THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **ENN Energy Holdings Limited**, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

This circular is for information purposes only and does not constitute an offer or invitation to subscribe for or purchase any securities nor is it calculated to invite any such offer or invitation.

ENN 新奥

新奥能源控股有限公司
ENN Energy Holdings Limited

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2688)

(1) VERY SUBSTANTIAL ACQUISITION RELATING TO THE PRE-CONDITIONAL VOLUNTARY GENERAL OFFER BY CITIGROUP GLOBAL MARKETS ASIA LIMITED ON BEHALF OF ENN ENERGY AND SINOPEC CORP. TO ACQUIRE ALL OF THE OUTSTANDING SHARES IN THE ISSUED SHARE CAPITAL OF CHINA GAS (OTHER THAN THOSE SHARES ALREADY HELD BY ENN ENERGY AND SINOPEC CORP. AND PARTIES ACTING IN CONCERT WITH THEM) AND TO CANCEL ALL THE OUTSTANDING SHARE OPTIONS OF CHINA GAS

AND

(2) NOTICE OF EXTRAORDINARY GENERAL MEETING

Financial Adviser to ENN Energy in respect of the Offers

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All capitalized terms used in this circular have the meanings set out in the section entitled "Definitions" on pages 1 to 7 of this circular.

A letter from the ENN Energy Board is set out on pages 8 to 45 of this circular. A notice convening the EGM to be held at Tai Shan Room, Function Room, Level 5, Island Shangri-La Hong Kong, Two Pacific Place, Supreme Court Road, Hong Kong on Friday, July 6, 2012 at 2:00 p.m. is set out on pages N-1 to N-3 in this circular at which ordinary resolutions will be proposed to approve the Transaction.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you propose to attend the EGM, you are requested to complete the accompanying proxy form and return it to ENN Energy's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting at the EGM or any adjourned meeting if you so desire.

May 31, 2012

FORWARD LOOKING INFORMATION

This circular contains "forward-looking statements" as defined in Section 27A of the U.S. Securities Act of 1933, as amended, and Section 21E of the U.S. Securities Exchange Act of 1934, as amended. Due to any known or unknown risks, uncertainty, or other factors, it is possible that actual results, performance or achievements of ENN Energy Group may substantially differ from the projections as expressly or implicitly indicated as "forward-looking statements". ENN Energy and its affiliates cannot promise that the projections expressly or implicitly indicated as "forward-looking statements" will result in being correct.

Such forward-looking information includes comments regarding the completion and terms of the Transaction and the proposed plans of the ENN Energy Group, the China Gas Group or the Enlarged Group. Factors that could cause actual results to differ materially include (without limitation) the ability to complete the Transaction, the failure to receive regulatory or shareholders' approvals with respect to the Transaction, and a change to the financial, political and regulatory positions in Hong Kong and the PRC and other relevant jurisdictions. In addition, specific reference is made to the section headed "Risks Associated with the Transaction" in the letter from the ENN Energy Board. There can be no assurance that future developments affecting the ENN Energy Group or the China Gas Group or the Enlarged Group will be those anticipated by ENN Energy's management.

The "forward-looking information" in this circular were prepared based on the information held by ENN Energy or were made publicly available by China Gas as of the date of this circular, and unless required by laws or the rules of a financial exchange, under the Takeovers Code or otherwise by the Executive to do so, ENN Energy or its affiliates are not obliged to update or modify such statements in order to reflect any event or condition in the future.

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

"Approvals"	means all clearances, approvals, licenses, consents, authorizations, waivers (including deemed clearance through expiry of any applicable statutory time periods or waiting periods) and permits from any Relevant Authorities, any shareholders or any third party
"associates"	has the meaning ascribed to it in the Takeovers Code
"China Gas"	means China Gas Holdings Limited, a company incorporated in Bermuda with limited liability with its shares listed on the Main Board of the Stock Exchange (stock code: 384)
"China Gas's 2011 Annual Report"	means China Gas's annual report for the financial year ended March 31, 2011
"China Gas Board"	means the board of directors of China Gas
"China Gas Group"	means China Gas and its subsidiaries
"China Gas Optionholders"	means the holders of the Options
"China Gas Shareholders"	means the registered holders at the relevant time of China Gas Shares
"China Gas Share Option Scheme"	means the share option scheme adopted by China Gas on February 6, 2003, as amended from time to time
"China Gas Shares"	means ordinary shares of HK$0.01 each in the issued share capital of China Gas
"Closing Date"	means the date to be stated in the Offer Document as the first closing date of the Offers or any subsequent closing date as may be announced by the Offerors and approved by the Executive
"Company" or "ENN Energy"	means the ENN Energy Holdings Limited, a company incorporated in the Cayman Islands with limited liability with its shares listed on the Main Board of the Stock Exchange (stock code: 2688)

"Completion"	means the completion in full of the Share Offer and Option Offer pursuant to the Takeovers Code and the terms of the Offers
"Completion Date"	means the date of Completion
"Concert Parties"	means parties acting in concert with the Offerors as determined in accordance with the Takeovers Code
"Conditions"	means the conditions of the Offers, as set out under the section headed "The Offers – Conditions to the Offers" in this circular
"Consent(s)"	means any consent, approval, authorisation, qualification, waiver, permit, grant, franchise, concession, agreement, licence, exemption or order of, registration, certificate, declaration or permission from, or filing with, or report or notice to, any Relevant Authority(ies), including those required under or in relation to any concession rights or licences granted by the Relevant Authority(ies) to the China Gas Group to carry out its operations, whether under applicable laws or regulations, any agreement or arrangement with such Relevant Authority(ies), or otherwise
"Consolidated EBIT"	means for any period the gross profit of the ENN Energy Group (after deducting all selling expenses, administrative expenses and other operating expenses) for that period
"Consolidated EBITDA"	means for any period, Consolidated EBIT of the ENN Energy Group for that period but adding back amounts charged in that period in respect of depreciation and amortization (but before taking into account any exceptional or extraordinary items for that period)
"Consortium Agreement"	means the consortium agreement dated December 12, 2011 entered into between ENN Energy and Sinopec Corp. as may be amended from time to time
"Directors"	means the directors of ENN Energy

"EGM"	means an extraordinary general meeting of ENN Energy to be convened for the purpose of considering and, if thought fit, approving the transaction documents and the Transaction
"Enlarged ENN Energy Group"	means the ENN Group immediately after the Completion
"ENN Energy Board"	means the board of directors of ENN Energy
"ENN Energy Group"	means ENN Energy and its subsidiaries and the expression "member of the ENN Group" shall be construed accordingly
"ENN Energy Shareholder(s)"	means registered holders for the time being of the ENN Shares
"ENN Energy Shares"	means ordinary shares of HK$0.1 each in the issued share capital of ENN Energy
"Executive"	means the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
"Facility Agreement"	means the bridge facility agreement dated December 12, 2011, the principal terms of which are set out in the section headed "Facility Agreement" of this circular, as may be amended from time to time
"Financial Adviser"	means Citigroup Global Markets Asia Limited, a licensed corporation to carry on business in type 1 (Dealing in Securities), type 4 (Advising on Securities), type 6 (Advising on Corporate Finance) and type 7 (Providing Automated Trading Services) regulated activities under the SFO, the financial adviser to the Offerors in relation to the Offers
"HK$"	means Hong Kong dollar(s), the lawful currency of Hong Kong
"HKFRS"	means Hong Kong Financial Reporting Standards
"Hong Kong"	means the Hong Kong Special Administrative Region of the PRC

"Last Trading Date"	means December 6, 2011, being the last trading date prior to the suspension of trading in the shares of China Gas and the Company on the Stock Exchange pending the publication of the Offer Announcement
"Latest Practicable Date"	means May 25, 2012, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
"Listing Rules"	means the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Lock-Up Period"	means the period from (and including) the Completion Date to a date which is 18 months after the Completion Date
"Long Stop Date"	means: (i) March 31, 2012; or (ii) if the Required Approvals are still pending by March 31, 2012, the Offerors may agree to an extension of the Long Stop Date for a period of up to three months; or (iii) such other date as the Offerors may agree in writing
"MOFCOM"	means the Ministry of Commerce of the PRC ("中華人民共和國商務部")
"NDRC"	means the National development and Reform Commission of the PRC ("中華人民共和國國家發展和改革委員會")
"Offer Announcement"	means the announcement jointly published by the Offerors dated December 12, 2011 in relation to the Offers and any subsequent revisions of the Offers by way of an announcement (if any)

"Offer Document"	means, upon satisfaction or waiver (where applicable) of the Pre-Conditions, the offer document to be issued by the Offerors to all China Gas Shareholders and China Gas Optionholders in connection with the Offers and in accordance with the Takeovers Code which will contain, inter alia, details of the Offers and the terms and conditions of the Offers
"Offer Shares"	means China Gas Shares in respect of which the Share Offer is made, being China Gas Shares not already owned or agreed to be acquired by the Offerors and their Concert Parties
"Offerors"	means ENN Energy and Sinopec Corp. and "Offeror" shall mean either one of them, as the context requires
"Offers"	means the Share Offer and the Option Offer to be made by the Offerors after the satisfaction (or waiver, if applicable) of the Pre-Conditions
"Option Offer"	means the voluntary conditional cash offer to be made by the Offerors to cancel all the outstanding Options in accordance with the terms and conditions set out in the Offer Announcement and to be set out in the Offer Document
"Options"	means the outstanding share options granted by China Gas pursuant to the China Gas Share Option Scheme
"Permitted Transfer"	has the meaning given to it under the section headed "Consortium Agreement" in this circular
"PRC"	means the People's Republic of China (excluding Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan for the purpose of this circular)
"Pre-Conditions"	means the pre-conditions to the making of the Offers as set out under the section headed "The Offers — Pre-Conditions to the Offers" in Part A of this circular
"public"	has the meaning ascribed to it under Rule 8.24 of the Listing Rules

"Relevant Authority(ies)"	means any government, governmental, quasi-governmental, statutory or regulatory authority, body, agency, tribunal, court or institution
"Required Approvals"	has the meaning ascribed to it under the section headed "The Offers – Pre-Conditions to the Offers" in Part A of this circular
"SAFE"	means the State Administration of Foreign Exchange of the PRC ("中華人民共和國國家外匯管理局") and any of its branch organizations or offices
"SASAC"	means the State-owned Assets Supervision and Administration Commission of the State Council of the PRC ("中華人民共和國國務院國有資產監督管理委員會")
"SFC"	means the Securities and Futures Commission of Hong Kong
"SFO"	means the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended from time to time
"Share Offer"	means the voluntary conditional cash offer by the Offerors to acquire all of the outstanding shares in the issued share capital of China Gas (other than those China Gas Shares already held by the Offerors and their Concert Parties) in accordance with the terms and conditions set out in the Offer Announcement and to be set out in the Offer Document
"Sinopec Corp."	means China Petroleum & Chemical Corporation, a joint stock limited company established in the PRC with its shares listed on the Main Board of the Stock Exchange (stock code: 386) and the Shanghai Stock Exchange (stock code: 600028) and with its American depositary receipts listed on the New York Stock Exchange and the London Stock Exchange (stock code: SNP)
"Stock Exchange"	means The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning ascribed to it in the Listing Rules

"Takeovers Code"	means The Codes on Takeovers and Mergers published by the SFC
"Total Consideration"	means the total cash consideration payable for the Offers and the cancellation of the Options, with a maximum amount of HK$16,657 million, assuming all the China Gas Optionholders exercise their Options and accept the Share Offer
"Transaction"	means the Share Offer, the Option Offer, the implementation of all steps in connection with such Share Offer and Option Offer pursuant to the relevant transaction documents and the transactions contemplated by the Consortium Agreement
"Transfer"	means, in relation to any share, to (a) sell, as sign, transfer or otherwise dispose of it; (b) create or permit to subsist any encumbrance over it; (c) direct (by way of renunciation or otherwise) that another person should receive it, or assign any right to receive it; or (d) agree, whether or not subject to any condition precedent or subsequent, to do any of the foregoing
"Unconditional Date"	means the date on which the Offers become or are declared unconditional in all respects
"%"	means per cent.

新奧能源控股有限公司
ENN Energy Holdings Limited

(incorporated in the Cayman Islands with limited liability)
(Stock Code: 2688)

Executive Directors:
Mr. Wang Yusuo *(Chairman)*
Mr. Cheung Yip Sang *(Chief Executive Officer)*
Mr. Zhao Jinfeng
Mr. Yu Jianchao
Mr. Cheng Chak Ngok
Mr. Zhao Shengli
Mr. Wang Dongzhi

Non-executive Directors:
Ms. Zhao Baoju
Mr. Jin Yongsheng

Independent Non-executive Directors:
Mr. Wang Guangtian
Ms. Yien Yu Yu, Catherine
Mr. Kong Chung Kau

Registered Office:
Ugland House
P O Box 309
South Church Street
George Town
Grand Cayman
Cayman Islands
British West Indies

Principal place of business in Hong Kong:
Rooms 3101–04
Tower One, Lippo Centre
89 Queensway
Hong Kong

Head office in the PRC:
Building A, ENN Industrial Park
Xinyuan Dong Dao Road
Economic and Technological
Development Zone
Langfang City
Hebei Province
The PRC

May 31, 2012

To ENN Energy Shareholders:

Dear Sir or Madam,

(1) VERY SUBSTANTIAL ACQUISITION RELATING TO THE PRE-CONDITIONAL VOLUNTARY GENERAL OFFER BY CITIGROUP GLOBAL MARKETS ASIA LIMITED ON BEHALF OF ENN ENERGY AND SINOPEC CORP. TO ACQUIRE ALL OF THE OUTSTANDING SHARES IN THE ISSUED SHARE CAPITAL OF CHINA GAS (OTHER THAN THOSE SHARES ALREADY HELD BY ENN ENERGY AND SINOPEC CORP. AND PARTIES ACTING IN CONCERT WITH THEM) AND TO CANCEL ALL THE OUTSTANDING SHARE OPTIONS OF CHINA GAS

AND

(2) NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

ENN Energy and Sinopec Corp. jointly announced in the Offer Announcement that:

(a) following an initial approach by the Offerors to China Gas on December 7, 2011, the Offerors have decided that they intend to, subject to the satisfaction or waiver (where applicable) of the Pre-Conditions, make a voluntary conditional cash offer (i) to acquire all of the outstanding shares in the issued share capital of China Gas (other than those China Gas Shares already held by the Offerors and their Concert Parties) and (ii) to cancel all outstanding Options; and

(b) on December 12, 2011, the Offerors have entered into the Consortium Agreement in relation to the conduct of the Offers, corporate governance of the China Gas Group after completion of the Offers, post-completion arrangements and other matters in relation to the Offers.

BENEFITS TO ENN ENERGY SHAREHOLDERS

China Gas was incorporated in Bermuda with limited liability on August 22, 1995. The shares of China Gas are listed on the Main Board of the Stock Exchange (Stock Code: 384). China Gas is a gas services operator and service provider primarily engaged in the investment, construction and operation of city gas pipeline infrastructure facilities, gas terminals, storage and transportation facilities, gas logistics systems, transmission of natural gas and LPG to residential, industrial and commercial users, construction and operation of gasoline and gas refilling stations, and development and application of petroleum, natural gas and LPG related technologies in the PRC.

The ENN Energy Board believes the Transaction will strengthen the Company's overall integrated gas supply and operations businesses and it believes that the Transaction is in the interest of the Company and ENN Energy Shareholders as a whole. The ENN Energy Board hopes that ENN Energy Shareholders will support this exciting new phase in the Company's development by voting in favour of the Transaction.

The ENN Energy Board believes that the Transaction will bring the following benefits to ENN Energy and for all ENN Energy Shareholders:

(a) the Transaction will enable ENN Energy and China Gas to realize certain management and operational synergies in their respective businesses; and

(b) the Transaction will enhance ENN Energy's market position and geographic coverage in its piped gas business.

Further information on the reasons for the Transaction and the expected benefits for ENN Energy is set out in the section headed "Part A — The Offers, the Consortium Agreement, the Facility Agreement and the Transaction — 3. Reasons for the Transaction and Expected Benefits for the Company" in this circular.

PURPOSE AND STRUCTURE OF THIS CIRCULAR

As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Transaction is or are greater than 100%, the Transaction constitutes a very substantial acquisition for ENN Energy under Chapter 14 of the Listing Rules and will accordingly be subject to the shareholders' approval requirements under Chapter 14 of the Listing Rules.

The purpose of this circular is to provide you with further information in respect of the Transaction. This circular is divided into seven (7) parts and six (6) appendices:

Part A	:	provides further information on the Offers, the Consortium Agreement, the Facility Agreement and the Transaction, including the reasons for and benefits of the Transaction;
Part B	:	provides further information on the application under Rule 14.67A of the Listing Rules for deferral of compliance with certain of the disclosure requirements in respect of the China Gas Group and the Enlarged ENN Energy Group;
Part C	:	provides further information on the China Gas Group;
Part D	:	provides further information on the ENN Energy Group and the Enlarged ENN Energy Group;
Part E	:	sets out the Listing Rules implications of the Transaction;
Part F	:	sets out additional information on the EGM;
Part G	:	sets out the recommendations of the ENN Energy Board in respect of the Transaction;

Appendix I	:	sets out certain risks associated with the Transaction;
Appendix II	:	sets out the financial Information of the ENN Energy Group for the three years ended December 31, 2011, including financial information and management discussion and analysis of the ENN Energy Group;
Appendix III	:	sets out the financial Information of the China Gas Group for the three years ended March 31, 2011 and the six months ended September 30, 2011, including certain financial information and management discussion and analysis of the China Gas Group;
Appendix IV	:	sets out certain additional general information on the China Gas Group;
Appendix V	:	sets out certain statutory and general information on ENN Energy; and
Appendix VI	:	provides the documents to be made available for inspection by ENN Energy.

This circular also contains the notices convening the EGM on pages N-1 to N-3.

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, China Gas and its substantial shareholders are third parties independent of the Company and connected persons of the Company.

To the best of the knowledge, information and belief of the Directors, and having made all reasonable enquiries, each of China Gas, the China Gas Shareholders, the China Gas Optionholders, Sinopec Corp. and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons.

The Company will issue further announcements informing ENN Energy Shareholders and potential investors of the progress on the Offers as and when appropriate or required.

WARNING: ENN Energy Shareholders and potential investors should note that the making of the Offers by the Offerors is conditional upon the satisfaction or waiver (where applicable) of the Pre-Conditions. In addition, the Offers are conditional upon the satisfaction or waiver (where applicable) of the Conditions described in this circular. ENN Energy Shareholders and potential investors should therefore exercise caution when dealing in the shares, bonds, options and/or other securities of the Company.

1. THE OFFERS

The Offers will be made by the Financial Adviser on behalf of the Offerors, on the following basis:

The Share Offer

Consideration of the Share Offer

For each Offer Share . . . . HK$3.50 in cash

The Share Offer will be extended to all eligible China Gas Shareholders in accordance with the Takeovers Code (other than the Offerors and their Concert Parties). The Offer Shares to be acquired under the Share Offer shall be fully paid and shall be acquired free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attaching to them as at the Closing Date or subsequently becoming attached to them, including the right to receive in full all dividends and other distributions, if any, declared, made or paid on or after the Closing Date.

The Option Offer

The Offerors will make (or procure to be made on its behalf) appropriate offers to the China Gas Optionholders in accordance with Rule 13 of the Takeovers Code to cancel all outstanding Options in exchange for cash.

Consideration of the Option Offer

(A) In respect of Options with an exercise price of HK$0.71:

For cancellation of each such Option . . . . HK$2.79 in cash

(B) In respect of Options with an exercise price of HK$0.80:

For cancellation of each such Option . . . . HK$2.70 in cash

(C) In respect of Options with an exercise price of HK$1.50:

For cancellation of each such Option . . . . HK$2.00 in cash

(D) In respect of Options with an exercise price of HK$1.52:

For cancellation of each such Option .... HK$1.98 in cash

(E) In respect of Options with an exercise price of HK$2.10:

For cancellation of each such Option .... HK$1.40 in cash

(F) In respect of Options with an exercise price of HK$2.32:

For cancellation of each such Option .... HK$1.18 in cash

(G) In respect of Options with an exercise price of HK$2.60:

For cancellation of each such Option .... HK$0.90 in cash

The Option Offer will be conditional upon the Share Offer becoming unconditional. The Option Offer will be extended to all China Gas Optionholders in accordance with the Takeovers Code. Further information on the Option Offer will be set out in a letter to the China Gas Optionholders which will be despatched as far as practicable contemporaneously with the despatch of the Offer Document.

The Offers will be financed as to 55% of the Total Consideration by the Company and 45% of the Total Consideration by Sinopec Corp.

Following acceptance of the Option Offer, the relevant Options together with all rights attaching thereto will be entirely cancelled and renounced.

Basis of the Consideration

The Offer Price and consideration required for the cancellation of the Share Options and therefore, the consideration required of ENN Energy in respect of the Offers, are determined between the Offerors taking into account factors including the trend of the closing price of the China Gas Shares up to the last trading day prior to the date of publication of the Offer Announcement, the asset value and historical financial information of China Gas, the prevailing market conditions and sentiments and the expected benefits of the Transaction for both the Company and China Gas as set forth in more detail in "3. Reasons for the Transaction and Expected Benefits for the Company" of Part A of this letter. ENN Energy will settle in cash its share of the Total Consideration.

Allocation Proportion Between the Offerors

The Offerors will acquire Offer Shares tendered for acceptance by China Gas Shareholders pursuant to and in accordance with the terms of the Share Offer in the proportion of 55% by the Company and 45% by Sinopec Corp. (rounded to the nearest whole number of shares). Each of the Offerors will pay for the Offer Shares tendered according to such proportion. The number of China Gas Shares that are to be acquired by the Offerors pursuant to the Offers will be adjusted to the extent that if prior to Completion but during the offer period, any Offeror acquires any China Gas Shares (other than the China Gas Shares tendered for acceptance pursuant to the Offers) in compliance with the Takeovers Code and in accordance with the Consortium Agreement and any such China Gas Shares acquired will be treated by the Offerors for purposes of the Consortium Agreement as if they were Offer Shares tendered for acceptance by China Gas Shareholders in accordance with the terms of the Share Offer.

Pursuant to Rule 13 of the Takeovers Code, the Offerors are required to make comparable offers for all the outstanding Options. The Offerors shall settle in cash the total sum which is required to satisfy the cancellation of all the outstanding Options which have been tendered by the relevant China Gas Optionholders for cancellation in accordance with the terms of the Option Offer in the proportion of 55% by the Company and 45% by Sinopec Corp.

The obligations of the Offerors to make the Offers are several.

ENN Energy has reserved its right to make the Offers or complete the acquisition of Offer Shares through one or more wholly-owned subsidiaries that are directly or indirectly held by ENN Energy.

ENN Energy has also reserved the right to Transfer any Offer Shares acquired by it to any of its wholly-owned subsidiaries instead of holding any such Offer Shares itself after Completion provided that such wholly-owned subsidiary agrees to be bound by all the terms and conditions of the Consortium Agreement and will upon its cessation of being a wholly-owned subsidiary of ENN Energy, Transfer all of such Offer Shares to ENN Energy or another wholly-owned subsidiary of ENN Energy.

Comparisons of Value

The value which the Share Offer attributes to each Offer Share represents:

	Share price of China Gas *(HK$)*	**Premium/ (Discount) of the offer price to the share price** *(%)*
Closing price on the Last Trading Date	2.80	25.0%
Average closing price for the last 5 trading days as quoted on the Stock Exchange immediately prior to and including the Last Trading Date	2.81	24.7%
Average closing price for the last 10 trading days as quoted on the Stock Exchange immediately prior to and including the Last Trading Date	2.77	26.5%
Average closing price for the last 20 trading days as quoted on the Stock Exchange immediately prior to and including the Last Trading Date	2.66	31.5%
Average closing price for the last 30 trading days as quoted on the Stock Exchange immediately prior to and including the Last Trading Date	2.50	40.1%
Average closing price for the last 60 trading days as quoted on the Stock Exchange immediately prior to and including the Last Trading Date	2.27	54.0%

Value of the Offers

As at the Latest Practicable Date, there are 4,383,055,098 China Gas Shares in issue, of which the Offerors together with their Concert Parties hold 210,000,000 Shares. On the basis of the offer price of HK$3.50 per Offer Share and assuming that no Options are exercised before the close of the Offers, the Share Offer is valued at approximately HK$14,605,692,843.

According to the announcement of China Gas dated January 18, 2012, there are outstanding Options entitling the China Gas Optionholders to subscribe for, pursuant to the China Gas Share Option Scheme, an aggregate of 586,144,000 China Gas Shares, including:

— 163,700,000 China Gas Shares at an exercise price of HK$0.71 per China Gas Share;

— 11,910,000 China Gas Shares at an exercise price of HK$0.80 per China Gas Share;

— 124,800,000 China Gas Shares at an exercise price of HK$1.50 per China Gas Share;

— 6,500,000 China Gas Shares at an exercise price of HK$1.52 per China Gas Share;

— 270,734,000 China Gas Shares at an exercise price of HK$2.10 per China Gas Share;

— 3,000,000 China Gas Shares at an exercise price of HK$2.32 per China Gas Share; and

— 5,500,000 China Gas Shares at an exercise price of HK$2.60 per China Gas Share.

Assuming none of the outstanding Options are exercised prior to the close of the Offers, the total amount required to satisfy the cancellation of all the outstanding Options is HK$1,138,867,600.

Based on the above and assuming that no Options are exercised prior to the close of the Offers, the Offers are valued at approximately HK$15,744,560,443 in aggregate.

In the event all the Options are exercised in full by the China Gas Optionholders prior to the Closing Date and the Share Offer is accepted in full (including all China Gas Shares issued and allotted as a result of the exercise of the Options), China Gas will have to issue 586,144,000 new China Gas Shares, representing approximately 11.80% of the enlarged issued share capital of China Gas. The maximum value of the Share Offer will be increased to approximately HK$16,657,196,843 as a result thereof. In that case, no amount will be payable by the Offerors under the Option Offer and China Gas shall receive an aggregate subscription price of approximately HK$912,636,400 arising from the exercise of the Options.

With respect to the Company, assuming that all the outstanding Options are exercised before the close of the Offers and that the Share Offer is accepted in full, the financial resources required of the Company in order to satisfy its obligations in respect of full acceptance of the Offers amount to approximately HK$9,161,458,264.

Assuming that no Option is exercised before the close of the Offers and that the Offers are accepted in full, the financial resources required of the Company in order to satisfy its obligations in respect of full acceptance of the Offers amount to approximately HK$8,659,508,244.

The Offer Price and consideration required for the cancellation of the Share Options and therefore, the consideration required of the Company in respect of the Offers, are determined between the Offerors taking into account factors including the trend of the closing price of the China Gas shares, the asset value and historical financial information of China Gas and the prevailing market conditions and sentiments. The Company will settle in cash its share of the Total Consideration.

If the financial resources required of the Company in order to satisfy its obligations in respect of full acceptance of the Offers exceed HK$9,184,866,264 (being the amount set out in the Offer Announcement upon which the Financial Adviser was satisfied that sufficient financial resources are available to the Company to satisfy its obligations in respect of full acceptance of the Offers), the Company will seek further approval from ENN Energy Shareholders in accordance with Chapter 14 of the Listing Rules.

Pre-Conditions to the Offers

The making of the Offers by the Offerors is subject to the satisfaction of the following pre-conditions on or prior to the Long Stop Date (the "**Pre-Conditions**"):

(1) with respect to both Offerors:

(a) the joint submission by the Offerors to, and acceptance by MOFCOM, under the Anti Monopoly Law of the PRC in respect of the Transaction and the clearance or deemed clearance (through the expiration of the relevant statutory time periods for review by MOFCOM) by MOFCOM under the Anti Monopoly Law of the PRC of the Transaction, on terms reasonably acceptable to the Offerors;

(2) with respect to the Company:

(a) the grant of approval of the Transaction (including the signing of the Consortium Agreement) as a "very substantial acquisition" pursuant to the Listing Rules at the EGM of the Company; and

(b) the clearance of any necessary PRC national security review in connection with the Transaction if required under applicable laws, on terms reasonably acceptable to the Company;

(3) with respect to Sinopec Corp., the obtaining of approvals or authorizations of, the making of the necessary filings and registrations with, and notifications to, the NDRC, MOFCOM, SASAC and SAFE, in each case, of the PRC in connection with the Transaction, on terms reasonably acceptable to Sinopec Corp.;

(4) the obtaining of all other Approvals necessary in connection with the Transaction that are either to be submitted to the Relevant Authority(ties) by the Offerors jointly or by the Company or Sinopec Corp. separately which may be required as a result of or in connection with or otherwise arising from any changes in applicable laws and regulations that come into effect after the date of the Offer Announcement, on terms reasonably acceptable to the Offerors; and

((1), (2), (3) and (4) under this section are together referred to as the "**Required Approvals**")

(5) that sufficient access to conduct due diligence on China Gas is given by China Gas to the Offerors for assessing whether Completion would result in any event of default or other event giving the lenders of China Gas a right to accelerate the repayment of any obligations prior to the stated maturity date arising from any financing documentations to which any member of the China Gas Group is a party and no lender of China Gas indicating on or prior to the Long Stop Date that it will exercise such rights to accelerate repayment or claim an event of default.

Neither the Company nor Sinopec Corp. may waive the Pre-Conditions except with respect to Pre-Condition (5). If the Pre-Conditions are not satisfied on or before the Long Stop Date and the Offerors have not extended the Long Stop Date, the Offers will not be made by the Offerors and the Transaction will not be implemented (unless the Offerors extend the Long Stop Date). All references to the Offers in this circular are references to the possible Offers which will be made if and only if the Pre-Conditions are satisfied or waived (where applicable).

As of the Latest Practicable Date, none of the Pre-Condition(s) has been fully satisfied. With respect to Pre-Condition (1)(a), MOFCOM has notified the Offerors on April 1, 2012 that following its preliminary review, it has decided to continue the review of the joint application by the Offerors in accordance with the PRC Anti Monopoly Law. Normally, the period for this stage of the review by MOFCOM is up to 90 days. With respect to Pre-Condition (5), the Offerors have undertaken the due diligence measures set forth in "4. Due Diligence Measures on China Gas" of Part A of this letter.

The Company refers to the announcement dated April 30, 2012 jointly published by the Offerors. The Offerors have agreed to extend the Long Stop Date to July 6, 2012 in accordance with the terms of the Offer Announcement. In accordance with the terms of the Offer Announcement, the Offerors may further extend the Long Stop Date by mutual agreement.

The Offerors will issue an announcement as soon as practicable if they have agreed to further extend the Long Stop Date. The Offerors will issue an announcement as soon as practicable after the Pre-Conditions have been satisfied or if the Pre-Conditions have not been satisfied and the Offers will not be made.

Conditions to the Offers

The Offers to be made by the Offerors upon satisfaction or waiver (where applicable) of the Pre-Conditions are subject to the following Conditions:

(a) valid acceptances of the Share Offer being received (and not, where permitted, withdrawn) by 4:00 p.m. on the Closing Date (or such later time or date as the Offerors may, subject to the rules of the Takeovers Code, decide) in respect of such number of Offer Shares which would result in the Offerors and their Concert Parties holding more than 50% of the voting rights in China Gas;

(b) the China Gas Shares remaining listed and traded on the Stock Exchange up to the Closing Date (or, if earlier, the Unconditional Date) save for any temporary suspension(s) of trading of the China Gas Shares as a result of the Offers and no indication being received on or before the Closing Date (or, if earlier, the Unconditional Date) from the SFC and/or the Stock Exchange to the effect that the listing of the China Gas Shares on the Stock Exchange is or is likely to be withdrawn;

(c) (i) all Consents as are necessary for the acquisition of the Offer Shares and in connection with, including, without limitation, any change in the direct or indirect shareholder(s) or ultimate controlling shareholder(s) of any member of the China Gas Group that has been granted the concession rights or licences to carry out its operations having been obtained in form and substance satisfactory to the Offerors and remaining in full force and effect without variation from all Relevant Authority(ies) and all conditions (if any) to such Consents having been fulfilled; (ii) each member of the China Gas Group possessing or having obtained all licences and permits from the Relevant Authority(ies) that are necessary to carry on its business; and (iii) all mandatory consents from third parties having been obtained for the acquisition of the China Gas Shares;

(d) no event having occurred which would make the Offers or the acquisition of any of the Offer Shares void, unenforceable, illegal or prohibit implementation of the Offers;

(e) no Relevant Authority(ies) in any jurisdiction having taken or instituted any action, proceeding, suit, investigation or enquiry, or enacted or made or proposed, and there not continuing to be outstanding, any statute, regulation, demand or order that would make the Offers void, unenforceable or illegal or prohibit the implementation of, or which would impose any material conditions or obligations with respect to the Offers (other than such orders or decisions as would not have a material adverse effect on the legal ability of the Offerors to proceed with or consummate the Offers); and

(f) since the date of the last audited consolidated financial statements of China Gas, there having been no change, effect, fact, event or circumstance which has had or would reasonably be expected to have a material adverse effect on, or to cause a material adverse change in, the general affairs, management, financial position, business, prospects, conditions (whether financial, operational, legal or otherwise), earnings, solvency, current or future consolidated financial position, shareholders' equity or results of operations of China Gas or any member of the China Gas Group, whether or not arising in the ordinary course of business.

The Offerors have reserved the right to waive, in whole or in part, all or any of the Conditions to the Offers set out above (except for Conditions (a) and (d) which may not be waived).

Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Offerors may only invoke any or all of the Conditions so as not to proceed with the Offers if the circumstances which give rise to the right to invoke any such Condition are of material significance to the Offerors in the context of the Offers.

Completion or Lapse of the Offers

If the Pre-Conditions are not satisfied or waived (where applicable) on or before the Long Stop Date, the Offerors will not make the Offers and will not send out any Offer Document. If any of the Conditions is not satisfied (or not waived where applicable) on or before the Closing Date, the Offers will lapse. The latest time on which the Offerors can declare the Offers unconditional as to acceptances is 7:00 p.m. on the 60th day after the posting of the Offer Document (or such later date to which the Executive may consent).

Assets to be Acquired Under the Offers

If Completion of the Offers occurs, the Company currently expects to become the beneficial owner of between approximately 25% to 52% of the issued and outstanding China Gas Shares and currently expects in such event that the Offerors will collectively have beneficial ownership of between approximately 50% to 100% of the issued and outstanding China Gas Shares.

The Offerors have appointed Citigroup Global Markets Asia Limited as their financial adviser in connection with the Transaction.

Maintaining the Listing Status of China Gas

The Offerors do not intend to exercise any rights of compulsory acquisition under Rule 2.11 of the Takeovers Code if the Share Offer is accepted in respect of 90% of the Offer Shares or more.

Upon completion of the Offers, if less than 25% of the China Gas Shares are held by the public or if the Stock Exchange believes that:

(a) a false market exists or may exist in the trading of the China Gas Shares, or

(b) there are insufficient China Gas Shares in public hands to maintain an orderly market,

the Stock Exchange may exercise its discretion to suspend dealings in the China Gas Shares. Accordingly, upon Completion, the number of China Gas Shares held by members of the public may be below the minimum prescribed public float of 25%, which may result in the Stock Exchange suspending the trading in the China Gas Shares until the prescribed minimum level of public float is restored.

The Offerors intend to use reasonable endeavours to maintain the listing status of the China Gas Shares on the Stock Exchange and procure that not less than 25% of the issued share capital in China Gas be held by the public in compliance with the Listing Rules. The Offerors have agreed in the Consortium Agreement that if less than 25% of the China Gas Shares are held by the public upon Completion, they will either sell down certain of the Offer Shares acquired by them pursuant to the Share Offer or procure China Gas to issue new China Gas Shares in order to restore the public float to at least 25% of the issued share capital of China Gas. The Offerors have agreed in the Consortium Agreement that if they fail to procure China Gas to issue new China Gas Shares, they will sell to members of the public a sufficient number of Offer Shares which they have acquired pursuant to the Offers in the proportion of 55% by the Company and 45% by Sinopec Corp. to restore the minimum public float as required under the Listing Rules.

2. THE CONSORTIUM AGREEMENT

The Company has entered into the Consortium Agreement with Sinopec Corp. in relation to the conduct of the Offers, the corporate governance of the China Gas Group after completion of the Offers, post-completion arrangements and other matters in relation to the Offers. The principal terms of the Consortium Agreement are summarized below.

Date of the Consortium Agreement

December 12, 2011

Parties

(a) the Company

(b) Sinopec Corp.

Effective Date

The Consortium Agreement is effective upon signing except certain provisions in relation to the post-completion arrangements between the Company and Sinopec Corp. which will become effective upon Completion.

Principal Terms of the Consortium Agreement

Allocation proportion

The Offerors have agreed to acquire Offer Shares tendered for acceptance by China Gas Shareholders pursuant to and in accordance with the terms of the Share Offer in the proportion of 55% by the Company and 45% by Sinopec Corp. (rounded to the nearest whole number of shares). The number of China Gas Shares that are to be acquired by the Offerors pursuant to the Offers will be adjusted to the extent that if prior to Completion but during the offer period, any Offeror acquires any China Gas Shares (other than the China Gas Shares tendered for acceptance pursuant to the Offers) in compliance with the Takeovers Code and in accordance with the Consortium Agreement, any such China Gas Shares acquired will be treated by the Offerors as if they were Offer Shares tendered for acceptance by China Gas Shareholders in accordance with the terms of the Share Offer. The Offerors shall settle in cash the total sum which is required to satisfy the cancellation of all the outstanding Options which have been tendered by the relevant China Gas Optionholders for cancellation in accordance with the terms of the Option Offer in the proportion of 55% by the Company and 45% by Sinopec Corp.

Lock-up period

From (and including) the Completion Date until a date which is 18 months after the Completion Date (the "**Lock-Up Period**"), except as required to restore the minimum public float and in any Permitted Transfer, the Offerors have agreed not to, and to procure that their respective wholly-owned subsidiaries will not, without the prior written consent of the other Offeror, transfer all or any part of the Offer Shares acquired by such Offeror, fail to remain the registered holder and beneficial owner of all of such Offer Shares, or pledge or charge any of such Offer Shares as security for financing arrangements.

Permitted Transfer

The Offerors have agreed to permit each other to (each, a "**Permitted Transfer**"):

(a) following the Completion Date, Transfer any or all Offer Shares acquired by it to its wholly-owned subsidiary; provided that (i) such wholly-owned subsidiary agrees in writing to be bound by all the terms and conditions of the Consortium Agreement, and (ii) in the event that such wholly-owned subsidiary ceases to be a wholly-owned subsidiary of the relevant Offeror, it shall Transfer all its rights and interest in such Offer Shares to the relevant Offeror or another wholly-owned subsidiary of such Offeror.

(b) following the expiry of the Lock-Up Period, Transfer a number of the Offer Shares acquired by it, provided that, (i) the aggregate number of the Offer Shares transferred (after netting against the number of any China Gas Shares acquired by it or its wholly-owned subsidiaries after the Completion Date) shall not exceed 5% of the then outstanding and issued China Gas Shares at any time, and (ii) such Transfer would not result in the Offerors collectively holding, directly or indirectly, less than 50% plus one share of the then outstanding and issued China Gas Shares.

Right of first refusal

Following the expiry of the Lock-Up Period, other than in a Permitted Transfer, each of the Offerors may Transfer any or all of the Offer Shares acquired by it to a party other than the other Offeror only to the extent that the other Offeror has not exercised its right of first refusal in respect of all or part of such Offer Shares to purchase such Offer Shares on the same terms and conditions as in the proposed transfer to the proposed third-party purchaser.

Tag-along rights

Following the expiry of the Lock-Up Period, other than in a Permitted Transfer, if an Offeror proposes a Transfer of any or all of the Offer Shares acquired by it to a third party, to the extent that such Offer Shares have not been purchased by the other Offeror by exercising its right of first refusal, the non-selling Offeror shall have the tag-along rights to require the proposed third-party purchaser to purchase the Offer Shares held by it on a pro rata basis.

Pursuant to the Consortium Agreement, the selling Offeror will provide the proposed third-party purchaser with notice of the tag-along rights of the non-selling Offeror. The selling Offeror will procure the proposed third-party purchaser to make a written offer to the non-selling Offeror to purchase from it (on the same terms and condition) a fraction of the number of China Gas Shares intended to be sold by the selling Offeror which will reflect the then proportion of the respective holdings of China Gas Shares acquired by the Offerors pursuant to the Offers.

The non-selling Offeror will be entitled to exercise its tag-along rights in respect of all or part of the Offer Shares which it may sell to the proposed third-party purchaser under such tag- along sales offer.

Board of directors and senior management

Following Completion and subject to any substantial changes in their respective holdings of China Gas Shares, the Offerors have agreed to nominate an equal number of independent non-executive directors and an equal number of directors other than independent non-executive directors to the China Gas Board (including, an even number of directors other than independent non-executive directors, and provided that if the China Gas Board comprises an odd number of independent non-executive directors, one independent non-executive director shall be jointly nominated by the Offerors). The Offerors have agreed to appoint directors to the China Gas Board in the above manner for three-year terms and continue to ratify or re-appoint such directors to the China Gas Board in accordance with the Listing Rules and the articles of association of China Gas as necessary to achieve such three-year terms.

