share of results of associates	**(36,540)**	(34,905)
Tax effect of share of results of jointly controlled entities	**(15,433)**	(16,941)
Tax effect of utilisation of tax losses not previously recognised	**(8,815)**	(5,926)
Tax effect of tax losses not recognised	**4,059**	3,826
Withholding tax	**9,935**	–
Decrease in opening deferred tax liability resulting from a decrease in applicable tax rate	**–**	(14,400)
Tax charge for the year	**89,939**	37,013

Note: The tax rate of 25% represents PRC Enterprise Income Tax which is applicable to most of the Group's operations in the PRC for the year 2008 (2007: 33%).

13. Taxation *(Continued)*

At the balance sheet date, the Group has unused tax losses of HK$60,306,000 (2007: HK$98,400,000) 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. Dividends

	2008	2007
	HK$'000	HK$'000
Final dividend proposed:		
– One HK Cent (2007: Nil) per ordinary share on issued share capital as at the balance sheet date	**19,576**	–

The final dividend of HK1 cent (2007: Nil) per share has been proposed by the Board and is subject to approval by the shareholders in the forthcoming annual general meeting.

15. Earnings per share

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

	2008	2007
	HK$'000	HK$'000
Earnings for the purposes of basic and diluted earnings per share, being profit for the year attributable to equity holders of the Company	**202,282**	144,504

	Number of shares	
	'000	'000
Weighted average number of shares for the purposes of basic earnings per share	**1,957,494**	1,728,201
Effects of dilutive potential ordinary shares:		
Share options	**3,254**	11,802
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,960,748**	1,740,003

The computation of diluted earnings per share does not assume the conversion of the Company's outstanding convertible bonds at 31 December 2007 since their exercise would result in an increase in earnings per share.

16. Property, Plant and Equipment

	Buildings HK$'000	Leasehold improve-ments HK$'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 2007	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
Additions from 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
Currency realignment	30,812	20	3,030	170,917	5,119	30,033	4,273	244,204
Additions	29,981	3,223	12,335	115,867	23,453	162,157	225,151	572,167
Additions from acquisition of subsidiaries	22,275	–	2,430	55,504	2,617	9,415	3,428	95,669
Deemed disposal of a subsidiary	–	–	(1,325)	–	–	(14,720)	–	(16,045)
Disposals	(4,074)	–	(2,033)	–	(8,737)	(4,403)	–	(19,247)
Transfer	272	–	–	91,349	–	174	(91,795)	–
At 31 December 2008	410,296	3,562	63,320	3,064,777	106,075	539,723	207,404	4,395,157
DEPRECIATION								
At 1 January 2007	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
Currency realignment	1,987	5	746	16,031	1,437	10,069	–	30,275
Provided for the year	15,342	363	4,209	96,856	9,917	32,364	–	159,051
Deemed disposal of a subsidiary	–	–	(344)	–	–	(418)	–	(762)
Eliminated on disposals	(4,074)	–	(998)	–	(5,985)	(1,716)	–	(12,773)
At 31 December 2008	48,293	416	20,236	346,814	34,762	133,204	–	583,725
CARRYING VALUES								
At 31 December 2008	362,003	3,146	43,084	2,717,963	71,313	406,519	207,404	3,811,432
At 31 December 2007	295,992	271	32,260	2,397,213	54,230	264,162	66,347	3,110,475

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$10,645,000 (2007: HK$14,822,000) to secure banking facilities granted to the Group.

17. Prepaid Lease Payments

	2008 HK$'000	2007 HK$'000
Balance at the beginning of the year	**176,490**	155,377
Currency realignment	**10,339**	12,261
Additions	**37,705**	1,902
Acquired on acquisition of subsidiaries	**11,469**	13,521
Charge for the year	**(7,983)**	(6,571)
Balance at the end of the year	**228,020**	176,490
Analysis for reporting purpose:		
Non-current portion	**221,004**	171,227
Current portion	**7,016**	5,263
	228,020	176,490

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

18. Intangible Assets

	HK$'000
COST	
At 1 January 2007	142,090
Currency realignment	11,737
Acquired on acquisition of subsidiaries	41,401
At 31 December 2007	195,228
Currency realignment	12,530
Additions	9,435
At 31 December 2008	217,193
AMORTISATION	
At 1 January 2007	5,563
Currency realignment	618
Provided for the year	5,155
At 31 December 2007	11,336
Currency realignment	816
Provided for the year	9,765
At 31 December 2008	21,917
CARRYING VALUES	
At 31 December 2008	195,276
At 31 December 2007	183,892

Note:

The intangible assets mainly represent the Group's exclusive operating rights for city pipeline network. Included in the carrying amount of intangible assets, there was contracted customer base with carrying amount of HK$6,618,000 (2007: Nil).

The intangible assets are amortised on a straight-line method over the following period:

Exclusive operating rights	20 to 30 years
Contracted customer base	3 years

19. Goodwill

	HK$'000
At 1 January 2007	68,641
Currency realignment	650
Acquired on acquisition of subsidiaries	2,111,000
At 31 December 2007	2,180,291
Currency realignment	952
Acquired on acquisition of subsidiaries	312,032
Transfer of goodwill to interest in a jointly controlled entity	(1,404)
At 31 December 2008	2,491,871

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 subsidiaries as follows:

	2008	2007
	HK$'000	HK$'000
Hong Kong & China Gas (Qingdao) Limited ("Qingdao")	**325,260**	325,260
Hong Kong & China Gas (Zibo) Limited ("Zibo")	**349,826**	349,826
Hong Kong & China Gas (Yantai) Limited ("Yantai")	**236,263**	236,263
Hong Kong & China Gas (Weifang) Limited ("Weifang")	**135,945**	135,945
Hong Kong & China Gas (Weihai) Limited ("Weihai")	**270,646**	270,646
Hong Kong & China Gas (Taian) Limited ("Taian")	**239,452**	239,452
Hong Kong & China Gas (Maanshan) Limited ("Maanshan")	**284,218**	284,218
Hong Kong & China Gas (Anqing) Limited ("Anqing")	**269,390**	269,390
Mianyang Hong Kong and China Gas Co., Ltd ("Mianyang")	**289,595**	–
Gongzhuling Towngas Limited	**22,437**	–
Others	**68,839**	69,291
	2,491,871	2,180,291

19. Goodwill *(Continued)*

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 for the next 29 years based on the most recent financial budgets for the next 5 years approved by management. Cash flows beyond 5 year period have been extrapolated using a declining growth rate from 6% to 4% per annum, which is based on industry growth forecasts. The directors of the Company considered no impairment loss is necessary at 31 December 2008.

20. Interest in Associates

	2008	2007
	HK$'000	HK$'000
Cost of investments in associates	**632,702**	632,702
Arising on acquisition of subsidiaries during the period	**2,094**	–
Share of post-acquisition profits, and other reserves net of dividends received	**345,357**	163,024
Goodwill on acquisition of associates	**102,922**	95,398
	1,083,075	891,124

20. Interest in Associates *(Continued)*

Details of the Group's principal associates as at 31 December 2008 are as follows:

Name of company	**Place of establishment and operation**	**Percentage of equity interest attributable to the Group and voting power attributable to the Group**		**Principal activities**
		2008	2007	
Foshan Gas Group Co., Ltd. 佛山市燃氣集團有限公司	PRC – Sino-foreign equity joint venture	**43%**	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%**	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%**	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%**	27%	Provision of natural gas and related services and gas pipeline construction

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

20. Interest in Associates *(Continued)*

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

	2008	2007
	HK$'000	HK$'000
Total assets	**4,770,577**	3,466,483
Total liabilities	**(2,615,656)**	(1,686,535)
Net assets	**2,154,921**	1,779,948
Revenue	**4,291,890**	2,649,062
Profit for the year	**372,088**	249,427

21. Interests in Jointly Controlled Entities/Loans to Jointly Controlled Entities

	2008	2007
	HK$'000	HK$'000
Cost of investments in jointly controlled entities	**552,765**	457,649
Share of post-acquisition profits, net of dividends received	**113,065**	51,335
Currency realignment	**35,859**	23,651
Share of net assets	**701,689**	532,635
Loans to jointly controlled entities		
– Current portion	**84,781**	–
– Non-current portion	**101,618**	147,569
	186,399	147,569

21. Interests in Jointly Controlled Entities/Loans to Jointly Controlled Entities *(Continued)*

At 31 December 2008, the Group had interests in the following significant jointly controlled entities registered in PRC:

Name of company	Place of establishment and operation	Proportion of nominal value of registered capital held by the Group 2008	2007	Principal activities
Zibo Hong Kong and China Gas Company Limited 淄博港華燃氣有限公司	PRC – Sino-foreign equity joint venture	**50%**	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	PRC – Sino-foreign equity joint venture	**50%**	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	PRC – Sino-foreign equity joint venture	**50%**	50%	Provision of natural gas and related services and gas pipeline construction
Taian Tai Shan Hong Kong and China Gas Company Limited 泰安泰山港華燃氣有限公司	PRC – Sino-foreign equity joint venture	**50%**	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	PRC – Sino-foreign equity joint venture	**50%**	50%	Provision of natural gas and related services and gas pipeline construction

21. Interests in Jointly Controlled Entities/Loans to Jointly Controlled Entities *(Continued)*

Name of company	Place of establishment and operation	Proportion of nominal value of registered capital held by the Group		Principal activities
		2008	2007	
Anqing Hong Kong and China Gas Company Limited 安慶港華燃氣有限公司	PRC – Sino-foreign equity joint venture	**50%**	50%	Provision for coal gas and petroleum gas and related service 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	**50%**	–	Wholesaling and retailing of LPG
Chongqing Hong Kong and China Gas Company Limited ("Chongqing HKCG") 重慶港華燃氣有限公司	PRC – Limited liability company	**50%**	–	Provision of natural gas and related services and gas pipeline construction

At 31 December 2008, 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:

	2008 **HK$'000**	2007 HK$'000
Current assets	**213,273**	150,340
Non-current assets	**1,013,463**	853,109
Current liabilities	**230,272**	196,425
Non-current liabilities	**352,958**	274,389
Income	**592,121**	381,677
Expenses	**530,391**	330,342

21. Interests in Jointly Controlled Entities/Loans to Jointly Controlled Entities *(Continued)*

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

Principal amount			Coupon	Effective	Carrying amount	
2008	2007	**Maturity date**	**Interest rate**	**interest rate**	**2008**	2007
					HK$'000	HK$'000
RMB37,650,000	RMB37,650,000	December 2014	Nil	6.12%	**29,668**	26,345
RMB35,000,000	RMB35,000,000	July 2014	Nil	6.12%	**28,227**	25,065
RMB42,530,000	RMB42,530,000	July 2013	Nil	6.12%	**36,051**	32,012
RMB40,000,000	RMB53,000,000	April 2009	4.86%	4.86%	**45,781**	57,336
RMB10,550,000	RMB10,550,000	February 2016	Nil	6.12%	**7,672**	6,811
USD5,000,000	USD5,000,000	March 2009	Half year lending interest rate published by People's Bank of China + 10 basis points	3.3%	**39,000**	–
					186,399	147,569

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

At the balance sheet date, there is goodwill of carrying amount HK$58,183,000 arising from acquisition of Chongqing HKCG during the year (2007: Nil).

22. Available-for-sale Investments

	2008	2007
	HK$'000	HK$'000
Unlisted shares in the PRC, at cost	**169,968**	171,209

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.

23. Inventories

	2008	2007
	HK$'000	HK$'000
Finished goods	**82,379**	45,759
Consumables	**110,131**	106,853
	192,510	152,612

24. 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:

	2008	2007
	HK$'000	HK$'000
0 to 90 days	**90,550**	72,719
91 to 180 days	**2,742**	17,073
181 to 360 days	**8,402**	2,797
	101,694	92,589

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$2,249,000 (2007: HK$6,261,000) which have been 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.

24. Trade Receivables/Other Financial Assets *(Continued)*

Movement in the allowance for doubtful debts

	2008 HK$'000	2007 HK$'000
Balance at beginning of the year	–	–
Impairment losses recognised on receivables	3,039	–
Amounts written off as uncollectible	–	–
Balance at end of the year	3,039	–

Aging of trade receivables which are past due but not impaired

	2008 HK$'000	2007 HK$'000
61 – 90 days	1,802	278
91 – 180 days	290	3,186
181 – 360 days	157	2,797
Total	2,249	6,261

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.

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.

	2008 HK$'000	2007 HK$'000
United States Dollar	91,458	233,939

25. 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 (2007: 90 days). The amounts due to minority shareholders are unsecured and interest-free.