The Offerors have agreed to nominate for appointment by the China Gas Board an equal number of nominees for senior management positions of China Gas.

Following Completion, during the initial three-year term of the China Gas Board, the chairman of the China Gas Board will be nominated by one of the Offerors, as agreed by the Offerors, and the vice-chairman of the China Gas Board will be nominated by the other Offeror. Thereafter, the Offerors will rotate their right to appoint such chairman and vice-chairman of the China Gas Board in subsequent three-year terms of the China Gas Board.

Voting rights

The Offerors have agreed that with respect to all matters requiring either (i) approval by the China Gas Board; or (ii) approval by China Gas Shareholders (except for approvals by the China Gas Board or China Gas Shareholders concerning board of directors and senior management nominations and appointments (above) or such approvals which are mandatory under applicable laws and regulations), they will consult with each other before exercising or refraining from exercising their voting rights or exercising any control over their respectively nominated directors. In the event that the Offerors cannot agree on a course of action with respect to any such matter, neither of them will propose a resolution to the China Gas Board or at a meeting of China Gas Shareholders with respect to such matter, and each of them will cast its vote against, and exercise its control over its nominated directors against, the advancement of such matter by resolution or otherwise.

The Consortium Agreement provides that if one of the Offerors is required to abstain from voting with respect to a transaction under the Listing Rules (due to a material interest in such transaction or otherwise), such abstention will not preclude the other Offeror from voting with respect to such transaction (to the extent permissible under the Listing Rules), and the other Offeror will be permitted to exercise its voting rights in its absolute discretion and independent judgment for its own interest without reference to the interest or desires of the Offeror who is precluded from voting.

Termination of the Consortium Agreement

The Consortium Agreement (save for the certain limited surviving clauses) shall terminate upon the earliest to occur of the following:

(a) the Long-Stop Date if the Pre-Conditions are not satisfied or waived (where applicable) by the Long Stop Date;

(b) the date on which the Offerors jointly publish an announcement stating that the Pre-Conditions have not been fully satisfied or waived (where applicable);

(c) the withdrawal of the Offers with the consent of the Executive;

(d) the Offerors publishing a joint announcement stating that the Offers have failed to become unconditional in accordance with the Takeovers Code;

(e) following Completion, either of the Offerors' holding of China Gas Shares falling below 10% of the then issued share capital of China Gas; and

(f) the agreement of the Offerors in writing to terminate the Consortium Agreement.

3. REASONS FOR THE TRANSACTION AND EXPECTED BENEFITS FOR THE COMPANY

The Company believes that the commercial reasons for entering into the Transaction are as follows:

Synergies Between China Gas's Business and the Company's Business

Both China Gas and the Company are major integrated gas suppliers and operators in the PRC with diverse businesses covering supply and distribution of natural gas and LPG and construction and management of natural gas supply infrastructure on a nationwide basis. The similar sizes, regional spread and distribution network of China Gas and the Company are expected to help improve their respective management efficiencies, reduce their respective costs, and optimize their respective use of resources. The Transaction will enable China Gas and the Company to share their operational and management experiences in order to further enhance their business models and operations.

Enhanced Market Position and Geographical Coverage

As at December 31, 2011, the Company has 104 secured piped gas projects in the PRC. In addition, the Company has 238 vehicle gas refuelling stations located in 59 cities in the PRC. As at September 30, 2011, China Gas operates 151 city pipe gas projects, 9 long distance natural gas pipeline projects, 112 Compressed Natural Gas ("**CNG**") refilling stations for vehicles, 1 natural gas development project and 44 LPG distribution projects in 20 provinces, autonomous regions and directly-administered cities in the PRC. As at September 30, 2011, the natural gas supply projects operated by China Gas had a connectable city population of approximately 62,494,950 (approximately 18,983,808 households), as well as 1,428 industrial and 40,553 commercial acquired and connected customers. The Transaction will enable the Company to further expand its penetration in the PRC natural gas distribution market and further enhance its market coverage and market positions. Further, China Gas has relatively more established presence in the natural gas markets of Inner Mongolia and Shaanxi Provinces. This will allow the Company to capitalize on the experience of operation in those provinces and complement its plans to expand into those markets which are relatively new to the Company. Moreover, the Company and China Gas will have increased bargaining power to procure and source gas supply due to the large scale of their aggregate demand.

4. DUE DILIGENCE MEASURES ON CHINA GAS

As of the Latest Practicable Date, China Gas has not provided the Offerors with the access to conduct due diligence with respect to the Transaction. Accordingly, the due diligence conducted by the Offerors has been based solely on the publicly available information of the China Gas Group.

5. FINANCING FOR THE OFFERS

The Company intends to fund its 55% portion of the Offers with a committed bridge facility under the Facility Agreement and cash from its internal resources. It may however diversify its funding sources by raising further funds from other means including without limitation proceeds from equity financing, debt capital markets financing and other internal sources of funds. The Directors are cognizant of the concerns of stakeholders of the Company and will take into consideration the interests of ENN Energy Shareholders and other constituencies in any such funding or financing plans. As and when such plans materialize, the Company will inform ENN Energy Shareholders and potential investors in accordance with applicable laws.

The principal terms of the Facility Agreement are set out as follows:

Date of the Facility Agreement

December 12, 2011

Principal Parties

Borrower	:	the Company
Guarantors	:	ENN Gas Investment Group Limited and ENN Gas Hong Kong Investment Limited
Lender	:	Citibank, N.A., Hong Kong Branch

For the purpose of the Facility Agreement, China Gas and its subsidiaries shall be excluded from the definition of "the ENN Energy Group".

Effective Date

The Facility Agreement is effective upon signing by all parties to it.

Facility

The facility comprises a Tranche A facility and a Tranche B facility.

Purposes of the Facility

Tranche A	:	to fund the acquisition of the Offer Shares and the cancellation of the Options and the costs, fees and expenses related to the Offers, the Facility Agreement and related financing documents and the financing of the Offers
Tranche B	:	to refinance or repay the Company's existing US$150,000,000 syndicated facility agreement dated November 9, 2009 between, among others, the Company as borrower and Bank of China (Hong Kong) Limited as agent and security agent and to pay the costs, fees and expenses related to the refinancing or repayment

Availability Period

Tranche A	:	from and including the signing date of the Facility Agreement to the earlier of (i) August 31, 2012; (ii) the date on which the Offers lapse or are withdrawn, terminated or rescinded in accordance with the requirements of the Takeovers Code, the requirements of the Executive and all applicable laws and regulations; (iii) the first date on which the available facility under Tranche A facility is zero; and (iv) the payment in full by the Company of its share of the total consideration in respect of the Offers
Tranche B	:	the period from and including the signing date of the Facility Agreement to and including the earlier of (i) February 20, 2012; and the first date on which the available facility in respect of Tranche B facility is zero

Any utilization of the facility is subject to a limited number of events of default not being continuing or resulting from that relevant proposed utilization and a limited number of representations being true.

Repayment of Loans

Tranche A : to be repaid in full after 3 months from the first utilization date of the Tranche A facility

Tranche B : to be repaid in full on May 31, 2012 (Tranche B has been repaid in full by the Company on April 18, 2012)

Refinancing and Prepayment of the Facility

On and from the signing date of the Facility Agreement, the Company shall use its reasonable efforts to prepay or repay (as the case may be) in full all amounts due or outstanding under the facility or cancel undrawn commitment under the facility in full as soon as possible (taking into account relevant market factors) by the raising of finance by the Company or a member of the ENN Energy Group in the international or any relevant domestic capital markets which may include, without limitation, finance raised pursuant to the issuance of bonds or notes, private placements, issuance of equity or any equity-linked products.

The proceeds of raising of finance by any member of the ENN Energy Group, other than certain excluded refinancing of the existing indebtedness or drawings of existing commitments, will also be required to be applied to the prepayment of amounts borrowed under the facility. The Company has agreed that on or before June 30, 2012 the aggregate of the repayment or prepayment of the facility and the cancellation of any available commitment under or pursuant to the Facility Agreement is equal to or more than US$250,000,000.

Material Undertakings by the Company and the Guarantors

Financial covenants

The Company has agreed that it will ensure that each of the following financial covenants are complied with:

(a) Consolidated tangible net worth being more than RMB3,500,000,000;

(b) Consolidated net total borrowings not exceeding 250% of consolidated tangible net worth;

(c) Ratio of Consolidated EBITDA to consolidated interest expense being not less than 2.5 to 1.0; and

(d) Consolidated secured debt not exceeding 40% of consolidated total debt.

Pari passu ranking

Each of the Company and the guarantors has agreed to ensure that its respective obligations under the relevant financing documents will rank at least pari passu with all of its other respective present and future, actual or contingent, unsecured and unsubordinated obligations, except for obligations mandatorily preferred by law applying to companies generally.

Negative pledge

Each of the Company and the guarantors has agreed to not and has agreed to ensure that no member of the ENN Energy Group will create or permit to subsist any security or quasi-security over any of its respective assets, subject to certain customary exceptions, certain existing security arrangements and an ability for the ENN Energy Group to create security or quasi-security over assets whose aggregate net book value is less than 15% of the Company's consolidated total assets. No security may be created over China Gas Shares acquired by the Company.

Limitations on disposals

Each of the Company and the guarantors has agreed to not and has agreed to ensure that no member of the ENN Energy Group will enter into any transactions to sell, lease, transfer or otherwise assign, deal with or dispose of all or a material part of its business, assets or revenues to a person other than a member of the ENN Energy Group, subject to certain exceptions, including:

(i) disposals not exceeding 15% of aggregate total assets for the ENN Energy Group (excluding the China Gas Shares) during the term of the facility measured using the higher of net book value and net consideration receivable from such disposals; or

(ii) disposal of China Gas Shares pursuant to a sale required to maintain the listing status of China Gas or pursuant to any distribution by China Gas (provided that the proceeds will be applied to the prepayment or repayment of the facility) or to Sinopec Corp. under the Consortium Agreement.

Dividend maximization from the subsidiaries of the Company

The Company has agreed to not declare any dividend or other income distribution in cash to its shareholders in excess of 40% of its consolidated net profit after tax for the period in respect of which the payment or distribution is made.

The Company has also agreed that each of its subsidiaries shall take all steps as far as legally possible to declare and pay to the Company the highest possible dividend which may be distributed from that subsidiary, provided that (a) at all times, an aggregate of not more than RMB2 billion cash may be retained by members of the ENN Energy Group incorporated in the PRC (taken as a whole), and (b) an amount equal to the cash of any subsidiary that is subject to contractual or commercial restrictions arising in the ordinary course of business shall not be required to be so distributed. Each member of the ENN Energy Group shall use its reasonable endeavours to overcome such restrictions.

Limitations on changes to the Consortium Agreement and Offers

The Company has agreed that, prior to the Completion, it will enforce its rights under the Consortium Agreement and it will not amend the Consortium Agreement, unless in a manner not materially prejudicial, or reasonably expected to be so, to the interests of the lenders under the facility or that reflects a permitted variation of the Offers.

The Company has also agreed not to make certain material changes to the Offers, including extending the Long-Stop Date and any closing date for acceptance of the Offers (if such extension would result in the closing date for acceptance of the Offers falling after the last day of the availability period in respect of Tranche A facility), amending, varying, waiving, withdrawing or failing to invoke certain Pre-Conditions and Conditions, or increasing the price of the Offers or the consideration paid in the Offers except with cash of the ENN Energy Group, without the consent of the lenders under the facility, save as required by, or not permitted to invoke any Condition or Pre-condition by, the Takeovers Code, Listing Rules, other applicable law, the Executive, the Stock Exchange or the Takeovers and Mergers Panel.

Event of default upon certain shareholders ceasing to own more than 25% of the issued capital of the Company

The Company has agreed that it will be an event of default under the Facility Agreement if Mr. Wang Yusuo and Ms. Zhao Baoju cease, together, directly or indirectly to beneficially own and control, in aggregate, more than 25% of the entire issued share capital of the Company.

Prepayment of the existing Bank of China syndicated loan facility

The Company prepaid on February 9, 2012 all amounts outstanding or due under the US$150,000,000 syndicated facility agreement dated November 9, 2009 between, among others, the Company as borrower and Bank of China (Hong Kong) Limited as agent and security agent using the proceeds of the Tranche B facility.

6. INTENTIONS OF THE OFFERORS IN RELATION TO THE CHINA GAS GROUP

It is the intention of the Offerors to continue with the existing principal businesses of the China Gas Group upon completion of the Offers. The Offerors do not intend to introduce any significant changes to the operations of China Gas. Following Completion, other than the corresponding arrangements in relation to the China Gas Board and senior management as contemplated in the Consortium Agreement, the Offerors have no intentions to make any other material changes to the continued employment of the employees of the China Gas Group. The Offerors intend to further collaborate with the China Gas Group with a view to develop their respective PRC natural gas distribution market.

Subject to market conditions, the Offerors will explore various opportunities to further develop and expand the business of the China Gas Group, including but not limited to the possibility of undertaking new investments and/or conducting fund raising exercises to increase capital.

7. FINANCIAL EFFECTS OF THE TRANSACTION

Upon Completion, if the Company acquires more than 50% of the issued and outstanding China Gas Shares, China Gas will become a subsidiary of the Company and the Company would be required to consolidate China Gas into the consolidated financial statements of the Company. Upon Completion, if the Company does not acquire more than 50% of the issued and outstanding China Gas Shares, China Gas will become an associate of the Company and the financial results and assets and liabilities of China Gas will be incorporated in the Company's consolidated financial statements using the equity method of accounting.

The Directors confirm that there will be no major change to the principal business activities of the ENN Energy Group as a result of the Transaction. The Directors believe that there would be no material adverse impact on the ENN Energy Group's operations and trading prospects as a result of the Transaction, and that the ENN Energy Group will continue as a going concern upon completion of the Transaction.

Upon Completion, it is the Offerors' intention that the listing status of China Gas be maintained. Accordingly, the Offerors have agreed in the Consortium Agreement to restore China Gas's public float to no less than 25% in the event China Gas does not have sufficient public float following Completion. As such, ENN Energy will need to consolidate China Gas Group's financial results into ENN Energy's financial statements in the extreme case that ENN Energy holds more that 50% of the then issued share capital of China Gas immediately following Completion, until China Gas's minimum public float is restored in accordance with the Listing Rules and the Consortium Agreement.

As referred to in the annual report of the ENN Energy Group for the financial year ended December 31, 2011, the consolidated net assets of the ENN Energy Group as at December 31, 2011 was approximately RMB8,840 million, comprising total assets of approximately RMB26,888 million and total liabilities of approximately RMB18,048 million and profit and total comprehensive income attributable to owners of the Company for the financial year ended December 31, 2011 of approximately RMB1,253 million. Assuming the Completion occurs and taking into account the financing under the Facility Agreement, the total assets and liabilities of the ENN Energy Group are expected to increase. Please refer to the section headed "Part A — the Offers, the Consortium Agreement, the Facility Agreement and the Transaction — 4. Financing of the Offers" in this letter for further information on the financing of the Offers and the Facility Agreement.

As referred to in the interim report of the China Gas Group for the six months ended September 30, 2011, the unaudited consolidated net assets of the China Gas Group as at September 30, 2011 was approximately HK$10,335 million, comprising total assets of approximately HK$31,450 million and total liabilities of approximately HK$21,115 million and total comprehensive income attributable to owners of China Gas for the six-months ended September 30, 2011 of approximately HK$454 million.

Rule 14.69 of the Listing Rules sets out the information that a circular issued in relation to a very substantial acquisition must contain. Such information includes both publicly available and non-public information of the acquisition target.

For the purpose of preparing this circular, the Company has applied for and received permission pursuant to the provisions of Rule 14.67A(1) of the Listing Rules to defer compliance with Rule 14.69 for the following reasons:

1. LACK OF CO-OPERATION OF THE CHINA GAS BOARD

The Offer Announcement was published by the Offerors and the Offers were announced on an unilateral basis. As of the Latest Practicable Date, the China Gas Board did not enter into any substantive discussion or engage in any cooperation with the Offerors. Accordingly, as of the Latest Practicable Date, the Company is unable to gain access to the non-public information of China Gas to compile this circular. Further, in light of the current circumstances, ENN Energy anticipates that it will not, prior to the despatch of this circular, receive full co-operation from the China Gas Board for its preparation.

2. CHINA GAS IS LISTED ON THE STOCK EXCHANGE

One of the conditions for the application of a deferral in compliance with disclosure requirements under Rule 14.67A(1) is that the target must be listed on a regulated, regularly operating, open stock exchange recognized by the Stock Exchange. Given China Gas's listing status on the Main Board of the Stock Exchange, this condition is satisfied. Accordingly, key financial information of China Gas, including its audited financial statements for the three years ended March 31, 2011 and its unaudited financial statements for the six months ended September 30, 2011 has already been made publicly available in a format that shareholders of and investors in the Company are familiar with.

3. ENN ENERGY WILL HAVE ACCESS TO INFORMATION OF CHINA GAS FOLLOWING COMPLETION FOR THE PURPOSE OF PRODUCING A SUPPLEMENTAL CIRCULAR

In the case where the Share Offer is accepted in full, the Offerors will hold 100% of the issued share capital of China Gas and China Gas will become a subsidiary of ENN Energy. For this reason, when determining whether the Transaction constitutes a very substantial acquisition of ENN Energy, the Company has based its calculations of the relevant percentage ratios under Chapter 14 of Listing Rules assuming that China Gas will become a subsidiary of ENN Energy following Completion.

Notwithstanding the Offerors' intention to maintain the listing status of China Gas, which will involve the Offerors taking appropriate measures to restore the minimum public float of China Gas to no less than 25% and will result in the Company subsequently holding less than 50% of the issued share capital of China Gas, the Offerors expect to continue to hold as a consortium, more than 50% of the voting rights in China Gas. The

Consortium Agreement also provides that the Offerors will not reduce its aggregate holdings for a minimum period of 18 months following Completion, subject to certain exceptions set forth therein. Accordingly, upon Completion, the Offerors will be in a position to exercise control over China Gas and gain access to its books and records for the purpose of producing the supplemental circular in accordance with Rule 14.67A(3) which will contain all the information required for a very substantial acquisition circular which has not already been disclosed in this circular.

Pursuant to Rule 14.67A(3), the Company is required to despatch the supplemental circular to the ENN Energy Shareholders within 45 days of the earlier of (1) the Company being able to gain access to China Gas' books and records for the purpose of complying with the disclosure requirements under the Listing Rules in respect of China Gas and the Enlarged ENN Energy Group; and (2) the Company being able to exercise control over China Gas upon the successful completion of the Offers.

Should the Company require more time to prepare the supplemental circular, the Company will apply to the Stock Exchange for an extension for the despatch of the supplemental circular and make an announcement in this regard. ENN Energy Shareholders and potential investors in ENN Energy should note that the despatch of the supplemental circular will not affect the approval to be obtained at the EGM, the date of the EGM and the implementation of the Offers.

China Gas was incorporated in Bermuda with limited liability on August 22, 1995. The shares of China Gas are listed on the Main Board of the Stock Exchange (Stock Code: 384).

Shareholding Structure of China Gas

The shareholding structure of China Gas (A) as at the Latest Practicable Date; and (B) immediately following completion of the Offers (for illustration purposes only) is as follows:

(i) Assuming none of the Options are exercised prior to completion of the Share Offer

			For illustration purposes only					
Name of China Gas shareholder	**As at the Latest Practicable Date**		**Immediately following Completion (assuming minimum acceptance) (1)**		**Immediately following Completion (assuming maximum acceptance) (2)**		**Immediately following Completion (assuming maintenance of minimum level of public float) (3)**	
	No. of China Gas Shares held	*% of issued share capital of China Gas*	*No. of China Gas Shares held*	*% of issued share capital of China Gas*	*No. of China Gas Shares held*	*% of issued share capital of China Gas*	*No. of China Gas Shares held*	*% of issued share capital of China Gas*
Offerors and their Concert Parties (in aggregate)	210,000,000	4.79	2,195,910,604	50.10	4,383,055,098	100.00	3,287,291,324	75.00
Sinopec	210,000,000	4.79	1,103,659,772	25.18	2,087,874,794	47.64	3,287,291,324 (the Offerors and their Concert Parties in aggregate) (4)	75.00 (the Offerors and their Concert Parties in aggregate) (4)
ENN Energy	0	0	1,092,250,832	24.92	2,295,180,304	52.36		
Other China Gas shareholders	4,173,055,098	95.21	2,187,144,494	49.90	0	0	1,095,763,774	25.00
Total	**4,383,055,098**	**100.00**	**4,383,055,098**	**100.00**	**4,383,055,098**	**100.00**	**4,383,055,098**	**100.00**

Note:

(1) Assuming that the Offerors and their Concert Parties will hold 50.1% of the issued share capital of China Gas immediately following completion of the Share Offer.

(2) Assuming that the Share Offer is accepted in full and before any actions required to restore the minimum public float of 25% of China Gas are taken.

(3) Assuming that the Offerors and their Concert Parties will hold 75% of the issued share capital of China Gas and no increase in the number of outstanding China Gas Shares.

(4) The Offerors intend, together with China Gas, to use reasonable endeavours to maintain the listing status of the China Gas Shares on the Stock Exchange and procure that not less than 25% of the issued share capital in China Gas be held by the public in compliance with the Listing Rules, which may involve the Offerors selling down certain of the Offer Shares acquired by them pursuant to the Share Offer or China Gas issuing new China Gas Shares. The respective percentages of shareholding in the issued share capital of China Gas by ENN Energy and Sinopec will be determined upon completion of any such step(s) to restore the public float of China Gas.

(ii) Assuming all of the Options are exercised prior to completion of the Share Offer

Name of China Gas shareholder	Assuming all the Options are exercised		For illustration purposes only: Immediately following Completion (assuming minimum acceptance) (1)		Immediately following Completion (assuming maximum acceptance) (2)		Immediately following Completion (assuming maintenance of minimum level of public float) (3)	
	No. of China Gas Shares held	*% of issued share capital of China Gas*	*No. of China Gas Shares held*	*% of issued share capital of China Gas*	*No. of China Gas Shares held*	*% of issued share capital of China Gas*	*No. of China Gas Shares held*	*% of issued share capital of China Gas*
Offerors and their Concert Parties (in aggregate)	210,000,000	4.23	2,489,568,748	50.10	4,969,199,098	100.00	3,726,899,323	75.00
ENN Energy	0	0	1,253,762,811	25.23	2,617,559,504	52.68	3,726,899,323 (the Offerors and their Concert Parties in aggregate) (4)	75.00 (the Offerors and their Concert Parties in aggregate) (4)
Sinopec	210,000,000	4.23	1,235,805,937	24.87	2,351,639,594	47.32		
Other China Gas shareholders	4,759,199,098	95.77	2,479,630,350	49.90	0	0	1,242,299,775	25.00
Total	**4,969,199,098**	**100.00**	**4,969,199,098**	**100.00**	**4,969,199,098**	**100.00**	**4,969,199,098**	**100.00**

Note:

(1) Assuming that the Offerors and their Concert Parties will hold 50.1% of the issued share capital of China Gas immediately following completion of the Share Offer.

(2) Assuming that the Share Offer is accepted in full and before any actions required to restore the minimum public float of 25% of China Gas are taken.

(3) Assuming that the Offerors and their Concert Parties will hold 75% of the issued share capital of China Gas and no increase in the number of outstanding China Gas Shares.

(4) The Offerors intend to, together with China Gas, use reasonable endeavours to maintain the listing status of the China Gas Shares on the Stock Exchange and procure that not less than 25% of the issued share capital in China Gas be held by the public in compliance with the Listing Rules, which may involve the Offerors selling down certain of the Offer Shares acquired by them pursuant to the Share Offer or China Gas issuing new China Gas Shares. The respective percentages of shareholding in the issued share capital of China Gas by ENN Energy and Sinopec will be determined upon completion of any such step(s) to restore the public float of China Gas.

Operations and Businesses of China Gas

China Gas is a gas services operator and service provider primarily engaged in the investment, construction and operation of city gas pipeline infrastructure facilities, gas terminals, storage and transportation facilities, gas logistics systems, transmission of natural gas and LPG to residential, industrial and commercial users, construction and operation of gasoline and gas refilling stations, and development and application of petroleum, natural gas and LPG related technologies in the PRC.

New projects

According to the interim report for the 6 months ended September 30, 2011, issued by China Gas, as of September 30, 2011, the China Gas Group had secured 151 city piped gas projects (with exclusive concession rights), 9 long-distance natural gas pipeline projects, 112 compressed natural gas refilling stations for vehicles, 1 natural gas development project and 44 LPG distribution projects in 20 provinces, autonomous regions and directly administered cities. The China Gas Group secured an additional 3 city piped gas projects during the period from April 1, 2011 to September 30, 2011.

Gas Business

According to the interim report for the 6 months ended September 30, 2011 issued by China Gas, as of September 30, 2011, the China Gas Group's gas business is managed under two segments, namely natural gas and LPG, the customer bases and market strategies of which are different from each other.

Natural Gas Business

According to the interim report for the 6 months ended September 30, 2011, issued by China Gas, as of September 30, 2011, the China Gas Group as a major supplier and service provider specialized in natural gas had established its unique and well-fit operating and management system in domestic gas industry, which plays a positive role in enhancing management efficiency and operating results.

Construction of Piped Gas Networks

City piped gas networks construction is one of the principal businesses of the China Gas Group. By constructing urban arterial and branch pipe networks, the China Gas Group connects natural gas pipelines to residential as well as industrial and commercial users, from whom connection fees and gas usage fees are charged. According to the interim report for the 6 months ended September 30, 2011 issued by China Gas, during the 6 months ended September 30, 2011, the China Gas Group had completed 7 processing stations, high-pressure gas pipelines of 167 km, city medium and low-pressure gas pipelines of approximately 670 km and branch and customer pipeline network of 1,410 km.

1. INFORMATION ON THE ENN ENERGY GROUP

The Company was incorporated on July 20, 2000 as an exempted company with limited liability under the laws of the Cayman Islands. The shares of ENN Energy are listed on the Main Board of the Hong Kong Stock Exchange (stock code: 2688). The principal activities of ENN Energy include gas connection, sales of piped gas, construction and operation of vehicle gas refuelling stations, distribution of bottled liquefied petroleum gas and sales of gas appliances in the PRC.

Additional Financial Information of the ENN Energy Group

Indebtedness

The Company has applied to the Stock Exchange for and received permission pursuant to Rule 14.67A(1) of the Listing Rules to defer compliance with Rule 14.69 of the Listing Rules and to prepare the statement of indebtedness on the basis of treating China Gas as an associate of the Company.

At the close of business on April 30, 2012, being the latest practicable date for the purpose of the indebtedness statement prior to the printing of this circular, the ENN Energy Group's total indebtedness was as follows:

	RMB'000
Corporate bond	495,827
Senior notes*	4,619,742
Bank and other loans*	4,456,746
Short-term debentures	1,326,486
Amounts due to associates	35,278
Amounts due to jointly controlled entities	474,027
Amounts due to related parties	20,000
Total	11,428,106

* *Foreign currency amounts have been translated at the approximate exchange rates prevailing at the close of business on April 30, 2012*

Approximately RMB1,353 million of the bank and other loans was secured by the property, plant and equipment, investment properties and rights to fee income of certain subsidiaries and jointly controlled entities of the ENN Energy Group.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the ENN Energy Group did not have outstanding at the close of business on April 30, 2012, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, or other material contingent liabilities.

Sufficiency of Working Capital

The Company has applied to the Stock Exchange for and received permission pursuant to Rule 14.67A(1) of the Listing Rules to defer compliance with Rule 14.69 of the Listing Rules and to prepare the statement of sufficiency of working capital on the basis of treating China Gas as an associate of the Company. On this basis and taking into account the financial resources available to the ENN Energy Group, including the internally generated funds, cash and cash equivalents on hand, the available banking facilities and refinancing of such facilities in the ordinary course, the financing under Tranche A of the Facility Agreement, the Directors are of the opinion that the ENN Energy Group has sufficient working capital for its present requirements, that is, for at least 12 months from the date of this circular.

No Material Adverse Change

Save as disclosed in this circular, the Directors are not aware of any material adverse changes in the financial or trading position of the ENN Energy Group since December 31, 2011, being the date to which the latest published audited financial statements of the ENN Energy Group were made up.

Financial and Trading Prospects of the ENN Energy Group

Under the macro environment and against a background of focus on energy saving and emission reduction, the Chinese government has devoted significant effort in promoting the development of clean energy, new energy and renewable energy. Various laws and plans in favour of energy development have also been introduced by the Chinese government to support the promotion of energy development, such as the construction of long distance natural gas pipelines and LNG terminals.

The Company believes that these and other initiatives of the Chinese government could benefit the ENN Energy Group's downstream projects directly and provide sufficient protection for the natural gas supply of the ENN Energy Group. As a result, the ENN Energy Group has expanded its capital investments in recent years to RMB2.6 billion from RMB2.0 billion in 2011 and expects these investments to result in increases sales of natural gas in the coming years.

In addition, in order to maintain persistent and rapid business growth and further expand gas source distribution scale, the ENN Energy Group takes a proactive stance in exploring new sources of business growth. Since natural gas has identifiable advantages over diesel fuel in terms of economic benefits and environmental friendliness, the ENN Energy Group has endeavored to launch the vehicle/ship-use LNG business during the 2011 fiscal year. This business mainly targets city buses, heavy trucks and ships traveling on lakes and nearby seas and helps them to save energy, reduce emission and save costs by using lower priced and more environmentally friendly natural gas as their fuel source.

In addition, the ENN Energy Group's first international project in Vietnam has started to develop customers in Ho Chi Minh and Hanoi and it is expected that the construction of pipeline networks in phases over the next two years will contribute to growth in earnings of the ENN Energy Group in the long run. Feasibility study on other potential gas projects in Asia are expected to be carried on by the ENN Energy Group at the same time.

The ENN Energy Group believes that supportive government policies, vigorous promotion existing energy services business, exploration of new sources of business growth by the Group, sound management as well as the effective use of resources, will benefit shareholders and employees of the Group, improve environmental protection and promote the effective utilisation of social resources.

2. DIRECTORS AND SENIOR MANAGEMENT OF ENN ENERGY AND MANAGEMENT OF THE ENLARGED ENN ENERGY GROUP

The Directors and senior management of the Company as of the Latest Practicable Date are as follow:

Name	Age	Position
Executive Directors		
Mr. Wang Yusuo	48	Chairman and Executive Director
Mr. Cheung Yip Sang	45	Chief Executive Officer and Executive Director
Mr. Zhao Jinfeng	44	Executive Director
Mr. Yu Jianchao	43	Executive Director
Mr. Cheng Chak Ngok	41	Chief Financial Officer, Executive Director and Company Secretary
Mr. Zhao Shengli	42	Executive Director
Mr. Wang Dongzhi	43	Executive Director
Non-Executive Directors		
Ms. Zhao Baoju	46	Non-Executive Director
Mr. Jin Yongsheng	48	Non-Executive Director
Independent Non-Executive Directors		
Mr. Wang Guangtian	48	Independent Non-Executive Director
Ms. Yien Yu Yu, Catherine	41	Independent Non-Executive Director
Mr. Kong Chung Kau	42	Independent Non-Executive Director

Name	Age	Position
Senior Management		
Mr. Wan Jinping	53	Executive Vice President
Mr. Han Jishen	47	Vice President
Mr. Liu Yongxin	49	Vice President
Mr. Chen Fuchao	55	Vice President and General Manager — Zhejiang and Shanghai
Mr. Wang Fengsheng	42	Vice President and General Manager — Jiangsu
Mr. Wu Xingjun	47	Vice President and General Manager — Henan and Anhui
Mr. Xu Jinbiao	45	Vice President and Director of Information System
Mr. Li Shuwang	46	Vice President
Mr. Xue Zhi	48	Vice President and Chief Engineer
Mr. Hou Liming	48	Vice President
Mr. Gao Jihua	44	Vice President and General Manager — Hunan, Hubei and Guangxi
Mr. Ouyang Su	55	Vice President and Executive Deputy General Manager — Hunan, Hubei and Guangxi

Following Completion, the Company does not expect any changes to the ENN Energy Board or the senior management of the Company.

1. VERY SUBSTANTIAL ACQUISITION

As the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Transaction exceed 100%, the Transaction constitutes a very substantial acquisition of the Company under Rule 14.06(5) of the Listing Rules.

Pursuant to Rule 14.49 of the Listing Rules, the Transaction is therefore subject to the approval of ENN Energy Shareholders at the EGM.

No ENN Energy Shareholder is required to abstain from voting at the EGM, unless such ENN Energy Shareholder has a material interest in the Transaction other than being a ENN Energy Shareholder. As at the Latest Practicable Date, the ENN Energy Board is not aware that any ENN Energy Shareholder has such a material interest in the Transaction.

2. NO CHANGE IN CONTROLLING SHAREHOLDER

The controlling shareholder of the Company during the 24 months prior to and immediately before the Offer Announcement has remained unchanged. There is not and nor will there be any change in controlling shareholder (as defined in the Listing Rules) of the Company as a result of the Transaction. Following the Completion, the existing Directors, including the independent non-executive Directors, will continue to constitute a majority of the ENN Energy Board.

A notice convening the EGM is set out on pages N-1 to N-3 of this circular. The EGM will be held at Tai Shan Room, Function Room, Level 5, Island Shangri-La Hong Kong, Two Pacific Place, Supreme Court Road, Hong Kong on Friday, July 6, 2012 at 2:00 p.m. (or any adjournment thereof) to consider, and, if thought fit, approve, among other things, the necessary resolutions relating to (1) the Offers and transactions contemplated thereunder; (2) the Consortium Agreement and transactions contemplated thereunder. The vote of the ENN Energy Shareholders at the EGM will be by way of a poll.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, no ENN Energy Shareholder has a material interest in the Offers or the Consortium Agreement which is materially different from the other ENN Energy Shareholders. Accordingly, no ENN Energy Shareholders are required under the Listing Rules to abstain from voting at the EGM.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you propose to attend the EGM, you are requested to complete the accompanying proxy form and return it to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting at the EGM or any adjourned meeting if you so desire.

For the reasons set out in the sections headed "1. The Offers — Basis of the Consideration" and "3. Reasons for the Transaction and Expected Benefits for the Company" of Part A — The Offers, the Consortium Agreement, the Facility Agreement and the Transaction of this letter from the ENN Energy Board, the ENN Energy Board, including the independent non-executive Directors, considers that the terms of the Offers, the Consortium Agreement and the Transaction are on normal commercial terms, fair and reasonable, and in the interests of the Company and ENN Energy Shareholders as a whole. Accordingly, the ENN Energy Board recommends the ENN Energy Shareholders vote in favour of all the resolutions to be proposed at the EGM.

By order of the Board
ENN ENERGY HOLDINGS LIMITED
Cheng Chak Ngok
Executive Director and Company Secretary

ENN Energy Shareholders should carefully consider all of the information set out in this circular, including the risks and uncertainties associated with the Offers before making a decision on how to vote on the resolution relating to the Transaction at the EGM. The business, financial condition and results of operations of the ENN Energy Group may be materially and adversely affected by one or more of these risks.

To the best of the Directors' knowledge, the Directors consider the following risks to be the most significant in respect of the Transaction for the ENN Energy Shareholders and potential investors of ENN Energy. However, the risks listed below do not purport to comprise all those risks associated with the Transaction and are not set out in any particular order of priority. Additional risks and uncertainties not currently known to the Directors may also have an adverse effect on the Transaction, the ENN Energy Group and the Enlarged ENN Energy Group. If any of the following risks actually occurs, the Transaction, the ENN Energy Group's and/or the Enlarged ENN Energy Group's business, financial condition, capital resources, results and/or future operations may be materially and adversely affected.

Risks Relating to Completion

Completion of the Transaction is subject to the satisfaction of the Pre-Conditions and the Conditions, which are not within the control of the ENN Energy Group. In particular, you should note that there can be no assurance that the Required Approvals will be obtained prior to the Long Stop Date or that the Offerors will receive valid acceptances of the Share Offer in respect of such number of Offer Shares that would result in the Offerors and their Concert Parties holding more than 50% of the voting rights of China Gas.

The making of the Offers by the Offerors is conditional upon the satisfaction or waiver (where applicable) of the Pre-Conditions. The Offers are conditional upon the satisfaction or waiver (where applicable) of the Conditions described in this circular. The China Gas Shareholders, the China Gas Optionholders, shareholders of any of the Offerors and potential investors of China Gas or any of the Offerors should therefore exercise caution when dealing in shares, convertible bonds and/or options of China Gas or any of the Offerors.

There are Limitations on the Extent and Quality of Information Concerning China Gas

As at the Latest Practicable Date, China Gas is not a subsidiary of the Company and the pre-conditional Offers remain wholly unsolicited. As at the Latest Practicable Date, the Offerors have not entered into any substantive discussions with the China Gas Board. Accordingly, the Company does not have access to the non-public information of the China Gas Group. Moreover, the lack of cooperation from the China Gas Board also means that it is unable to produce certain information which is required under Chapter 14 of the Listing Rules for the production of the circular relating to a very substantial acquisition.

Accordingly, the Company has applied for under Rule 14.67A of the Listing Rules, and the Stock Exchange has granted, a deferral from compliance with certain of the disclosure requirements under the Listing Rules including among others:

— information relating to the Enlarged ENN Energy Group, including the pro forma income statement, balance sheet and cash flow statement of the Enlarged ENN Energy Group;

— audited financial information of China Gas in accordance with the requirements under Chapter 4 of the Listing Rules; and

— statements of indebtedness and sufficiency of working capital assuming China Gas will become a subsidiary of ENN Energy upon Completion.

The information relating to China Gas in this circular has been obtained only from publicly available sources and it does not have all the information that a circular relating to a very substantial acquisition would normally be required to contain. Accordingly, there are limitations as to whether this circular contains all the information relating to China Gas Group that any individual investor or ENN Energy Shareholder may deem appropriate prior to making an investment decision in relation to the Company or that such information is capable of independent verification.

In view of the lack of access to information relating to the China Gas Group and the lack of cooperation from the China Gas Board, despite the due diligence measures taken by the Company, neither the Company nor any of its directors, supervisors, senior management, employees or affiliates can ensure the accuracy, reliability or completeness of the information in this circular relating to China Gas. Any inaccuracy in this information may adversely affect the anticipated prospects and benefits of the Transaction and results of the Enlarged ENN Energy Group. In addition, it is possible that additional risks may exist in relation to the China Gas Group's businesses which are not known to the Company.

The Company and China Gas May Need Additional Capital in the Future, but the Company and China Gas May Not Be Able to Obtain Such Capital on Acceptable Terms, or at All.

The Facility Agreement requires the Company to repay indebtedness incurred under the Tranche A facility within 3 months from the first utilization date of the Tranche A facility and requires the Company to repay the Tranche B facility on May 31, 2012. The Company may need additional capital in order to refinance any indebtedness incurred under the Facility Agreement.

In addition, as a result of the lack of access to information of the China Gas Group and the lack of cooperation from the China Gas Board, it has been difficult for the Company to assess the financial position and indebtedness of the China Gas Group. As at the Latest Practicable Date, although no lender of China Gas has indicated to the Company that it will exercise any rights to accelerate repayment or claim an event of default under the China Gas Group's financing and debt arrangements, neither the

Company nor any of its directors, supervisors, senior management, employees or affiliates can guarantee that no such lender would, following Completion, choose to exercise such rights. Accordingly, additional capital may be necessary or expedient to refinance the existing indebtedness of the China Gas Group.

Following Completion, additional capital may also be required for the growth of the China Gas Group's businesses.

The Company and China Gas's ability to obtain additional capital in the future is subject to various uncertainties, including but not limited to:

- the Company and China Gas's future financial conditions, results of operations and cash flows;
- the Company and China Gas's ability to raise further financing whether through equity financing or debt financing;
- the Company and China Gas's ability to obtain necessary regulatory approvals for further financing or transfer of funds on a timely basis;
- general market conditions; and
- economic, political and other conditions in the PRC and other relevant markets.

In addition, following the Offer Announcement, each of Standard & Poor's, Moody's Investor Services and Fitch Ratings have announced that the Company's issuer rating and senior unsecured ratings have been placed, respectively, on credit watch with negative implications, negative ratings watch and review for a possible downgrade. A downgrade of any of the Company's ratings with one or more of such rating agencies could increase the cost of financing for the Company. Moreover, if further financing is raised through equity offering, such equity offering will dilute the equity interest of ENN Energy Shareholders in the Company.

China Gas May Be Exposed to Claims in Litigation

As of the Latest Practicable Date, an action has been brought by Mr. Li Xiaoyun and Mr. Xu Ying (the "**Plaintiffs**") against China Gas in the High Court of Hong Kong (action number: HCA608/2011; HCCL18/2011) (the "**Action**"). The Action concerns the validity of the exercise by the Plaintiffs of 105,000,000 Options on March 24, 2011. If the High Court of Hong Kong rules in favour of the Plaintiffs, China Gas would be required, among other things, to issue and allot 105,000,000 China Gas Shares (representing an additional 2.4% of the issued share capital of China Gas) to the Plaintiffs.

The Share Offer will be extended to all eligible China Gas Shareholders in accordance with the Takeovers Code (other than the Offerors and their Concert Parties) and will be extended to all China Gas Optionholders in accordance with the Takeovers Code. As such, if the Plaintiffs succeed in the Action or otherwise establish that it is a valid holder of Options on or prior to the Closing Date, the Offers will be extended to them. If the Action remains undetermined on or prior to the Closing Date, the potential liability from the exercise of the Options held by the Plaintiffs as a result of the Action would remain with the China Gas Group, which potentially may have a material adverse effect on the reputation, business, growth prospects, results of operations and/or financial condition of the Enlarged ENN Energy Group following Completion.

We May Not Be Able to Obtain the Expected Benefits or Effectively Operate the Acquired Business of China Gas

The Offerors expect to continue with the existing principal businesses of the China Gas Group upon completion of the Offers. However, the ability of the Offerors to create synergies, improve business and operational efficiency of the China Gas Group, strengthen the corporate governance of the China Gas Group and generally effectively operate the business of the China Gas Group is subject to a number of uncertainties, including:

- failure to identify material risks or liabilities associated with the China Gas Group;
- higher costs than anticipated of integrating, improving or strengthening the businesses and corporate governance of the China Gas Group;
- difficulties in retaining key employees of the China Gas Group necessary to manage its businesses;
- difficulty in obtaining necessary regulatory approvals for the expansion of the businesses of the China Gas Group; and
- changes in market circumstances and demand.

1. SUMMARY OF FINANCIAL INFORMATION AND AUDITORS' REPORT

The following is a summary of the assets and liabilities and results of the ENN Energy Group as at and for each of the three years ended December 31, 2011 extracted from the annual report of the Company. No qualified opinion has been expressed by the auditors of the Company on the audited financial statements of the ENN Energy Group for each of the years ended December 31, 2009, 2010 and 2011.

	As at and for the year-ended		
Revenue & Profit	**2011**	**2010**	**2009**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*
			(Restated)
Revenue	15,067,537	11,215,089	8,412,880
Profit before tax	2,327,341	1,810,965	1,383,358
Income tax expense	(660,222)	(409,800)	(304,459)
Profit for the year/period	1,667,119	1,401,165	1,078,899
Non-controlling interests	(414,150)	(388,078)	(276,023)
Profit for the year/period attributable to owners of the Company	1,252,969	1,013,087	802,876
Dividends	313,276	297,018	200,158
Assets & Liabilities			
Other non-current assets	15,517,002	12,711,953	10,541,637
Associates	693,552	487,683	323,880
Jointly controlled entities	1,733,579	1,361,265	1,015,641
Current assets	8,944,085	5,078,648	4,753,798
Current liabilities	(9,520,030)	(7,488,474)	(5,364,038)
Non-current liabilities	(8,528,209)	(4,611,224)	(4,844,376)
Net assets	8,839,979	7,539,851	6,426,542
Capital & Reserves			
Share capital	109,960	109,879	109,879
Reserves	6,935,375	5,921,570	5,006,792
Equity attributable to owners of the Company	7,045,375	6,031,449	5,116,671
Non-controlling interests	1,794,644	1,508,402	1,309,871
	8,839,979	7,539,851	6,426,542
Earnings per share – basic	119.3 cents	96.5 cents	77.7 cents

2. CONSOLIDATED FINANCIAL INFORMATION OF THE ENN ENERGY GROUP

The audited consolidated financial statements of the ENN Energy Group; (i) for the year ended December 31, 2009 are set out on pages 75 to 158 of the annual report of the Company for the year ended December 31, 2009 published on March 31, 2010; (ii) for the year ended December 31, 2010 are set out on pages 73 to 168 of the annual report of the Company for the year ended December 31, 2010 published on March 25, 2011; and (iii) for the year ended December 31, 2011 are set out on pages 78 to 160 of the annual report of the Company for the year ended December 31, 2011 published on April 11, 2012.

In years prior to the year ended December 31, 2010, the ENN Energy Group's land and buildings held for use in production or supply of goods or services were stated at revalued amount. The Company considers that measuring these land and buildings at cost model provides more relevant information about the ENN Energy Group's financial performance to the economic decision-making needs of users as most of the companies engaging businesses in the distribution of natural gas in the PRC adopt the cost model in measuring the land and buildings. As a result, from the year ended December 31, 2010 the ENN Energy Group decided to state its buildings at cost, less any accumulated depreciation and accumulated impairment losses in accordance with HKAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors".

The change in accounting policy has been accounted for retrospectively, and the comparative financial information as at 1 January 2009 and 31 December 2009 has also been restated in the Company's annual report for the year ended December 31, 2010.

All of the above annual reports have been published on the website of the Stock Exchange (www.hkex.com.hk).

3. MANAGEMENT DISCUSSION AND ANALYSIS OF THE ENN ENERGY GROUP

References to the "Group" refer to the ENN Energy Group and the use of other capitalized terms in the text below refer to such terms as defined in the relevant annual reports of the Company.

For the year ended December 31, 2011

The following management discussion and analysis of the ENN Energy Group's financial condition and results of operations is extracted from the Annual Report of the ENN Energy Group for the year ended December 31, 2011.

Industry Review

Energy Consumption Pattern in China

The year of 2011 was the first year of China's 12th Five-Year Plan. Following the continued rapid economic growth in China, its energy consumption is increasing. According to the 2011 Domestic Economy and Social Development Statistics Report of the People's Republic of China, the total energy consumption in 2011 amounted to 3.48 billion tons of standard coal, up 7.0% over last year. The consumption of coal, crude oil, natural gas and electric power grew by 9.7%, 2.7%, 12.0% and 11.7% respectively over last year. The national energy consumption per unit of gross domestic product in ten-thousand dollars decreased by 2.0%.

According to the data released by the National Bureau of Statistics of China, in the current primary energy consumption pattern in China, coal and petroleum account for 68.0% and 19.0% respectively, while natural gas only accounts for 4.4%. New energy like hydropower, wind power and nuclear power merely accounts for 8.6% in total. Currently, the environment of China cannot afford the pollution caused by the existing energy consumption pattern by far, and it is among the nations which top the list in respect of emission volume of carbon dioxide and sulphur dioxide. Coal still remains a major component in the total energy consumption of China, and a large part of the demand for petroleum has to be satisfied by foreign supply. Over 80.0% of electric power is generated by coal. The coal-based energy structure has heightened the energy demand and the pressure on the environment, and the energy consumption pattern should be optimised in a short period to promote the development and use of natural gas and other kinds of new energy. This does not only save energy and reduce emission, but is also the right strategy for China to achieve sustainable economic development. In terms of energy saving and emission reduction, the coal-based energy structure poses the biggest challenge to China. In the 12th Five-Year Plan, the Chinese government clearly proposed the guiding principles of China's energy development: "to optimize the energy structure, to reasonably control the total energy consumption, to improve the pricing system of resource-related product and the tax system for resources and environment, to strengthen the laws, regulations and standards on energy saving and emission reduction, to enhance the responsibility review of energy saving and emission reduction targets, to introduce energy saving and environmental protection measures to production, circulation, consumption and construction processes, and to enhance sustainable development". The Chinese government indicated that it would further promote the optimisation and adjustment of the energy structure under the 12th Five-Year Plan, and expected the share of natural gas in primary energy consumption to raise from the current 4.4% to 8.3%, while the share of hydropower and nuclear power, and other kinds of new energy such as solar energy, wind power and biomass energy was expected to grow by 1.5% and 1.8% respectively by 2015. The share of coal in primary energy consumption should drop from the current 68.0% to around 63.0% by then. By 2020, China will gradually reduce its over-dependence on coal.

In 2009, the Chinese government pledged to reduce the emission of carbon dioxide per unit of gross domestic product by 40.0%–45.0% by 2020 as compared to 2005. In order to ensure the fulfillment of this goal, the government is adopting various measures. At the United Nation Climate Change Conference held at Durban, climate issue once again raised international concerns and the international community reached the consensus of developing a low-carbon economy. Natural gas, a clean and efficient fossil fuel, is one of the pillars of low-carbon economy. It is estimated that the carbon dioxide emission of natural gas is 41.0% and 28.0% lower than that of coal and oil respectively. Extensive development and use of natural gas will be a realistic option for countries in response to global warming and an important strategy for maintaining the energy safety of a nation and enhancing its international competitiveness.

During the period of 12th Five-Year Plan, China will put extra efforts in developing natural gas and increasing the share of electric power generated by natural gas. To increase the efficiency of energy utilisation, facilitate structural adjustment and energy saving and emission reduction, and promote the orderly development of natural gas distributed energy, the Chinese government planned to construct around 1,000 natural gas distributed energy projects during the period of the 12th Five-Year Plan, with an installed capacity reaching 50 million kilowatt by 2020.

To cope with the growing demand for natural gas, the Chinese government invested heavily in natural gas infrastructure. At the moment, the national natural gas pipeline network in China, which is fundamentally formed by the West-East Pipeline I and II, Shaanxi-Beijing Pipeline I, II and III, Zhong-Wu Pipeline, Sebei-Xining-Lanzhou Pipeline, Sichuan-East Pipeline, Qin-Shen Pipeline, as well as branch pipelines like Hebei-Nanjing Pipeline and Huai-Wu Pipeline, has been basically completed. According to the plan of the Chinese government, a number of natural gas pipeline projects, including the West-East Pipeline III and IV and China-Myanmar Oil and Gas Pipeline, will be completed and launched in the coming years. At the same time, more and more import liquefied natural gas ("LNG") terminals will be built along the coast. The real "network era" for the natural gas industry will begin by then. On the other hand, although the consumption of natural gas is rising rapidly given the overwhelming demand, the gas reserve and facilities for peak time usage adjustments are still very insufficient. To ensure a stable natural gas supply, the Chinese government started to plan and construct a dozen natural gas storage facilities to enhance the peak time usage adjustments in winter. Currently, three storage facilities with a total capacity of over five billion cubic meters have been built and another four are under construction. In the future, the natural gas reserve is expected to account for 20.0% to 25.0% of the demand.

The period of the 12th Five-Year Plan is a significant period marked by the rapid industrialisation and urbanisation of China. The country's urbanisation ratio is expected to increase from the current 43.0% to 55.0%–60.0% by 2020. Natural gas will gradually become the major fuel in the urban gas market, presenting considerable potential for the sustainable development of urban gas projects and bright market prospects.

China's policies on city piped natural gas market

As the Chinese government attaches higher importance to environmental protection and utilisation efficiency of energy, more policies encouraging the use of clean energy and optimisation of energy structure have been promulgated.

The Chinese government promulgated the Natural Gas Utilising Policy in 2007 and the Circular Economy Promotion Law of the People's Republic of China on 29 August 2008, and issued the Opinions of State Council on Encouraging and Guiding Healthy Development of Private Investment on 7 May 2010 respectively. The introduction of these policies enhances the utilisation efficiency of natural gas, promotes environmental protection and attracts more investments in the natural gas sector.

To further increase the efficiency of energy utilisation, facilitate structural adjustment, energy saving and emission reduction, and promote the orderly development of natural gas distributed energy, the Chinese government released the "Guidance on Developing Natural Gas Distributed Energy" (hereinafter as the "Guidance") on 9 October 2011. It clearly proposed the constructions of around 1,000 natural gas distributed energy projects and about 10 distributed energy demonstration zones with different representative features during the period of the 12th Five-Year Plan. By 2020, distributed energy system should be promoted and used in key cities throughout the country, with the installed capacity reaching 50 million kilowatt, and achieving distributed energy equipment industrialisation.

Natural gas distributed energy is a highly efficient and modern way of using and supplying natural gas which can realise graded utilisation of natural gas through the tri-generation of cool, heat and power by using natural gas as fuel. An integrated energy utilisation efficiency of over 70.0% can be achieved as a result, and the source of energy supply can be located near the load centre. Compared with the conventional centralised energy supply model, natural gas distributed energy is more efficient, clean, environmentally friendly, safe, flexible and economical.

The promulgation and implementation of such laws and policies have fully demonstrated the determination of the Chinese government to encourage the use of clean energy. It is believed that with the encouragement and support of the said government policies, the Group is well positioned to secure gas supply and attract new customers, whilst showing enormous potential for the development of the natural gas industry.

Business Review

The principal businesses of the Group are gas connection, sales of piped gas, construction and operation of vehicle gas refuelling stations, wholesale of gas, distribution of bottled liquefied petroleum gas ("LPG") and sales of gas appliances and materials.

Gas Connection

During the year, the Group continued to boost connection in existing gas projects, resulting in sustained increases in the overall connection rate every year. As a result, the revenue generated from consistently stable gas sales has become the major source of revenue of the Group.

As of 31 December 2011, the gas penetration rate for residential households of the Group's projects in China increased from 36.0% at the end of 2010 to 38.5%. With the continuous rapid growth in the number of users, the share of gas sales in the Group's overall revenue is on the rise. The Group believes that this optimised revenue structure will secure the long-term stable revenue of the Group.

As of the end of 2011, the accumulated length of intermediate and main pipelines constructed by the Group was 18,854 km, and the number of existing natural gas processing stations reached 115. As such, the natural gas supply capacity of the Group is able to meet the long term demand arising from existing natural gas projects.

Development of residential households

During the year, the Group provided natural gas connections for 1,029,727 residential households, up 17.6% as compared with the number of new connections recorded last year. The Group's strong ability in marketing the new natural gas connections in new and existing residential buildings during the year is the catalyst for new connections over targets. As of the end of 2011, the aggregate number of piped natural gas residential households in the Group's projects amounted to 6,658,272. If other types of piped gas residential households were included, the total number of connected piped gas residential households reached 6,815,165. Supported by the Group's 15 new project cities as well as the level of urbanisation and organic growth in population coverage in its existing project cities in China, the urban population coverage of the Group grew to 53.14 million at the year end. According to past experience in the industry, the gas penetration rate of residential households could reach over 80.0% in each city, while the current gas penetration rate of the Group is only 38.5%. As such, the future development in the residential households market still has huge potential. The continual and substantial growth in the number of connected residential households each year fully demonstrated the Group's strong execution ability. During the year, the average one-off connection fee collected by the Group from its residential households was RMB2,796.

As the Chinese government has paid more attention to environmental protection and more efforts in optimising the energy structure, the explicit advantages of natural gas comparing with other forms of energy in terms of cleanliness, economic benefits, safety, convenience and environmental protection have become more obvious. On the other hand, since the series of policies introduced by the central government of China ensuring the priority in the use of natural gas by residential households under all circumstances has guaranteed stability and reliability in the use of gas, natural gas has gained higher popularity among governments and consumers, and has become their first preference for activities such as cooking, boiling water and bathing. Also, driven by the year-by-year growth in natural gas supply and the phased completion and operation of long distance pipelines covering the whole country, gas sources have been further enhanced. Given the Group's capability in raising the gas penetration rate of its projects, all these factors encourage connection of piped natural gas in new and existing buildings and stimulate the stable yearly growth in the gas penetration rate of the Group.

Development of Commercial/Industrial ("C/I") Customers

During the year, the Group provided natural gas connections for 5,178 commercial/industrial customers (connected to gas appliances with total installed designed daily capacity of 6,823,476 cubic meters) and the average connection fee was RMB173 per standard cubic meter. As of the end of 2011, the aggregate number of piped natural gas C/I customers covered by the Group's projects amounted to 23,501 (connected to gas appliances with total installed designed daily capacity of 25,273,724 cubic meters). If the users of other types of piped gas were included, the total number of connected piped gas C/I customers reached 23,969 (connected to gas appliances with total installed designed daily capacity of 25,767,276 cubic meters).

The Circular Economy Promotion Law promulgated by the Chinese government in 2009 expressly stipulated that critical industrial customers with high energy consumption must abandon and replace the use of polluting energy (e.g. petroleum) with clean energy (e.g. natural gas). It also required the adequate utilisation of solar energy and wind power in the architectural design, building and construction processes. Moreover, developing low-carbon economy has already become a global consensus for different countries in the world to achieve sustainable growth. In the 12th Five-Year Plan, the Chinese government clearly stated the need to enhance the incentive and control regime of energy saving and emission reduction, optimise the energy structure, reasonably control the total energy consumption, improve the pricing system of resource-related products and the tax system for resources and environment, strengthen the laws, regulations and standards on energy saving and emission reduction, enhance the responsibility review of energy saving and emission reduction targets, introduce energy saving and environmental protection measures to production, circulation, consumption and construction processes, and enhance sustainable development. These targets are completely in line with the Group's goal to develop clean energy. In formulating long-term development plans for energy resources, vigorous promotion of the use of natural gas, a clean and efficient source of energy, is one of the best options for building a low-carbon economy and achieving the goal of energy saving and emission reduction.

New Projects

In 2011, the Group secured 10 new projects in the first half of the year and another five new projects in the second half of the year, including Panyu District of Guangzhou and Yunan County, Guangdong Province; Changqing District in Jinan, Shandong Province; Zhengdingxin District of Shijiazhuang and Jingxing County, Hebei Province. The commercial and industrial development in these project cities are relatively robust. In Guangdong Province, the most developed industries in Panyu District of Guangzhou are automobile, mechanical engineering, pharmacy and textile while in Yunan County, ceramics, ironware and electric cell industries are more well-established; The Changqing District in Jinan, Shandong Province is more well-known in its mechanical equipment, production of pressure container, food and medicine processing sectors while both the Zhengdingxin District of Shijiazhuang and Jingxing County in Hebei Province are famous for their mechanical production, ceramics and chemical sectors. All the above industries are favourable to the promotion of natural gas. On the other hand, as these new projects are in close proximity to our existing projects and could use gas sources from long distance pipelines or imported LNG, it is very advantageous for the Group to expand the distribution scale of natural gas by fully utilising its existing market resources. The average gas penetration rate of the above projects is only 7.9% currently, representing considerable potentials for further development.

Sales of piped gas

During the year, the Group's total sales volume of piped gas was 5,374 million cubic meters, up 29.5% when compared with last year, of which 5,011 million cubic meters was contributed by sales of natural gas, representing a year-on-year increase of 31.6%. The proportion of piped gas sold to residential households and C/I customers amounted to 15.3% and 66.8% respectively, representing an increase of 28.7% and 29.9% as compared with last year. Since the Group adjusted its development strategy and focused on increasing the gas penetration rate in the past few years, the sales volume of piped gas has been increasing continuously, making revenue from gas sales the major source of income of the Group. The percentage of total revenue from gas sales over total revenue significantly increased further from 72.1% last year to 72.9%, showing that the Group has now possessed a more stable and long-term revenue base and has reduced its reliance on one-off connection fees, therefore improving and optimising its revenue structure. Given that the overall gas penetration rate of residential households remains at a rather low level of 38.5%, the Group will continue to boost the gas penetration rate of residential households. On the other hand, the consistent growth of China's economy and the stringent execution of the government's energy saving and emission reduction policies also create more potential C/I customers for new connections. It is expected that the share of gas sales in total revenue of the Group will further increase and such development will deliver long-term and stable cash flow to the Group.

Construction and operation of vehicle gas refuelling stations

The Group continued to regard vehicle gas refuelling business as one of its core businesses. During the year, 46 natural gas refuelling stations (including 27 compressed natural gas ("CNG") refuelling stations and 19 LNG refuelling stations) were built and put into operation, covering 59 cities of the state, among which 20 were not gas project cities of the Group. In addition, as of the end of 2011, the number of vehicle gas refuelling stations which have obtained construction approval from the local governments has accumulated to 522, of which 435 are CNG refuelling stations and 87 are LNG refuelling stations. This year, the Group completed the conversion of 5,294 taxies and 158 buses into CNG vehicles, adding to a total number of 36,325 taxies and 1,543 buses using CNG. Moreover, we have also converted 592 vehicles into LNG vehicles during the year and the daily vehicle gas sales exceeded 55,000 cubic meters.

The Group has been innovating its business model and enhancing its sustainable profitability to increase shareholders' long-term returns. With the Group's confidence in the bright future of the natural gas industry in China and its rich experience in vehicle gas field, the Group developed and rolled out the key development strategy for vehicle/ship LNG business in 2011. Targeting heavy trucks in ports and mines, long-haul buses and ships sailing in shallow waters and lakes, the Group provided economical and clean LNG as a replacement of diesel oil, lowering the customers' operating cost substantially while protecting the environment. During the year, the Group strengthened its organisational structure by setting up the Vehicle/Ship LNG Business Department and the Project Department in existing business areas. They will focus on heavy trucks in mines and ports, intercity buses and public transportation, and penetrate these markets quickly leveraging their strengths and resources. As of the end of 2011, the Group conducted market researches in 20 provinces and municipalities, constructed and launched 19 LNG refuelling stations with another 26 still under construction, exceeding the development goal of the year.

During the year, the proportion of vehicle gas sales over the total volume of gas sales was 13.0% and the sales revenue from vehicle gas was RMB1,620 million, representing an increase of 34.0% over the corresponding period last year.

Gas emission from vehicles is one of the major causes of pollution, especially in densely populated areas and area which is 3 meters above the ground level and has human activities. Hence, as the Chinese government puts more emphasis on the optimisation and adjustment of energy structure and environmental protection, and takes more stringent stance on the implementation of energy saving and emission reduction policies, the use of clean energy by vehicles has become a growing trend. In addition, the overwhelming economic benefits and environmental friendliness of clean energy such as natural gas as compared to vehicle-use gasoline and diesel have given immense momentum to the growth of the vehicle gas refuelling station business. In 2012, the Group will fully utilise its existing resources and network to expand the promising vehicle-use natural gas business, allowing the Group to make significant contribution to both environmental protection and its profitability.

Gas Source

Following the robust development of the natural gas industry in China in recent years, the relevant infrastructure has been developed at an unprecedented scale and the supply capacity is rising year by year. In 2011, the total consumption of natural gas in China reached 117.4 billion cubic meters, representing a year-on-year increase of about 12.0%.

The West-East Pipeline II and Qin-Shen Pipeline, which have an annual transportation capacity of 30 billion cubic meters and 8 billion cubic meters respectively, have come into full operation and started supplying gas during the year. The import LNG terminals at Rudong, Jiangsu and Dalian, Liaoning, with a capacity of 3.5 million tons and 3 million tons respectively, were completed and put into use in 2011. These projects met the growing demand for natural gas across the country and greatly relieved the excessive demand. At the moment, the national natural gas pipeline network in China, which is fundamentally formed by the West-East Pipeline I and II, Shaanxi-Beijing Pipeline I, II and III, Zhong-Wu Pipeline, Sichuan-East Pipeline, Yulin-Jinan Pipeline, Sebei-Xining-Lanzhou Pipeline, the second Sebei-Xining-Lanzhou Pipeline, Qin-Shen Pipeline, as well as branch pipelines like Hebei-Nanjing Pipeline and Huai-Wu Pipeline, has been basically completed. Meanwhile, the Chinese government planned to build a dozen LNG terminals in coastal areas and five have been put into operation. Moreover, the import LNG terminal at Ningbo, Zhejiang with a capacity of 3 million tons will be completed and launched in 2012. Other import LNG terminals at Qingdao, Zhuhai and Caofeidian of Hebei, which have capacity of 3 million tons, 3.5 million tons and 3.5 million tons respectively, will also be completed and launched in the coming years. In addition, according to the schedule of the Chinese government, a number of natural gas pipeline projects, including West-East Pipeline III and IV, Zhongwei-Guiyang Pipeline, China-Myanmar Oil and Gas Pipeline and Xinjiang-Guangdong Pipeline, will be completed and launched one by one in the coming years. This further ensures that all piped gas projects of the Group will be able to enjoy stable supply of piped gas in the long run.

Besides, relevant information shows that China is rich in unconventional natural gas resources, including shale gas, coalbed methane and coal gas. It is estimated that the reserve of these types of unconventional natural gas is more than five times of that of conventional natural gas. China will put extra efforts in developing and producing unconventional natural gas during the period of the 12th Five-Year Plan. By 2015, the volume of unconventional natural gas is expected to reach 50 billion cubic meters, further guaranteeing the domestic supply of natural gas. In general, piped gas projects of the Group are covered by guaranteed gas supply contracts with upstream suppliers. With a stable source of gas, the Group is therefore able to attract new customers.

Apart from fully utilising such extensive gas pipeline network and LNG terminals, the Group has also endeavored to search for other sources of energy supply. The operation of LNG processing plants built by the Group in Beihai, Yinchuan and Jincheng is satisfactory, with an annual production capacity of 400 million cubic meters in aggregate. On the other hand, the Group invested in the construction of natural gas processing plants in Tangshan, Hebei and Pingdingshan, Henan during the year, which will have a daily production capacity of 300,000 cubic meters and 260,000 cubic meters respectively, and are expected to be completed and start operation in 2012. This will further increase the aggregate annual production capacity of LNG processing plants to nearly 600 million cubic meters and create new gas sources for the gas projects nearby. Moreover, the Group possesses a massive non-pipeline transportation system (including LNG and CNG transportation trucks) with a one-off maximum transportation capacity of over 14 million cubic meters, making the Group one of the largest onshore gas transporters in China and allowing it to secure more stable gas supply and enjoy a higher degree of protection on gas sources.

Advanced collection system for gas usage charges

The Group continues to adopt the prepaid stored-card system for all projects. Under the system, most of the newly-connected residential households will receive a stored-value card and is required to prepay for the gas. This system can eliminate the possibility of bad debts completely and save huge administrative expenses, thus enhancing the Group's cash flow. Meanwhile, by fully utilising the informatisation program jointly developed with IBM China Company Limited ("IBM"), the Group succeeded in introducing various functions, such as the auto-accounting of connection fee charged to customers, payment to personal accounts, and printing and integration of financial vouchers.

On the other hand, some of the Group's project companies have been cooperating with local banks, convenience stores and supermarkets for the collection of gas usage charges. Collecting gas usage charges through the widespread network resources of banks and retail outlets has satisfactory results as it offers great convenience to customers.

Wholesale of Gas

In order to fully utilise the transportation capacity of our trucks, the Group will conduct natural gas wholesale business during the months with lower gas consumption every year and wholesale natural gas to large industrial customers outside the Group's projects and other downstream natural gas operators in relatively smaller scale at a profit margin lower than that of normal piped gas under the circumstances that it will not increase our capital expenditure and can better utilise the existing fleet of cars and relevant infrastructure of CNG and LNG. Given that such wholesale business would not increase our capital expenditure, profits generated from this business segment will enhance returns and create higher values for our shareholders even though it carries a lower profit margin than other businesses.

The Group wholesaled 260 million cubic meters of natural gas during the year, representing an increase of 17.1% as compared to last year and accounting for 4.9% of the total volume of gas sold.

Sales of bottled LPG

During the year, the Group sold 36,402 tons of LPG (2010: 47,919 tons), decreased by 24.0% over last year.

As the Group cut down the bottled LPG business that carries low gross profit margin, more resources can be allocated to piped gas projects. As a result, both the operational efficiency and returns to shareholders can be further enhanced.

Sales of gas appliances

In addition to offering piped gas connection services to our customers, the Group also continues to sell cooking stoves, water boilers, heaters and stored-value card gas meters. The Group operates its own production plant of stored-value card gas meters and the products are manufactured for internal use in the Group's connection business as well as sold to other gas distributors. It can lower the cost of connection, ensure collection of gas usage charges and generate additional revenue for the Group at the same time.

Sales of materials

The Group would make a substantial volume of procurement of materials in the process of pipeline construction and gas connection works and could enjoy price discount due to the bulk purchase. We would then re-sell some of these materials we purchased at low prices, and thus increasing our revenue and profits.

The materials sold by the Group during the year amounted to RMB592 million, representing an increase of 43.0% over the corresponding period last year and accounting for 3.9% of the Group's total revenue.

Gross and net profit margins

During the year, the Group's overall gross and net profit margins were 25.9% and 11.1% respectively, representing a decrease of 1.0% and 1.4% respectively as compared with last year.

The decrease in gross profit margins was mainly caused by the continuous change in the Group's revenue structure, i.e. the gradual decline of connection fee income over total revenue from 23.5% last year to 22.7%. Since the profit margins of connection fee income is substantially higher than that of gas sales and other major revenue, the shrink of the share of connection fee income in total revenue would then result in the decrease in the gross profit margins. On the other hand, the further decrease in the gross profit margins of piped gas segment was mainly attributable to the overall upward adjustment of natural gas price in China in 2010. Even though the Group was able to maintain the difference between gas purchase price and sales price at the original level, the increase in the base numbers of both purchase and sales prices caused the gross profit margins of piped gas segment to decrease by over 2.0%. Given that the sales of piped gas accounted for more than 50.0% of the total revenue, the overall gross profit margins declined accordingly.

Moreover, the decrease in the net profit margins was mainly due to the one-off expenses incurred during the year, including an expense of RMB95 million for the early redemption of USD200 million high-yield bonds issued by the Group in 2005 and the finance cost arising from the credit facilities of RMB57 million to be used for funding the proposed acquisition of China Gas Holdings Limited announced by the Group during the year.

Advanced safety operation management system

The Group has always regarded safe operation as its top priority and continued to maintain a good record of safe operation this year. Under the health, safety and environmental management system established by the Group, standardised management was applied to all production activities. Through encouraging employees to become "safety-conscious employees", both their skills and awareness on ensuring safety were greatly enhanced. The Group also fostered innovation of safety technology and promoted the application of safety equipment and technology, so that the foundation of safety operation was further strengthened. On the other hand, apart from the "3-No" Campaign (no accidents, no personal injuries and no harmful acts to the environment) during the year, the Group also launched the "Year of Safety Management" campaign, under which the safety management framework was rolled out, safety training was organised, hidden risks were addressed and safety supervision was strengthened. To ensure the Group's safe operation, the "Safety Supervision" campaign was also launched to investigate every hidden danger in the operation.

Meanwhile, for the purpose of promoting safe operation in the Group, improving the professional qualifications and expertise of employees, providing better customer services and supporting the rapid development of the Group's gas supply facilities and customer base, the Group developed three levels of capability (i.e. junior, middle and senior) for four job positions, namely workers for construction of gas sites, pipeline paving, on-site installation and maintenance of equipment, as well as gas sales representatives, in 2009. In 2011, the number of employees who gained the capability recognition was 1,927 people, adding to a total of over 6,000 recognised employees, ensuring the safe operation of the Group.

Excellent Management

In 2011, the Group focused on promoting the system application of the informatisation program to enhance operational efficiency, standardise the execution workflow and improve informatisation capability. It also continuously developed system function optimisation and online promotion, remarkably improving the application results and operational efficiency. During the year, the Group continued to promote the systems and expand the business coverage as planned. Core application systems like Enterprise Resources Planning (ERP) and Customer Care Service (CCS) were promoted in 11 group companies. Customer Relationship Management (CRM) system, mobile applications and online workflow systems were promoted in 17, 22 and 20 group companies respectively. As of the end of 2011, the Group processed over 98.0% of business through the information systems. It led to a significant enhancement in operational efficiency and increasingly highlighted the strength of informationalised management.

The Group actively explored the analysis and application methodologies of system data and developed various data analyses, including user gas consumption record data analysis, supplier procurement business data analysis, C/I customer IC card balance data analysis and the workflow system approval efficiency review, to provide a reliable basis for the decision-making in improving the management of relevant businesses. In order to strengthen risk management and control through informatisation systems, the Group developed a financial risk alert report under the system to heighten the risk aversion ability so as to manage the internal points of control of financial risks and clarify the risk warning rules.

During the year, with the continuous use of innovative management tools like balanced scorecard, the Group formulated a market and strategic performance optimisation solution and implemented it in different planning segments such as the annual strategic conference, annual business goal and financial budget planning, so as to ensure that the Group's strategies were effectively delivered to lower levels for implementation and to optimise resource allocation according to the market and strategies.

In order to reduce the financing cost arising from business expansion and allocate the capital between Group companies more effectively to achieve high liquidity, security and profitability of capital, the Group had spent enormous efforts to gain the approval of the China Banking Regulatory Commission to establish ENN Finance Co., Ltd. on 14 April 2011. The finance company serves companies within the Group and has significantly facilitated the capital allocation and enhanced the utilisation of financial resources of the Group as a result. Meanwhile, the operating cost management system, lifecycle asset management system and active risk management system which were set up during the year to facilitate reasonable cost control, enhance asset efficiency and control corporate risks had also played a significant part in achieving these goals.

In addition, to further enhance the management efficiency, the Group optimised the management authorisation system developed in 2010 and improved the management approval processes. The authorisation results were consolidated in the system and has thus ensured standardised, efficient and safe operation of our group companies.

During the year, the Group continued to strengthen the active risk management. As of the end of 2011, the active risk management model was promoted to 65 group companies, improving their ability in key risk prevention, business risk control and emergency response, and their awareness of active risk prevention. The Group also provided various risk training programs for the senior management of group companies, issued 11 guiding documents on internal control, encouraged group companies to conduct comprehensive self-evaluation for internal control and promoted reviews on key businesses and key companies, and has thus successfully enhanced the level of internal control of group companies.

Customer Service

It is always the Group's belief that quality customer service is the key for maintaining good and long term relationships between the Company and customers and the bedrock for the Group's sustainable business development. During the year, apart from the consistent use of informatisation program to provide rapid and efficient services to customers, the Group also continued with the "three-year service campaign" for 2010, 2011 and 2012 to further enhance the service quality. 2011 was the second year of the campaign. According to the ENN Energy customer satisfaction evaluation carried out by a third party company, the Group scored 87.7 points, increasing by 1.5 points as compared with 2010.

The Group started to strengthen its customer service infrastructure in 2010. During 2011, we completed the infrastructure of the service system, with 51 piped gas companies having come into operation and 10 vehicle gas companies having internalised the system manual. Besides, we also established a comprehensive service quality monitoring and evaluation system under which an evaluation model on overall service quality has been effectively applied in the service performance management of different group companies and in different regions, enabling accurate and timely feedback on the service quality in different regions. The successful implementation of the service improvement through-train project resulted in 39 improvements achieved in the year. The construction of call centre progressed steadily, with 5 regional call centres covering Beijing, Hebei, Liaoning, Shandong, Henan, Anhui, Zhejiang and Shanghai and the Dongguan System Backup and Recovery Centre being established, while regional call centres in Jiangsu, Hunan, Hubei and Guangxi are expected to complete in 2012. At the same time, the Group will improve the call centre operation and management system according to the International Customer Operations Performance Centre (COPC) standards, such that the professional management level and service capability of the Group can be enhanced.

During the year, companies within the Group continued to acquire recognition and compliments from customers and government authorities in the cities they operated for their quality customer services, and a number of group companies received awards like "Units with High Consumer Satisfaction" from the local consumer councils for several consecutive years.

All group companies are required to visit customers regularly for safety checks on their gas appliances. These measures, drawing on the concept of "prevention is better than cure", help to eliminate customers' worries on potential safety problems, and thus strengthen their confidence in our services.

Human Resources

The Group always regards its staff as its most valuable assets. We believe that consistently maintaining employees' passion and enthusiasm is the key to our advancement, and that the staff could provide satisfactory service to customers only if they are offered the opportunity of healthy development. It is also our faith that talents are the source of our competitiveness and the critical factor for continued success and future development. Hence, the Group has always attached importance to talent cultivation and recruitment.

Following the rapid growth and accelerated internationalisation of the Group, a more stringent standard has been set on the capability and qualification of staff. To enhance the capability and quality of the team, management's appraisal was linked with their performance in team building and talent cultivation. During the year, the Group continued to adopt different approaches, such as establishment of capability enhancement system, talent test and development, training and certification programs hosted by internal instructors, as well as training and development programs for senior management. All these aim at establishing a capability-based human resources system in line with the Group's strategies which will continuously enhance the capability of staff and provide necessary support for the organisation, thereby ensuring that the targets of the Group can be achieved.

First of all, in order to meet the need for operational talents required for the Group's continued rapid growth and build a young management team who deeply recognises the corporate culture and supports the strategic development of the Group, the Group has developed a distinctive training system for young management. A group of outstanding young members would be selected systematically every year to be the future leaders. In 2010, the Group selected 26 young employees to complete 11 related special training modules. Thirteen of them have been promoted as leaders after on-the-job training and evaluation. The Group picked another 21 young employees during the year who are now receiving professional training. We also continued to implement a young backbone management training program and 1,031 young leaders were selected and trained under the program.

Besides, in order to cultivate engineering talents who are responsive to changing situations and versatile, certain employees were shortlisted by the Group to pursue further study and receive training in famous colleges in China or overseas, facilitating the introduction of a talents nurturing program of masters of engineering. In addition to the training bases in Shanghai Tongji University, Chongqing University and Shandong University of Science and Technology, the Group also partnered with Harbin Institute of Technology. During the year, the second class of 57 participants started the training, while over 80 participants for the third class were selected.

As at 31 December 2011, the Group had 21,575 employees, of which 13 were based in Hong Kong while others were based in Mainland China. They were remunerated at market level with benefits that include bonus, retirement benefits, professional training and share option scheme.

Financial Resources Review

Liquidity and financial resources

As at 31 December 2011, the Group's total debts amounted to RMB10,672 million (31 December 2010: RMB6,263 million) and the bank balances and cash for the purpose of computing net gearing ratio amounted to RMB5,869 million (31 December 2010: RMB2,851 million) which include cash and cash equivalents of RMB3,349 million (31 December 2010: RMB2,851 million) and a bank deposit of RMB2,520 million (31 December 2010: nil) in the restricted bank deposits as an escrow for the pre-conditional offer as set out in the commitment section below. The Group's net gearing ratio, i.e. ratio of net debt to equity (including non-controlling interests), was 54.3% (31 December 2010: 45.3%).

Seven-year 7.375% fixed rate bonds

On 28 June 2011, the Company has completed the redemption of the 7-year bonds in aggregate principal amount of US$200 million (equivalent to RMB1,614 million) in full.

Ten-year 6% fixed rate bonds

On 13 May 2011, the Company issued 10-year bonds in the aggregate principal amount of US$750 million (equivalent to RMB4,863 million) with issue price of 99.274% and redemption price of 100%. The coupon of the bonds is 6.0%, and interests are paid semi-annually. The terms of the bonds require Mr. Wang Yusuo, the Chairman of the Company, to retain not less than 25.0% of the issued share capital of the Company throughout the term of the bonds.

As all the operations of the Group are in China, if RMB appreciates in the future, the Group will benefit from earning RMB and repaying foreign currency debts, and the costs for foreign currency debt will be lowered indirectly.

Currently, the Group's operating and capital expenditures are funded by operating cash flow, internal liquidity, bank loans and issued bonds. The Group has sufficient sources of funds and unutilized banking facilities to meet the future capital expenditure and working capital requirements.

Borrowings structure

As at 31 December 2011, the Group's total debts amounted to RMB10,672 million (31 December 2010: RMB6,263 million), including bank loans and bonds of US$878 million (equivalent to RMB5,439 million) and bank loans of HK$11 million (equivalent to RMB9 million). Apart from the US$750 million bonds, RMB1,300 million short-term debenture and RMB500 million corporate bond which bear interest at fixed coupons and other US dollar loans and HK dollar mortgage loans bear interest at floating rates, the remaining bank and other loans are denominated in Renminbi and bear interest at the interest rates announced by the People's Bank of China. The project companies used the Renminbi loans as their capital expenditure, working capital and operational expenditure. Except for the bank and other loans amount equivalent to RMB1,616 million that are secured by assets with an carrying amount equivalent to RMB94 million, all of the other loans are unsecured. Short-term loans amounted equivalent to RMB1,913 million while the remaining were long-term loans falling due after one year or above.

As all the operations of the Group are in PRC, revenues and expenses were mainly denominated in Renminbi. Hence, there were no significant foreign exchange exposures or risks. The Group will monitor the market trends of interest rates and exchange rates closely and adopt appropriate measures when necessary.

For the year ended December 31, 2010

The following management discussion and analysis of the ENN Energy Group's financial condition and results of operations is extracted from the Annual Report of the ENN Energy Group for the year ended December 31, 2010.

Industry Review

Energy Consumption Pattern in China

Following the continued rapid economic growth in China, its demand for energy is increasing. According to the preliminary estimation of the 2010 Domestic Economy and Social Development Statistics Report of the People's Republic of China, the total energy consumption in 2010 amounted to 3.25 billion tons of standard coal, up 5.9% over last year. The consumption of coal, crude oil, natural gas and electric power grew by 5.3%, 12.9%, 18.2% and 13.1% respectively over last year. The national energy consumption per unit of gross domestic product in ten-thousand dollars decreased by 4.01%.