26. Trade Payables

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

	2008 HK$'000	2007 HK$'000
0 to 90 days	**147,761**	104,235
91 to 180 days	**14,431**	9,743
181 to 360 days	**7,689**	10,661
Over 360 days	**29,405**	25,779
	199,286	150,418

27. Borrowings

	2008	2007
	HK$'000	HK$'000
Bank loans – secured	**567**	28,665
Bank loans – unsecured	**560,147**	250,451
Other loans – unsecured	**156,750**	137,846
Convertible bonds *(note a)*	**–**	206,173
Guaranteed senior notes *(note b)*	**1,105,883**	1,160,476
	1,823,347	1,783,611
Carrying amount repayable:		
On demand or within one year	**222,950**	315,524
More than one year but not exceeding two years	**12,516**	76,789
More than two years but not exceeding five years	**1,544,709**	1,363,681
More than five years	**43,172**	27,617
	1,823,347	1,783,611
Less: Amount due within one year shown under current liabilities	**(222,950)**	(315,524)
Amount due after one year	**1,600,397**	1,468,087

27. Borrowings *(Continued)*

Notes:

(a) The Company issued the 2% convertible bonds of US$50,000,000 on 23 April 2003. The bonds were convertible into shares of the Company on or after 7 June 2003 and up to 9 April 2008. The convertible bonds were 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 or consolidation of shares, bonus issues, rights issues and other dilutive events. The outstanding unconverted principal of the bonds as at 31 December 2007 amounting to US$24,707,000 has been redeemed on maturity date 23 April 2008 at 108.119%. Interest of 2% was payable per annum. The effective interest rate of the convertible bonds was 6.48%.

(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%. The outstanding principal amount of the Guaranteed Senior Notes will be repaid in 2011 at 100%.

During the year, the Company purchased the Guaranteed Senior Notes with a principal amount of US$8,000,000 (2007: US$51,000,000) at prices ranging from US$94 to US$95.25 (2007: US$105.50 to US$108.25) in the open market. At 31 December 2008, guaranteed senior notes with a principal amount of US$141,000,000 (2007: US$149,000,000) are still outstanding in the market. At 31 December 2008, the market value of the Guaranteed Senior Notes amounted to US$135,360,000 (equivalent to approximately of HK$1,049,040,000) (2007: US$160,208,000).

27. Borrowings *(Continued)*

Notes: (Continued)

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

	Maturity date	Effective interest rate	Carrying amount 2008 HK$'000	2007 HK$'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**	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 settlement within 6 months from date of drawdown	5.427% to 5.832%	**52,721**	49,679
Unsecured HKD bank loan of HKD200,000,000 at Hong Kong Interbank Offered Rate + 1.05%	30 October 2011	3.45%	**200,000**	–
Unsecured HKD bank loan of HKD100,000,000 at Hong Kong Interbank Offered Rate + 0.4%	20 April 2009	5.98%	**100,000**	–
Fixed rate other loans:				
Unsecured RMB other loans of RMB76,323,000 (2007: RMB103,820,000)	Partial repayment matured and instalment repayment for two years	2.55% to 2.8%	**78,209**	104,596
Other secured bank loans and other loans		2.55% to 8.31%	**85,762**	61,915
Total bank loans and other loans			**717,464**	416,962

28. 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 the date of the relevant draw down of the loan.

		Effective	**Carrying amount**	
Principal outstanding	**Maturity**	**interest rate**	**2008**	2007
			HK$'000	HK$'000
HK$246,614,000	April – December 2013 (according to date of draw down)	4.25%	**246,614**	–
US$25,000,000	December 2012	4.25%	**193,750**	193,750
			440,364	193,750

29. Deferred Taxation

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

	Intangible asset	**Undistributed profits of jointly controlled entities/ an associate**	**Total**
	HK$'000	HK$'000	HK$'000
At 1 January 2007	43,140	–	43,140
Acquired on acquisition of subsidiaries during the year	19,368	–	19,368
Currency realignment	2,954	–	2,954
Credit for the year	(1,089)	–	(1,089)
Effect of change in tax rate	(14,400)	–	(14,400)
At 31 December 2007	49,973	–	49,973
Currency realignment	2,879	124	3,003
(Credit) charge for the year	(2,444)	9,935	7,491
At 31 December 2008	50,408	10,059	60,467

30. 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	1,957,556,330	195,756

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

	Number of shares	HK$'000
At 1 January 2007	2,000,000,000	200,000
Increase in authorised share capital *(note a)*	1,000,000,000	100,000
At 31 December 2007 and 31 December 2008	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 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 1 January 2008	1,956,350,330	195,635
Issue of shares on exercise of share options *(note b)*	1,206,000	121
At 31 December 2008	1,957,556,330	195,756

30. Share Capital *(Continued)*

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.