In the current primary energy consumption pattern in China, coal and petroleum account for 69% and 20% respectively while natural gas only accounts for 3.9%. New energy like hydropower, wind power and nuclear power merely accounts for 7% in total. Currently, the environment of China cannot afford the pollution caused by the existing energy structure by far, and it is among one of the nations which tops the list in respect of emission volume of carbon dioxide and sulphur dioxide. Coal still remains a major component in the total energy consumption in China, and a large part of the demand for petroleum has to be satisfied by foreign supply. Over 80% of electric power is generated by coal. The coal-based energy structure has heightened the energy demand and the pressure on the environment, and the energy consumption pattern should be optimised in a short period to promote the development and use of natural gas, nuclear power, solar energy, wind power and other kinds of new energy. This does not only save energy and reduce emission, but is also the strategy for China to achieve sustainable economic development. In terms of energy saving and emission reduction, the coal-based energy structure poses the biggest challenge to China. The Chinese government indicated that it would further promote the optimisation and adjustment of the energy structure under the 12th Five-Year Plan, and expected the share of natural gas in primary energy consumption to raise from the current 3.9% to 8.3%, while the share of hydropower and nuclear power, and other kinds of new energy such as solar energy, wind power and biomass energy was expected to grow by 1.5% and 1.8% respectively by 2015. The share of coal in primary energy consumption should drop from the current 69% to 63% by then. By 2020, China will gradually reduce its over-dependence on coal.

In 2009, the Chinese government pledged to reduce the emission of carbon dioxide per unit of gross domestic product by 40-45% by 2020 as compared to 2005. Currently, China is taking various measures to ensure the fulfillment of this goal by 2020. At the Copenhagen Climate Change Conference, the international community reached the consensus of developing a low-carbon economy. Natural gas, a clean and efficient fossil fuel, is the bridge in the transition to new energy as well as one of the pillars of low-carbon economy. It is estimated that the carbon dioxide emission of natural gas is 41% and 28% lower than that of coal and oil respectively. Extensive development and use of natural gas will be a realistic option for countries in response to global warming and an important strategy for maintaining the energy safety of a nation and enhancing its international competitiveness.

During the period of the 12th Five-year Plan, the Chinese government will put extra efforts in developing natural gas and increasing the share of electric power generated by natural gas. To cope with the growing demand for natural gas, the Chinese government invested heavily in natural gas infrastructure. At the moment, the national natural gas pipeline network in China, which is fundamentally formed by the West-East Pipeline I and II, Shaanxi-Beijing Pipeline I, II and III, Zhong-Wu Pipeline, Sebei-Xining-Lanzhou Pipeline, Sichuan-East Pipeline, as well as two branch pipelines named Hebei-Nanjing Pipeline and Huai-Wu Pipeline, has been basically completed. According to the plan of the Chinese government, 17 natural gas pipeline projects including the West-East Pipeline III and IV and China-Myanmar Oil and Gas Pipeline will be completed and launched in the coming years. At the same time, more and more import LNG terminals will be built along the coast. The real "network era" for the natural gas industry will begin by then. On the other hand, although the consumption of natural gas is rising rapidly given the overwhelming demand, the gas reserve and facilities for peak time usage adjustments are still very insufficient. To ensure a stable natural gas supply, the Chinese government started to plan and construct a dozen natural gas storage facilities to enhance the peak time usage adjustments in winter. The construction of four storage facilities has been started and is expecting to be put into operation in 2012. In the future, the natural gas reserve is expected to account for 20% to 25% of the demand.

In light of the rapid industrialisation and urbanization of China, its urbanisation ratio is expected to increase from the current 43% to 55%-60% by 2020. Natural gas will gradually become the major fuel in the urban gas market, presenting considerable potential for the sustainable development of urban gas projects and bright market prospects.

China's policies on city piped natural gas market

As the Chinese government attaches higher importance to environmental protection and utilisation efficiency of energy, more policies encouraging the use of clean energy and optimisation of energy structure have been promulgated.

With a view to relieving the imbalanced demand and supply position of natural gas, improving the natural gas consumption pattern, and facilitating energy saving and emission reduction, the Chinese government has announced the Natural Gas Utilising Policy in 2007, which requires the state policy on natural gas utilisation to be formulated by the government in order to ensure priority in using natural gas in cities. This also helps facilitate the scientific use and orderly development of natural gas, thereby enhancing the utilisation efficiency of energy resources.

Meanwhile, in order to promote the development of circular economy, enhance the utilisation efficiency of energy resources, protect and improve the environment and achieve sustainable development, the Chinese government has promulgated the Circular Economy Promotion Law of the People's Republic of China ("Circular Economy Promotion Law") on 29 August 2008. The following is specifically regulated in the Circular Economy Promotion Law which came into effect on 1 January 2009: "the state encourages and supports enterprises to use highly efficient and oil-saving products. Enterprises in industries such as electric power, oil processing, chemical industry, steel, non-ferrous metal and building materials etc. must replace fuel oil with clean energy, such as clean coal, petroleum coke, natural gas, etc. within the scope and time limit prescribed by the state, and must stop using fuel generator sets and oil boilers that fail to satisfy the relevant state provisions".

In addition, the Chinese government issued the Opinions of State Council on Encouraging and Guiding Healthy Development of Private Investment ("Opinions") on 7 May 2010 to "encourage private investments in construction of petroleum and natural gas infrastructure; support private investments in petroleum and natural gas exploration and development, and cooperation with state-owned oil enterprises in petroleum and natural gas exploration and development; support private investments in the construction of storage, transportation and pipeline facilities and networks of crude oil, natural gas and refined oil." It further "encouraged private investments in the construction of public utilities; supported private investments in fields of urban water supply, gas supply, heating, sewage and waste treatment, public transportation and urban greening; and encouraged private investments in the reorganisation and reform of public utilities units. Eligible public utilities projects may be operated under the marketised mode and the ownership or operation rights may be transferred to private investments."

The promulgation and implementation of such laws and policies have fully demonstrated the determination of the Chinese government to encourage the use of clean energy. It is believed that with the encouragement and support of the said government policies, the Group is well positioned to secure gas supply and attract new customers, whilst showing enormous potential for the development of the natural gas industry.

Business Review

The principal businesses of the Group are gas connection, sales of piped gas, construction and operation of vehicle gas refuelling stations, distribution of bottled liquefied petroleum gas ("LPG") and sales of gas appliances.

Gas Connection

During the year, the Group continued to focus on boosting connection in existing gas projects, resulting in sustained increases in the overall connection rate every year. As a result, the revenue generated from consistently stable gas sales has become the major source of revenue of the Group.

As of 31 December 2010, the gas penetration rate for residential households of the Group's projects in China increased from 32.4% at the end of 2009 to 36.0%. With the continuous rapid growth in the number of users, the share of gas sales in the Group's overall revenue is on the rise. The Group believes that this optimised revenue structure will secure the long-term stable revenue of the Group.

As of the end of 2010, the accumulated length of intermediate and main pipelines constructed by the Group was 16,340 km, and the number of existing natural gas processing stations reached 100. With daily natural gas supply capacity of 23,970,000 cubic meters, the Group is able to meet the long term demand arising from existing natural gas projects.

Development of residential households

During the year, the Group provided natural gas connections for 875,744 residential households, up 11.1% as compared with the number of new connections recorded last year. The Group's strong ability in marketing the new natural gas connections in new and existing residential buildings during the year is the catalyst for new connections over targets. As of the end of 2010, the aggregate number of piped natural gas residential households in the Group's projects amounted to 5,419,826. If other types of piped gas residential households were included, the total number of connected piped gas residential households reached 5,618,583. Supported by the Group's 11 new project cities as well as the level of urbanisation and organic growth in population coverage in its existing project cities, the urban population coverage of the Group has grown to 46,868,000 as at the year end. According to past experience in the industry, the gas penetration rate of residential households could reach over 80% in each city, while the current gas penetration rate of the Group is only 36.0%. As such, the future development in the residential households market still has huge potential. The continual and substantial growth in the number of connected residential households each year fully demonstrated the Group's strong execution ability. During the year, the average one-off connection fee collected by the Group from its residential households was RMB2,854.

As the Chinese government has paid more attention to environmental protection and more efforts in optimising the energy structure, the explicit advantages of natural gas comparing with other forms of energy in terms of cleanliness, economic benefits, safety, convenience and environmental protection have become more obvious. On the other hand, since the series of policies introduced by the central government of China ensuring the priority in use of natural gas by residential households under all circumstances has guaranteed stability and reliability in use of gas, natural gas has gained higher popularity among governments and consumers, and has become their first preference for activities such as cooking, boiling water and bathing. Also, driven by the year-by-year growth in natural gas supply and the phased completion and operation of long distance pipelines covering the whole country, gas sources have been further secured. Given the Group's capability in raising the gas penetration rate of its projects, all these factors encouraged connection of piped natural gas in new and existing buildings and stimulate the stable yearly growth in the gas penetration rate of the Group.

Development of Commercial/Industrial ("C/I") Customers

During the year, the Group provided natural gas connections for 4,178 commercial/industrial customers (connected to gas appliances with total installed designed daily capacity of 4,619,944 cubic meters) and the average connection fee was RMB177 per standard cubic meter. As of the end of 2010, the aggregate number of piped natural gas C/I customers covered by the Group's projects amounted to 17,767 (connected to gas appliances with total installed designed daily capacity of 17,649,198 cubic meters). If the users of other types of piped gas C/I customers were included, the total number of connected piped gas C/I customers reached 18,424 (connected to gas appliances with total installed designed daily capacity of 18,175,160 cubic meters).

The Circular Economy Promotion Law promulgated by the Chinese government in 2009 expressly stipulated that critical industrial customers with high energy consumption must abandon and replace the use of polluting energy (e.g. petroleum) with clean energy (e.g. natural gas). It also required the adequate utilisation of solar energy and wind power in the architectural design, building and construction processes. Moreover, developing low-carbon economy has already become a global consensus for different countries in the world to achieve sustainable growth. The Chinese government has also kept on promoting the advantages of energy saving and emission reduction. Limitation on use of electricity was even imposed to meet the target of energy saving and emission reduction, which affected the normal operation of some enterprises. In formulating long-term development plans for energy resources, vigorous promotion of the use of natural gas, a clean and efficient source of energy, is one of the best options for building a low-carbon economy and achieving the goal of energy saving and emission reduction.

New Projects

During the year, the Group secured 11 new projects in China, including Huadu District in Guangzhou, Fengkai County, Luoding City, Huaiji County, Guangning County, Xinyi City and Lianzhou City in Guangdong Province, Huaihua City, Changsha County and Zhuzhou County in Hunan Province, and Wenshan City in Yunnan Province, thus increasing the number of gas project cities to 90. The connectable population also grew to 46,868,000 (approximately 15,623,000 households). Among the projects secured during the year, the economic development of Huadu District in Guangzhou, Guangdong well surpasses the national average level, with automobile, port and jewelry as the pillar industries. The other 6 projects in Guangdong Province are also located in areas with a high level of industrial and commercial development, in particular industries facilitating the development of natural gas, including electronics, textile, chemical, mineral processing, paper-making and mechanical processing. The pillar industries of Huaihua City in Hunan Province include medical and pharmaceutical, chemical and food processing industries, which allow the Group to expand the scope of gas sales. As our existing Changsha and Zhuzhou projects are in close proximity to Changsha and Zhuzhou Counties in Hunan Province, the Group could fully utilise its existing resources to supply natural gas to these projects at low costs. The Wenshan project was the Group's first project in Yunnan Province and the city has relatively well-developed medical and pharmaceutical, tobacco and agricultural product processing industries. The construction of the Myanmar-Yunnan natural gas pipeline has commenced and is expecting to be completed in 2012. This will support the long-term gas supply to Yunnan Province and the acquisition of the Yunnan project would be favourable to the further expansion of the Group's business in that province.

In the meantime, the Group cooperated with The Vietnam Oil and Gas Group (PetroVietnam) during the year and established a joint venture. The group is the largest shareholder of the joint venture by acquiring 43.89% of its equity interest through equity investment, and the joint venture will develop piped gas and vehicle gas refuelling businesses in Vietnam. At the initial stage, the Group will first begin operation in Hanoi, Ho Chi Minh and Da Nang, which are the most economically developed cities of Vietnam and have huge demand for gas. These three cities have a total connectable population of 8,920,000. Being an emerging market without any natural gas pipeline operation itself, Vietnam demonstrates a huge development potential and considerable growth rate. Such cooperation represented the first step of our international business. In late 2010, the joint venture went public on the Vietnam Stock Exchange, creating a smooth financing channel for the project and supporting its long-term development.

Sales of piped gas

During the year, the Group's total sales volume of piped gas was 4,149,356,000 cubic meters, up 41.1% when compared with last year, of which 3,807,605,000 cubic meters was contributed by sales of natural gas, representing a year-on-year increase of 44.7%. The proportion of piped gas sold to residential households, C/I customers and vehicle customers amounted to 15.4%, 72.1% and 12.5% respectively, representing an increase of 23.2%, 47.1% and 34.0% as compared with last year. Since the Group adjusted its development strategy and focused on increasing the gas penetration rate in the past few years, the sales volume of piped gas has been increasing continuously, making revenue from gas sales the major source of income of the Group. The percentage of revenue from gas sales over total revenue significantly increased from 68.6% last year to 72.0%, showing that the Group has now possessed a more stable and long-term revenue base and has reduced its reliance on one-off connection fees, therefore improving and optimising its revenue structure. Given that the overall gas penetration rate of residential households remains at a rather low level of 36.0%, the Group will continue to boost the gas penetration rate of residential households. On the other hand, the consistent growth in China's economy and the stringent execution of the government's energy saving and emission reduction policies also create more potential C/I customers for new connections while the development of environmentally friendly vehicles in China will be able to bring along more opportunities for building natural gas vehicle refuelling stations. It is expected that the share of gas sales in total revenue of the Group will further increase and such development will deliver long-term and stable cash flow to the Group.

Construction and operation of vehicle gas refuelling stations

During the year, the Group continued to regard vehicle gas refuelling business as one of its core businesses. The number of vehicle gas refuelling stations completed and started operation was 30 during the year, adding to a total of 192 vehicle gas refuelling stations located in 46 cities of the state, among which 12 were not gas project cities of the Group. In addition, as of the end of 2010, the number of vehicle gas refuelling stations which have obtained construction approval from the local governments has accumulated to 385. This year, the Group has completed the conversion of 7,630 taxies and 294 buses into natural gas vehicles, adding to a total number of 31,031 taxies and 1,385 buses using natural gas. The proportion of vehicle gas sales over the total volume of gas sales was 12.5%.

Gas emission from vehicles is one of the major causes of pollution, especially in densely populated area and area which is 3 meters above the ground level and has human activities. Hence, as the Chinese government puts more emphasis on the optimisation and adjustment of energy structure and environmental protection, and takes more stringent stance on the implementation of energy saving and emission reduction policies, the use of clean energy by vehicle has become a growing trend. In addition, the overwhelming economic benefits and environmental friendliness of clean energy such as natural gas and dimethyl ether as compared to vehicle-use gasoline and diesel has given immense momentum to the growth of the promising vehicle refuelling station business. In 2011, the Group will fully utilise its existing resources and network to expand the vehicle/ship-use LNG business which has even brighter prospects, allowing the Group to make significant contribution to both environmental protection and its profitability.

Gas source

Following the robust development of the natural gas industry in China, the relevant infrastructure has been developed at an unprecedented scale and the supply capacity is rising year by year. In 2010, the total consumption of natural gas in China exceeded 100 billion cubic meters for the first time, reaching 104.8 billion cubic meters and representing a year-on-year increase of 18.2%.

The West-East Pipeline II, Sichuan-East Pipeline and Shaanxi-Beijing Pipeline III, which have an annual transportation capacity of 40 billion cubic meters, 12 billion cubic meters and 15 billion cubic meters respectively, started supplying gas during the year. Coupled with the growth in imported natural gas, the growing demand for natural gas has received strong support and the excessive demand has also been greatly relieved. At the moment, the national natural gas pipeline network in China, which is fundamentally formed by the West-East Pipeline I and II, Shaanxi-Beijing Pipeline I, II and III, Zhong-Wu Pipeline, Sichuan-East Pipeline, Sebei-Xining-Lanzhou Pipeline, as well as two branch pipelines named Hebei-Nanjing Pipeline and Huai-Wu Pipeline, has been basically completed. In addition, according to the schedule of the Chinese government, 17 natural gas pipeline projects including West-East Pipeline III and IV and China-Myanmar Oil and Gas Pipeline will be completed and launched one by one in the coming years. Moreover, the Chinese government planned to build a dozen LNG terminals in coastal areas and three have been put into operation. The other two terminals with a capacity of 3.5 million tons and 3 million tons respectively will be completed and put into operation in 2011. This further ensures that all piped gas projects of the Group will be able to enjoy stable supply of piped gas in the long run. Meanwhile, China will put extra efforts in developing and producing unconventional natural gas (including coalbed methane, shale gas and coal gas). By 2015, the volume of unconventional natural gas is expected to exceed 50 billion cubic meters, further guaranteeing the domestic supply of natural gas. In general, piped gas projects of the Group are covered by guaranteed gas supply contracts with upstream suppliers. With a stable source of gas, the Group is therefore able to attract new customers.

Apart from fully utilising such extensive gas pipeline network and LNG terminals, the Group has also endeavored to search for other sources of energy supply. The operation of LNG processing plants built by the Group in Beihai, Yinchuan and Jincheng is satisfactory, with an annual production capacity of 400 million cubic meters in aggregate. On the other hand, the construction of phase II of the Jincheng project will be commenced in 2011 and it is expected to start operation in late 2011. This will further increase the aggregate annual production capacity of LNG processing plants to 470 million cubic meters and create new gas sources for the Group. Moreover, the Group possesses a massive non-pipeline transportation system (including LNG and CNG transportation trucks) with a one-off maximum transportation capacity of over 5.5 million cubic meters, allowing the Group to secure more stable gas supply and enjoy a higher degree of protection on gas sources.

Advanced collection system for gas usage charges

The Group continues to adopt the prepaid stored-card system for all projects. Under the system, every newly-connected residential household will receive a stored-value card and is required to prepay for the gas. This system can eliminate the possibility of bad debts completely and save huge administrative expenses, thus enhancing the Group's cash flow. Meanwhile, by fully utilising the informatisation program jointly developed with IBM China Company Limited ("IBM"), the Group succeeded in introducing various functions, such as the auto-accounting of connection fee charged to customers, payment to personal accounts, and printing and integration of financial vouchers.

On the other hand, some of the Group's project companies have been cooperating with local banks, convenience stores and supermarkets for the collection of gas usage charges. Collecting gas usage charges through the widespread network resources of banks and retail outlets has satisfactory results as it offers great convenience to customers.

Sales of bottled LPG

During the year, the Group sold 47,919 tons of LPG (2009: 357,364 tons), decreased by 86.6% over last year.

As the Group reduced the bottled LPG business that carries low gross profit margin, more resources can be allocated to piped gas projects. As a result, both the operational efficiency and returns to shareholders can be further enhanced.

Sales of gas appliances

In addition to offering piped gas connection services to our customers, the Group also continues to sell cooking stoves, water boilers, heaters and stored-value card gas meters. The Group operates its own production plant of stored-value card gas meters and the products are manufactured for internal use in the Group's connection business as well as sold to other gas distributors. It can lower the cost of connection, ensure collection of gas usage charges and generate additional revenue for the Group at the same time.

Gross and net profit margins

During the year, the Group's overall gross and net profit margins were 26.9% and 12.5% respectively, representing that the gross profit margins has dropped by 3.3% as compared with last year, while the net profit margins remained at a similar level as last year.

The decrease in gross profit margins was mainly caused by the continuous change in the Group's revenue structure, i.e. the gradual decline of connection fee income over total revenue from 30.4% last year to 27.2%. Since the profit margins of connection fee income is substantially higher than that of piped gas sales, the shrink of the share of connection fee income in total revenue would then result in the decrease in the gross profit margins. On the other hand, in order to attract more major customers with heavy gas consumption (i.e. C/I customers) to use natural gas, the Group continues to offer them with discounts on connection fee charges which also attributed to the decrease in the overall profit margins of connection fee. During 2010, the Chinese government has announced its decision to raise the wellhead price of natural gas. As it takes time for the Group to transfer the increase in price to end users, such time difference caused the profit margins of gas sales to decline which in turn attributed partially to the decrease in the overall profit margins of the Group. Furthermore, during the year, the Group continued its strategy to substantially reduce the bottled LPG business which generates substantially lower profits. As a result, the sales of LPG decreased by 73.2% during the year and it helped increase the overall gross profit margins of the Group.

Advanced safety operation management system

The Group always regards safe operation as its top priority and continued to maintain a good record of safe operation this year. Under the health, safety and environmental management system established by the Group, standardised management was applied to all production activities. Through encouraging employees to become "safety-conscious employees", both their skills and awareness on ensuring safety were greatly enhanced. The Group also fostered innovation of safety technology and promoted the application of safety equipment and technology, so that the foundation of safety operation was further strengthened. On the other hand, the Group launched the "year of safe operation" during the year and continued to promote the "3-No Campaign" (no accidents, no personal injuries and no harmful acts to the environment) and executed various controlling measures, ensuring the safe operation of the Group and setting a role model in the industry for running a standardised and modern management system of safe operation.

Meanwhile, for the purpose of promoting safe operation in the Group, improving the professional qualifications and expertise of employees, providing better customer services and supporting the rapid development of the Group's gas supply facilities and customer base, the Group developed 3 levels of capability (i.e. junior, middle and senior) for 4 job positions, namely workers for construction of gas sites, pipeline paving, on-site installation and maintenance of equipments, as well as gas sales representatives, in 2009. The capability recognition program was implemented in 8 group companies on a trial basis in 2009 and was introduced to another 51 group companies during the year. This year, 4,247 employees attained junior and medium levels, adding to a total of 4,592 employees. In 2011, the Group will continue to offer more professional training to help more employees achieve a higher level of capability, ensuring the safe operation of the Group.

Excellent management

During the year, the informatisation program jointly developed by the Group and IBM made good progress and was implemented in group companies according to the schedule. Core application systems like Enterprise Resources Planning (ERP) and Customer Care Service (CCS) for were launched in 30 group companies, document circulation platform was implemented in 61 group companies, Customer Care Management (CRM) system was set up in 6 group companies while Plant Maintenance (PM) and Health, Safety and Environment (HSE) systems were launched in 4 group companies. As of the end of 2010, the Group has developed online business systems for a total of 153 group companies, enabling them to process over 90% of business through the information system and leading to a significant enhancement in the operational efficiency. As such, an information system for the purpose of strategic performance was built during the year, realising the real-time online integration of different categories of business figures such that various categories of business figures and the corresponding analysis reports are accessible by the management at anytime. Moreover, to enhance the cost effectiveness and promote operation excellence, the Group combined the activity-based costing management tools with information system and achieved satisfactory results. It also enabled performance review meetings to be conducted online with access to real-time figures. As a result, the benefit of high efficiency brought by informatisation has established a strong foundation to support the decisions of the Group.

During the year, with the continued use of refined management tools such as the balanced scorecard, strategies of the Group were passed on from upper levels to lower levels, and each employee was required to submit action plans according to the strategy of the organisation such employee works in. Appraisals would also be done on the actual results of the work compared with the employee's own action plan. This guaranteed consistency of goals between organisation level and individual level, ensured speedy conveying and effective implementation of the Group's strategies, and also greatly enhanced the capability of staff.

Besides, to further enhance the management efficiency and ensure standardised, efficient and safe operation of various group companies, the Group introduced a comprehensive authorisation system this year to clarify and determine the authority of each level of management and specify the duties of the management, realising differentiated authorisation. It defined 352 management approval processes, guided 70 group companies through the internalisation of management authorisation system, solidified the document circulation platform and enhanced the execution results of the authorisation system.

During the year, the Group initiated active risk management and put extra efforts in monitoring and predicting risks, and identifying, tracking and handling of material risks. It also enhanced the risk aversion capability of group companies, promoted the risk management model to 50 group companies, conducted research on material risks, initiated communication on corresponding strategy, helped group companies improve their operational risk control, as well as incorporated key material risks in the performance appraisal at company level so as to facilitate implementation and improvement.

Customer service

It is always the Group's belief that quality customer service is the key for maintaining good and long term relationships between the Company and customers and the bedrock for the Group's sustainable business development. During the year, apart from the consistent use of informatisation program to provide rapid and efficient services to customers, the Group also commenced a "three-year service campaign" for 2010, 2011 and 2012 to further enhance the service quality. During the year, the Group improved the infrastructure of customer service and raised the customer service awareness of its people to develop an all-round, full-flow, one-stop and personalised service model. The Group also prepared and published the service system manual, initiated promotion and implementation plans, internalised the system for group companies and conducted assessment and verification. By setting up an integrated service standard evaluation model, the Group modified the customer complaint and service feedback system, and carried out satisfaction survey and mystery shopper assessment. The establishment of both the monitoring and evaluation systems made new progress. Moreover, on top of the national customer service centres, service support centres, service supervision centres and national call centres set up in 2009, the Group planned to set up 7 regional call centres, of which 4 have already been completed while the rest will be completed by 2012. With the call centre management model complying with the International Customer Operations Performance Centre (COPC) standards developed and put in place, the professional management level and service capability of the Group were significantly enhanced.

During the year, companies within the Group continued to acquire recognition and compliments from customers and government authorities in the cities they operated for their quality customer services, and a number of group companies have obtained awards like "Units with High Consumer Satisfaction" from the local consumer councils for several consecutive years. Furthermore, certain outstanding employees received the titles "Pioneers of Work Labors in National Transport and Construction System", "Municipal May 1 Labour Medalist" and "Model Labor in the Municipality" in recognition of their excellent performance in customer service.

All group companies are required to visit customers for safety checks on their gas appliances twice a year. These measures, drawing on the concept of "prevention is better than cure", help to eliminate customers' worries on potential safety problems, and thus strengthen their confidence in our services.

Human Resources

The Group always regards its staff as its most valuable assets. We believe that consistently maintaining employees' passion and enthusiasm is the key to our advancement, and that the staff could provide satisfactory service to customers only if they are offered the opportunity of healthy development. It is also our faith that talents are the source of our competitiveness and the critical factor for continued success and future development. Hence, the Group has always attached importance to talent cultivation and recruitment.

As usual, the Group provided newly recruited staff with induction training, learning opportunity as well as heart-warming care in daily lives. All these measures enable new members to master the business operation of the Group and understand the corporate culture.

In order to maintain our sustainable rapid growth and build a young management team who deeply recognises the corporate culture and supports the strategic development of the Group, during the year we have preliminarily established a distinctive training system for young management. A group of outstanding young members would be selected systematically every year to be the future leaders. During the year, the Group selected 27 young employees to complete 5 related special training modules. We also formulated and implemented a young management training program and 896 young leaders were selected.

Following the rapid growth and accelerated internationalisation of the Group, a more stringent standard has been set on the capability and qualification of staff. To enhance the capability and quality of the team, management's appraisal was linked with their performance in team building and talent cultivation. Also, in order to cultivate talents who are responsive to changing situations and versatile, certain employees were shortlisted by the Group to pursue further study and receive training in famous colleges in China or overseas. A master's program in engineering was also introduced with Shanghai Tongji University, Chongqing University and Shandong University of Science and Technology as the training bases. The first 36 participants were selected and already commenced the course, while another 57 participants have been selected. The Group also promoted the "competency grading system for staff at the basic level" to widen the career paths of staff at lower levels.

During the year, the Group continued to adopt different approaches, such as establishment of capability enhancement system, talent test and development, training and certification programs hosted by internal instructors, as well as training and development programs for senior management. All these aim at establishing a capability-based human resources system in line with the Group's strategies which will continuously enhance the capability of staff and provide necessary support for the organisation, thereby ensuring that the targets of the Group can be achieved.

As at 31 December 2010, the Group had 19,111 employees, of which 11 were based in Hong Kong while others were based in Mainland China. They were remunerated at market level with benefits that include bonus, retirement benefits, professional training and share option scheme.

Financial Resources Review

Liquidity and financial resources

As at 31 December 2010, the Group's cash on hand was equivalent to RMB2,851,300,000 (31 December 2009: RMB2,712,661,000), and its total debts was equivalent to RMB6,262,913,000 (31 December 2009: RMB5,884,509,000). Its net gearing ratio, i.e. the ratio of net debt to equity (including non-controlling interests), was 45.2% (31 December 2009: 49.4%).

Seven-year 7.375% fixed rate bonds

On 5 August 2005, the Company issued 7-year bonds in the aggregate principle amount of US$200,000,000 (equivalent to RMB1,614,040,000) with issue price and redemption price of 100%, which are unconditionally and irrevocably guaranteed by the guarantor subsidiaries. The guarantor subsidiaries are wholly-owned subsidiaries of the Company and are primarily holding companies that operate through subsidiaries. The coupon of the bonds is 7.375%, and interests are paid semi-annually.

As all the operations of the Group are in China, if RMB appreciates in the future, the Group will benefit from earning RMB and repaying foreign currency debts, and the costs for foreign currency debt will be lowered indirectly.

Currently, the Group's operating and capital expenditures are funded by operating cash flow, internal liquidity, bank loans and issued bonds. The Group has sufficient sources of funds and unutilised banking facilities to meet the future capital expenditure and working capital requirements.

Borrowings structure

As at 31 December 2010, the Group's total debts amounted to RMB6,262,913,000 (31 December 2009: RMB5,884,509,000), including bank loans and bonds of US$375,000,000 (equivalent to RMB2,474,905,000) and bank loans of HK$13,401,000 (equivalent to RMB11,404,000). Apart from the US$200,000,000 bonds and RMB800,000,000 short-term debenture which bear interest at fixed coupons and other US dollar loans and HK dollar mortgage loans bear interest at floating rates, the remaining bank and other loans are denominated in Renminbi and bear interest at the interest rates announced by the People's Bank of China. The project companies used the Renminbi loans as their capital expenditure, working capital and operational expenditure. Except for the bank and other loans amount equivalent to RMB1,431,858,000 that are secured by assets with an carrying amount equivalent to RMB48,861,000, all of the other loans are unsecured. Short-term loans amounted equivalent to RMB2,379,349,000 while the remaining were long-term loans falling due after one year or above.

As all the operations of the Group are in PRC, revenues and expenses were mainly denominated in Renminbi. Hence, there were no significant foreign exchange exposures or risks. The Group will monitor the market trends of interest rates and exchange rates closely and adopt appropriate measures when necessary.

For the year ended December 31, 2009

The following management discussion and analysis of the ENN Energy Group's financial condition and results of operations is extracted from the Annual Report of the ENN Energy Group for the year ended December 31, 2009.

Industry Review

Energy consumption pattern in China

Currently, the environment of China cannot afford the pollution caused by the existing energy structure by far, and it is among one of the nations which tops the list in respect of emission volume of carbon dioxide and sulphur dioxide. According to the data disclosed in the 2009 Domestic Economy and Social Development Statistics Report of the People's Republic of China ("PRC"), the total annual consumption of energy in China increased by 6.3% as compared to last year. The consumption volume of coal for the year amounted to 3.0 billion tons (up 9.2% over last year); crude oil amounted to 380 million tons (up 7.1% over last year); natural gas amounted to 88.7 billion cubic meters (up 9.1% over last year) while that of electric power was 3,697.3 billion kWh, an increase of 6.2%. On the other hand, China's energy consumption per unit of gross domestic product in ten-thousand dollars decreased by 2.2% during the year.

Coal still remains a major component in the total energy consumption in China, and a large part of the demand for petroleum has to be satisfied by foreign supply. Over 80% of the electric power in China comes from coal. These show that the energy consumption pattern is in an urgent need of improvement so that the development of natural gas, solar energy, wind power, nuclear power and other forms of new energy can be boosted to facilitate energy saving and emission reduction. This is also a strategic option for achieving sustainable growth in the economy of China. As for energy saving and emission reduction, the greatest challenge for China is that its main source of energy comes from coal. In the energy consumption pattern in China, coal accounts for 69% of the primary energy while petroleum accounts for 20% only, not to mention natural gas which accounts for 3.4% and new energy such as hydropower, wind power and nuclear power which merely accounts for 7% in aggregate. Despite the fact that the production capacity of natural gas increased by 15% per annum in the past decade, making China one of the countries which enjoy the fastest growth in the production capacity and consumption level of natural gas, the total volume of capacity is still at a rather low level. Hence, it is imperative to enhance the consumption of natural gas. Currently, laws and regulations such as the Law on Renewable Energy Resources and the Mid- to Long Term Development Plan for Renewable Energy Resources has already been promulgated in China to explicitly specify the goals and directions for optimising the consumption pattern of energy. During the year, the Chinese government has announced its decision to reduce the emission of carbon dioxide per unit of gross domestic product by 40%-45% by 2020, as compared to the rate in 2005. The government is now in the process of introducing various measures to guarantee that such target can be achieved by 2020.

As one of the major types of clean energy specifically promoted by the Chinese government and also one of the best options for building a low-carbon economy, natural gas has achieved robust growth in consumption in recent years. China's natural gas consumption volume increased from 24.5 billion cubic meters in 2000 to 88.7 billion cubic meters in 2009, representing an average compound growth rate of 15% per annum. The government has already explicitly prescribed the use of natural gas as the main source of energy in urban gas utilisation.

In order to promote the natural gas industry, the Chinese government has made significant investment in developing natural gas infrastructure to meet the growing demand for natural gas. At the moment, the national natural gas pipeline network in China, which is fundamentally formed by the West-East Pipeline, Shaanxi-Beijing Pipeline I and II, Zhong-Wu Pipeline, Sebei-Xining-Lanzhou Pipeline, as well as two branch pipelines named Hebei-Nanjing Pipeline and Huai-Wu Pipeline, has been basically completed. The western section and major parts of the eastern section of the West-East Pipeline II and the Sichuan-East Pipeline are expected to come into full operation in 2010, hence further strengthening the annual transportation capacity of natural gas by 52 billion cubic meters. In addition, according to the schedule of the Chinese government, 17 natural gas pipeline projects including West Pipeline IV, China-Myanmar Pipeline and Shaanxi-Beijing Pipeline III will be completed and launched one by one by the end of 2015, while at the same time more and more import LNG terminals will be built along the coast. The real "network era" for the natural gas industry will begin by then. On the other hand, although the consumption of natural gas is rising rapidly given the overwhelming demand, the gas reserve and facilities for peak time usage adjustments are still very insufficient. In 2010, the Chinese government will accelerate the pace of planning and kick off the construction of numerous natural gas storage facilities according to the seasonal consumption of natural gas, so that the peak time usage adjustments in winter will be enhanced.

It is also expected that, in 2020, the urbanisation ratio in China will be increased to 55%-60% from the recent level of 43%, and natural gas will gradually become the major fuel in the urban gas market, therefore providing tremendous potential for sustainable development for urban gas projects. A promising prospect is foreseeable for this business.

China's policies on city piped natural gas market

As the utilisation efficiency of energy resources gains higher attention from the Chinese government, more and more policies which encourage the use of clean energy resources and optimisation of energy structure has been promulgated.

With a view to relieving the imbalanced demand and supply position of natural gas, improving the natural gas consumption pattern, facilitating energy saving and emission reduction, the Chinese government has announced the Natural Gas Utilising Policy in 2007, which requires the state policy on natural gas utilisation to be formulated by the government in order to ensure priority in using natural gas in cities. This also helps facilitating the scientific use and orderly development of natural gas, thereby enhancing the utilisation efficiency of energy resources.

Meanwhile, in order to promote the development of circular economy, enhance the utilisation efficiency of energy resources, protect and improve the environment and achieve sustainable development, the Chinese government has promulgated the Circular Economy Promotion Law of the People's Republic of China ("Circular Economy Promotion Law") on 29 August 2008. The following is specifically regulated in the Circular Economy Promotion Law which comes into effect on 1 January 2009: "the state encourages and supports enterprises to use highly efficient and oil-saving products. Enterprises in such industries as electric power, oil processing, chemical industry, steel, non-ferrous metal and building materials etc. must replace fuel oil with clean energy, such as clean coal, petroleum coke, natural gas, etc. within the scope and time limit prescribed by the state, and must stop using fuel generator sets and oil boilers that fail to satisfy the relevant state provisions".

On the other hand, as further expressly specified in a paper titled General Missions and Requirements on Energy Resources Issue in China 2010 published by the government, it is the aim of the government to increase the share of natural gas in the primary energy consumption pattern and change the structure of energy in China by facilitating the development and use of natural gas through introducing a series of measures such as exploring more natural gas fields, promoting the use of natural gas resources from foreign countries, accelerating the construction of domestic natural gas pipeline network and strengthening gas reserves.

The promulgation and implementation of such laws and policies have fully demonstrated the determination of the Chinese government to encourage the use of clean energy. It is believed that with the encouragement and support of the said government policies, the Group is well positioned to secure gas supply and attract new customers, whilst showing enormous potential for development in the natural gas industry.

Business Review

The principal businesses of the Group are gas connection, sales of piped gas, construction and operation of vehicle gas refuelling stations, distribution of bottled liquefied petroleum gas ("LPG") and sales of gas appliances.

Gas connection

During the year, the Group continued to focus on boosting connections in existing gas projects, resulting in sustained considerable increases in the overall connection rate every year. As a result, the revenue generated from consistently stable gas sales has become the major source of revenue of the Group.

As of 31 December 2009, the gas penetration rate for residential households of the Group has increased from 27.0% at the end of 2008 to 32.4%. With the continuous rapid growth in the number of users, the share of gas sales in the Group's overall revenue is on the rise. The Group believes that this optimised revenue structure will secure the long-term stable revenue of the Group.

As of the end of 2009, the accumulated length of intermediate pipelines and main pipelines constructed by the Group was 14,126 km, and the number of existing natural gas processing stations reached 94. With a daily natural gas supply capacity of 14,637,700 cubic meters, the Group is able to meet the long term demand arising from existing natural gas projects.

Development of residential households

During the year, the Group provided natural gas connections for 788,281 residential households, up 11.0% as compared with the number of new connections recorded last year, exceeding the original business target set for the whole year. Contribution from the recovery in property market and the Group's strong ability in marketing the new natural gas connections in existing residential buildings during the year are the catalysts for new connections over targets. As of the end of 2009, the aggregate number of piped natural gas residential households amounted to 4,536,753. If other types of piped gas residential households were included, the total number of connected piped gas residential households reached 4,706,663. Supported by the increased number of new project cities as well as the level of urbanisation and organic growth in population coverage in its existing project cities, the urban population coverage of the Group has grown to 43.6 million as at the year end. According to past experience in the industry, the gas penetration rate of residential households could reach over 80% in each city, while the current gas penetration rate of the Group is only 32.4%. As such, the future development in the residential households market still has very large potential. The continual and substantial growth in the number of connected residential households each year fully demonstrated the Group's capability in raising the gas penetration rate of project cities. During the year, the average one-off connection fees collected by the Group from its residential households was RMB2,682.

As the Chinese government has paid more attention to environmental protection and more efforts in optimising the energy structure, the explicit advantages of natural gas comparing with other forms of energy in terms of cleanliness, economic benefits, safety, convenience and environmental protection have become more and more obvious. On the other hand, since the series of policies introduced by the central government of China ensuring the priority in use of natural gas by residential households under all circumstances has guaranteed stability and reliability in use of gas, natural gas has gained higher and higher popularity among governments and consumers, and has become their first preference for activities such as cooking, boiling water and bathing. Also, driven by the year-by-year growth in natural gas supply and the phase-by-phase completion and operation of long distance pipelines covering the whole country, gas sources have been further secured. All these factors contributed to encourage connection of piped natural gas in new and existing buildings and stimulate the stable yearly increase in gas penetration rate.

Development of Commercial/Industrial ("C/I") Customers

The Circular Economy Promotion Law promulgated by the Chinese government and becoming effective during the year expressly stipulates that critical industrial customers with high energy consumption must abandon and replace the use of polluting energy (e.g. petroleum) with clean energy (e.g. natural gas). It also requires the adequate utilisation of solar energy and wind power in the architectural design, building and construction process. Moreover, developing low-carbon economy has already become a common target for different countries in the world to achieve sustainable growth. The Chinese government has also kept on promoting the advantages of energy saving and emission reduction. In formulating long-term development plans for energy resources, vigorous promotion of the use of natural gas, a clean and efficient source of energy, is one of the best options for building a low-carbon economy and achieving the goal of energy saving and emission reduction.

During the year, the Group provided natural gas connections for 2,715 new C/I customers (connected to gas appliances with a total installed designed daily capacity of 3,961,090 cubic meters). The average connection fee was RMB192 per standard cubic meter. As of the end of 2009, the Group has provided piped natural gas for 13,583 C/I customers (connected to gas appliances of a total installed designed daily capacity of 13,024,142 cubic meters). If the users of other types of piped gas were included, the Group has accumulated 14,020 C/I customers (connected to gas appliances with a total installed designed daily capacity of 13,486,437 cubic meters).

New Projects

During the year, the Group secured 7 new projects, including Sihui City in Guangdong Province, Yongchun County in Quanzhou City of Fujian Province, Luan County in Hebei Province, Yichuan County in Henan Province, Longyou County and Nanxun County in Huzhou City of Zhejiang Province and Sanghai Development Zone in Nanchang City of Jiangxi Province, thus increasing the number of gas project cities to 79. The connectable population also grew to 43,570,000 (approximately 14,520,000 households). Projects secured this year were located in areas with a higher level of industrial and commercial development. Among these projects, Sanghai Development Zone in Nanchang, Jiangxi Province was the Group's first gas project in that province and thus possessed strategic implication. The remaining 6 projects were located in peripheral towns and cities near existing gas projects, and are therefore able to fully utilise existing resources of the Group to reduce project management and operational costs, thereby enhancing future gas sales of the Group.

Sales of piped gas

During the year, the Group's total sales volume of piped gas was 2,939,832,000 cubic meters, up 14.3% when compared with last year, of which 2,631,502,000 cubic meters was contributed by sales of natural gas, representing an year-on-year increase of 19.6%. The proportion of piped gas sold to residential households, C/I customers and vehicle customers amounted to 17.7%, 69.1% and 13.2% respectively, representing an increase of 23.6%, 11.8% and 16.3% as compared with last year. Since the Group adjusted its development strategy and focused on increasing the gas penetration rate in the past few years, the sales volume of piped gas has been increasing continuously, making revenue from gas sales the major source of income of the Group. After the Group reduced its bottled LPG business substantially, the percentage of revenue from gas sales over total revenue still attained 68.6%. This entirely demonstrated that the Group has now possessed a more stable and long-term revenue base and has reduced its reliance on one-off connection fees gradually, therefore improving and optimising its revenue structure. Given that the overall gas penetration rate of residential households remains at a rather low level of 32.4%, the Group will continue to boost the gas penetration rate of residential households. On the other hand, the consistent growth in China's economy also creates more potential C/I customers for new connections, while the development of environmental friendly vehicles will be able to bring along more opportunities for building natural gas vehicle refuelling stations. It is expected that the share of gas sales in total revenue of the Group will further increase and such development will deliver long-term and stable cash flow to the Group.

Construction and operation of vehicle gas refuelling station

During the year, the Group continues to regard vehicle gas refuelling business as one of its core businesses. The number of vehicle gas refuelling stations completed and started operation was 34 during the year, adding to a total of 162 vehicle gas refuelling stations located in 44 cities of the state, among which nine were not gas project cities of the Group. In addition, as of the end of 2009, the number of vehicle refuelling stations which have obtained construction approval from the local governments has accumulated to 361. In 2009, the Group has completed the conversion of 5,425 taxis and 267 buses into natural gas vehicles, adding to a total number of 23,401 taxis and 1,091 buses using natural gas. This contributes to the increase in the proportion of vehicle gas sales over the total volume of gas sales to 13.2%.

Gas emission from vehicles is one of the major causes of pollution, especially in area with dense population and area which is 3 meters underneath the ground and has human activities. Hence, as the Chinese government puts more emphasis on the optimisation and adjustment of energy structure and environmental protection, and takes more stringent stance on the implementation of energy saving and emission reduction policies, the use of clean energy by vehicle has become a growing trend. In addition, the overwhelming economic benefits and environmental friendliness of clean energy such as natural gas and dimethyl ether ("DME") as compared to vehicle-used gasoline and diesel has given immense momentum to the growth of the promising refuelling station business which has delivered significant contribution to both environmental protection and the Group's profitability.

Gas source

Following the robust development of the natural gas industry in China, the relevant infrastructure has been further improved and the supply capacity is also rising year by year. In 2009, the total consumption of natural gas in China reached 88.7 billion cubic meters, representing a year-on-year increase of 9.1%. The western section of the West-East Pipeline II and the Sichuan-East Pipeline, which have a total annual transportation capacity of 40 billion cubic meters and 12 billion cubic meters respectively, have started to supply gas during the year. Consequently, the growing demand for natural gas has received strong support and the large excess in demand has also been greatly relieved. At the moment, the national natural gas pipeline network in China, which is fundamentally formed by the West-East Pipeline, Shaanxi-Beijing Pipeline I and II, Zhong-Wu Pipeline, Sebei-Xining-Lanzhou Pipeline, as well as two branch pipelines named Hebei-Nanjing Pipeline and Huai-Wu Pipeline, has been basically completed. Major parts of the eastern section of the West-East Pipeline II and the whole Sichuan-East Pipeline are expected to come into full operation in 2010. In addition, according to the schedule of the Chinese government, 17 natural gas pipeline projects including West Pipeline IV, China-Myanmar Pipeline and Shaanxi-Beijing Pipeline III will be completed and launched one by one by the end of 2015. Moreover, the construction of LNG terminals in coastal areas planned by the government has been completed, among which 3 have been put into operation. By 2012, the construction of the national natural gas pipeline network will be basically completed. This further ensures that all piped gas projects of the Group will be able to enjoy stable supply of piped natural gas in the long run. Generally speaking, all piped natural gas projects of the Group have entered into guaranteed contract for gas supply with their upstream suppliers. With such stable source of gas, the Group is therefore able to attract new customers.

Besides fully utilising such extensive gas pipeline network and LNG terminals, the Group has also endeavored to search for other sources of energy supply. Apart from the existing LNG processing plants in Beihai, the other two LNG plants in Yinchuan, Ningxia Province and Jincheng, Shanxi Province were completed and came into operation as scheduled during the year. The annual production capacity of these LNG plants is around 400 million cubic meters in aggregate and has created new gas sources for the Group. Moreover, the Group possesses a massive non-pipeline transportation system (including LNG and CNG transportation trucks) with an one-off maximum transportation capacity of over 5.5 million cubic meters. Coupled with this strength, the Group will be able to secure more stable gas supply and hence enjoy a higher degree of protection on gas sources.

Advanced collection system for gas usage charges

The Group continues to adopt the prepaid stored-value card system for all projects. Under the system, every newly-connected residential household will receive a stored-value card and is required to prepay for the gas. This system can totally eliminate the possibility of bad debts and save huge administrative expenses, thus enhancing the Group's cash flow.

On the other hand, some of the Group's project companies have been cooperating with local banks for collection of gas usage charges. The widespread network resources of the banks have fostered satisfactory results in collecting gas usage charges as it offers great convenience to customers in paying their bills. During the year, in order to provide more convenient and economic payment methods for customers, the Group has implemented an easy payment program in 10 group companies including Changsha and Kaifeng. The program aims at providing more convenient payment methods for customers whilst saving huge administrative costs for the Company at the same time by setting up fee collection system in various convenience stores and supermarkets located near the residential districts.

Sales of bottled LPG

During the year, the Group sold 357,364 tons of LPG (2008: 599,567 tons), decreased by 40.4% over last year.

As the Group reduced the bottled LPG business that carries low gross profit margin, more resources can be allocated on piped gas projects. As a result, both the operational efficiency and returns to shareholders can be further enhanced.

Sales of gas appliances

Besides offering piped gas connection services to our customers, the Group also continues to sell cooking stoves, water boilers, heaters and stored-value card gas meters. The Group has established its own production plant of stored-value card gas meters and the products were deployed for internal use in the Group's connection business as well as being sold to other gas distributors. Such measure could lower the cost of connection, ensure collection of gas usage charges and generate additional revenue for the Group at the same time.

Gross and net profit margins

During the year, the Group's overall gross and net profit margins were 30.2% and 12.8% respectively, representing increases of 3.0% and 2.3% as compared with last year.

The main contributor for the increase in gross and net profit margins came from the Group's strategy to substantially slowdown the bottled LPG business which was down by 40.4% during the year, and as a result the turnover maintained at a similar level as last year in general. Since the margins of the bottled LPG business was only below 1% while that of gas connections and gas sales reached 57.1% and 21.4% respectively, the shrink in the bottled LPG segment directly attributed to the increase in the Group's overall gross and net profit margins. On the other hand, the continuous change in the Group's revenue structure, i.e. the gradual decrease in connection fee income over the total revenue and the recognition of connection fee income from certain projects by amortization, has stimulated the decrease in gross profit margin. The share of connection fee in total revenue remained at a similar level as last year, whereas the share of gas sales in total revenue reached 68.6%. Such changes have fully demonstrated the effect of the Group's strategy of reducing its effort in acquiring new projects and putting more emphasis on increasing the gas penetration rate of its existing projects while maintaining its rapid growth momentum. As for the increase in net profit margin, in addition to the shrink in the LPG segment, the effective cost control on specific items also plays a significant role. As compared with the corresponding period last year, the cost of sales has dropped by 2.4%, while the percentage of administrative expenses over revenue has considerably decreased from 12.6% to 10.2%, showing the benefits of the Group's economies of scale and good cost control.

Advanced Safety Operation Management System

The Group insisted on placing safe operation as its top priority and continued to maintain a good record of safe operation. Under the health, safety and environmental management system established by the Group, standardised management was applied to all production activities. Through encouraging employees to become "safety-conscious employees", both their skills and awareness on ensuring safety have been greatly enhanced. The Group has also fostered innovation of safety technology and promoted the application of safety equipments and technology, so that the foundation of safety operation can be further strengthened. On the other hand, a great deal of efforts have been put in promoting the "3-No Campaign" (no accidents, no personal injuries and no harmful acts to the environment) and executing various controlling measures, thus ensuring the safe operation of the Group and setting a role model in the industry for running a standardised and modern management system of safe operation.

Meanwhile, for the purpose of promoting safe operation in the Group, improving professional qualification and expertise of employees, providing better services to customers and supporting the rapid development of the Group's gas supply facilities and customer base, the Group has set up 3 levels of capability (i.e. junior, middle and senior) for 4 job positions, namely workers for construction of gas sites, pipeline paving, on-site installation and maintenance of equipments, as well as gas sales representatives. The capability recognition program has been implemented in 8 companies in the group on a trial basis, in which 281 employees attained junior level while 54 attained medium level. In 2010, the Group will carry on the professional trainings to allow more employees achieving a higher level of capability.

Excellent Management

During the year, the informatisation program launched by the Group in cooperation with IBM (China) Company Limited ("IBM") has attained good progress and has been implemented in the group companies according to the original schedule, leading to a significant enhancement in the operational efficiency. As such, an information system for the purpose of strategic performance was built during the year, realising the real-time online integration of different categories of business figures such that various categories of business figures and the corresponding analysis reports are accessible by the management at anytime. Such information system has also enabled performance review meetings to be conducted with access to real-time figures online. As a result, the benefit of high efficiency brought by informatisation has established a strong foundation to support the decisions of the Group. During the year, with the continued use of refined management tools such as balanced scorecard, strategies of the Group were passed on from upper levels to each employee who was then required to submit action plans according to the strategy of the organisation such employee works in. Appraisals would also be done on the actual results of the work compared with the employee's own action plan. This guaranteed consistency of goals between organisation level and individual level, ensured speedy conveying and effective implementation of the Group's strategies, and also greatly enhanced the capability of staff. In light of the outstanding achievement in implementing informatisation, the Group received the honor of "Achievement in Promoting Informatisation by Major Company" together with seven renowned corporations in the "Top 500 in Informatisation 2008" organised by the National Informatisation Evaluation Center during the year. The Group has also won the award "Best Management and Application of Customers' Relations" on its own.

In 2009, in recognition of our well-developed business models, excellent financial performance, enormous potential for growth and distinguished corporate governance, the Company was ranked number one by the famous financial magazine The Asset as "China's Most Promising Companies 2009" for the power and utilities sector.

On the other hand, our annual report was again awarded "Gold, Annual Reports: Energy" by the Annual International Galaxy Awards. We also received the honor of "Citation for Design, The Best Annual Reports Awards" for year 2009 from the Hong Kong Management Association. These remarkable achievements fully evidenced the timely and accurate disclosure of information with detailed contents in our annual reports, and our efficient communication with our shareholders.

Customer service

It is always the Group's belief that quality customer service is the key for maintaining good and long term relations between the Company and customers and the bedrock for the Group's sustainable business development. During the year, besides the consistent use of informatisation program to provide rapid and efficient services to customers, the Group has also set up national customer service centre, service support centre, service supervision centre and national call centre to create even more satisfactory services for its customers through all-rounded allocation of resources and comprehensive solutions. At the same time, the structure of the regional call centre has been confirmed and two such centres supporting customers from the whole country were built and launched during the year to enhance customer service quality.

In 2009, companies within the Group continued to acquire recognition and compliments from customers and government authorities in the cities it operated for their quality customer services, and a number of group companies have obtained awards like "Units with High Consumer Satisfaction" from the local consumer councils for several consecutive years. Furthermore, certain well-performed employees received the title "Model Labor in the State" at state level while certain teams won the awards "Pioneers of Work Labors" and "Females with Outstanding Achievements" at provincial level as recognition to their excellent performance in customer service.

All group companies are required to visit customers for safety checks on their gas appliances twice a year. These measures, drawing on the concept of "prevention is better than cure", help to eliminate customers' worries on potential safety problems, and thus increase their confidence in our services.

Human Resources

The Group always regards its staff as its most valuable assets. We believe that consistently maintaining employees' passion and enthusiasm is the only key for moving forward, and that staff could provide satisfactory service to customers only if they are offered the opportunity of healthy development. It is also the deep faith of the Group that talents are the source of its competitiveness and the critical factor for success and future development. Hence, the Group has always attached importance to talent cultivation and recruitment and also provided newly recruited staff with induction training, learning opportunity as well as heart-warming care in daily lives. All these measures enable new staff to master the business operation of the company and gain a deeper understanding of the Company's culture.

Following the rapid growth of the Group and the acceleration in its progress of internationalisation, a more stringent standard has been set on the capability and qualification of staff. To achieve this, management's appraisal was linked with their performance in team building and talent cultivation. Also, in order to cultivate talents who are good at responding quickly to changing situations and who have multi kinds of capabilities, certain employees were shortlisted by the Group to pursue further study and receive trainings in famous colleges in China or overseas. The Group has also developed a "competency grading system for staff at the basic level" to explore different potentials of staff for widening their career paths.

During the year, the Group continued the use of different approaches, such as establishment of capability enhancement system, talent test and development, trainings and qualification programs hosted by internal instructors, as well as trainings and development programs for senior management. All these aim at establishing a capability-based human resources system in line with the Group's strategies which will continuously enhance the capability of staff and provide necessary support for the organisation, thereby ensuring that the targets of the Group can be achieved.

As at 31 December 2009, the Group had 16,856 employees, of which 12 were based in Hong Kong while the others were based in China. They were remunerated at market level with benefits like bonus, retirement benefits, professional training, share option scheme, etc.

Financial resources review

Liquidity and financial resources

As at 31 December 2009, the Group's cash on hand was equivalent to RMB2,712,661,000 (31 December 2008: RMB1,725,358,000), and its total debts was equivalent to RMB5,884,509,000 (31 December 2008: RMB5,403,140,000). Its net gearing ratio, i.e. the ratio of net debt to equity (including minority interests), was 49.0% (31 December 2008: 67.6%).

Under the US$25,000,000 Loan Agreements with International Financial Corporation ("IFC") and the subsequent amendment, the Company, Mr. Wang Yusuo ("Mr. Wang") and the Borrowers (i.e. Bengbu Xinao Gas Company Limited, Shijiazhuang Xinao Gas Company Limited and Xiangtan Xinao Gas Company Limited, all being subsidiaries of the Company) have entered into the Share Retention Agreements with IFC on 18 May 2004 whereby Mr. Wang has agreed, according to the Loan Agreement and the subsequent amendment thereto, that so long as any monies remain due or to become due and owing by the Borrowers to IFC under or in respect of the Loan Agreements, he and Ms. Zhao Baoju ("Ms. Zhao") will own, in aggregate, directly or, at any time that he and Ms. Zhao own in aggregate all the shares of Xinao Group International Investment Limited ("XGII"), indirectly through XGII, at least 27% of the issued share capital of the Company. Mr. Wang and Ms. Zhao are the beneficial and legal owners of XGII, which is owned as to 50% by Mr. Wang and 50% by Ms. Zhao. As at 31 December 2009, XGII and Mr. Wang together held 31.75% interests of the Company. The remaining balance of the US$25,000,000 loan has been repaid in full during the year according to the terms of the Loan Agreements.

Seven-year 7.375% fixed rate bonds

On 5 August 2005, the Company issued 7-year bonds in the aggregate principle amount of US$200,000,000 (equivalent to RMB1,614,040,000) with issue price and redemption price of 100%, which are unconditionally and irrevocably guaranteed by the guarantor subsidiaries. The guarantor subsidiaries are wholly-owned subsidiaries of the Company and are primarily holding companies that operate through subsidiaries. The coupon of the bonds is 7.375%, and interests are paid semi-annually.

As all the operations of the Group are in China, if RMB appreciates in the future, the Group will benefit from earning RMB and repaying foreign currency debts, and the costs for foreign currency debt will be lowered indirectly.

Currently, the Group's operating and capital expenditures are funded by operating cash flow, internal liquidity, bank loans and issued bonds. The Group has sufficient sources of funds and unutilised banking facilities to meet the future capital expenditure and working capital requirements.

Borrowings structure

As at 31 December 2009, the Group's total debts amounted to RMB5,884,509,000 (31 December 2008: RMB5,403,140,000), including bank loans and bonds of US$360,000,000 (equivalent to RMB2,443,721,000) and bank loans of HK$15,566,000 (equivalent to RMB13,706,000). Apart from the US$200,000,000 bonds and RMB800,000,000 short-term debenture which bear interest at fixed coupons and other US dollar loans and HK dollar mortgage loans bear interest at floating rates, the remaining bank and other loans are denominated in Renminbi and bear interest at the interest rates announced by the People's Bank of China. The project companies used the Renminbi loans as their capital expenditure, working capital and operational expenditure. Except for the bank and other loans amount equivalent to RMB1,609,706,000 that are secured by assets with an carrying amount equivalent to RMB49,478,000, all of the other loans are unsecured. Short-term loans amounted equivalent to RMB675,796,000 while the remaining were long-term loans falling due after one year or above. Details of capital commitments and financial guarantee liability are set out in Notes 46 and 38 to the Consolidated Financial Statements respectively.

As all the operations of the Group are in China, revenues and expenses were mainly denominated in Renminbi. Hence, there were no significant foreign exchange exposures or risks. The Group will monitor the market trends of interest rates and exchange rates closely and adopt appropriate measures when necessary.

1. FINANCIAL INFORMATION ON THE CHINA GAS GROUP

The following information is extracted from audited consolidated financial statements for China Gas for the years ended March 31, 2011 and 2010 and the unaudited consolidated financial statements of China Gas for the six-months ended September 30, 2011. The financial statements of China Gas have been prepared in accordance with HKFRS. As the financial statements of the Company have also been prepared in accordance with HKFRS, the Company is not of the view that any principal difference exists between China Gas' accounting standards and the accounting standards used by the Company which would have a material impact on the financial statements of China Gas. However, after gaining access to the books and records of China Gas, the Company can carry out a more in-depth comparison between the accounting standards adopted by China Gas and the accounting standards adopted by the Company, and will set out findings of principal differences, if any, in a supplemental circular.

References to the "Company" and the "Group" in the financial statements below refer to China Gas and China Gas Group, respectively.

Financial statements for the six-months ended September 30, 2011

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 September, 2011

		Six months ended	
		30 September, 2011	**30 September, 2010**
	Notes	*HK$'000*	*HK$'000*
		(unaudited)	(unaudited) (restated)
Revenue	3	7,912,488	6,537,141
Cost of sales		(6,288,503)	(5,302,909)
Gross profit		1,623,985	1,234,232
Other income		173,879	135,676
Other gains and losses	4	(16,626)	(172,683)
Distribution costs		(303,558)	(285,553)
Administrative expenses		(366,890)	(341,939)
Finance costs	5	(442,252)	(302,025)
Share of results of associates		28,726	27,950
Profit before taxation		697,264	295,658
Taxation	6	(253,642)	(171,929)
Profit for the period	7	443,622	123,729

		Six months ended	
		30 September, 2011	30 September, 2010
	Notes	*HK$'000*	*HK$'000*
		(unaudited)	(unaudited) (restated)
Other comprehensive income			
Exchange gain on translation of operations outside Hong Kong		107,143	365
(Loss) gain on fair value change of available-for-sale investments		(7,845)	595
Other comprehensive income for the period		99,298	960
Total comprehensive income for the period		542,920	124,689
Profit for the period attributable to:			
Owners of the Company		373,608	92,984
Non-controlling interests		70,014	30,745
		443,622	123,729
Total comprehensive income attributable to:			
Owners of the Company		453,979	93,944
Non-controlling interests		88,941	30,745
Total comprehensive income for the period		542,920	124,689
Earnings per share			
Basic	*8*	HK8.52 cents	HK2.69 cents
Diluted	*8*	HK8.02 cents	HK2.30 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September, 2011

	Notes	30 September, 2011 HK$'000 (unaudited)	31 March, 2011 HK$'000 (audited) (restated)
Non-current assets			
Investment properties	9	426,541	408,135
Property, plant and equipment	9	13,542,693	13,799,669
Prepaid lease payments		1,045,609	1,128,929
Interests in associates		2,222,541	1,009,505
Available-for-sale investments		85,268	85,884
Goodwill		1,053,144	1,565,604
Other intangible assets		1,229,831	1,401,675
Deposits for acquisition of property, plant and equipment		415,897	600,040
Amount due from an associate		271,996	163,166
Deposits for acquisition of associate and subsidiaries		55,591	133,627
Deferred tax assets		91,835	91,466
		20,440,946	20,387,700
Current assets			
Inventories		1,815,908	1,076,525
Amounts due from customers for contract work		186,607	166,884
Trade and other receivables	10	2,749,244	2,388,040
Amount due from associates		241,680	92,115
Prepaid lease payments		35,572	34,283
Held-for-trading investments		9,008	11,948
Pledged bank deposits		1,526,576	1,647,444
Bank balances and cash		4,444,051	5,081,589
		11,008,646	10,498,828

	Notes	30 September, 2011 HK$'000 (unaudited)	31 March, 2011 HK$'000 (audited) (restated)
Current liabilities			
Trade and other payables	11	4,695,756	4,508,076
Amounts due to customers for contract work		358,801	285,728
Derivative financial instruments		8,049	32,122
Taxation		188,982	149,592
Amounts due to associates		–	13,254
Bank and other borrowings – due within one year	12	8,196,975	7,312,837
		13,448,563	12,301,609
Net current liabilities		(2,439,917)	(1,802,781)
Total assets less current liabilities		18,001,029	18,584,919
Equity			
Share capital	13	43,831	43,831
Reserves		9,093,053	8,720,845
Equity attributable to owners of the Company		9,136,884	8,764,676
Non-controlling interests		1,198,208	1,573,480
Total equity		10,335,092	10,338,156
Non-current liabilities			
Bank and other borrowings – due after one year	12	7,160,450	7,720,327
Deferred taxation		505,487	526,436
		7,665,937	8,246,763
		18,001,029	18,584,919

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September, 2011

	Attributable to owners of the Company												
	Share capital	Share premium	Employee share-based compensation reserve	Translation reserve	Investment revaluation reserve	Properties revaluation reserve	Special reserve	Capital reserve	Statutory funds	Accumulated profits	Total	Attributable to non-controlling interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April, 2010 (audited)	33,610	1,980,014	89,184	277,665	7,958	1,601	1,602	–	218,127	1,513,261	4,123,022	1,107,215	5,230,237
Profit for the period	–	–	–	–	–	–	–	–	–	92,984	92,984	30,745	123,729
Gain on fair value change of available-for-sale investments	–	–	–	–	595	–	–	–	–	–	595	–	595
Exchange gain on translation of operations outside Hong Kong	–	–	–	365	–	–	–	–	–	–	365	–	365
Total comprehensive income for the period	–	–	–	365	595	–	–	–	–	92,984	93,944	30,745	124,689
Exercise of share options	986	76,954	–	–	–	–	–	–	–	–	77,940	–	77,940
Issue of new ordinary shares for acquisition of subsidiaries	1,756	692,929	–	–	–	–	–	–	–	–	694,685	–	694,685
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	450,409	450,409
Disposal of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(30,063)	(30,063)
Dividend paid	–	–	–	–	–	–	–	–	–	(61,077)	(61,077)	–	(61,077)
Dividends paid by subsidiaries to its non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	(93,624)	(93,624)
Recognition of equity-settled share based payments	–	–	19,956	–	–	–	–	–	–	–	19,956	–	19,956
Transfer	–	–	–	–	–	–	–	–	33,117	(33,117)	–	–	–
At 30 September, 2010 (unaudited)	36,352	2,749,897	109,140	278,030	8,553	1,601	1,602	–	251,244	1,512,051	4,948,470	1,464,682	6,413,152
At 1 April, 2011 (audited)	43,831	5,865,071	79,107	467,775	10,636	1,601	1,602	(43,511)	291,502	2,047,062	8,764,676	1,573,480	10,338,156
Profit for the period	–	–	–	–	–	–	–	–	–	373,608	373,608	70,014	443,622
Loss on fair value change of available-for-sale investments	–	–	–	–	(7,845)	–	–	–	–	–	(7,845)	–	(7,845)
Exchange gain on translation of operations outside Hong Kong	–	–	–	88,216	–	–	–	–	–	–	88,216	18,927	107,143
Total comprehensive income for the period	–	–	–	88,216	(7,845)	–	–	–	–	373,608	453,979	88,941	542,920
Capital contribution by a non-controlling interest of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	333	333
Deemed disposal of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(421,147)	(421,147)
Dividend paid	–	–	–	–	–	–	–	–	–	(96,395)	(96,395)	–	(96,395)
Dividends paid by subsidiaries to its non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	(43,399)	(43,399)
Recognition of equity-settled share based payments	–	–	14,624	–	–	–	–	–	–	–	14,624	–	14,624
Transfer	–	–	–	–	–	–	–	–	24,111	(24,111)	–	–	–
At 30 September, 2011 (unaudited)	43,831	5,865,071	93,731	555,991	2,791	1,601	1,602	(43,511)	315,613	2,300,164	9,136,884	1,198,208	10,335,092

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September, 2011

	Six months ended	
	30 September, 2011	**30 September, 2010**
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
NET CASH FROM OPERATING ACTIVITIES	516,078	760,466
NET CASH USED IN INVESTING ACTIVITIES	(1,338,638)	(785,352)
NET CASH FROM FINANCING ACTIVITIES	123,880	108,121
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(698,680)	83,235
CASH AND CASH EQUIVALENTS AT 1 APRIL	5,081,589	3,872,316
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	61,142	–
CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER	4,444,051	3,955,551
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	4,444,051	3,955,551

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September, 2011

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain investment properties and financial instruments which are measured at revalued amounts or fair values, as appropriate.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September, 2011 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 March, 2011.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the HKICPA:

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related party disclosures
HKAS 32 (Amendments)	Classification of rights issues
HK(IFRIC) – INT 14 (Amendments)	Prepayments of a minimum funding requirement
HK(IFRIC) – INT 19	Extinguishing financial liabilities with equity instruments

The application of the above new and revised HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

The Group has not early applied new or revised standards that have been issued but are not yet effective. The following new or revised standards have been issued after the date of the consolidated financial statements for the year ended 31 March, 2011 were authorised for issuance and are not yet effective:

HKFRS 1 (Amendments)	Severe hyperinflation and removal of fixed dates of first-time adopters[3]
HKFRS 10	Consolidated financial statements[1]
HKFRS 11	Joint arrangements[1]
HKFRS 12	Disclosures of interests in other entities[1]
HKFRS 13	Fair value measurement[1]
HKAS 1 (Amendments)	Presentation of items of other comprehensive income[2]
HKAS 19 (as revised in 2011)	Employee benefits[1]
HKAS 27 (as revised in 2011)	Separate financial statements[1]
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures[1]

[1] Effective for annual periods beginning on or after 1 January, 2013.

[2] Effective for annual periods beginning on or after 1 July, 2012.

[3] Effective for annual periods beginning on or after 1 July, 2011.

The five new or revised standards on consolidation, joint arrangements and disclosures were issued by the HKICPA in June 2011 and are effective for annual periods beginning on or after 1 April, 2013. Early application is permitted provided that all of these five new or revised standards are applied early at the same time. The directors anticipate these new or revised standards will be adopted in the Group's consolidated financial statement for financial year ending 31 March, 2014 and are in the process of assessing the potential impact of those new or revised standards.

Other than disclosed above, the directors of the Company anticipate that the application of other new or revised standards will have no material impact on the results and the financial position of the Group.

3. SEGMENT INFORMATION

The Group is organised into four operating divisions – sales of piped gas, gas connection, sales of liquefied petroleum gas ("LPG") and sales of coke and gas appliance.

Segment information for the six months ended 30 September, 2011 and 2010 about these businesses is presented below.

	Six months ended 30 September, 2011				
	Sales of piped gas	**Gas connection**	**Sales of LPG**	**Sales of coke and gas appliance**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue	3,367,891	1,212,634	3,053,972	277,991	7,912,488
Segment result	482,251	663,424	47,661	(7,800)	1,185,536
Interest and other gains					38,442
Unallocated corporate expenses					(101,018)
Change in fair value of derivative financial instruments					24,073
Change in fair value of investment properties					23,933
Loss on deemed disposal of a subsidiary					(60,176)
Finance cost					(442,252)
Share of results of associates					28,726
Profit before taxation					697,264

	Six months ended 30 September, 2010				
	Sales of piped gas	Gas connection	Sales of LPG	Sales of coke and gas appliance	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue	2,404,538	1,005,288	2,897,589	229,726	6,537,141
Segment result	388,985	492,890	(106,465)	(2,354)	773,056
Interest and other gains					71,996
Unallocated corporate expenses					(103,329)
Change in fair value of derivative financial instruments					(178,590)
Change in fair value of investment properties					6,600
Finance cost					(302,025)
Share of results of associates					27,950
Profit before taxation					295,658

4. OTHER GAINS AND LOSSES

	Six months ended 30 September, 2011	Six months ended 30 September, 2010
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Change in fair value of derivative financial instruments	24,073	(178,590)
Loss on fair value changes of investments held for trading	(2,982)	(450)
Change in fair value of investment properties	23,933	6,600
Allowance for trade receivables	(1,474)	(243)
Loss on deemed disposal of a subsidiary *(note)*	(60,176)	–
	(16,626)	(172,683)

Note: On 8 April, 2011, a subsidiary of the Company, Zhongyu Gas Holdings Limited ("Zhongyu Gas"), entered into a placing agreement with the placing agent, pursuant to which the placing agent agreed to place up to 394,000,000 new shares of Zhongyu Gas at a price of HK$0.41 per placing share. The board of directors noted that the placing has been completed on 18 April, 2011. As a result of the placing, the Group's effective interest in Zhongyu Gas was reduced from approximately 56.33% to approximately 46.96%. As a result, Zhongyu Gas ceased to be a subsidiary of the Company and become an associate of the Company. The loss on deemed partial disposal of interest in Zhongyu Gas is HK$60,176,000 (2010: Nil).

5. FINANCIAL COSTS

	Six months ended 30 September, 2011	Six months ended 30 September, 2010
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Interest on:		
– Bank loans and other borrowings wholly repayable within five years	265,206	157,809
– Bank loans and other borrowings not wholly repayable within five years	162,630	143,409
	427,836	301,218
Less: Interest capitalised to construction in progress	(46,416)	(32,275)
Add: Net interest expense on interest rate swaps	60,832	33,082
	442,252	302,025

6. TAXATION

	Six months ended 30 September, 2011	Six months ended 30 September, 2010
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
PRC Enterprise Income Tax	258,781	177,885
Deferred taxation	(5,139)	(5,956)
	253,642	171,929

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group had no assessable profit for either period. Taxation arising in other jurisdiction is calculated at the rates prevailing in the relevant jurisdiction.

The taxation charge of the PRC Enterprise Income Tax for the current and prior periods have been made based on the Group's estimated assessable profits calculated at the prevailing tax rates in accordance with the relevant income tax laws applicable to the subsidiaries in the PRC.

7. PROFIT FOR THE PERIOD

	Six months ended 30 September, 2011 HK$'000 (unaudited)	Six months ended 30 September, 2010 HK$'000 (unaudited)
Profit for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	307,291	237,908
Release of prepaid lease payment	17,786	15,649
Amortisation of intangible assets	23,738	13,833
Interest income	(38,087)	(33,667)
Loss on disposal of property, plant and equipment	1,187	2,001
Share of tax of jointly controlled entities	21,920	14,719

8. EARNINGS PER SHARE

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

	Six months ended 30 September, 2011 HK$'000 (unaudited)	Six months ended 30 September, 2010 HK$'000 (unaudited)
Earnings		
Earnings for the purpose of basic and diluted earnings per share (profit for the period attributable to owners of the Company)	373,608	92,984
Number of shares	*'000*	*'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share	4,383,055	3,451,754
Effect of dilutive potential ordinary shares:		
Share options	276,272	583,775
Weighted average number of ordinary shares for the purpose of diluted earnings per share	4,659,327	4,035,529

9. MOVEMENTS IN INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment at a total cost of approximately HK$941,301,000.

During the period, property, plant and equipment with a carrying amount of HK$1,187,993,000 were disposed of through deemed disposal of a subsidiary and certain property, plant and equipment with a carrying amount of HK$4,412,000 were disposed of or written off by the Group, resulting in a loss on disposal of HK$1,187,000.

The Group's investment properties were fair valued by the professional valuers at 30 September, 2011. The resulting increase in fair value of investment properties of HK$23,933,000 has been recognised directly in the condensed consolidated income statement.

10. TRADE AND OTHER RECEIVABLES

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

The following is an aged analysis of trade receivables based on invoice date at the end of reporting period:

	30 September, 2011	**31 March, 2011**
	HK$'000	*HK$'000*
	(unaudited)	(audited)
0 – 180 days	862,789	680,125
181 – 365 days	79,555	101,498
Over 365 days	316,093	337,081
Total trade receivables before accumulated allowances	1,258,437	1,118,704
Less: Accumulated allowances	(245,521)	(237,692)
Trade receivables	1,012,916	881,012
Deposits paid for construction and other materials	178,423	193,644
Deposits paid for purchase of natural gas and LPG	369,832	341,648
Advanced payments to sub-contractors	376,366	209,515
Other receivables, deposits and prepayments	618,915	525,717
Amounts due from non-controlling interests of subsidiaries	51,862	84,472
Amounts due from shareholders of jointly controlled entities	140,930	152,032
	2,749,244	2,388,040

11. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at the end of reporting period:

	30 September, 2011 HK$'000 (unaudited)	31 March, 2011 HK$'000 (audited)
0 – 90 days	1,615,228	1,368,367
91 – 180 days	162,295	220,427
Over 180 days	657,574	606,434
Trade payables	2,435,097	2,195,228
Other payables and accrued charges	208,807	363,808
Construction fee payables	105,902	263,178
Loan interest payables	63,945	46,659
Deposits received from customers	78,931	61,271
Advanced payments from customers	600,464	494,281
Advances received from customers for contract works that have not been started	1,118,187	929,962
Amounts due to non-controlling interests of subsidiaries	55,418	74,747
Amounts due to shareholders of jointly controlled entities	6,764	17,399
Obligation on capital injection to a jointly controlled entity by a subsidiary	–	23,448
Obligation on acquisition of additional interest in a subsidiary	22,241	38,095
	4,695,756	4,508,076

12. BANK AND OTHER BORROWINGS

During the period, the Group obtained new bank and other borrowings of approximately HK$4,996,374,000 of which approximately HK$3,098,113,000 is repayable within one year. The loans bears interest at 2.9% to 8% per annum. The proceeds were used to repay bank and other borrowing of approximately HK$4,265,171,000 and finance the capital expenditure and general working capital of the Group.

13. SHARE CAPITAL

	Number of shares '000	Share capital HK$'000
Ordinary shares of HK$0.01 each issued and fully paid:		
At 1 April, 2011 and 30 September, 2011	4,383,055	43,831

14. CAPITAL COMMITMENTS

As at 30 September, 2011, the Group has capital commitments in respect of the acquisition for property, plant and equipment and construction materials for property, plant and equipment contracted for but not provided in the financial statements amounting to HK$191,962,000 (31 March, 2011: HK$219,208,000) and HK$39,334,000 (31 March, 2011: HK$28,157,000), respectively.

15. PLEDGE OF ASSETS

The Group pledged certain property, plant and equipment and prepaid lease payments having a net carrying amount of approximately HK$284,463,000 and HK$17,486,000 (31 March, 2011: HK$307,859,000 and HK$42,394,000), investment properties having a carrying value of HK$47,080,000 (31 March, 2011: HK$41,980,000), trade receivables having carrying amount of HK$28,524,000 (31 March, 2011: HK$40,012,000), inventories having carrying value of HK$143,154,000 (31 March, 2011: HK$127,041,000), pledged bank deposits of HK$1,526,576,000 (31 March, 2011: HK$1,647,444,000) and certain subsidiaries pledged their equity investments in other subsidiaries to banks to secure loan facilities granted to the Group.

16. RELATED PARTY TRANSACTIONS

The Group entered into the following transactions with related parties that are not members of the Group:

(i) During the period, the Group purchased gas for total amount of HK$60,689,000 (six months ended 30 September, 2010: Nil) from a shareholder of a jointly controlled entity. For the six months ended 30 September 2010, the Group purchased gas for total amount of HK$61,275,000 from a minority shareholder of a subsidiary.

(ii) During the period, the Group received interest income for total amount of HK$6,262,000 (six months ended 30 September, 2010: HK$4,889,000) from an associate.

(iii) During the period, the Group paid construction fee for total amount of HK$13,679,000 (six months ended 30 September, 2010: HK$47,182,000) to an associate.

(iv) During the period, the Group paid interest expense for total amount of HK$274,000 (six months ended 30 September, 2010: HK$3,769,000) to a non-controlling interest of a subsidiary.

(v) During the period, the Group paid rental expense to a shareholder of a jointly controlling entity in respect of leasehold land and building for a total of HK$6,639,000 (six months ended 30 September, 2010: HK$4,733,000).