(b) 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.

During the year ended 31 December 2008, the Company allotted and issued 643,200 and 562,800 shares of HK$0.10 each for cash at the exercise price of HK$3.483 and HK$0.473 per share respectively as a result of the exercise of share options.

(c) During the year ended 31 December 2007, 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 32.

(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.

31. 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.

32. Acquisition of Subsidiaries/Business

Acquisition of subsidiaries in 2008

In January 2008, the Group completed the acquisition of 100% equity interest in Mianyang, which is engaged in the operation of piped gas assets and related business in PRC at an aggregate consideration of HK$381,481,000. This transaction has been accounted for by the acquisition method of accounting.

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

	Acquirees' carrying amount and fair value at acquisition date HK$'000
Net assets acquired:	
Property, plant and equipment	69,894
Prepaid lease payments	7,508
Interest in an associate	2,094
Inventories	2,751
Trade receivables	1,701
Other receivables, deposits and prepayments	1,198
Bank balances and cash	27,187
Trade payables	(4,368)
Other payables and accrued charges	(7,618)
Taxation payable	(3,917)
Net assets acquired	96,430
Minority interests	(4,544)
Goodwill arising on acquisition	289,595
Total consideration	381,481
Satisfied by:	
Other payables	37,393
Deposit paid for acquisition of a subsidiary	344,088
	381,481
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	
Bank balances and cash acquired	27,187

The goodwill on acquisition of the above subsidiary 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 subsidiary.

The subsidiary acquired during the period contributed HK$332,680,000 to the Group's turnover and a profit of HK$55,427,000 to the Group's profit before taxation for the period between the date of acquisition and the balance sheet date.

32. Acquisition of Subsidiaries/Business *(Continued)*

Acquisition of business in 2008

During the year ended 31 December 2008, the Group paid a consideration of HK$60,296,000 to a vendor to acquire a gas pipeline business, including related assets located in Gongzhuling of Jilin Province of the PRC. The acquisition on 8 January 2008 enable the Group to operate the existing natural gas business which the vendor previously engaged. This transaction has been accounted for using the purchase method of accounting.

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

	Acquirees' carrying amount and provisional fair value at acquisition date
	HK$'000
Net assets acquired:	
Property, plant and equipment	25,775
Prepaid lease payments	3,961
Interest in jointly controlled entities	2,777
Inventories	734
Trade receivables	3,754
Other receivables, deposits and prepayments	376
Bank balances and cash	482
Net assets acquired	37,859
Goodwill arising on acquisition	22,437
Total consideration	60,296
Satisfied by:	
Cash consideration	31,920
Other payables	28,376
	60,296
Net cash outflow arising on acquisition:	
Cash consideration	31,920
Bank balances and cash acquired	(482)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	31,438

32. Acquisition of Subsidiaries/Business *(Continued)*

Acquisition of business in 2008 *(Continued)*

The goodwill on acquisition of the above business 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 business.

Acquisition in 2007

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.

32. Acquisition of Subsidiaries/Business *(Continued)*

Acquisition in 2007 *(Continued)*

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

	Acquirees' carrying amount before combination HK$'000	**Fair value adjustments** HK$'000	**Fair value** 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.

32. Acquisition of Subsidiaries/Business *(Continued)*

Acquisition in 2007 *(Continued)*

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.

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.

33. Deemed Disposal of a Subsidiary

Hangzhou Panva was a subsidiary of the Company as at 31 December 2007 as the Group had 50% equity interest and controlled the majority of the board of directors of Hangzhou Panva. Pursuant to a shareholder's resolution on 28 September 2008 of Hangzhou Panva, the Group agreed with the other shareholder of Hangzhou Panva that the Group no longer control majority of the board of directors of Hangzhou Panva and accordingly the Group lost control over Hangzhou Panva. As a result, on 28 September 2008, Hangzhou become a jointly controlled entity of the Group. The net assets of Hangzhou at the date of disposal were as follows:

	Net assets value at the date of disposal HK$'000
NET ASSETS DISPOSED OF	
Property, plant and equipment	**15,283**
Inventories	**12,942**
Trade receivables	**8,616**
Other receivables	**7,376**
Bank balances and cash	**23,311**
Trade payables	**(6,303)**
Other payables	**(15,717)**
Taxation	**308**
Minority interests	**(22,908)**
	22,908
Attributable goodwill	**1,404**
Transferred to interests in jointly controlled entities	**24,312**
Bank balances and cash disposed of	**23,311**

34. Related Party Transactions

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

Name of related party	Nature of transactions	2008 HK$'000	2007 HK$'000
Hong Kong & China Gas Company Limited *(note a)*	Loan facility (See note 28)	**440,364**	193,750
GH-Fusion Corporation Limited *(note b)*	Purchase of construction materials	**877**	–
	Sales of parts and components of gas pipelines	**1,776**	–
Hong Kong and China Technology (Wuhan) Company Limited *(note b)*	Purchase of computerised customer relations management system	**1,375**	–
ECO Environmental Investments Limited *(note b)*	Office licence income	**143**	–
Yingkou Hong Kong and China Gas Company Limited *(note b)*	Vehicle leasing expense	**341**	–
Sinolink Worldwide Holdings Limited ("Sinolink") *(note c)*	Licence fee expense	**–**	163
Shenzhen Sinolink Enterprises Co., Limited *(note c)*	Rental expense	**–**	306

Notes:

(a) A substantial shareholder of the Company.

(b) A substantial shareholder of the Company, has a beneficial interest in these companies.

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

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

35. 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:

	2008 HK$'000	2007 HK$'000
Within one year	**14,409**	10,528
In the second to fifth year inclusive	**26,078**	28,968
Over five years	**13,566**	23,168
	54,053	62,664

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

36. Commitments

	2008 HK$'000	2007 HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	**40,252**	8,529
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	**68,027**	37,393

37. 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 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.

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 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.

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.

37. 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 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
For the year ended 31 December 2008							
Pre-GEM Listing options	**4,180,800**	**–**	**–**	**(562,800)**	**–**	**3,618,000**	**3,618,000**
The Scheme							
2004 options *(note a)*	**15,909,150**	**–**	**–**	**(643,200)**	**–**	**15,265,950**	**15,265,950**
New Scheme							
2006 options *(note b)*	**4,160,000**	**–**	**20,800**	**–**	**–**	**4,180,800**	**4,180,800**
2007 options *(note b)*	**14,600,000**	**–**	**73,000**	**–**	**–**	**14,673,000**	**4,401,900**
	38,849,950	**–**	**93,800**	**(1,206,000)**	**–**	**37,737,750**	**27,466,650**
Weighted average exercise price	**3.217**	**–**	**3.604**	**2.078**	**–**	**3.255**	**3.035**

The weighted average price of the Company's shares at the date of exercise of 643,200 options on 10 January 2008 and 562,800 options on 29 January 2008 were HK$4.040 and HK$3.789 respectively.

37. Share Options *(Continued)*

Had all the outstanding vested share options been fully exercised on 31 December 2008, the Company would have received cash proceeds of HK$83,347,000 (2007: HK$61,604,000). 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%	31.12.2005 – 30.03.2011	3.483	*(note c)*
		30%	31.12.2006 – 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	2.796	
		30%	04.04.2008 – 27.11.2015	2.796	
		40%	04.10.2008 – 27.11.2015	2.796	
2007 options *(note b)*	16.03.2007	30%	16.03.2008 – 27.11.2015	3.811	
		30%	16.03.2009 – 27.11.2015	3.811	
		40%	16.03.2010 – 27.11.2015	3.811	

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

37. Share Options *(Continued)*

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

	2007
Weighted average share price	HK$3.74
Weighted average exercise price	HK$3.83
Expected volatility	41.21%
Expected life	5.0
Risk free rate	4.177%
Expected dividend yield	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$8,644,000 (2007: HK$14,908,000) for the year ended 31 December 2008 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 ended 31 December 2007.

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.

38. 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 2008 amounted to approximately HK$31,882,000 (2007: HK$27,610,000).

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 2008, the Group made retirement benefit scheme contributions amounting to HK$557,000 (2007: HK$115,000).