Financial statements for the year ended March 31, 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended March 31, 2011

	Notes	2011 HK$'000	2010 HK$'000
Revenue	6	15,861,880	10,211,959
Cost of sales		(12,951,408)	(8,095,667)
Gross profit		2,910,472	2,116,292
Other income	8	236,937	273,885
Other gains and losses	9	15,497	472,192
Selling and distribution costs		(600,495)	(445,012)
Administrative expenses		(846,200)	(606,658)
Finance costs	10	(635,029)	(522,677)
Share of results of associates	20	15,856	(114,402)
Profit before taxation		1,097,038	1,173,620
Taxation	11	(315,716)	(158,119)
Profit for the year	12	781,322	1,015,501
Other comprehensive income			
Increase in fair value on available-for-sale investments		2,678	7,958
Exchange difference arising on translation		262,444	1,240
Other comprehensive income for the year		265,122	9,198
Total comprehensive income for the year		1,046,444	1,024,699
Profit for the year attributable to:			
Owners of the Company		625,896	875,636
Non-controlling interests		155,426	139,865
		781,322	1,015,501
Total comprehensive income attributable to:			
Owners of the Company		821,928	884,834
Non-controlling interests		224,516	139,865
		1,046,444	1,024,699
Earnings per share	16		
Basic		HK16.31 cents	HK26.19 cents
Diluted		HK14.60 cents	HK23.13 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At March 31, 2011

	Notes	3.31.2011 HK$'000	3.31.2010 HK$'000 (restated)	4.1.2009 HK$'000 (restated)
Non-current assets				
Investment properties	17	408,135	343,158	295,127
Property, plant and equipment	18	13,799,669	11,084,805	9,154,271
Prepaid lease payments	19	1,128,929	938,713	848,607
Investments in associates	20	1,009,505	957,709	1,000,966
Available-for-sale investments	22	85,884	82,838	41,995
Derivative financial instrument	29	–	9,759	–
Goodwill	23	1,565,604	900,577	684,467
Other intangible assets	24	1,401,675	1,254,675	320,297
Deposits for acquisition of property, plant and equipment		600,040	254,751	276,197
Amount due from an associate	30	163,166	–	68,966
Deposits for acquisition of associate and a subsidiary	46	133,627	–	63,218
Deferred tax assets	39	91,466	88,155	56,890
		20,387,700	15,915,140	12,811,001
Current assets				
Inventories	26	1,076,525	564,163	540,898
Amounts due from customers for contract work	27	166,884	103,265	219,993
Trade and other receivables	28	2,388,040	1,871,061	1,285,698
Derivative financial instruments	29	–	2,909	1,261
Amounts due from associates	30	92,115	138,236	243,250
Prepaid lease payments	19	34,283	25,933	14,647
Held-for-trading investments	31	11,948	15,468	11,544
Pledged bank deposits	32	1,647,444	489,103	847,759
Bank balances and cash	32	5,081,589	3,872,316	2,048,698
		10,498,828	7,082,454	5,213,748

	Notes	3.31.2011 HK$'000	3.31.2010 HK$'000 (restated)	4.1.2009 HK$'000 (restated)
Current liabilities				
Trade and other payables	33	4,503,034	3,182,020	2,603,313
Derivative financial instruments	29	32,122	–	782
Amounts due to customers for contract work	27	285,728	239,316	121,743
Taxation		149,592	146,162	51,733
Amounts due to associates	30	13,254	23,867	–
Amount due to a non-controlling interest of a subsidiary	37	5,042	–	–
Bank and other borrowings – due within one year	34	7,312,837	5,332,060	3,218,798
		12,301,609	8,923,425	5,996,369
Net current liabilities		(1,802,781)	(1,840,971)	(782,621)
Total assets less current liabilities		18,584,919	14,074,169	12,028,380
Equity				
Share capital	35	43,831	33,610	33,336
Reserves		8,720,845	4,089,412	3,189,934
Equity attributable to owners of the Company		8,764,676	4,123,022	3,223,270
Non-controlling interests		1,573,480	1,107,215	758,858
Total equity		10,338,156	5,230,237	3,982,128
Non-current liabilities				
Derivative financial instruments	29	–	–	360,087
Amount due to a non-controlling interest of a subsidiary	37	–	356,591	356,591
Bank and other borrowings – due after one year	34	7,720,327	7,984,046	7,079,124
Convertible bonds	38	–	–	14,823
Deferred taxation	39	526,436	503,295	235,627
		8,246,763	8,843,932	8,046,252
		18,584,919	14,074,169	12,028,380

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended March 31, 2011

	Attributable to owners of the Company											
	Share capital	Share premium	Employee share-based compensation reserve	Translation reserve	Investment revaluation reserve	Properties revaluation reserve	Special reserve	Statutory funds	Accumulated profits	Total	Non-controlling interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(note 36)	*(note 36)*		*(note i)*	*(note ii)*				
At April 1, 2009	33,336	1,951,564	56,314	285,553	–	1,601	1,602	111,910	781,390	3,223,270	758,858	3,982,128
Other comprehensive income for the year	–	–	–	1,240	7,958	–	–	–	–	9,198	–	9,198
Profit for the year	–	–	–	–	–	–	–	–	875,636	875,636	139,865	1,015,501
Total comprehensive income for the year	–	–	–	1,240	7,958	–	–	–	875,636	884,834	139,865	1,024,699
Recognition of equity-settled share-based payments	–	–	32,870	–	–	–	–	–	–	32,870	–	32,870
Exercise of share options	184	14,196	–	–	–	–	–	–	–	14,380	–	14,380
Issue of new ordinary shares	90	14,254	–	–	–	–	–	–	–	14,344	–	14,344
Acquisitions of subsidiaries	–	–	–	–	–	–	–	–	–	–	332,935	332,935
Acquisitions of additional interest of subsidiaries	–	–	–	–	–	–	–	–	–	–	(5,284)	(5,284)
Transfer to accumulated profits upon disposal of jointly controlled entities	–	–	–	(9,066)	–	–	–	–	9,066	–	–	–
Transfer to accumulated profits upon disposal of a subsidiary	–	–	–	(62)	–	–	–	–	62	–	–	–
Disposal of a subsidiary *(note 43)*	–	–	–	–	–	–	–	–	–	–	(1,373)	(1,373)
Capital contribution from non-controlling interests of subsidiaries	–	–	–	–	–	–	–	–	–	–	9,280	9,280
Commitment to acquire a non-controlling interest *(note 40(A)(i))*	–	–	–	–	–	–	–	–	–	–	(94,991)	(94,991)
Dividends paid by subsidiaries to non-controlling interests	–	–	–	–	–	–	–	–	–	–	(32,075)	(32,075)
Dividends paid	–	–	–	–	–	–	–	–	(46,676)	(46,676)	–	(46,676)
Transfer	–	–	–	–	–	–	–	106,217	(106,217)	–	–	–
At March 31, 2010	33,610	1,980,014	89,184	277,665	7,958	1,601	1,602	218,127	1,513,261	4,123,022	1,107,215	5,230,237

	Attributable to owners of the Company												
	Share capital HK$'000	Share premium HK$'000	Employee share-based compensation reserve HK$'000	Translation reserve HK$'000 (note 36)	Investment revaluation reserve HK$'000 (note 36)	Properties revaluation reserve HK$'000	Special reserve HK$'000 (note i)	Capital reserve HK$'000	Statutory funds HK$'000 (note ii)	Accumulated profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At April 1, 2010	33,610	1,980,014	89,184	277,665	7,958	1,601	1,602	–	218,127	1,513,261	4,123,022	1,107,215	5,230,237
Other comprehensive income for the year	–	–	–	193,354	2,678	–	–	–	–	–	196,032	69,090	265,122
Profit for the year	–	–	–	–	–	–	–	–	–	625,896	625,896	155,426	781,322
Total comprehensive income for the year	–	–	–	193,354	2,678	–	–	–	–	625,896	821,928	224,516	1,046,444
Recognition of equity-settled share-based payments	–	–	37,500	–	–	–	–	–	–	–	37,500	–	37,500
Transfer to accumulated profits upon cancellation of share options	–	–	(39,113)	–	–	–	–	–	–	39,113	–	–	–
Exercise of share options	1,279	128,791	(8,464)	–	–	–	–	–	–	–	121,606	–	121,606
Issue of new ordinary shares	7,186	3,063,337	–	–	–	–	–	–	–	–	3,070,523	–	3,070,523
Acquisitions of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	373,135	373,135
Acquisitions of additional interest of subsidiaries *(note 40(A))*	–	–	–	–	–	–	–	(43,511)	–	–	(43,511)	14,353	(29,158)
Transfer to accumulated profits upon disposal of a jointly controlled entity	–	–	–	(3,244)	–	–	–	–	–	3,244	–	–	–
Disposal of a subsidiary *(note 43(i))*	–	–	–	–	–	–	–	–	–	–	–	(3,448)	(3,448)
Shares issued as consideration for acquisition of a business *(note 42(A)(iv))*	1,756	692,929	–	–	–	–	–	–	–	–	694,685	–	694,685
Capital contribution from non-controlling interests of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	2,411	2,411
Commitment to acquire a non-controlling interest *(note 46(iii))*	–	–	–	–	–	–	–	–	–	–	–	(38,095)	(38,095)
Dividends paid by subsidiaries to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(106,607)	(106,607)
Dividends paid	–	–	–	–	–	–	–	–	–	(61,077)	(61,077)	–	(61,077)
Transfer	–	–	–	–	–	–	–	–	73,375	(73,375)	–	–	–
At March 31, 2011	43,831	5,865,071	79,107	467,775	10,636	1,601	1,602	(43,511)	291,502	2,047,062	8,764,676	1,573,480	10,338,156

Notes:

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

(ii) In accordance with statutory requirements in the People's Republic of China, other than Hong Kong (the "PRC"), subsidiaries registered in the PRC are required to transfer a certain percentage of the annual net income from accumulated profits to the statutory funds, until the statutory funds is accumulated up to 50% of its registered capital. Under normal circumstances, the statutory funds is not allowed to be distributed to the subsidiary's shareholders as dividends. The statutory funds shall only be used for making good losses, capitalisation into paid-in capital and expansion of its productions and operations.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended March 31, 2011

	2011	2010
	HK$'000	*HK$'000*
OPERATING ACTIVITIES		
Profit before taxation	1,097,038	1,173,620
Adjustments for:		
Change in fair value of investment properties	(47,057)	(44,645)
Impairment loss on amounts due from customers for contract work	–	51,418
Allowance for trade receivables	7,383	75,112
Depreciation of property, plant and equipment	598,992	476,194
Release of prepaid lease payments	43,771	26,461
Amortisation of intangible assets	48,974	20,019
Change in fair value of held-for-trading investments	3,520	(11,798)
Loss on disposal of property, plant and equipment and prepaid lease payment	12,603	4,253
Loss on disposal of jointly controlled entities	932	5,814
Gain on disposal of a subsidiary	–	(141)
(Gain) loss on disposal of associates	(753)	1,190
Loss on disposal of available-for-sale unlisted investments	2,042	–
Interest expense	635,029	522,677
Share of results of associates	(15,856)	114,402
Discounts on acquisition of a jointly controlled entity and businesses	–	(176,387)
Share-based payments	37,500	32,870
Interest income	(58,604)	(34,891)
Change in fair value of derivative financial instruments	46,083	(372,755)
Gain on redemption of convertible bonds	(1,814)	–

	2011	2010
	HK$'000	*HK$'000*
Operating cash flows before movements in working capital	2,409,783	1,863,413
(Increase) decrease in inventories	(419,221)	4,630
(Increase) decrease in amounts due from customers for contract work	(42,772)	61,941
Increase in trade and other receivables	(263,058)	(426,197)
Decrease in held-for-trading investments	–	7,874
(Increase) decrease in amounts due from associates	(24,863)	106,111
Increase (decrease) in trade and other payables	747,792	(264,130)
Increase in amounts due to customers for contract work	17,530	117,573
Decrease in amounts due to non-controlling interests of subsidiaries	(763)	(17,823)
(Decrease) increase in amount due to shareholders of jointly controlled entities	(5,912)	3,105
Cash from operations	2,418,516	1,456,497
PRC Enterprise Income Tax paid	(338,438)	(98,556)
NET CASH GENERATED FROM OPERATING ACTIVITIES	2,080,078	1,357,941

	Notes	2011 HK$'000	2010 HK$'000
INVESTING ACTIVITIES			
Interest received		58,604	34,891
Repayment from associates		79,070	113,998
Advance to associates		(163,528)	(46,129)
Deposits paid for acquisition of property, plant and equipment		(410,900)	(112,886)
Pledged bank deposits-placed		(2,896,689)	(1,862,654)
Release of pledged bank deposits		1,806,575	2,221,310
Addition of investment properties		(2,220)	–
Addition of property, plant and equipment		(1,780,605)	(1,128,699)
Addition of prepaid lease payments		(156,911)	(36,118)
Addition of available-for-sale investments		(3,743)	(43,736)
Proceeds from disposal of property, plant and equipment		21,127	6,169
Proceeds from disposal of available-for-sale investments		7,748	–
Acquisition of additional interest in a jointly controlled entity, net of cash and cash equivalents acquired	41	–	(7,438)
Acquisition of businesses, net of cash and cash equivalents acquired	42	172,061	(656,434)
Acquisition of additional interests in subsidiaries	40	–	(8,317)
Disposal of jointly controlled entities, net of cash and cash equivalents received	44	(121)	32,519
Disposal of a subsidiary	43	(2,086)	(1,180)
Disposal of associates	20	12,432	330
Addition/acquisition of investments in associates		(47,619)	(34,771)
Repayment from non-controlling interests of subsidiaries		193,727	10,784
Advance to non-controlling interests of subsidiaries		(61,614)	(152,679)
Repayment from shareholders of jointly controlled entities		22,145	49,681

	2011 *HK$'000*	2010 *HK$'000*
Advance to shareholders of jointly controlled entities	(146,544)	(8,014)
Deposit for acquisition of associate and a subsidiary	(133,627)	–
Settlement of deferred consideration in respect of prior year's acquisition of subsidiaries	(78,161)	(48,068)
Capital injection into a jointly controlled entity	–	(23,449)
NET CASH USED IN INVESTING ACTIVITIES	(3,510,879)	(1,700,890)

	Notes	2011 HK$'000	2010 HK$'000
FINANCING ACTIVITIES			
Interest paid		(626,880)	(473,432)
Proceeds from issue of ordinary shares		3,192,129	14,380
Dividends paid		(61,077)	(46,676)
New bank and other borrowings raised		7,496,644	6,915,685
Repayments of bank and other borrowings		(6,804,496)	(4,147,562)
Advance from shareholders of jointly controlled entities		7,731	262
Repayment to shareholders of jointly controlled entities		(9,796)	(12,990)
Advance from non-controlling interests of subsidiaries		48,215	30,911
Repayment to non-controlling interests of subsidiaries		(386,303)	(28,041)
(Repayment to) advance from associates		(11,212)	23,867
Advance payment for acquisition of additional interest in a subsidiary		–	(94,991)
Acquisition of additional interests in subsidiaries	40	(22,988)	–
Capital contribution from non-controlling interests of subsidiaries		2,411	9,280
Dividend paid by subsidiaries to non-controlling interests		(106,607)	(32,075)
Redemption of convertible bonds		(143,828)	–
NET CASH GENERATED FROM FINANCING ACTIVITIES		2,573,943	2,158,618
NET INCREASE IN CASH AND CASH EQUIVALENTS		1,143,142	1,815,669
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		3,872,316	2,048,698
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		66,131	7,949
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		5,081,589	3,872,316
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		5,081,589	3,872,316

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2011

1. GENERAL

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

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out note 53.

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

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

In the current year, the Group has applied the following new and revised Standards, Amendments and Interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKFRS 2 (Amendments)	Group cash-settled share-based payment transactions
HKFRS 3 (as revised in 2008)	Business combinations
HKAS 27 (as revised in 2008)	Consolidated and separate financial statements
HKAS 39 (Amendments)	Eligible hedged items
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008
HK(IFRIC) – INT 17	Distributions of non-cash assets to owners
HK – INT5	Presentation of financial statements – Classification by the borrower of a term loan that contains a repayment on demand clause

Except as described below, the application of the new and revised HKFRSs in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

Amendments to HKAS 7 Statement of Cash Flows (as part of Improvements to HKFRSs issued in 2009)

The amendments to HKAS 7 specify that changes in ownership interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Accordingly, the resulting cash flows are classified as financing activities in the consolidated statement of cash flows. The application of the amendments to HKAS 7 has resulted in a change in the presentation of cash outflows for current and prior year. Specifically, the capital contributions in the acquisition of additional interests in subsidiaries of HK$22,988,000 paid in current year are included in cash flows from financing activities in the consolidated statement of cash flows.

HKFRS 3 (as revised in 2008) Business combinations

HKFRS 3 (as revised in 2008) has been applied in the current year prospectively to business combinations of which the acquisition date is on or after April 1, 2010 in accordance with the relevant transitional provisions. Its application has affected the accounting for business combinations in the current year.

HKFRS 3 (as revised in 2008) requires acquisition-related costs to be accounted for separately from the business combination, as a result, the Group has recognised HK$20,884,000 of such costs as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition. Therefore, the change in accounting policy has resulted in a decrease in the profit for the year of HK$20,884,000 and earnings per share, for basic and diluted were decreased, by HK0.54 cent and HK0.49 cent respectively.

HKAS 27 (as revised in 2008) Consolidated and separate financial statements

The application of HKAS 27 (as revised in 2008) has resulted in changes in the Group's accounting policies for changes in ownership interests in subsidiaries of the Group.

Specifically, the revised Standard has resulted in change in the Group's accounting policy regarding changes in the Group's ownership interests in its subsidiaries that do not result in loss of control. In prior years, in the absence of specific requirements in HKFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised, when appropriate; for decreases in interests in existing subsidiaries that did not involve a loss of control, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss. Under HKAS 27 (as revised in 2008), all such increases or decreases are dealt with in equity, with no impact on goodwill or profit or loss.

These changes have been applied prospectively from April 1, 2010 in accordance with the relevant transitional provisions.

The application of the revised Standard has affected the accounting for the Group's acquisition of additional interests in subsidiaries in the current year. The change in policy has resulted in (i) the difference of HK$53,083,000 between the consideration paid during the year ended March 31, 2010 of HK$94,991,000 and the non-controlling interests derecognised of HK$41,908,000 which was recognised directly in equity instead of as goodwill; and (ii) the difference of HK$9,572,000 between the consideration paid of HK$29,158,000 and the non-controlling interests derecognised of HK$38,730,000 which was recognised directly in equity instead of discount on acquisitions of additional interests in subsidiaries in profit or loss. Therefore, the change in accounting policy has resulted in a decrease in the profit for the year of HK$9,572,000 and the earnings per share, for basic and diluted were decreased, by HK0.25 cent and HK0.22 cent respectively.

In addition, under HKAS 27 (as revised in 2008), the definition of non-controlling interest has been changed. Specifically, under the revised Standard, non-controlling interest is defined as the equity in a subsidiary not attributable, directly or indirectly, to a parent.

Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the borrower of a term loan that contains a repayment on demand clause

Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ("HK INT 5") clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time ("repayment on demand clause") should be classified by the borrower as current liabilities. The Group has applied HK INT 5 for the first time in the current year. Hong Kong Interpretation 5 requires retrospective application.

In order to comply with the requirements set out in HK INT 5, the Group has changed its accounting policy on classification of term loans with a repayment on demand clause. In the past, the classification of such term loans were determined based on the agreed scheduled repayment dates set out in the loan agreements. Under HK INT 5, term loans with a repayment on demand clause are classified as current liabilities.

As a result, bank loans that contain a repayment on demand clause with the aggregate carrying amounts of HK$37,299,000 and HK$114,943,000 have been reclassified from non-current liabilities to current liabilities as at March 31, 2010 and April 1, 2009 respectively. As at March 31, 2011, bank loans (that are repayable more than one year after the end of the reporting period but contain a repayment on demand clause) with the aggregate carrying amount of HK$59,523,000 have been classified as current liabilities. The application of HK INT 5 has had no impact on the reported profit or loss for the current and prior years.

Such term loans have been presented in the earliest time band in the maturity analysis for financial liabilities (see note 5 for details).

Amendment to HKAS 17 "Lease"

As part of Improvements to HKFRSs issued in 2009, HKAS 17 "Leases" has been amended in relation to the classification of leasehold land. Before the amendment to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendment to HKAS 17 have removed such a requirement. The amendments require that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

In accordance with the transitional provisions set out in the amendments to HKAS 17, the Group reassessed the classification of unexpired leasehold land as April 1, 2010 based on information which existed at the inception of the leases. Leasehold land that qualifies for finance lease classification has been reclassified from prepaid lease payments to property, plant and equipment retrospectively. This resulted in prepaid lease payments with the carrying amounts of HK$21,994,000, HK$20,468,000 as at April 1, 2009 and March 31, 2010 respectively being reclassified to property, plant and equipment. As at March 31, 2011, leasehold land that qualifies for finance lease classification with carrying amount of HK$18,942,000 has been included in property, plant and equipment. The application of amendments to HKAS 17 has had no impact on the reported profit or loss for the current and prior years.

Summary of the effects of the above changes in accounting policies

The effects of changes in accounting policies described above on the results for the current year by line items are as follows:

	2011 *HK$'000*
Increase in administrative expenses	(20,884)
Decrease in other gains and losses	(9,572)
Decrease in profit for the year	(30,456)

The effects of the above changes in accounting policies on the financial positions of the Group as at April 1, 2009 and March 31, 2010 are as follows:

	As at April 1, 2009 *HK$'000* (originally stated)	**Adjustments** *HK$'000* (restated)	**As at April 1, 2009** *HK$'000* (originally stated)	**As at March 31, 2010** *HK$'000* (restated)	**Adjustments** *HK$'000*	**As at March 31, 2010** *HK$'000*
Property, plant and equipment	9,132,277	21,994	9,154,271	11,064,337	20,468	11,084,805
Prepaid lease payments	885,248	(21,994)	863,254	985,114	(20,468)	964,646
Bank and other borrowings – current	3,103,855	114,943	3,218,798	5,294,761	37,299	5,332,060
Bank and other borrowings – non-current	7,194,067	(114,943)	7,079,124	8,021,345	(37,299)	7,984,046
Total effects on net assets		–			–	

The effects of changes in accounting policies described above on the Group's basic and diluted earnings per share for the current year are as follows:

	2011	
	Impact on basic earnings per share	**Impact on diluted earnings per share**
	HK cents	*HK cents*
Figures before adjustments	17.10	15.31
Adjustments arising from changes in the Group's accounting policies in relation to		
– acquisition-related cost	(0.54)	(0.49)
– acquisition of additional interests in subsidiaries	(0.25)	(0.22)
Figures after adjustments	16.31	14.60

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 issued in 2010[1]
HKFRS 7 (Amendments)	Disclosures – Transfers of financial assets[3]
HKFRS 9	Financial instruments[4]
HKAS 12 (Amendments)	Deferred Tax: Recovery of underlying assets[5]
HKAS 24 (as revised in 2009)	Related party disclosures[6]
HK (IFRIC) – INT 14 (Amendments)	Prepayments of a minimum funding requirement[6]
HK (IFRIC) – INT 19	Extinguishing financial liabilities with equity instruments[2]

1 Effective for annual periods beginning on or after July 1, 2010 or January 1, 2011, as appropriate.
2 Effective for annual periods beginning on or after July 1, 2010.
3 Effective for annual periods beginning on or after July 1, 2011.
4 Effective for annual periods beginning on or after January 1, 2013.
5 Effective for annual periods beginning on or after January 1, 2012.
6 Effective for annual periods beginning on or after January 1, 2011.

HKFRS 9 "Financial Instruments" (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 "Financial Instruments" (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

- Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

The directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for financial year ending March 31, 2014 and that the application of the new Standard may affect the classification and measurement of the Groups' financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect until a detailed review has been completed.

The amendments to HKAS 12 titled Deferred Tax: Recovery of Underlying Assets mainly deal with the measurement of deferred tax for investment properties that are measured using the fair value model in accordance with HKAS 40 Investment Property. Based on the amendments, for the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties measured using the fair value model, the carrying amounts of the investment properties are presumed to be recovered through sale, unless the presumption is rebutted in certain circumstances. The directors anticipate that the application of the amendments to HKAS 12 may have a significant impact on deferred tax recognised for investment properties that are measured using the fair value model. However, it is not practicable to provide a reasonable estimate of the effect until a detailed review has been completed.

In addition to the above the HKICPA issued the following standards on June 24, 2011.

HKFRS 10	Consolidated financial statements
HKFRS 11	Joint arrangements
HKFRS 12	Disclosure of interests in other entities
HKFRS 13	Fair value measurement
HKAS 27 (as revised in 2011)	Separate financial statements
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures

These new or revised standards are mandatorily effective for annual periods beginning on or after January 1, 2013. Early application is permitted so long as all of the six new or revised standards are applied early. The directors anticipate these standards will be adopted in the Group's consolidated financial statements for the period beginning April 1, 2013. The directors have not yet had an opportunity to consider the potential impact of the adoption of these standards.

Other than as described above, the directors of the Company anticipate that the application of the other new or revised Standards, Amendments or Interpretations will have no material impact on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments that are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

Basis of consolidation

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to April 1, 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries on or after April 1, 2010

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted (the carrying amount of the net assets attributable to non-controlling interests) and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to accumulated profits). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 "Financial Instruments: Recognition and Measurement" or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Changes in the Group's ownership interests in existing subsidiaries prior to April 1, 2010

Increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. For decreases in interests in subsidiaries, regardless of whether the disposals would result in the Group losing control over the subsidiaries, the difference between the consideration received and the adjustment to the non-controlling interests (the carrying amount of the net assets attributable to non-controlling interest) was recognised in profit or loss.

Business combinations that took place on or after April 1, 2010

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income Taxes" and HKAS 19 "Employee Benefits" respectively;

- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with HKFRS 2 "Share-based Payment" at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis required by another Standard.

Changes in the value of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Group obtains control over the acquiree.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date. Measurement period does not exceed one year from the acquisition date.

Business combinations that took place prior to April 1, 2010

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition was 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 met the relevant conditions for recognition were generally recognised at their fair value at the acquisition date.

Goodwill arising on acquisition was recognised as an asset and initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the recognised amounts of the identifiable assets, liabilities and contingent liabilities recognised. If, after assessment, the Group's interest in the recognised amounts of the acquiree's identifiable assets, liabilities and contingent liabilities exceeded the cost of the acquisition, the excess was recognised immediately in profit or loss.

The minority interest in the acquiree was initially measured at the minority interest's proportionate share of the recognised amounts of the assets, liabilities and contingent liabilities of the acquiree.

Business combinations achieved in stages were accounted for as separate steps. Goodwill was determined at each step. Any additional acquisition did not affect the previously recognised goodwill.

Goodwill

Goodwill arising on the acquisition of a business or a jointly controlled entity (which is accounted for using proportionate consolidation) is carried at cost less any accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units (or groups of cash-generating units) that are expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is an indication that the unit may be impaired. For goodwill arising on acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

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

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise for the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

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

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Investments in jointly controlled entities

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

The Group recognises its interests in jointly controlled entities using proportionate consolidation. The Group's share of each of the assets, liabilities, income and expenses of the jointly controlled entities are combined with the Group's similar line items, line by line, in the consolidated financial statements.

Any goodwill arising on the acquisition of the Group's interest in jointly controlled entities is accounted for in accordance with the Group's accounting policy for goodwill arising on acquisition on a business or jointly controlled entities (see above).

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 a jointly controlled entity recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount 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.

When a group entity transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognised in the Group' consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

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.

Revenue from the sale of goods is recognised when goods are delivered and title has passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from sales of natural gas, liquefied petroleum gas ("LPG"), coke and gas appliances are recognised when the gas or goods are delivered and title has passed.

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

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. 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 (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

Property, plant and equipment

Property, plant and equipment including land and buildings held for use in the production or supply of goods and services, or for administrative purposes, (other than construction in progress and described below) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy.

Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Building under development for future owneroccupied purpose

When buildings are in the course of development for production or for administrative purposes, the amortisation of prepaid lease payments provided during the construction period is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

Investment properties

Investment properties are properties held to earn rentals or for capital appreciation. Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose.

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

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the item is derecognised.

Intangible assets

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair values at the acquisition date (which is regarded as their cost).

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.

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expense in the period in which they are incurred.

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

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

Inventories

Inventories, including construction materials, gas appliances and gas for sales, LPG, coke, consumables and spare parts, are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Leasing

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

The Group as lessor

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

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis, except for those that are classified and accounted for as investment properties under the fair value model. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

Foreign currencies

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

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group entities are translated into the presentation currency of the Group (i.e. Hong Kong dollar) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve).

From April 1, 2010 onwards, on the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the

Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation before January 1, 2005 is treated as non-monetary foreign currency items of the acquirer and reported using the historical cost prevailing at the date of acquisition.

Retirement benefit costs

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

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 statement of comprehensive income 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 end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference 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 associated with investments in subsidiaries and associates, and interests in jointly controlled entities, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Borrowing costs

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

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as FVTPL, of which interest income included in net gains or losses.

Financial assets at fair value through profit or loss

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

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

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables including trade and other receivables, amounts due from associates, pledged bank deposits and bank balances are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as (a) loan and receivable, (b) held to maturity investments or (c) financial assets at FVTPL.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see accounting policy on impairment loss on financial assets below).

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

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

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

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

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, 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 and observable changes in national or local economic conditions that correlate with default on receivables.

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

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

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

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in investment revaluation reserve.

Financial liabilities and equity instruments

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

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into other financial liabilities.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities at fair value through profit or loss

Financial liabilities at FVTPL represent financial liabilities held for trading, which comprise derivatives that are not designated and effective as a hedging instrument.

At the end of the reporting period subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise.

Convertible bonds that contain liability component and conversion/redemption option derivatives

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

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

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

Other financial liabilities

Other financial liabilities including trade and other payables, amounts due to associates and a non-controlling interest of a subsidiary and bank and other borrowings are subsequently measured at amortised cost, using the effective interest method.

Obligation to acquire non-controlling interests

A forward contract which contains an obligation to acquire non-controlling interest of a subsidiary is initially recognised at the present value of the contracted amount (consideration payable) with a corresponding debit to equity (non-controlling interests) and 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.

Derivative financial instruments

Derivatives financial instruments are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts, and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

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

Where the Group redeems a convertible bond before its maturity, the consideration paid is allocated to the liability and derivative components of the convertible bond at their respective fair values at the time of redemption. To the extent that the amount of the consideration allocated to the liability component is less than the carrying amount of the liability component at the time of redemption, a gain is recognised in profit or loss.

Equity settled share-based payment transactions

Share options granted to employees of the Company vested on or after April 1, 2005

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (employee share-based compensation reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to employee share-based compensation reserve.

At the time when the share options are exercised, the amount previously recognised in employee share-based compensation 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 employee share-based compensation reserve will be transferred to accumulated profits.

Share options granted to employees of the Company and vested before April 1, 2005

The financial impact of the share options granted and fully vested before April 1, 2005 is not recorded in the consolidated financial statements until such time as the options are exercised, and no charge is recognised in profit or loss in respect of the value of options granted. Upon the exercise of the share options, the resulting shares issued are recorded as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded as share premium. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as a deduction from the carrying amount of the relevant asset in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

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

At the end of the reporting period, 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 any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. In addition, intangible assets with indefinite useful lives are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, 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.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Fair value of derivative financial instruments

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

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. When the actual future cash flows are less than expected, a material impairment loss may arise. As at March 31, 2011, the carrying amount of goodwill was HK$1,565,604,000 (2010: HK$900,577,000) with no impairment loss recognised. Details of the recoverable amount calculation disclosed in note 25.

Impairment of intangible assets

At the end of the reporting period, management assessed the recoverability of its intangible assets arising from the acquisitions of businesses/assets, in which the carrying amount at March 31, 2011 was HK$1,401,675,000 (2010: HK$1,254,675,000). The business of the cash generating unit continues to progress in a satisfactory manner. Detailed valuation analysis has been carried out and management is confident that the carrying amount of the asset will be recovered in full. This situation will be closely monitored. Any change in the business environment may lead to the change of expected future cashflows in the future. If the future recoverable amounts fall below the carrying amounts, additional impairment is required.

Depreciation of property, plant and equipment

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

Deferred taxation

As at March 31, 2011, the Group has unused tax losses of HK$2,180,660,000 (2010: HK$1,675,899,000) available for offset against future profits. No deferred tax asset in relation to these unused tax losses approximately to HK$2,109,107,000 (2010: HK$1,631,806,000) has been recognised in the consolidated statement of financial position. In cases where there are future profits generated to utilise the tax losses, a material deferred tax assets may arise, which would be recognised in the consolidated statement of comprehensive income for the period in which the estimated future profits are expected.

Revenue recognition of gas connection contract

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

5. FINANCIAL INSTRUMENTS

Capital risk management

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

The capital structure of the Group consists of debts, which include the bank and other borrowings, amount due to a non-controlling interest of a subsidiary and convertible bonds disclosed in notes 34, 37 and 38 respectively, and equity attributable to owners of the Company, comprising issued share capital disclosed in note 35, reserves and accumulated profits as disclosed in consolidated statements of changes in equity.

The management reviews the capital structure by considering the cost of capital and the risks associated with each class of capital. Based on recommendations of the management, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

Categories of financial instruments

	2011	**2010**
	HK$'000	*HK$'000*
Financial assets		
Available-for-sale investments	85,884	82,838
Held-for-trading investments	11,948	15,468
Loans and receivables (including cash and cash equivalents)	9,908,507	5,667,985
FVTPL– Derivative financial assets	–	12,668
Financial liabilities		
Amortised cost		
FVTPL– Derivative financial liabilities	32,122	–

Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, held-for-trading investments, amounts due from/to associates, trade and other receivables, derivative financial instruments, trade and other payables, amount due to a non-controlling interest of a subsidiary, bank and other borrowings, pledged bank deposits and bank balances. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risks

Currency risk

The Group collects most of its revenue in RMB and most of the expenditures as well as capital expenditures are also denominated in RMB. However, the Group has certain bank balances, amount due to a non-controlling interest of a subsidiary and bank and other borrowings that are not denominated in functional currency of the respective group entities. The appreciation or devaluation of RMB against foreign currencies may have positive or negative impact on the results of operations of the Group.

The Group currently does not have a foreign currency hedging policy but the directors monitor foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise. As at end of the reporting period, the carrying amounts of the Group's monetary assets and liabilities that are denominated in foreign currency are as follows:

	Assets		**Liabilities**	
	2011	**2010**	**2011**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
United States Dollars ("USD")	2,012,124	796,306	4,797,837	4,232,459
HK$	25,215	43,758	–	–
Japanese Yen ("JPY")	–	–	232,982	451,622

The carrying amounts of inter-company balances of certain group entities which were denominated in foreign currency are as follows:

	Liabilities	
	2011	**2010**
	HK$'000	*HK$'000*
USD	69,725	62,234

Sensitivity analysis

The following table details the Group's sensitivity to a 5% (2010: 5%) increase and decrease in RMB against respective foreign currencies. 5% (2010: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currencies denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2010: 5%) change in foreign currencies rates. A positive number below indicates an increase in post-tax profit where RMB strengthen 5% (2010: 5%) against the relevant currencies. For a 5% (2010: 5%) weakening of RMB against the relevant currency, there would be an equal and opposite impact on the result for the year and the balance below would be negative.

	(Decrease) increase in post-tax profit for the year	
	2011	**2010**
	HK$'000	*HK$'000*
USD impact	107,079	131,190
HK$ impact	(946)	(1,641)
JPY impact	8,737	16,936
	114,870	146,485

Interest rate risk

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

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank and other borrowings, amount due to a non-controlling interest of a subsidiary and the convertible bonds issued by the Group (see notes 34, 37 and 38 for details of these borrowings and convertible bonds respectively). The Group aims at keeping borrowings at variable rates. In order to achieve this result, the Group entered into interest rate swaps to hedge against its exposures to changes in fair values of the borrowings. These hedging activities do not qualify for hedge accounting. The changes in fair value of the interest rate swaps are recognised in the profit and loss as they arise.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances and floating-rate bank and other borrowings (see notes 32 and 34 for details of bank balances and these borrowings respectively). It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

Sensitivity analysis

The sensitivity analysis has been determined based on the exposure to interest rate risk for both floating-rate bank and other borrowings and interest rate swaps, together with the interest capitalised to construction in progress at the end of the reporting period. Floating-rate bank balances have not been included in the sensitivity analysis as the management considers that the interest rate would not fluctuate significantly in the near future and therefore the financial impact to the group is not significant. A change of 100 basis points (2010: 100 basis points) was applied to the yield curves and interest rate on both floating-rate bank and other borrowings and interest rate swap, together with the interest capitalised to construction in progress. The applied change 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 the interest rate of variable rate bank and other borrowings and interest rate swaps, together with the interest capitalised to construction in progress had been 100 basis points (2010: 100 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year, after taking amount of interest capitalised and fair value changes on the interest rate swap, would decrease/increase by HK$62,086,000 (2010: HK$87,870,000).

Equity price risk

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

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to equity price risks of listed equity instrument at the reporting date. A 10% (2010: 10%) change is used when reporting equity price risk internally to key management personnel and represents management's assessment of the reasonably possible change in equity price.

For the year ended March 31, 2011, if the market bid prices of the listed investments had been 10% (2010: 10%) higher/lower and all other variables were held constant, the Group's post-tax profit for the year would increase/decrease by HK$998,000 (2010: HK$1,292,000) and the Group's investment revaluation reserve will increase/decrease by HK$1,591,000 (2010: HK$1,323,000) respectively. This is mainly attributable to the changes in fair values of the listed held-for-trading investments and available-for-sale investments respectively.

Credit risk

As at March 31, 2011, 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 or debtors provided by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each half-reporting end date and end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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

Other than concentration of credit risk on amounts due from associates, the Group does not have any other significant concentration of credit risk, with exposure spread over a number of counterparties and customers. In order to minimise the credit risk on amounts due from associates, the directors of the Company closely monitors the subsequent settlement and does not grant long credit period to the counterparty. In this regard, the directors of the Company consider that the Group's credit risk is significant reduced.

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

Liquidity risk

The Group has net current liabilities of HK$1,802,781,000 as at March 31, 2011 (3.31.2010: HK$1,840,971,000 and 4.1.2009: HK$782,621,000). The consolidated financial statements have been prepared on a going concern basis because the directors believe that the Group has sufficient funds to finance its current working capital requirements taking into account of the cash flows from operations and assuming the continuing ability to utilise the available long-term bank loans facilities. As at March 31, 2011, the Group had available unutilised long-term bank loans facilities of HK$35,707,479,000 (3.31.2010: HK$8,888,805,000 and 4.1.2009: HK$12,914,680,000). Details of the Group's bank and other borrowings at March 31, 2011 are set out in note 34.

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

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The tables include both interest and principal gross cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

	Weighted average contractual interest rate	Payable on demand	Less than 1 month	Between 1 to 3 months	Between 3 months to 1 year	Between 1 to 5 years	Over 5 years	Total un-discounted cash flows	Carrying amount at the end of reporting period
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At March 31, 2011									
Non-derivative financial liabilities									
Trade and bill payables	–	–	442,913	1,317,562	434,753	–	–	2,195,228	2,195,228
Other payables and accrued charges	–	–	570,055	153,073	68,278	–	–	791,406	791,406
Amounts due to non-controlling interests of subsidiaries	–	69,705	–	–	–	–	–	69,705	69,705
Amounts due to shareholders of jointly controlled entities	–	17,399	–	–	–	–	–	17,399	17,399
Obligation on capital injection to Fujian Anran (as defined in note 21) by Zhongmin Zhongran (as defined in note 42(B)(iii))	–	–	–	23,448	–	–	–	23,448	23,448
Obligation on acquisition of additional interest in a subsidiary *(note 33)*	–	–	–	–	38,095	–	–	38,095	38,095
Bank and other borrowings									
– fixed rate	6.77%	–	–	–	292,673	4,465,615	1,193,394	5,951,682	5,574,302
– floating rate	8.15%	59,523	1,222	19,433	3,765,685	4,214,053	3,844,707	11,904,623	9,458,862
Amount due to a non-controlling interest of a subsidiary	2%	–	–	–	5,143	–	–	5,143	5,042
		146,627	1,014,190	1,513,516	4,604,627	8,679,668	5,038,101	20,996,729	18,173,487
At March 31, 2010									
Non-derivative financial liabilities									
Trade and bill payables	–	–	340,065	1,011,614	333,800	–	–	1,685,479	1,685,479
Other payables and accrued charges	–	–	380,514	102,177	45,576	–	–	528,267	528,267
Amounts due to non-controlling interests of subsidiaries	–	50,501	–	–	–	–	–	50,501	50,501
Amounts due to shareholders of jointly controlled entities	–	24,668	–	–	–	–	–	24,668	24,668
Obligation on capital injection to Fujian Anran (as defined in note 21) by Zhongmin Zhongran (as defined in note 42(B)(iii))	–	–	–	–	23,448	–	–	23,448	23,448
Deferred cash consideration for acquisition of businesses	–	–	–	–	78,161	–	–	78,161	78,161
Bank and other borrowings									
– fixed rate	6.05%	–	–	–	2,069,799	1,604,565	2,182,647	5,857,011	5,016,495
– floating rate	6.75%	37,299	230	24,954	3,601,534	3,021,148	3,487,515	10,172,680	8,299,611
Amount due to a non-controlling interest of a subsidiary	2%	–	–	–	7,132	377,986	–	385,118	356,591
		112,468	720,809	1,138,745	6,159,450	5,003,699	5,670,162	18,805,333	16,063,221

Bank loans with a repayment on demand clause are included in the "payable on demand" time band in the above maturity analysis. As at March 31, 2011, March 31, 2010 and April 1, 2009 the aggregate undiscounted principal amounts of these bank loans amounted to HK$59,523,000, HK$37,299,000 and HK$114,943,000 respectively. The bank loans as at March 31, 2010 and April 1, 2009 were settled in the following reporting period. Taking into account the Group's financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that such bank loans will be repaid under category between 1 to 5 years in the liquidity table after the reporting date in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows will amount to HK$70,586,000.

The amounts included above for variable rate bank borrowings and derivative financial instrument are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

Fair value

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

- the fair values of financial assets with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and

- the fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis; and

- the fair values of interest rate range accrual swaps as set out in note 29, are calculated using discounted cash flow analysis based on the application yield curve derived from quoted interest rates and quoted spot and forward foreign exchange rates. For an option-based derivative embedded in convertible bonds, the fair value is estimated using option pricing model.

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

Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2011		
	Level 1	**Level 2**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Financial assets at FVTPL			
Held-for-trading investments	11,948	–	11,948
Available-for-sale financial assets			
Listed equity securities	15,908	–	15,908
Unlisted club debentures	–	5,047	5,047
Financial liabilities at FVTPL			
Derivative financial liabilities			
Interest rate range accrual swaps	–	(32,122)	(32,122)
Total	27,856	(27,075)	781

	2010		
	Level 1	**Level 2**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Financial assets at FVTPL			
Derivative financial assets			
Interest rate range accrual swaps	–	12,668	12,668
Held-for-trading investments	15,468	–	15,468
Available-for-sale financial assets			
Listed equity securities	13,230	–	13,230
Unlisted club debentures	–	3,494	3,494
Total	28,698	16,162	44,860

There were no transfer between Level 1 and 2 in the current year and prior year.

6. REVENUE

Revenue mainly represents, the net amounts received and receivable for sales of piped gas and LPG and construction contract revenue from gas connection contracts by the Group for the year and is analysed as follows:

	2011	**2010**
	HK$'000	*HK$'000*
Sales of piped gas	6,359,041	3,831,627
Gas connection income	2,346,388	1,461,573
Sales of LPG	6,654,797	4,637,924
Sales of coke and gas appliances	485,131	268,845
Others	16,523	11,990
	15,861,880	10,211,959

7. SEGMENT INFORMATION

Information reported to the Group's chief operating decision maker ("CODM"), being the managing directors of the Group, for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services rendered which is also consistent with the basis of organisation of the Group, except for Zhongyu Gas Holdings Limited ("Zhongyu Gas"), a subsidiary where the Group has acquired 56.33% equity interest in it. The Group consider Zhongyu Gas is a single operating segment as CODM reviews the total revenue and overall result of Zhongyu Gas. The Group's operating and reportable segments under HKFRS 8 are as follows:

(i) Sales of piped gas;

(ii) Gas connection;

(iii) Sales of LPG;

(iv) Sales of coke and gas appliances; and

(v) Zhongyu Gas

Information regarding the above segments is presented below.

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segment.

For the year ended March 31, 2011

	Sales of piped gas	Gas connection	Sales of LPG	Sales of coke and gas appliances	Zhongyu Gas	Segment Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue from external customers	5,582,934	2,086,497	6,654,797	485,131	1,035,998	15,845,357
Segment profit (loss)	692,146	1,046,494	(22,435)	2,638	92,410	1,811,253
Revenue arising from property investment						16,523
Interest and other gains						57,493
Unallocated corporate expenses						(189,742)
Finance costs						(614,391)
Change in fair value of investment properties						47,057
Change in fair value of derivative financial instruments						(44,790)
Loss on disposal of a jointly controlled entity						(932)
Gain on disposal of associates						753
Loss on disposal of available-for-sale unlisted investments						(2,042)
Share of results of associates						15,856
Profit before taxation						1,097,038

	HK$'000
Reconciliation of revenue	
Total revenue for operating segments	15,845,357
Rental income	16,523
Group's consolidated revenue	15,861,880

For the year ended March 31, 2010

	Sales of piped gas	Gas connection	Sales of LPG	Sales of coke and gas appliances	Segment Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue from external customers	3,831,627	1,461,573	4,637,924	268,845	10,199,969
Segment profit	587,271	645,212	74,471	10,499	1,317,453
Revenue arising from property investment					11,990
Interest and other gains					49,279
Unallocated corporate expenses					(154,947)
Finance costs					(522,677)
Change in fair value of investment properties					44,645
Change in fair value of derivative financial instruments					372,755
Loss on disposal of jointly controlled entities					(5,814)
Loss on disposal of an associate					(1,190)
Gain on disposal of a subsidiary					141
Discount on acquisition of a jointly controlled entity					302
Discount on acquisition of businesses					176,085
Share of results of associates					(114,402)
Profit before taxation					1,173,620

	HK$'000
Reconciliation of revenue	
Total revenue for operating segments	10,199,969
Rental income	11,990
Group's consolidated revenue	10,211,959

All of the segment revenue reported above is from external customers and no inter-segment sales are noted for current and prior years.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Except for segment profit of Zhongyu Gas, segment profit (loss) for remaining reportable segments represents the profit earned by or loss from each segment without allocation of bank interest income, property rental income, exchange gain, central administration cost, change in fair value of investment properties and derivative financial instruments, losses on disposal of an associate and jointly controlled entities, loss on disposal of available-for-sale unlisted investments, gain on disposal of associates and a subsidiary, discounts on acquisition of a jointly controlled entity and businesses, share of results of associates, finance costs and taxation. The segment profit of Zhongyu Gas represents the profit before taxation of Zhongyu Gas. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and performance assessment.

Segment assets and liabilities

The following is an analysis of the Group's segment assets and segment liabilities that are regularly reviewed by the chief operating decision maker:

At March 31, 2011

	Sales of piped gas	Gas connection	Sales of LPG	Sales of coke and gas appliances	Zhongyu gas	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS						
Segment assets	15,000,601	1,238,994	3,533,330	299,042	2,236,507	22,308,474
Investment properties						401,890
Property, plant and equipment (for corporate)						175,788
Prepaid lease payments (for corporate)						34,349
Investments in associates						1,009,505
Available-for-sale investments						82,930
Deferred tax assets						91,466
Held-for-trading investments						11,948
Other receivables (for corporate)						308,904
Pledged bank deposits						1,633,466
Bank balances and cash						4,827,808
Consolidated total assets						30,886,528
LIABILITIES						
Segment liabilities	549,785	2,228,266	698,570	112,788	1,198,521	4,787,930
Other payables (for corporate)						715,058
Taxation						136,781
Bank and other borrowings						14,361,182
Amount due to a non-controlling interest of a subsidiary						5,042
Deferred taxation						510,257
Derivative financial instruments						32,122
Consolidated total liabilities						20,548,372

At March 31, 2010

	Sales of piped gas	Gas connection	Sales of LPG	Sales of coke and gas appliances	Segment Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS					
Segment assets	12,495,032	894,068	3,168,140	191,065	16,748,305
Investment properties					343,158
Property, plant and equipment (for corporate)					143,280
Prepaid lease payments (for corporate)					34,224
Investments in associates					957,709
Available-for-sale investments					82,838
Deferred tax assets					88,155
Held-for-trading investments					15,468
Derivative financial instruments					12,668
Other receivables (for corporate)					210,370
Pledged bank deposits					489,103
Bank balances and cash					3,872,316
Consolidated total assets					22,997,594
LIABILITIES					
Segment liabilities	407,159	1,382,981	899,068	193,792	2,883,000
Other payables (for corporate)					562,203
Taxation					146,162
Bank and other borrowings					13,316,106
Amount due to a non-controlling interest of a subsidiary					356,591
Deferred taxation					503,295
Consolidated total liabilities					17,767,357

For the purposes of monitoring segment performances and allocating resources between segments:

- All assets, except for the assets of Zhongyu Gas, are allocated to reportable segment other than investments in associates, available-for-sale investments, property, plant and equipment and prepaid lease payments for corporate use, deferred tax assets, held-for-trading investments, derivative financial instruments, pledged bank deposits and bank balances and cash of the Group, and corporate assets of the Group. Segment assets of Zhongyu Gas represents the total assets of Zhongyu Gas.

- All liabilities, except for the liabilities of Zhongyu Gas, are allocated to reportable segment other than derivative financial instruments, taxation, bank and other borrowings, amount due to a non-controlling interest of a subsidiary and deferred taxation of the Group, and corporate liabilities of the Group. Segment liabilities of Zhongyu Gas represents the total liabilities of Zhongyu Gas.

Other segment information

	Sales of piped gas	Gas connection	Sales of LPG	Sales of coke and gas appliances	Segment total	Unallocated	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Amounts included in the measure of segment profit or loss or segment assets:							
2011							
Additions of prepaid lease payments	214,966	–	3,969	–	218,935	–	218,935
Additions to goodwill	611,040	–	–	–	611,040	–	611,040
Additions to intangible assets	149,534	–	–	–	149,534	–	149,534
Additions to property, plant and equipment	1,680,672	–	224,311	–	1,904,983	4,019	1,909,002
Loss (gain) on disposal of property, plant and equipment	10,654	–	(1,274)	–	9,380	(117)	9,263
Loss on disposal of prepaid lease payments	73	–	3,267	–	3,340	–	3,340
Amortisation of intangible assets	48,974	–	–	–	48,974	–	48,974
Release of prepaid lease payments	29,649	–	13,273	–	42,922	849	43,771
Depreciation of property, plant and equipment	419,443	–	176,219	–	595,662	3,330	598,992
Allowance for trade receivables	–	7,383	–	–	7,383	–	7,383
2010							
Additions of prepaid lease payments	112,087	–	15,766	–	127,853	–	127,853
Additions to goodwill	181,548	–	34,562	–	216,110	–	216,110
Additions to intangible assets	954,397	–	–	–	954,397	–	954,397
Additions to property, plant and equipment	1,042,912	–	207,406	–	1,250,318	12,713	1,263,031
Loss on disposal of property, plant and equipment	3,694	–	559	–	4,253	–	4,253
Amortisation of intangible assets	20,019	–	–	–	20,019	–	20,019
Release of prepaid lease payments	12,772	–	12,895	–	25,667	794	26,461
Depreciation of property, plant and equipment	319,309	–	150,707	–	470,016	6,178	476,194
Impairment losses of amounts due from customers for contract work	–	51,418	–	–	51,418	–	51,418
Allowance for trade receivables	–	75,112	–	–	75,112	–	75,112

	2011	**2010**
	HK$'000	*HK$'000*
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:		
Discounts on acquisition of a jointly controlled entity and businesses	–	176,387
Share of results of associates	15,856	(114,402)

Geographical information

The Group's operations are mainly located in the PRC.

The following table provides an analysis of the Group's revenue by location of external customers:

	2011	2010
	HK$'000	*HK$'000*
Hong Kong	960	960
PRC	15,860,920	10,210,999
	15,861,880	10,211,959

None of the customer contributed over 10% of total revenue of the Group.

The following is the information about non-current assets other than financial instruments and deferred tax assets by the geographical area in which the assets are located:

	3.31.2011	3.31.2010	4.1.2009
	HK$'000	*HK$'000*	*HK$'000*
		(restated)	(restated)
Hong Kong	787,807	609,363	86,443
PRC	19,259,377	15,125,025	12,556,707
	20,047,184	15,734,388	12,643,150

8. OTHER INCOME

	2011	2010
	HK$'000	*HK$'000*
Interest income	58,604	34,891
Subsidies from PRC governmental authorities:		
– compensation for loss incurred in coal gas operation *(note a)*	11,371	14,395
– subsidy for replacement of pipelines for natural gas supply *(note b)*	44,143	36,813
– tax refund *(note c)*	1,231	2,813
Repair and maintenance services fee	19,607	9,661
Other services income	38,762	44,905
Income from leasing of equipments	25,275	22,291
Transportation income	6,441	52,603
Compensation income *(note d)*	–	22,988
Others	31,503	32,525
	236,937	273,885

Notes:

(a) Pursuant to notice of compensation dated August 28, 2007 issued by the relevant government authority in the PRC, 撫順中燃城市發展有限公司 ("撫順中燃"), a subsidiary of the Company, received a compensation from the government authority to subsidise for the increase in cost of sales of natural gas by reference to monthly purchase volume by 撫順中燃 for both years.

(b) For the year ended March 31, 2011, 撫順中燃 received a subsidy of HK$12,254,000 (2010: HK$26,296,000) from 撫順市財政局 for the cost incurred for connection contracts relating to pipeline network for customers in new urban areas and replacement of old pipeline network of the natural gas users in Fushun city. All the required work has been completed by 撫順中燃. All the costs incurred were recognised as cost of sales in profit or loss during the year. In addition, 淮南中燃城市發展有限公司 ("淮南中燃"), a subsidiary of the Company, received subsidies of HK$20,818,000 for the year (2010: HK$10,517,000) from 淮南市財政局 for its additional costs incurred in certain gas connection contracts in which the connection fee is fixed by the relevant government authority in the PRC. Furthermore, 庄河中燃城市燃氣發展有限公司, a subsidiary of the Company, received the subsidies of HK$11,071,000 for the year (2010: nil) from the relevant government authority for the cost incurred in the gas connection contract incurred during the year.

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

(d) For the year ended March 31, 2010, a subsidiary of the Group, 瀋陽中燃城市燃氣發展有限公司 ("瀋陽中燃") received a one-off compensation of HK$22,988,000 from an independent third party, 瀋陽沈南燃氣有限公司 ("瀋陽沈南"). This related to disputes with 瀋陽沈南 regarding the operating right in a particular area in the PRC. 瀋陽中燃 also agreed to give up the operating right in that particular area.

9. OTHER GAINS AND LOSSES

	2011	2010
	HK$'000	*HK$'000*
Other gains and losses comprise:		
Loss on disposal of jointly controlled entities *(note 44)*	(932)	(5,814)
Gain (loss) on disposal of associates *(note 20)*	753	(1,190)
Gain on disposal of a subsidiary *(note 43)*	–	141
Loss on disposal of available-for-sale unlisted investments	(2,042)	–
Discount on acquisition of a jointly controlled entity *(note 41)*	–	302
Discount on acquisition of businesses *(note 42)*	–	176,085
Change in fair value of investment properties	47,057	44,645
Change in fair value of held-for-trading investments	(3,520)	11,798
Impairment loss on amounts due from customers for contract work *(note 27)*	–	(51,418)
Allowance for trade receivables *(note 28)*	(7,383)	(75,112)
Change in fair value of derivative financial instruments *(note 29)*	(46,083)	372,755
Gain on redemption of Zhongyu Gas Bond (as defined in note 38)	1,814	–
Exchange gain	25,833	–
	15,497	472,192

10. FINANCE COSTS

	2011	2010
	HK$'000	*HK$'000*
Interest on:		
Bank loans and other borrowings wholly repayable within five years	253,259	212,909
Bank loans and other borrowings not wholly repayable within five years	340,897	278,393
Convertible bonds *(note 38)*	3,045	39
	597,201	491,341
Net interest expense on interest rate swaps	101,664	111,032
Interest capitalised to construction in progress	(63,836)	(79,696)
	635,029	522,677

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 5.87% (2009: 5.92%) per annum to expenditure on qualifying assets.

11. TAXATION

	2011	2010
	HK$'000	*HK$'000*
PRC Enterprise Income Tax	322,951	192,985
Deferred taxation *(note 39)*	(7,235)	(34,866)
	315,716	158,119

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

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

Pursuant to the relevant laws and regulations in the PRC, certain PRC subsidiaries of the Company are exempted from PRC Enterprise Income Tax for the first two years commencing from their first profit-making year of operation and thereafter, these PRC entities will be entitled to a 50% relief from PRC Enterprise Income Tax for the following three years ("Tax preference"). The Tax preference arrangement of the aforesaid PRC subsidiaries have been/will be expired from 2011 to 2013. The reduced tax rate for the relief period is 12.5% for both years. The charge of PRC Enterprise Income Tax for the years has been provided for after taking these Tax preference into account.

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

	Hong Kong		PRC		Total	
	2011	2010	2011	2010	2011	2010
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
(Loss) profit before taxation	(322,515)	95,670	1,419,553	1,077,950	1,097,038	1,173,620
Tax at the domestic income tax rate	(53,215)	15,786	354,887	269,487	301,672	285,273
Tax effect of share of results of associates	–	–	(3,964)	28,601	(3,964)	28,601
Tax effect of expenses not deductible for tax purpose	31,222	25,694	12,244	17,859	43,466	43,553
Tax effect of income not taxable for tax purpose	(1,412)	(61,548)	(14,186)	(57,603)	(15,598)	(119,151)
Tax effect of estimated tax losses not recognised	23,405	20,068	83,864	176,966	107,269	197,034
Tax effect of income tax at concessionary rate	–	–	(117,129)	(277,191)	(117,129)	(277,191)
Taxation	–	–	315,716	158,119	315,716	158,119

Note: The applicable tax rate for Hong Kong and PRC are 16.5% (2010: 16.5%) and 25% (2010: 25%) respectively.

12. PROFIT FOR THE YEAR

	2011	2010
	HK$'000	*HK$'000*
		(restated)
Profit for the year has been arrived at after charging (crediting):		
Auditor's remuneration	6,000	5,500
Depreciation of property, plant and equipment	598,992	476,194
Release of prepaid lease payments	43,771	26,461
Amortisation of intangible assets included in cost of sales	48,974	20,019
Minimum lease payments for operating leases in respect of:		
– rented premises	40,061	61,611
– equipments	32,627	24,279
	72,688	85,890
Loss on disposal of property, plant and equipment	9,263	4,253
Loss on disposal of prepaid lease payments	3,340	–
Research and development cost (included in administrative expenses)	8,642	–
Share of tax of associates (included in share of results of associates)	5,015	4,175
Staff costs:		
Directors' emoluments *(note 13)*	36,404	37,265
Salaries and allowances of other staff	537,676	362,686
Contributions to retirement benefit scheme contributions of other staff	95,067	68,072
Less: amount capitalised in construction in progress	(28,264)	(24,889)
	640,883	443,134
Cost of inventories recognised as expenses in respect of:		
Sales of piped gas	4,977,184	2,771,000
Sales of LPG	6,089,737	4,042,734
Contract costs recognised as expense in respect of gas connection construction contracts	688,341	439,402
Sales of coke and gas appliances	465,848	219,496
	12,221,110	7,472,632
Rental income from investment properties less outgoings of HK$2,314,000 (2010: HK$1,671,000)	(14,209)	(10,319)

13. EMOLUMENTS OF DIRECTORS

Directors

The emoluments paid or payable to each of the 18 (2010: 13) directors were as follow:

2011

	Directors' fees	Salaries and other benefits	Performance related incentive payments	Share-based payments	Contributions to retirement benefits scheme	Total emoluments
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors						
Mr. Li Xiao Yun *(Note vii)*	3,000	–	–	2,208	–	5,208
Mr. Leung Wing Cheong, Eric *(Note iii)*	–	648	324	201	3	1,176
Mr. Xu Ying *(Note vii)*	–	7,200	–	–	12	7,212
Mr. Liu Ming Hui *(Note vii)*	–	7,200	–	–	12	7,212
Mr. Ma Jin Long	300	–	–	1,794	–	2,094
Mr. Zhu Wei Wei	–	480	660	1,794	12	2,946
Mr. Pang Ying Xue *(Note iv)*	–	80	40	–	–	120
Non-executive directors						
Mr. Feng Zhuo Zhi	240	–	–	1,345	–	1,585
Mr. R.K. Goel *(Note v)*	–	–	–	1,231	–	1,231
Mr. Kim Joong Ho *(Note ii)*	4	–	–	48	–	52
Mr. Rackets William Hugh *(Note ii)*	–	–	–	48	–	48
Mr. Jo Yamagata	240	–	–	1,345	–	1,585
Mr. Moon Duk Kyu *(Note i)*	230	–	–	–	–	230
Mr. Mulham Al-Jarf *(Note i)*	230	–	–	–	–	230
Mr. P. K. Jain *(Note vi)*	–	–	–	–	–	–
Independent non-executive directors						
Mr. Zhao Yu Hua	480	–	–	1,345	–	1,825
Dr. Mao Er Wan	480	–	–	1,345	–	1,825
Ms. Wong Sin Yue, Cynthia	480	–	–	1,345	–	1,825
	5,684	15,608	1,024	14,049	39	36,404

Notes:

(i) Appointed on April 13, 2010

(ii) Resigned on April 13, 2010

(iii) Appointed on December 23, 2010

(iv) Appointed on January 28, 2011

(v) Resigned on February 28, 2011

(vi) Appointed on February 28, 2011

(vii) Removed on April 26, 2011

2010

	Directors' fees	Salaries and other benefits	Performance related incentive payments	Share-based payments	Contributions to retirement benefits scheme	Total emoluments
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors						
Mr. Li Xiao Yun	3,000	–	–	1,428	–	4,428
Mr. Xu Ying	–	7,188	2,679	–	12	9,879
Mr. Liu Ming Hui	–	7,188	5,358	–	12	12,558
Mr. Ma Jin Long	300	–	–	1,032	–	1,332
Mr. Zhu Wei Wei	–	468	160	1,032	12	1,672
Non-executive directors						
Mr. Feng Zhuo Zhi	120	–	–	774	–	894
Mr. R.K. Goel	–	–	–	774	–	774
Mr. Kim Joong Ho	120	–	–	774	–	894
Mr. Rackets William Hugh	124	–	–	774	–	898
Mr. Jo Yamagata	120	–	–	774	–	894
Independent non-executive directors						
Mr. Zhao Yu Hua	240	–	–	774	–	1,014
Dr. Mao Er Wan	240	–	–	774	–	1,014
Ms. Wong Sin Yue, Cynthia	240	–	–	774	–	1,014
	4,504	14,844	8,197	9,684	36	37,265

Notes:

(a) The performance related incentive payments of Mr. Xu Ying and Mr. Liu Ming Hui are determined by reference to the Group performance and according to pre-determined percentage approved by the Remuneration Committee, while that of Mr. Zhu Wei Wei, Mr. Leung Wing Cheong, Eric and Mr. Pang Ying Xue are determined by reference to the individual performance and approved by Remuneration Committee.

(b) No emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as a compensation for loss of office for both years.

(c) Other than disclosed above, no directors waived any emoluments during for both years.

14. EMOLUMENTS OF EMPLOYEES

Of the five individuals with the highest emoluments in the Group, three (2010: three) were directors of the Company whose emoluments are included in note 13. The emoluments of the remaining two (2010: two) individuals including one individual before the appointment as director during the year were as follows:

	2011	2010
	HK$'000	*HK$'000*
Salaries and other benefits	8,616	10,195
Retirement benefit scheme contributions	21	24
Share-based payments	718	2,947
	9,355	13,166

Their emoluments were within the following bands:

	2011	**2010**
	No. of employee	*No. of employee*
HK$3,000,001 to HK$3,500,000	–	1
HK$4,000,001 to HK$4,500,000	1	–
HK$5,000,001 to HK$5,500,000	1	–
HK$6,500,001 to HK$7,000,000	–	1

15. DIVIDENDS

	2011	**2010**
	HK$'000	*HK$'000*
Final dividend paid in respect of financial year ended March 31, 2010 of HK$0.017 (2010: HK$0.014 in respect of financial year ended March 31, 2009) per share	61,077	46,676

A final dividend of HK$0.022 in respect of the year ended March 31, 2011 (2010: final dividend of HK$0.017 in respect of the year ended March 31, 2010) per share amounting to HK$96,427,000 has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

16. EARNINGS PER SHARE

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

	2011	**2010**
	HK$'000	*HK$'000*
Earnings for the purposes of basic and diluted earnings per share, being profit for the year attributable to owners of the Company	625,896	875,636

	2011	**2010**
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share	3,837,014	3,343,913
Adjustment for effect of dilutive potential ordinary shares:		
Share options	449,193	441,788
Weighted average number of ordinary shares for the purpose of diluted earnings per share	4,286,207	3,785,701

Note: All outstanding convertible bonds were converted during the year ended March 31, 2010. The impact on diluted earnings per share for the year ended March 31, 2010 on assumed conversion was not considered significant and therefore had not been accounted for in the calculation.

In addition, the diluted earnings per share for the year ended March 31, 2011 has not assumed the conversion of convertible bonds issued by Zhongyu Gas as it would increase the earnings per share, after taking into account of the effect of effective interest, change in fair value of redemption option derivative components and gain on redemption of the convertible bonds net of related tax expenses, if any.

17. INVESTMENT PROPERTIES

	HK$'000
At March 31, 2009	295,127
Acquired on acquisition of additional interest in a jointly controlled entity *(note 41)*	3,386
Change in fair value	44,645
At March 31, 2010	343,158
Exchange adjustments	10,082
Additions	2,220
Acquired on acquisition a business *(note 42)*	5,618
Change in fair value	47,057
At March 31, 2011	408,135

The Group's investment properties are analysed as follows:

	2011	**2010**
	HK$'000	*HK$'000*
Properties held under medium term leases:		
– in Hong Kong	105,880	78,420
– in the PRC	302,255	264,738
	408,135	343,158

The fair value of the Group's investment properties in Hong Kong at March 31, 2011 has been arrived at on the basis of a valuation carried out as at that date by LCH (Asia-Pacific) Surveyors Limited. The resulting surplus of HK$27,460,000 (2010: surplus of HK$22,020,000) was included in consolidated statement of comprehensive income. The valuation was arrived at by reference to comparable market transactions for similar properties.

The fair value of the Group's investment properties in the PRC has been arrived at on the basis of a valuation carried out at these dates by CB Richard Ellis Limited. The resulting surplus of HK$19,597,000 (2010: surplus of HK$22,625,000) was credited to consolidated statement of comprehensive income. The valuation was arrived at by reference to standard land prices set by the PRC government and comparable market transactions as available in the locality.

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

18. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Pipelines HK$'000	Construction in progress HK$'000	Machinery and equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Vessels HK$'000	Total HK$'000
COST								
At April 1, 2009, as originally stated	1,169,693	4,858,494	1,950,637	1,543,869	98,436	184,049	–	9,805,178
Effect of change in accounting policy *(note 2)*	23,896	–	–	–	–	–	–	23,896
At April 1, 2009, as restated	1,193,589	4,858,494	1,950,637	1,543,869	98,436	184,049	–	9,829,074
Additions	63,019	19,173	1,077,523	29,115	32,039	42,162	–	1,263,031
Acquired on acquisition of businesses	82,309	609,460	307,782	46,491	5,001	7,703	127,775	1,186,521
Acquired on acquisition of additional interest in a jointly controlled entity	968	3,961	11,198	41	31	95	–	16,294
Disposal for the year	(2,499)	(7,814)	–	(1,263)	(1,281)	(6,845)	–	(19,702)
Disposal of jointly controlled entities	–	(2,436)	(25,906)	(21,839)	(350)	–	–	(50,531)
Disposal of a subsidiary	–	–	–	–	(27)	–	–	(27)
Reclassification	147,767	662,854	(955,996)	145,375	–	–	–	–
At March 31, 2010	1,485,153	6,143,692	2,365,238	1,741,789	133,849	227,164	127,775	12,224,660
Exchange adjustments	51,351	261,090	86,372	78,984	5,675	10,957	8,410	502,839
Additions	111,237	138,541	1,335,782	80,951	35,916	85,257	121,318	1,909,002
Acquired on acquisition of businesses	79,448	539,959	267,891	69,195	4,043	31,258	–	991,794
Disposal for the year	(6,558)	(11,917)	–	(41,411)	(5,112)	(17,837)	–	(82,835)
Disposal of a subsidiary	–	(1,362)	–	–	–	–	–	(1,362)
Disposal of a jointly controlled entity	–	–	(371)	(599)	(350)	(1,383)	–	(2,703)
Reclassification	290,073	1,044,367	(1,733,450)	399,010	–	–	–	–
At March 31, 2011	2,010,704	8,114,370	2,321,462	2,327,919	174,021	335,416	257,503	15,541,395
DEPRECIATION AND IMPAIRMENT								
At April 1, 2009, as originally stated	50,753	344,641	–	198,986	21,049	57,472	–	672,901
Effect of change in accounting policies *(note 2)*	1,902	–	–	–	–	–	–	1,902
At April 1, 2009, as restated	52,655	344,641	–	198,986	21,049	57,472	–	674,803
Provided for the year	45,966	231,979	–	79,339	25,918	72,644	20,348	476,194
Eliminated on disposals	(2,064)	(1,249)	–	(167)	(618)	(5,182)	–	(9,280)
Eliminated on disposal of jointly controlled entities	–	(148)	–	(1,511)	(202)	–	–	(1,861)
Eliminated on disposal of a subsidiary	–	–	–	–	(1)	–	–	(1)
At March 31, 2010	96,557	575,223	–	276,647	46,146	124,934	20,348	1,139,855
Exchange adjustments	4,758	28,747	–	14,492	2,017	5,140	1,246	56,400
Provided for the year	75,464	280,480	–	178,975	16,015	26,228	21,830	598,992
Eliminated on disposals	(1,389)	(774)	–	(34,759)	(1,313)	(13,394)	–	(51,629)
Eliminated on disposal of a jointly controlled entity	–	–	–	(144)	(1,261)	(487)	–	(1,892)
At March 31, 2011	175,390	883,676	–	435,211	61,604	142,421	43,424	1,741,726
CARRYING VALUES								
At March 31, 2011	1,835,314	7,230,694	2,321,462	1,892,708	112,417	192,995	214,079	13,799,669
At March 31, 2010	1,388,596	5,568,469	2,365,238	1,465,142	87,703	102,230	107,427	11,084,805
At April 1, 2009	1,140,934	4,513,853	1,950,637	1,344,883	77,387	126,577	–	9,154,271

The carrying value of land and buildings of the Group shown above is situated on land with the following lease terms:

	3.31.2011	3.31.2010	4.1.2009
	HK$'000	*HK$'000*	*HK$'000*
		(restated)	(restated)
In Hong Kong			
Long lease	27,962	28,263	28,074
In PRC			
Long lease	451,838	340,083	278,215
Medium term lease	1,355,514	1,020,250	834,645
	1,835,314	1,388,596	1,140,934

The pipelines of the Group are located in the PRC.

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

Leasehold land and buildings	Over the shorter of the remaining terms of the leases or 50 years
Pipelines	Over the shorter of 30 years or the operation period of the relevant company
Machinery and equipment	5% – 10%
Furniture and fixtures	15% – 50%
Motor vehicles	25%
Vessels	7% (new vessels acquired from suppliers) or 34% (acquired from second hand market)

At March 31, 2011, interest capitalised in construction in progress amounted to HK$63,836,000 (3.31.2010: HK$79,696,000 and 4.1.2009: HK$99,472,000).

As March 31, 2011, the Group is in the process of obtaining title deeds from relevant government authorities for its land and buildings in the PRC amounting to HK$137,687,000 (3.31.2010: HK$105,497,000 and 4.1.2009: HK$64,411,000). In the opinion of the directors, the Group is not required to incur additional cost in obtaining the title deeds for its land and buildings in the PRC.

At March 31, 2011, the directors of the Company considered that the leasehold land element of the buildings with the carrying value of HK$108,428,000 (3.31.2010: HK$51,906,000 and 4.1.2009: HK$49,324,000) cannot be separately identified.

19. PREPAID LEASE PAYMENTS

	3.31.2011	3.31.2010	4.1.2009
	HK$'000	*HK$'000*	*HK$'000*
		(restated)	(restated)
The Group's prepaid lease payments comprise:			
Leasehold land in the PRC			
Long lease	551,504	519,726	532,700
Medium term lease	611,708	444,920	330,554
	1,163,212	964,646	863,254
Analysed for reporting purposes as:			
Non-current portion	1,128,929	938,713	848,607
Current portion	34,283	25,933	14,647
	1,163,212	964,646	863,254

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

During the year, the Group is in the process of obtaining title deeds from relevant government authorities for its prepaid lease payments in the PRC amounting to HK$93,971,000 (3.31.2010: HK$86,275,000 and 4.1.2009: HK$73,425,000). In the opinion of the directors, the Group is not required to incur additional cost in obtaining the title deeds for its prepaid lease payments in the PRC.

20. INVESTMENTS IN ASSOCIATES

	2011	2010
	HK$'000	*HK$'000*
Cost of investments in associates – unlisted	719,641	684,208
Share of pre-acquisition dividend	(1,296)	(1,296)
Share of post-acquisition profit and other comprehensive income (net of dividend received)	58,190	41,827
Discount on acquisition of associates	232,970	232,970
	1,009,505	957,709

The Group had interests in the following associates:

Name of entity	Form of business structure	Place of registration/ incorporation	Principal place of operation	Class of capital	Proportion of nominal value of registered/issued capital held by the Group 2011 %	2010 %	Principal activity
北京宏達斯特燃氣技術開發公司（「宏達斯特」）	Sino-foreign equity joint venture	PRC	PRC	Registered	– *(note a)*	22.10	Trading of natural gas
重慶市川東燃氣工程建設有限公司（「川東燃氣」）	Sino-foreign equity joint venture	PRC	PRC	Registered	44.00	44.00	Trading of natural gas, gas pipeline construction
重慶鼎發實業股份有限公司（「重慶鼎發」）	Sino-foreign equity joint venture	PRC	PRC	Registered	38.69	38.69	Exploration, collection transportation, purification and sales of natural gas
重慶市渝北區佳渝天然氣有限公司	Sino-foreign equity joint venture	PRC	PRC	Registered	47.83	47.83	Trading of natural gas
哈爾濱中慶燃氣有限責任公司	Sino-foreign equity joint venture	PRC	PRC	Registered	48.00	48.00	Trading of nature gas and gas pipeline construction
福安市三誠液化氣有限公司	Limited liability company	PRC	PRC	Registered	33.20	33.20	Trading of LPG
福建省晉江廈華石化有限公司	Limited liability company	PRC	PRC	Registered	29.05	29.05	Refining process, storage of LPG
上海中油國電油品有限公司（「國電油品」）	Limited liability company	PRC	PRC	Registered	– *(note b)*	41.50	Sales of fuel oil (except hazardous products), instruments, mechanical and electrical facilities, construction materials
湖北能源集團鄂東天然氣有限公司	Limited liability company	PRC	PRC	Registered	25.00	25.00	Trading of natural gas, gas pipeline construction
德化廣安天然氣有限公司	Limited liability company	PRC	PRC	Registered	24.00	24.00	Trading of natural gas
福州安然居管道燃氣有限公司	Limited liability company	PRC	PRC	Registered	24.00	24.00	Trading of natural gas, gas pipeline construction
廈門嘉安燃氣有限公司	Limited liability company	PRC	PRC	Registered	24.00	24.00	Trading of natural gas
滄州中油燃氣有限公司（「滄州中油」）	Limited liability company	PRC	PRC	Registered	40.00 *(note c)*	–	Trading of LPG

Notes:

(a) During the year ended March 31, 2011, 宏達斯特 was disposed. The sales proceed received and gain from such disposal are HK$528,000 and HK$21,000 respectively.

(b) During the year ended March 31, 2011, 國電油品 was disposed. The sales proceed received and gain from disposal are HK$11,904,000 and HK$732,000 respectively.

(c) During the year ended March 31, 2011, the Group has set up an associate 滄州中油 by injecting capital for HK$47,619,000.

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

	2011	**2010**
	HK$'000	*HK$'000*
Total assets	4,372,396	4,060,486
Total liabilities	(2,010,202)	(1,864,661)
Net assets	2,362,194	2,195,825
The Group's share of associates' net assets	1,009,505	957,709
Revenue	1,493,154	1,245,587
Loss on disposal of a subsidiary *(note)*	–	(281,195)
Profit (loss) for the year	23,825	(256,842)
The Group's share of results of associates for the year	15,856	(114,402)

Note: During the year ended March 31, 2010, a loss on disposal of HK$281,195,000 was arisen on the disposal of a subsidiary of 川東燃氣, namely 湖北康樂苑發展有限公司. The amount has been included as loss in the determination of the Group's share of results of associates.

21. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

As at March 31, 2011 and 2010, the Group had interests in the following significant jointly controlled entities:

Name of entity	Form of business structure	Place of registration/ incorporation	Principal place of operation	Class of capital	Proportion of nominal value of registered/issued capital held by the Group 2011 %	2010 %	Principal activity
北京京港燃氣有限公司（「京港燃氣」） Beijing Jinggang Gas Development Company Limited*	Sino-foreign equity joint venture	PRC	PRC	Registered	– *(note c)*	49.0	Trading of natural gas and gas pipeline construction
柳州中燃城市燃氣有限公司（「柳州中燃」）	Sino-foreign equity joint venture	PRC	PRC	Registered	50.0	50.0	Trading of natural gas and gas pipeline construction
揚州中燃城市燃氣發展有限公司	Sino-foreign equity joint venture	PRC	PRC	Registered	50.0	50.0	Trading of natural gas and gas pipeline construction
呼和浩特中燃城市燃氣發展有限公司（「呼和浩特」）	Sino-foreign equity joint venture	PRC	PRC	Registered	51.0	51.0 *(note a)*	Trading of natural gas and gas pipeline construction
德州中燃城市燃氣發展有限公司	Sino-foreign equity joint venture	PRC	PRC	Registered	49.0	49.0	Trading of natural gas and gas pipeline construction
蕪湖中燃新福利汽車燃氣有限公司	Sino-foreign equity joint venture	PRC	PRC	Registered	50.0	50.0	Nature gas refill service and gas station administration
China Gas – SK Energy Holdings Company Limited ("China Gas – SK Energy")	Incorporated	Hong Kong	Hong Kong	Ordinary	50.0	50.0	Trading of natural gas and gas pipeline construction
China Oman Energy Company Limited	Incorporated	Bermuda	Hong Kong	Ordinary	50.0	50.0	Development of energy import projects from Middle East to PRC
泰能天然氣有限公司	Equity joint venture	PRC	PRC	Registered	51.0	51.0	Trading of natural gas
Fujian Anran Gas Investment Company Limited ("Fujian Anran")	Limited liability company	PRC	PRC	Registered	49.0	49.0	Investment holding
重慶長南天然氣輸配有限責任公司	Limited liability company	PRC	PRC	Registered	49.0	49.0	Trading of natural gas and gas pipeline construction
榆林中燃天然氣有限公司（「榆林中燃」）	Limited liability company	PRC	PRC	Registered	40.0	40.0 *(note b)*	Trading of natural gas and gas pipeline construction

* *English name is for identification purposes only.*

Notes:

(a) During the year ended March 31, 2010, the Group had acquired 1% additional equity interest in 呼和浩特 at a consideration of RMB10,207,000 (approximately HK$11,732,000). The composition of the board of directors as stipulated in the Articles of Association of 呼和浩特 has not been changed after the acquisition. The details were set out in note 41.

(b) During the year ended March 31, 2010, a subsidiary of the Group and the remaining shareholder of 榆林中燃 had contributed additional capital to 榆林中燃 which resulted in a change of shareholding of both shareholders and the composition of the board of directors of 榆林中燃 (note 43). According to the new Article of Association, all the major financial and operating decisions require unanimous consent from the shareholders. Accordingly, the Group's interest in 榆林中燃 was reclassified from a subsidiary to a joint controlled entity of the Group.

(c) During the year ended March 31, 2011, 京港燃氣 was deregistered. Details of deregistration are set out in note 44(i).

As all the major financial and operating decisions of the above entities require unanimous consent from all venturers, they are accounted for as jointly controlled entities.

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

	2011	**2010**
	HK$'000	*HK$'000*
Current assets	1,024,210	811,744
Non-current assets	3,371,694	3,377,212
Current liabilities	1,274,550	1,052,969
Non-current liabilities	802,121	812,797
Income recognised in profit or loss	2,031,638	1,339,183
Expenses recognised in profit or loss	1,862,207	1,193,430

22. AVAILABLE-FOR-SALE INVESTMENTS

	2011	2010
	HK$'000	*HK$'000*
Equity securities listed in Hong Kong, at fair value	15,908	13,230
Unlisted equity securities, at cost less impairment	64,929	66,114
Club debenture, at fair value	5,047	3,494
	85,884	82,838

Equity securities listed in Hong Kong are stated at fair value. The fair values of listed equity securities are based on quoted market bid price. Change in fair value of the listed equity securities classified as available-for-sale investments for the year ended March 31, 2011 with a increase of HK$2,678,000 (2010: HK$7,958,000) was recognised in the consolidated statement of comprehensive income.

Unlisted equity securities issued by private entities incorporated in the PRC. Those private entities are engaged in the sales and distribution of LPG in the PRC. They are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

Club debentures are stated at fair value. Fair value of the club debenture has been determined by reference to the bid prices quoted in the second hand market. No fair value change was recognised in both years.

23. GOODWILL

	HK$'000
COST	
At April 1, 2009	684,467
Arising on acquisition of additional interest in a subsidiary *(note 40)*	15,504
Arising on acquisition of businesses *(note 42)*	200,606
At March 31, 2010	900,577
Exchange adjustments	53,987
Arising on acquisition of businesses *(note 42)*	611,040
At March 31, 2011	1,565,604
CARRYING VALUES	
At March 31, 2011	1,565,604
At March 31, 2010	900,577

The Group tests for impairment of goodwill annually and in the financial year in which the acquisition takes place, or more frequently if there are indications that goodwill might be impaired. Particulars regarding impairment testing on goodwill are disclosed in note 25.

24. OTHER INTANGIBLE ASSETS

	Exclusive rights of natural gas operations	Other operating rights	Customer Relationship	Technical expertise	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST					
At April 1, 2009	314,941	–	15,000	13,637	343,578
Acquired on acquisition of businesses *(note 42)*	954,397	–	–	–	954,397
At March 31, 2010	1,269,338	–	15,000	13,637	1,297,975
Exchange adjustments	47,160	1,231	536	487	49,414
Acquired on acquisition of a business *(note 42)*	89,316	60,218	–	–	149,534
At March 31, 2011	1,405,814	61,449	15,536	14,124	1,496,923
AMORTISATION					
At April 1, 2009	18,738	–	3,294	1,249	23,281
Charge for the year	17,838	–	1,500	681	20,019
At March 31, 2010	36,576	–	4,794	1,930	43,300
Exchange adjustments	2,634	48	207	85	2,974
Charge for the year	45,017	1,776	1,500	681	48,974
At March 31, 2011	84,227	1,824	6,501	2,696	95,248
CARRYING VALUES					
At March 31, 2011	1,321,587	59,625	9,035	11,428	1,401,675
At March 31, 2010	1,232,762	–	10,206	11,707	1,254,675

Note: The exclusive rights of natural gas operation, other operating rights, customer relationship and technical expertise are amortised on a straight-line method over the period of 30 years, 27 years, 10 years and 20 years respectively.

25. IMPAIRMENT TESTING ON GOODWILL AND OTHER INTANGIBLE ASSETS

Management considered each subsidiary or jointly controlled entity represents a separate CGU for the purpose of goodwill and other intangible assets impairment testing. The carrying amounts of goodwill as at March 31, 2011 and 2010 are allocated as follows:

	2011	2010
	HK$'000	*HK$'000*
Subsidiaries or jointly controlled entities engaged in natural gas business		
Clever Decision Enterprise Limited	146,777	141,716
宿州中燃城市燃氣發展有限公司 ("宿州中燃")	46,402	44,802
北京中油翔科科技有限公司	16,095	15,540
柳州中燃	68,337	65,981
Positive Rise Energy Limited	103,660	100,086
湖南明程貿易發展有限公司	55,605	53,688
Brilliant China Investments Limited ("Brilliant China")	103,433	99,866
南昌中燃城市燃氣發展有限公司("南昌中燃")	15,462	14,931
遼陽中燃城市燃氣發展有限公司("遼陽中燃")	28,105	27,136
牡丹江大通燃氣有限公司("牡丹江大通燃氣")	31,482	30,396
廣西來賓帝恒燃氣有限公司("來賓帝恒")	20,776	–
Zhongyu Gas	577,947	–
Other CGUs	107,178	70,516
Subsidiaries engaged in LPG business		
Zhongyou Hua Dain Energy Co. Ltd ("Zhongyou Hua Dian")	218,373	210,843
上海華辰船務有限公司 ("上海華辰")	25,972	25,076
	1,565,604	900,577

The recoverable amounts of the CGUs are determined based on value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Group prepares cash flows forecasts derived from the most recent financial budgets approved by management for the next five years. The CGUs cashflows beyond the 5-year period are extrapolated using a steady 3% (2010: 3%) growth rate for CGUs in the natural gas business and 5% (2010: 5%) for CGUs in the LPG business. The financial budgets and growth rates are estimated according to the stage of each operation with reference to the development curve of the natural gas industry in the PRC region. The rates used to discount the forecast cash flows for CGUs are from 14% to 16% (2010: 15% to 17%). In the opinion of the directors, no material impairment loss is identified for both years. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of CGUs to exceed the aggregate recoverable amount of CGUs.