39. Post Balance Sheet Event

Pursuant to a conditional sale and purchase agreement dated 3 March 2009 entered into by the Group and two individuals not related to the Group (the "Vendors"), the Group has agreed to purchase from the Vendors their entire equity interests in Sichuan Huachuan Gas Company Limited ("Huachuan Gas"). In consideration of the acquisition, the Group agreed to pay RMB253 million (approximately HK$287 million) to the Vendors.

Huachuan Gas operated in Xindu of Sichuan Province of the PRC and is engaged in the operation of piped gas assets and related business. The acquisition was not completed at the report date, and the relevant information of Huachuan Gas is not available, the financial impact of the acquisition to the Group is not disclosed.

40. Particulars of Principal Subsidiaries

Particulars of the Company's principal subsidiaries as at 31 December 2008 and 2007 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
			2008	2007	
Directly-owned subsidiaries					
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%**	100%	Investment holding
Hong Kong & China Gas (Zibo) Limited	BVI – Limited liability company	US$1	**100%**	100%	Investment holding
Hong Kong & China Gas (Yantai) Limited	BVI – Limited liability company	US$1	**100%**	100%	Investment holding
Hong Kong & China Gas (Weifang) Limited	BVI – Limited liability company	US$1	**100%**	100%	Investment holding
Hong Kong & China Gas (Weihai) Limited	BVI – Limited liability company	US$1	**100%**	100%	Investment holding

40. Particulars of Principal 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 2008	2007	Principal activities
Directly-owned subsidiaries *(Continued)*					
Hong Kong & China Gas (Taian) Limited	BVI – Limited liability company	US$1	**100%**	100%	Investment holding
Hong Kong & China Gas (Maanshan) Limited	BVI – Limited liability company	US$1	**100%**	100%	Investment holding
Hong Kong & China Gas (Anqing) Limited	BVI – Limited liability company	US$1	**100%**	100%	Investment holding
Indirectly-owned subsidiaries					
Benxi Hong Kong and China Gas Company Limited 本溪港華燃氣有限公司 (formerly known as Benxi Panva Gas Co., Ltd. 前稱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 Hong Kong and China Gas Company Limited 蒼溪港華燃氣有限公司 (formerly known as Cangxi Panva Gas Co., Ltd. 前稱蒼溪百江燃氣有限公司)	PRC – Limited liability company	RMB10,000,000 (2007: RMB8,000,000)	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
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 Hong Kong and China Gas Company Limited 朝陽港華燃氣有限公司 (formerly known as Chaoyang Panva Gas Co., Ltd. 前稱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

40. Particulars of Principal 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
			2008	2007	
Indirectly-owned subsidiaries *(Continued)*					
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 Hong Kong and China Gas Company Limited 大邑港華燃氣有限公司 (formerly known as Dayi Panva Gas Co., Ltd. 前稱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 Hong Kong and China Gas Company Limited 阜新港華燃氣有限公司 (formerly known as Fuxin Panva Gas Co., Ltd. 前稱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
Gao Chun Hong Kong and China Gas Co., Ltd. 南京高淳港華燃氣有限公司 (formerly known as Nanjing Panva Pipeline Gas Co., Ltd. 前稱南京百江管道燃氣有限公司)	PRC – Wholly foreign owned enterprise	US$1,010,000	**100%**	100%	Provision of LPG and related services and gas pipeline construction
Gongzhuling Towngas Limited 公主嶺港華燃氣有限公司	PRC – Wholly foreign owned enterprise	RMB53,000,000	**100%**	–	Provision of natural gas and related services and gas pipeline construction

40. Particulars of Principal 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 2008	2007	Principal activities
Indirectly-owned subsidiaries *(Continued)*					
Huangshan Hong Kong and China Gas Co., Ltd. 黃山港華燃氣有限公司	PRC – Wholly foreign owned enterprise	RMB40,000,000	**100%**	–	Provision of natural gas and related services and gas pipeline construction
Jianyang Hong Kong and China Gas Company Limited 簡陽港華燃氣有限公司 (formerly known as Jianyang Panva Gas Co., Ltd 前稱簡陽百江燃氣有限公司)	PRC – Limited liability company	RMB10,000,000 (2007: 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%	Wholesaling and retailing of LPG
Lezhi Hong Kong and China Gas Company Limited 樂至港華燃氣有限公司 (formerly known as Lezhi Panva Gas Co., Ltd. 前稱樂至百江燃氣有限公司)	PRC – Wholly foreign owned enterprise	RMB10,000,000 (2007: 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 – Wholly foreign owned enterprise	RMB 30,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction

40. Particulars of Principal 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
			2008	2007	
Indirectly-owned subsidiaries *(Continued)*					
Mianyang Hong Kong and China Gas Company Limited 綿陽港華燃氣有限公司	PRC – Limited liability company	RMB90,000,000	**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
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 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
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
Panriver Investments Company Limited	Hong Kong – Limited liability company	HK$1	**100%**	–	Investment holding

40. Particulars of Principal 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 2008	2007	Principal activities
Indirectly-owned subsidiaries *(Continued)*					
Chizhou Hong Kong and China Gas Company Ltd. 池州港華燃氣有限公司 (formerly known as Panva (Chizhou) Gas Co., Ltd. 池州百江燃氣有限公司)	PRC – Wholly foreign owned enterprise	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 Hong Kong and China Gas Company Limited 彭山港華燃氣有限公司 (formerly known as Pengshan Panva Gas Co., Ltd. 前稱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 Hong Kong and China Gas Company Limited 蓬溪港華燃氣有限公司 (formerly known as Pengxi Panva Gas Co., Ltd. 前稱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 平昌港華燃氣有限公司	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%**	60%	Provision of natural gas and related services and gas pipeline construction

40. Particulars of Principal 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 2008	2007	Principal activities
Indirectly-owned subsidiaries *(Continued)*					
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%**	90%	Provision of natural gas and related services and gas pipeline construction
Qing Yuan Hong Kong and China Gas Company Limited 清遠港華燃氣有限公司 (formerly known as Qingyuan Panva Gas Co., Ltd. 前稱清遠百江燃氣有限公司)	PRC – Limited liability company	RMB10,000,000	**90%**	90%	Provision of natural gas and related services and gas pipeline construction
Qiqihar Hong Kong and China Gas Company Limited 齊齊哈爾港華燃氣有限公司 (formerly known as 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
Shao Guan Hong Kong and China Gas Co., Ltd. 韶關港華燃氣有限公司 (formerly known as Shaoguan Panva Gas Co., Ltd. 前稱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
Shenyang Hong Kong and China Gas Company Limited 瀋陽港華燃氣有限公司	PRC – Wholly foreign owned enterprise	Issued and fully paid: US$2,000,000 Registered capital US$8,000,000	**100%**	–	Provision of natural gas and related services and gas pipeline construction

40. Particulars of Principal 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 2008	2007	Principal activities
Indirectly-owned subsidiaries *(Continued)*					
Tieling Hong Kong and China Gas Company Limited 鐵嶺港華燃氣有限公司 (formerly known as Tieling Panva Gas Co., Ltd. 前稱鐵嶺百江燃氣有限公司)	PRC – Limited liability company	RMB49,210,000	**80%**	80%	Provision of natural gas and related services and gas pipeline construction
Towngas Investments Limited 港華燃氣投資有限公司	PRC – Limited liability company	US$200,000,000	**100%**	100%	Investment holding
Weiyuan Hong Kong and China Gas Company Limited 威遠港華燃氣有限公司 (formerly known as Weiyuan Panva Gas Co., Ltd. 前稱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
Wuhan Wumei Panva Gas Co., Ltd. 武漢武煤百江燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB80,000,000	**50%**	–	Wholesaling and retailing of LPG
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
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

40. Particulars of Principal 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 2008	2007	Principal activities
Indirectly-owned subsidiaries *(Continued)*					
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 Hong Kong and China Gas Company Limited 岳池港華燃氣有限公司 (formerly known as Yuechi Panva Gas Co., Ltd. 前稱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 Hong Kong and China Gas Company Limited 中江港華燃氣有限公司 (formerly known as Zhongjiang Panva Gas Co., Ltd. 前稱中江百江燃氣有限公司)	PRC – Wholly foreign owned enterprise	RMB8,000,000	**100%**	100%	Provision of natural gas and related services and gas pipeline construction
Ziyang Hong Kong and China Gas Company Limited 資陽港華燃氣有限公司 (formerly known as Ziyang Panva Gas Co., Ltd. 前稱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

40. Particulars of Principal Subsidiaries *(Continued)*

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. Yangzi Panva is a subsidiary of the Company as the Group has the power to appoint or remove the majority of the number of directors of its board of directors.

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

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