26. INVENTORIES

	2011	2010
	HK$'000	*HK$'000*
Construction materials	367,341	133,134
Consumables, spare parts and coke materials	282,516	135,315
Natural gas	31,349	11,228
LPG	395,319	284,486
	1,076,525	564,163

27. AMOUNTS DUE FROM/TO CUSTOMERS FOR CONTRACT WORK

	2011	2010
	HK$'000	*HK$'000*
Contracts in progress at end of the reporting period:		
Contract costs incurred plus recognised profits less recognised losses	427,427	727,364
Less: Progress billings	(546,271)	(863,415)
	(118,844)	(136,051)
Analysed for reporting purposes as:		
Amounts due from customers for contract work	166,884	103,265
Amounts due to customers for contract work	(285,728)	(239,316)
	(118,844)	(136,051)

At March 31, 2011 and 2010, there was no retention monies held by customers for contract work performed. At March 31, 2011, advances received from customers for contract work not yet commenced amounted to HK$929,962,000 (2010: HK$430,269,000) which were included in trade and other payables in note 33.

During the year ended March 31, 2010, the Group recognised losses of HK$51,418,000 in respect of contract costs incurred. The directors of the Company reviewed the recoverable amounts of contract costs incurred and identified certain projects are unlikely to be completed in foreseeable future due to the delay of construction work of the relevant property development projects in the PRC. In the opinion of directors of the Company, although such amounts are not yet billed to customers, the amounts are unlikely to be recovered from its customers and accordingly, losses are recognised in full in the consolidated statement of comprehensive income.

28. TRADE AND OTHER RECEIVABLES

	2011	2010
	HK$'000	*HK$'000*
Trade receivables	1,118,704	820,144
Less: Accumulated allowances	(237,692)	(221,497)
Trade receivables	881,012	598,647
Deposits paid for construction and other materials	193,644	100,278
Deposits paid for purchase of natural gas and LPG	341,648	306,555
Advance payments to sub-contractors	209,515	150,151
Tender deposits	595	66,107
Rental and utilities deposits	23,599	24,541
Other tax recoverable	106,328	43,260
Other receivables, deposits and prepayments	395,195	345,742
Amounts due from non-controlling interests of subsidiaries	84,472	212,050
Amounts due from shareholders of jointly controlled entities	152,032	23,730
Total trade and other receivables	2,388,040	1,871,061

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

The following is an aged analysis of trade receivables net of impairment losses presented based on invoice date at the end of the reporting period:

	2011	2010
	HK$'000	*HK$'000*
0 – 180 days	680,125	480,797
181 – 365 days	101,498	74,793
Over 365 days	99,389	43,057
	881,012	598,647

The trade receivables with carrying amount of HK$680,125,000 (2010: HK$480,797,000) are neither past due nor impaired at the reporting date for which the Group believes that the amounts are considered recoverable.

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

During the year ended March 31, 2011, the Group made an allowance of HK$7,383,000 (2010: HK$75,112,000) in respect of the trade receivables related to the gas pipeline construction business, which was past due at the reporting date with long age and slow repayments were received from respective customers since the due date. The directors of the Company considered the related receivables may be impaired and specific allowance is made.

Movement in the allowance for bad and doubtful debts:

	2011	2010
	HK$'000	*HK$'000*
Balance at the beginning of the year	221,497	146,079
Exchange differences	8,812	306
Charge for the year	7,383	75,112
Balance at the end of the year	237,692	221,497

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

Included in the Group's trade receivables are debtors, with a carrying amount of HK$200,887,000 (2010: HK$117,850,000) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amount are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these trade receivable is 270 days (2010: 270 days) as at March 31, 2011.

Ageing of trade receivables which are past due but not impaired:

	2011	2010
	HK$'000	*HK$'000*
180 – 365 days	101,498	74,793
Over 365 days	99,389	43,057
	200,887	117,850

The non-trade balances of amounts due from non-controlling interests of subsidiaries and shareholders of jointly controlled entities are unsecured, non-interest bearing and repayable on demand.

29. DERIVATIVE FINANCIAL INSTRUMENTS

	2011	2010
	HK$'000	*HK$'000*
Derivative financial assets:		
Non-current		
Interest rate range accrual swap transactions not qualified for hedge accounting	–	9,759
Current		
Interest rate range accrual swap transactions not qualified for hedge accounting	–	2,909
Derivative financial liabilities:		
Current		
Interest rate range accrual swap transactions not qualified for hedge accounting	32,122	–

Interest rate range accrual swap transactions

Major terms of the outstanding interest rate swap transactions as at March 31, 2011 and 2010 are as follows:

Notional amount	Maturity dates	Pay leg	Receive leg
RMB1,750,000,000 in aggregate	From September 4, 2011 to December 12, 2011	6.60% – 6.65%	Relative movement of 2-year, 10-year and 30-year USD swap rates
US$100,000,000 in aggregate	From June 11, 2011 to June 13, 2011	USD LIBOR + 1.40%	Relative movement of 2-year, 10-year and 30-year USD swap rates

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

Derivatives embedded in convertible bonds

On August 6, 2010, the Group acquired 56.33% equity interest of Zhongyu Gas in which certain convertible bonds issued by Zhongyu Gas were acquired as part of net assets acquired. Details of the convertible bonds are set out in note 38. The derivatives embedded in the convertible bonds comprised (i) conversion option; and (ii) early redemption option held by Zhongyu Gas.

During the year, a loss of HK$46,083,000 (2010: a gain of HK$372,755,000) was recognised in respect of the changes in fair values of derivative financial instruments.

30. AMOUNTS DUE FROM/TO ASSOCIATES

Included in the balance of amounts due from associates is a loan of HK$163,166,000 (2010: HK$77,361,000) which is unsecured, interest bearing at fixed rates ranged from 5.31% to 5.56% per annum (2010: 5.31% to 6.93% per annum). The remaining balance of HK$92,115,000 (2010: HK$60,875,000) are of trade nature aged within 180 days based on invoice date. A credit period of 30 to 180 days is granted to these trade customers. HK$163,166,000 (2010: nil) of the balance is expected to be repayable after one year and shown under non-current assets. The remaining balance is expected to be repayable within twelve months and shown under current assets. All balances are neither past due nor impaired at the reporting date as there has not been a significant change in credit quality and the Group believes that the amounts are considered recoverable.

The non-trade balances of amounts due to associates are unsecured, non-interest bearing and repayable on demand.

31. HELD-FOR-TRADING INVESTMENTS

	2011	**2010**
	HK$'000	*HK$'000*
Equity securities at fair value listed in Hong Kong	11,948	15,468

32. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less and carry interest at market rates which range from 0.03% to 1.83% per annum (2010: 0.03% to 1.71% per annum).

Pledged bank deposits represent deposits pledged to banks to secure banking facilities granted to the Group. Deposits amounting to HK$1,647,444,000 (2010: HK$489,103,000) have been pledged to secure short-term bank loans and undrawn short-term facilities and are therefore classified as current assets. The pledged bank deposits carry fixed interest rate of 1.10% to 4.12% (2010: 1.00% to 3.47%) per annum.

The details of the Group's pledged bank deposits and bank balances and cash which are denominated in currencies other than the functional currency of the respective group entities are set out below:

	USD	**HK$**
	HK$'000 equivalent	*HK$'000*
At March 31, 2011	2,012,124	25,215
At March 31, 2010	796,306	43,758

33. TRADE AND OTHER PAYABLES

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

	2011	**2010**
	HK$'000	*HK$'000*
0 – 90 days	1,368,367	1,058,186
91 – 180 days	220,427	245,035
Over 180 days	606,434	382,258
Trade and bill payables	2,195,228	1,685,479
Other payables and accrued charges	222,123	128,572
Construction fee payables	263,178	154,119
Other tax payables	62,013	57,392
Accrued staff costs	79,672	85,512
Loan interest payables	46,659	47,481
Deposits received from customers	61,271	55,191
Advance payments from customers	494,281	361,227
Advances received from customers for contract works that have not yet been started	929,962	430,269
Amounts due to non-controlling interests of subsidiaries	69,705	50,501
Amounts due to shareholders of jointly controlled entities	17,399	24,668
Obligation on capital injection to Fujian Anran by Zhongmin Zhongran (as defined in note 42(B)(iii))	23,448	23,448
Obligation on acquisition of additional interest in a subsidiary *(note 46(iii))*	38,095	–
Deferred cash consideration for the acquisition of businesses *(note 42(B)(vii))*	–	78,161
	4,503,034	3,182,020

Included in the amounts due to non-controlling interests of subsidiaries and shareholders of jointly controlled entities are trade payables amounting to HK$3,706,000 (2010: HK$4,469,000) and HK$3,224,000 (2010: HK$9,136,000) respectively. All of the balances were aged within 90 days based on invoice date and the average credit period is 90 days.

The non-trade balances of amounts due to non-controlling interests of subsidiaries and shareholders of jointly controlled entities are unsecured, non-interest bearing and repayable on demand.

34. BANK AND OTHER BORROWINGS

	3.31.2011	3.31.2010	4.1.2009
	HK$'000	*HK$'000*	*HK$'000*
		(restated)	(restated)
Bank and other borrowings comprise the following:			
Bank loans	11,672,079	10,640,014	7,741,596
Trust receipt loans	2,173,505	1,686,715	1,586,521
Mortgage loan	6,593	7,566	11,904
Other bank loans	1,160,163	763,635	669,138
Other loans	20,824	218,176	288,763
	15,033,164	13,316,106	10,297,922
Secured	10,690,492	8,250,069	7,563,605
Unsecured	4,342,672	5,066,037	2,734,317
	15,033,164	13,316,106	10,297,922

Other bank loans represent the loans from discounting of intercompany receivables with full recourse.

	3.31.2011	3.31.2010	4.1.2009
	HK$'000	*HK$'000*	*HK$'000*
The maturity profile of the above loans is as follows:			
Within one year	7,253,314	5,294,761	3,103,855
More than one year, but not exceeding two years	503,059	662,620	355,753
More than two years, but not exceeding five years	3,500,997	3,025,857	2,315,975
More than five years	3,716,271	4,295,569	4,407,396
	14,973,641	13,278,807	10,182,979
Add: Carrying amount of bank loans that are not repayable within one year from the end of the reporting period but contain a repayment on demand clause (shown under current liabilities)	59,523	37,299	114,943
	15,033,164	13,316,106	10,297,922
Less: Amount due within one year shown under current liabilities	(7,312,837)	(5,332,060)	(3,218,798)
Amount due after one year	7,720,327	7,984,046	7,079,124

	3.31.2011	3.31.2010	4.1.2009
	HK$'000	*HK$'000*	*HK$'000*
Borrowings comprise:			
Fixed-rate borrowings	5,574,302	5,016,495	7,392,080
Floating-rate borrowings			
– LIBOR plus 1.5%	3,064,922	2,706,958	2,072,957
– Base rate of People's Bank of China	6,393,940	5,592,653	832,885
	15,033,164	13,316,106	10,297,922

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

	2011	2010
Effective interest rate per annum:		
Fixed-rate borrowings	3.20% – 8.33%	2.10% to 7.83%
Floating-rate borrowings	4.73% – 9.56%	3.84% to 8.00%

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

	USD	JPY
	HK$'000 equivalent	*HK$'000 equivalent*
At March 31, 2011	4,797,837	227,940
At March 31, 2010	4,232,459	95,031

35. SHARE CAPITAL

	Ordinary shares		Convertible preference shares		Total
	No. of shares '000 at HK$0.01 each	*HK$'000*	*No. of shares '000 at HK$1.00 each*	*HK$'000*	*HK$'000*
Authorised	9,000,000	90,000	124,902	124,902	214,902
Issued and fully paid:					
At April 1, 2009	3,333,614	33,336	–	–	33,336
Exercise of share options *(Note 49)*	18,410	184	–	–	184
Issue of new ordinary shares *(Note i)*	9,012	90	–	–	90
At March 31, 2010	3,361,036	33,610	–	–	33,610
Exercise of share options *(Note 49)*	127,911	1,279	–	–	1,279
Issue of shares as consideration for the acquisition of a business *(Note ii)*	175,552	1,756	–	–	1,756
Issue of new ordinary shares *(Note iii)*	718,556	7,186	–	–	7,186
At March 31, 2011	4,383,055	43,831	–	–	43,831

Notes:

(i) During the year ended March 31, 2010, the bondholders of the Bond (as defined in note 38) have fully converted the remaining of the Bond into 9,012,000 ordinary shares of HK$0.01 each in the Company at a conversion price of HK$1.731 per share.

(ii) As part of the consideration for the acquisition of Zhongyu Gas, completion of which took place on August 6, 2010, 175,552,000 ordinary shares of the Company with par value of HK$0.01 each were issued.

(iii) On November 8, 2010, completion took place for private placements to independent private investors of 718,556,000 shares of HK$0.01 each in the Company, at subscription price of HK$4.31 each.

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

36. RESERVES

	2011	2010
Translation reserve		
At the beginning of the reporting period	277,665	285,553
Exchange difference arising on translation	193,354	1,240
Release upon disposal of jointly controlled entities	(3,244)	(9,066)
Release upon disposal of a subsidiary	–	(62)
At the end of the reporting period	467,775	277,665

	2011	2010
Investment revaluation reserve		
At the beginning of the reporting period	7,958	–
Increase in fair value on available-for-sale investments	2,678	7,958
At the end of the reporting period	10,636	7,958

37. AMOUNT DUE TO A NON-CONTROLLING INTEREST OF A SUBSIDIARY

The amount was unsecured, bearing fixed-rate interest at 2% per annum, originally repayable in year 2013 and denominated in JPY. Accordingly, the amount was classified as a non-current liability as at March 31, 2010. During the year ended March 31, 2011, the Group has made the repayment of HK$355,794,000 and for the remaining balance, the Group agreed with the non-controlling interest for early repayment and accordingly, it is classified as a current liability as at March 31, 2011.

38. CONVERTIBLE BONDS

On June 23, 2005, the Company entered into a conditional subscription agreement with CQS Convertible and Quantitative Strategies Master Fund Limited ("CQS") and Courtenay Enterprises Limited ("Courtenay"), independent third parties of the Group, whereby CQS and Courtenay subscribed the USD denominated Bonds ("the Bond") issued at par by the Company in an aggregate principal amount of US$40,000,000. The Bond was issued on June 29, 2005 ("the Issue Date") and carries interest at 1% per annum and is matured on June 29, 2010. The conversion price of the Bond is HK$1.731 and can be converted at any time on or after Issue Date up to June 19, 2010. Unless previously redeemed, converted or purchased and cancelled, the Bonds will be redeemed at 127.070 per cent of their principal amount on June 29, 2010. All or some of the Bonds may be redeemed at the option of the relevant holder on June 29, 2009 at 115.314 per cent of their principal amount. The Bond are listed on the Stock Exchange (Stock Code: 2562) on June 1, 2006. In prior year, the Bond was fully converted into ordinary shares of the Company. Details are set out in note 35(i).

As at August 6, 2010, being the date of completion of the acquisition of 56.33% of the issued share capital of Zhongyu Gas by the Company as described in note 42 ("Zhongyu Gas Acquisition"), the convertible bonds issued by Zhongyu Gas with principal amount of US$15,600,000 ("Zhongyu Gas Bond") were outstanding. The Zhongyu Gas Bond carried interest at 2% per annum and will be matured on June 25, 2012 ("Maturity Date of Zhongyu Gas Bond"). The conversion price of Zhongyu Gas Bond was HK$0.70. Zhongyu Gas Bond can be converted at any time up to 5 business days prior to Maturity Date of Zhongyu Gas Bond or 7 business days prior to the date of repurchase. Unless previously redeemed, converted or purchased and cancelled, Zhongyu Gas Bond can be repurchased at 130 per cent of their principal amount on Maturity Date of Zhongyu Gas Bond.

Zhongyu Gas Bond can be repurchased at the option of Zhongyu Gas at either one of the following options:

Date	Repurchase amount	Consideration
Option 1		
June 25, 2011	Not less than 10% of the remaining principal amount	110% of the principal amount
June 25, 2012	Remaining balance	130% of the principal amount
Option 2		
June 25, 2011	Not less than 15% of the remaining principal amount	120% of the principal amount
June 25, 2012	Remaining balance	130% of the principal amount

In the event of a change of control of Zhongyu Gas, the holders of Zhongyu Gas Bond will have the right to require Zhongyu Gas to redeem in whole or in part such outstanding convertible bonds issued by Zhongyu Gas pursuant to the terms of Zhongyu Gas Bond. Zhongyu Gas had therefore issued a notice of the change of control of Zhongyu Gas to the holders of Zhongyu Gas Bond after the completion of the Zhongyu Gas Acquisition.

The holders of Zhongyu Gas Bond had exercised their right to require Zhongyu Gas to redeem Zhongyu Gas Bond. On September 13, 2010, Zhongyu Gas completed the redemption of an aggregate principal amount of US$15,600,000 at a consideration of US$18,507,000 equivalent to (approximately HK$143,828,000), being the early redemption amount payable on the outstanding principal amount of Zhongyu Gas Bond together with all accrued and unpaid interest, in accordance with the terms and conditions of Zhongyu Gas Bond. Thereafter, Zhongyu Gas has no outstanding convertible bonds.

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

(a) Liability component of the Bond represents the present value of the contractually determined stream of future cash flows discounted at the rate of interest at that time by the market to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the conversion and redemption option. The effective interest rate of the liability component of the Bond and Zhongyu Gas Bond determined on initial recognition are 4.5% and 20.42% per annum respectively.

(b) Embedded conversion option of the Bond to be accounted for as a separate financial liability represents the fair value of the option to convert the liability into equity of the Company.

(c) Embedded conversion option of Zhongyu Gas Bond represents the option to convert the liability into equity of the Zhongyu Gas but the conversion will be settled other than by the exchange of a fixed number of the Zhongyu Gas's own equity.

(d) Embedded early redemption option of the Bond represents the Company's option to early redeem all or part of the Bond by bond holder on or before June 19, 2010 at the conversion price of HK$1.731.

(e) Embedded early redemption option of Zhongyu Gas Bond represents Zhongyu Gas's option to early redeem all or part of Zhongyu Gas Bond.

(f) Mandatory redemption option of the Bond represents redemption at the option of the bond holders on June 29, 2009 at 115.314 per cent of the principal amount of the Bond.

The fair values of the embedded conversion option of Zhongyu Gas Bond as at date of redemption is calculated using the Monte Carol Simulation Model. The inputs into the model were as follows:

	Date of redemption of principal amount of US$15,600,000 *(note 38)*
Conversion price	HK$0.70
Expected volatility *(note a)*	52.53%
Expected life *(note b)*	1.78 years
Risk free rate *(note c)*	0.38% per annum
Market price of Zhongyu Gas	HK$0.70

Notes:

(a) Expected volatility for embedded conversion option was determined by calculating the historical volatility of the Zhongyu Gas's share price over 250 trading days.

(b) Expected life was the expected remaining life of the embedded conversion option.

(c) The risk free rate is determined by reference to the Hong Kong Exchange Fund Note.

The fair value of the early redemption option as at the date of redemption is determined by application of Trinomial method, using effective yield at 5.42% per annum and time to maturity equal to the expected remaining life of the option.

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

	Liability *HK$'000*	**Embedded conversion option** *HK$'000*	**Early redemption option** *HK$'000*	**Total** *HK$'000*
At April 1, 2009	14,823	782	(1,261)	14,344
Converted during the year *(note)*	(14,823)	(782)	1,261	(14,344)
Interest charged *(note 10)*	39	–	–	39
Interest paid	(39)	–	–	(39)
At March 31, 2010	–	–	–	–
Acquired on acquisition of a business *(note 42)*	118,483	28,293	(4,945)	141,831
Interest charged *(note 10)*	3,045	–	–	3,045
Interest paid	(527)	–	–	(527)
Loss arising on change in fair value	–	374	919	1,293
Redemption during the year	(121,001)	(28,667)	4,026	(145,642)
At March 31, 2011	–	–	–	–

Note: In the opinion of directors, the financial impact on the change in fair values of conversion option and early redemption options of the Bond up to the date of conversion of convertible bonds are not significant for the year ended March 31, 2010.

The gain on redemption of Zhongyu Gas Bond of HK$1,814,000 was recognised and included in other gains and losses.

39. DEFERRED TAXATION

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

	Accelerated tax depreciation	Revaluation on investment properties	Revaluation on property, plant and equipment and prepaid lease payments	Tax losses	Intangible assets	Impairment on trade receivables and amounts due from customers for contract work	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At April 1, 2009	471	24,234	158,114	(3,642)	56,450	(56,890)	–	178,737
Acquisition of additional interest in a jointly controlled entity *(note 41)*	–	426	–	–	–	–	–	426
Acquisition of businesses *(note 42)*	–	–	88,152	–	182,691	–	–	270,843
Charge (credit) to profit or loss for the year	–	9,289	(7,067)	(3,633)	(2,190)	(31,265)	–	(34,866)
At March 31, 2010	471	33,949	239,199	(7,275)	236,951	(88,155)	–	415,140
Exchange adjustments	–	969	8,543	–	8,463	(3,148)	–	14,827
Acquisition of a business *(note 42)*	–	745	–	–	9,837	–	1,656	12,238
Charge (credit) to profit or loss for the year	–	10,298	(8,046)	(4,531)	(7,364)	(163)	2,571	(7,235)
At March 31, 2011	471	45,961	239,696	(11,806)	247,887	(91,466)	4,227	434,970

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

	2011	**2010**
Deferred tax assets	91,466	88,155
Deferred tax liabilities	(526,436)	(503,295)
	(434,970)	(415,140)

Under the Law of the PRC on Enterprise Income Tax, withholding tax is imposed on dividends declared in respect of profit earned by PRC subsidiaries from January 1, 2008 onward. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC entities amounting to HK$2,232,546,000 (2010: HK$1,304,871,000) as the Group is able to control the timing of reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

All jointly controlled entities and associates are held directly by certain wholly-owned subsidiaries of the Group established in the PRC which are therefore not subject to the above-mentioned withholding tax.

At the end of the reporting period, the Group has estimated unused tax losses of HK$2,180,660,000 (2010: HK$1,675,899,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$71,553,000 (2010: HK$44,093,000) of the tax losses. No deferred tax asset has been recognised for the remaining estimated tax losses of HK$2,109,107,000 (2010: HK$1,631,806,000) due to the uncertainty of future profits streams. Included in unrecognised estimated tax losses are losses of HK$1,321,405,000 (2010: HK$985,949,000) that will expire in 5 years from the year of origination. Other losses may be carried forward indefinitely.

40. ACQUISITION OF ADDITIONAL INTEREST IN SUBSIDIARIES

(A) Acquisition of additional interest in subsidiaries in 2011

(i) During the year ended March 31, 2010, the Group entered into a sale and purchase agreement with the non-controlling interests of a subsidiary in the PRC in respect of the acquisition of 12.5% equity interest in the subsidiary of the Group, Zhongyou Hua Dian for a consideration of RMB82,642,000 (approximately HK$94,991,000). The consideration has been paid before March 31, 2010. The transaction has not been completed as at March 31, 2010, and the consideration paid was recognised as commitment to acquire a non-controlling interest as at March 31, 2010.

The acquisition was completed during the year ended March 31, 2011. The difference between the consideration paid and the carrying amount of the additional interest acquired by the Group of HK$53,083,000 was debited to equity as capital reserve during the year ended March 31, 2011.

(ii) On June 21, 2010, the Group injected RMB100,000,000 (approximately HK$114,942,000) into 佳木斯中燃城市燃氣發展有限公司 ("佳木斯"), as a result of the capital injection, the Group's effective interest in 佳木斯 was increased from 54.2% to 84.7%. On the same day, the Group acquired 13.3% additional interest in 佳木斯 for a consideration of RMB20,000,000 (approximately HK$22,988,000). The difference between the capital injection amount, consideration paid and the carrying amount of the additional interest effectively hold by the Group of HK$7,808,000 was credited to equity as capital reserve during the year ended March 31, 2011.

(iii) During the year ended March 31, 2011, Zhongyu Gas and the non-controlling interest of Luohe Zhongyu Gas Co. Ltd. ("Luohe Zhongyu") entered into an agreement, pursuant to which, the non-controlling shareholder withdrew its portion of registered capital and the return of registered capital was satisfied by property, plant and equipment and prepaid lease payment with carrying amount of HK$816,000 and HK$5,354,000, respectively held by Luohe Zhongyu, which were approximately to their fair value. Thereafter, the Group's effective interest in Luohe Zhongyu increased from 40.5% to 43.5%. The transaction was accounted for as an equity transaction and the increase in the Group's share of net assets of HK$1,764,000 was credited to equity as capital reserve.

(B) Acquisition of additional interest in subsidiaries in 2010

(i) On October 7, 2009, a wholly-owned subsidiary of the Company entered into a share transfer agreement with a minority shareholder of Zhongyou Hua Dian in relation to the acquisition of 4.5% equity interest at a total consideration of RMB10,850,000 (approximately HK$12,471,000). The consideration was satisfied by way of transfer of an available-for-sale investment of the Group with carrying value of RMB10,850,000 (approximately HK$12,471,000). Goodwill arising from the acquisition of additional interest in Zhongyou Huadian is HK$9,486,000.

(ii) On December 16, 2009, a wholly-owned subsidiary of the Company entered into a share transfer agreement with a minority shareholder of 深圳市中燃燃氣有限公司 ("深圳中燃") in relation to the acquisition of 4% equity interest at a total consideration of RMB7,235,700 (approximately HK$8,317,000). Goodwill arising from the acquisition of additional interest in 深圳中燃 is HK$6,018,000.

41. ACQUISITION OF A JOINTLY CONTROLLED ENTITY

Acquisition of additional interest in a jointly controlled entity in 2010

On June 16, 2008, a wholly-owned subsidiary of the Company entered into a share transfer agreement with an independent third party pursuant to which the Group acquired 1% additional equity interest in 呼和浩特, a jointly controlled entity in 2009, at a total consideration of RMB10,207,000 (approximately HK$11,732,000). The acquisition was completed on April 1, 2009.

	HK$'000
NET ASSETS ACQUIRED ATTRIBUTABLE TO 1% EQUITY INTEREST IN 呼和浩特	
Investment properties	3,386
Property, plant and equipment	16,294
Prepaid lease payments	2,909
Inventories	335
Trade and other receivables	1,927
Pledged bank deposits	1,047
Bank balances and cash	3,247
Trade and other payables	(8,958)
Bank and other borrowings	(7,727)
Deferred taxation	(426)
	12,034
Discount on acquisition	(302)
	11,732
SATISFIED BY	
Cash consideration	11,732
NET CASH OUTFLOW ARISING ON ACQUISITION	
Cash consideration paid	(11,732)
Bank balances and cash acquired	4,294
	(7,438)

42. ACQUISITION OF BUSINESSES

(A) Acquisition of businesses through purchase of subsidiaries in 2011

(i) On March 24, 2009, a subsidiary of the Group entered into an acquisition agreement with an independent third party, pursuant to which the Group acquired 90% equity interest of 來賓帝恆 at a consideration of RMB24,000,000 (approximately HK$27,586,000). The acquisition was completed on July 13, 2010, on which date the control in 來賓帝恆 was passed to the Group. 來賓帝恆 is principally engaged in natural gas business.

Consideration transferred

	HK$'000
Cash	27,586

Assets and liabilities recognised by the Group at the date of acquisition:

	Acquiree's carrying amount and provisional fair value before combination
	HK$'000
Property, plant and equipment	4,875
Inventories	35
Trade and other receivables	5,202
Bank balances and cash	283
Trade and other payables	(2,032)
	8,363
Non-controlling interests	(837)
Goodwill	20,060
	27,586

The fair value as well as the gross contractual amounts of the trade and other receivables acquired amounted to HK$5,202,000 at the date of acquisition. The best estimate at acquisition date of the contractual cash flows not expected to be collected is nil.

Goodwill arising on acquisition

	HK$'000
Consideration transferred	27,586
Plus: non-controlling interests (10% share of net assets in 來賓帝恆)	837
Less: fair value of identifiable net assets acquired	(8,363)
Goodwill arising on acquisition	20,060

The goodwill arising on the acquisition of 來賓帝恆 is attributed to the anticipated profitability of its natural gas business.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

Net cash outflow arising on acquisition

	HK$'000
Cash consideration	27,586
Bank balances and cash acquired	(283)
	27,303

Impact of acquisition on the results of the Group

Included in the profit for the year is HK$926,000 attributable to the additional business generated by 來賓帝恒. Revenue for the year includes HK$4,101,000.

(ii) On March 24, 2009, a subsidiary of the Group entered into an acquisition agreement with an independent third party, pursuant to which the Group acquired 90% equity interest of 廣西百色帝恒燃氣有限公司 ("百色帝恒") at a consideration of RMB10,000,000 (approximately HK$11,494,000). The acquisition was completed on May 11, 2010, on which date the control in 百色帝恒 was passed to the Group. 百色帝恒 is principally engaged in natural gas business.

Consideration transferred

	HK$'000
Cash	11,494

Assets and liabilities recognised by the Group at the date of acquisition:

	Acquiree's carrying amount and provisional fair value before combination *HK$'000*
Property, plant and equipment	2,502
Trade and other receivables	9,693
Bank balances and cash	4
Trade and other payables	(2,088)
	10,111
Non-controlling interests	(1,011)
Goodwill	2,394
	11,494

The fair value as well as the gross contractual amounts of the trade and other receivables acquired amounted to HK$9,693,000 at the date of acquisition. The best estimate at acquisition date of the contractual cash flows not expected to be collected is nil.

Goodwill arising on acquisition

	HK$'000
Consideration transferred	11,494
Plus: non-controlling interests (10% share of net assets in 百色帝恒)	1,011
Less: fair value of identifiable net assets acquired	(10,111)
Goodwill arising on acquisition	2,394

The goodwill arising on the acquisition of 百色帝恒 is attributed to the anticipated profitability of its natural gas business.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

Net cash outflow arising on acquisition

	HK$'000
Cash consideration	11,494
Bank balances and cash acquired	(4)
	11,490

Impact of acquisition on the results of the Group

Included in the profit for the year is HK$165,000 attributable to the additional business generated by 百色帝恒. Revenue for the year includes HK$1,184,000.

(iii) On June 18, 2010, a subsidiary of the Group entered into an acquisition agreement with an independent third party, pursuant to which the Group acquired 100% equity interest of 常熟華潤液化有限公司 ("常熟中燃") at a consideration of RMB6,780,000 (approximately HK$7,793,000). The acquisition was completed on June 25, 2010, on which date the control in 常熟中燃 was passed to the Group. 常熟中燃 is principally engaged in LPG business.

Consideration transferred

	HK$'000
Cash	7,793

Assets and liabilities recognised by the Group at the date of acquisition:

	Acquiree's carrying amount and provisional fair value before combination *HK$'000*
Property, plant and equipment	45
Inventories	796
Trade and other receivables	173
Bank balances and cash	270
Trade and other payables	(135)
	1,149
Goodwill	6,644
	7,793

The fair value as well as the gross contractual amounts of the trade and other receivables acquired amounted to HK$173,000 at the date of acquisition. The best estimate at acquisition date of the contractual cash flows not expected to be collected is nil.

Goodwill arising on acquisition

	HK$'000
Consideration transferred	7,793
Less: fair value of identifiable net assets acquired	(1,149)
Goodwill arising on acquisition	6,644

The goodwill arising on the acquisition of 常熟中燃 is attributed to the anticipated profitability of its natural gas business.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

Net cash outflow arising on acquisition

	HK$'000
Cash consideration paid	7,793
Bank and cash balances acquired	(270)
	7,523

Impact of acquisition on the results of the Group

Included in the profit for the year is HK$717,000 attributable to the additional business generated by 常熟中燃. Revenue for the year includes HK$41,534,000.

(iv) On January 17, 2010, a wholly-owned subsidiary of the Company proposed to the board of directors of Zhongyu Gas that it intends to make a voluntary conditional cash and securities exchange offer ("Offers") (i) to acquire all of the issued shares in the capital of Zhongyu Gas ("Share Offer"); (ii) for the acquisition of all the Remaining Zhongyu Gas Bonds ("Convertible Bond Offer"); and for the cancellation of all the outstanding share options of Zhongyu Gas ("Zhongyu Gas Share Options") ("Option Offer").

The Offers were closed on August 6, 2010, valid acceptances of (i) the Share Offer have been received in respect of 1,111,934,142 Zhongyu Gas's shares (representing approximately 56.33% of the issued share capital of Zhongyu Gas as at August 6, 2010); and (ii) the Option Offer have been received in respect of Zhongyu Gas Share Options to subscribe for 140,712,000 Zhongyu Gas Shares (representing approximately 98.60% of all outstanding Zhongyu Gas Share Options as at August 2010). No acceptance for the Convertible Bond Offer has been received as at the close of the Offers. The transaction was completed on August 6, 2010 with total consideration of HK$896,184,000. Zhongyu Gas is principally engaged in sales of piped gas, natural gas from CNG filling stations for vehicles and bottled LPG as well as the development and construction of gas pipeline network.

Consideration transferred

	HK$'000
Cash consideration paid by the Group	201,499
Shares issued *(note)*	694,685
Total consideration	896,184

Note: As part of the consideration for the acquisition of Zhongyu Gas, 175,552,000 ordinary shares of the Company with par value of HK$0.01 each were issued as consideration shares. The fair value of such consideration shares, determined using the published market closing price at the date of completion of the acquisition, amounted to HK$694,685,000.

Acquisition-related costs amounting to HK$20,884,000 have been excluded from the cost of acquisition and have been recognised as an expense in the period, within the "administrative expenses" line item in the consolidated statement of comprehensive income.

Assets and liabilities recognised by the Group at the date of acquisition:

	Acquiree's carrying amount and provisional fair value before combination *HK$'000*
Investment properties	5,618
Property, plant and equipment	919,293
Prepaid lease payments	61,151
Available-for-sale investments	2,870
Other intangible assets	149,534
Deposits for acquisition of property, plant and equipment	45,467
Inventories	59,648
Trade and other receivables	178,122
Amounts due from customers for contract work	15,644
Pledged bank deposits	23,179
Bank balances and cash	488,438
Trade and other payables	(400,013)
Amounts due to customers for contract work	(19,230)
Taxation	(13,574)
Bank and other borrowings	(652,625)
Convertible bonds *(note 38)*	(118,483)
Derivatives embedded in convertible bonds	(23,348)
Deferred taxation	(12,238)
	709,453
Non-controlling interests	(371,287)
Goodwill	558,018
	896,184

The fair value as well as the gross contractual amounts of the trade and other receivables and amounts due from customers for contract work acquired amounted to HK$178,122,000 and HK$15,644,000 respectively at the date of acquisition. The best estimate at acquisition date of the contractual cash flows not expected to be collected is nil.

Goodwill arising on acquisition

	HK$'000
Consideration transferred	896,184
Plus: non-controlling interests (43.67% share of net assets in Zhongyu Gas and non-controlling interests in the subsidiaries of Zhongyu Gas)	371,287
Less: fair value of identifiable net assets acquired	(709,453)
Goodwill arising on acquisition	558,018

The goodwill arising on the acquisition of Zhongyu Gas is attributed to the anticipated profitability of its natural gas business and exploration and development of coalbed methane.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

Net cash inflow arising on acquisition

	HK$'000
Bank balances and cash acquired	488,438
Cash consideration	(201,499)
	286,939

Impact of acquisition on the results of the Group

Included in the profit for the year is HK$64,420,000 attributable to the additional business generated by Zhongyu Gas. Revenue for the year includes HK$1,035,998,000.

(v) On March 29, 2010, a subsidiary of the Group entered into an acquisition agreement with an independent third party, pursuant to which the Group acquired 100% equity interest of 張家界中燃城市燃氣發展有限公司 ("張家界燃氣") at a consideration of RMB28,728,000 (approximately HK$33,020,000). The acquisition was completed on September 28, 2010, on which date the control in 張家界燃氣 was passed to the Group. 張家界燃氣 is principally engaged in natural gas business.

Consideration transferred

	HK$'000
Cash	33,020

Assets and liabilities recognised by the Group at the date of acquisition:

	Acquiree's carrying amount and provisional fair value before combination
	HK$'000
Property, plant and equipment	36,236
Trade and other receivables	5,384
Bank balances and cash	472
Trade and other payables	(19,875)
	22,217
Goodwill	10,803
	33,020

The fair value as well as the gross contractual amounts of the trade and other receivables acquired amounted to HK$5,384,000 at the date of acquisition. The best estimate at acquisition date of the contractual cash flows not expected to be collected is nil.

Goodwill arising on acquisition

	HK$'000
Consideration transferred	33,020
Less: fair value of identifiable net assets acquired	(22,217)
Goodwill arising on acquisition	10,803

The goodwill arising on the acquisition of 張家界燃氣 is attributed to the anticipated profitability of its natural gas business.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

Net cash outflow arising on acquisition

	HK$'000
Cash consideration	33,020
Bank balances and cash acquired	(472)
	32,548

Impact of acquisition on the results of the Group

Included in the profit for the year is HK$2,234,000 attributable to the additional business generated by 張家界燃氣. Revenue for the year includes HK$12,268,000.

(vi) On November 25, 2010, a subsidiary of the Group entered into an acquisition agreement with an independent third party, pursuant to which the Group acquired 100% equity interest of 信豐中燃城市燃氣發展有限公司 ("信豐中燃") at a consideration of RMB31,780,000 (approximately HK$36,529,000). The acquisition was completed on February 12, 2011, on which date the control in 信豐中燃 was passed to the Group. 信豐中燃 is principally engaged in natural gas business.

Consideration transferred

	HK$'000
Cash	36,529

Assets and liabilities recognised by the Group at the date of acquisition:

	Acquiree's carrying amount and provisional fair value before combination *HK$'000*
Property, plant and equipment	28,843
Prepaid lease payments	873
Inventories	314
Trade and other receivables	1,311
Bank balances and cash	515
Trade and other payables	(2,126)
Bank borrowings	(6,322)
	23,408
Goodwill	13,121
	36,529

The fair value as well as the gross contractual amounts of the trade and other receivables acquired amounted to HK$1,311,000 at the date of acquisition. The best estimate at acquisition date of the contractual cash flows not expected to be collected is nil.

Goodwill arising on acquisition

	HK$'000
Consideration transferred	36,529
Less: fair value of identifiable net assets acquired	(23,408)
Goodwill arising on acquisition	13,121

The goodwill arising on the acquisition of 信豐中燃 is attributed to the anticipated profitability of its natural gas business.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

Net cash outflow arising on acquisition

	HK$'000
Cash consideration Bank	36,529
balances and cash acquired	(515)
	36,014

Impact of acquisition on the results of the Group

Included in the profit for the year is HK$86,000 attributable to the additional business generated by 信豐中燃. Revenue for the year includes HK$524,000.

The initial accounting for the above acquisitions has been determined provisionally, awaiting the receipt of professional valuations in relation to investment properties, property, plant and equipment, prepaid lease payments and other intangible assets of the acquirees.

If the above acquisitions during the year ended March 31, 2011 had been completed on April 1, 2010, total group revenue and profit for the year would have been HK$16,192,370,000 and HK$791,473,000 respectively. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of the operations of the Group that actually would have been achieved had above acquisitions been completed on April 1, 2010, nor is it intended to be projection of future results.

(B) Acquisition of businesses through purchase of subsidiaries in 2010

(i) On April 24, 2009, a subsidiary of the Group entered into a share transfer agreement with independent third parties pursuant to which the Group acquired 100% equity interest in 南京市浦口區城市燃氣發展有限公司 ("南京新浦口") at a consideration of RMB7,465,700 (approximately HK$8,581,000). The transaction was completed on May 22, 2009, on which date the control of 南京新浦口 was passed to the Group.

	Acquiree's carrying amount and fair value before combination
	HK$'000
NET ASSETS ACQUIRED	
Property, plant and equipment	5,625
Prepaid lease payment	1,021
Inventories	538
Other receivables	485
Bank balances and cash	815
Trade and other payables	(3,104)
	5,380
Goodwill	3,201
	8,581
SATISFIED BY	
Cash consideration	8,581
NET CASH OUTFLOW ARISING ON ACQUISITION	
Cash consideration paid	(8,581)
Bank balances and cash acquired	815
	(7,766)

南京新浦口 is principally engaged in the installation of natural gas pipeline network and sale of natural gas in 南京新浦口 region of Nanjing, the PRC. The goodwill arising on the acquisition of 南京新浦口 is attributable to the anticipated synergy effect of the gas connection and sales of piped gas business of the Company.

南京新浦口 contributed to the Group's revenue of HK$8,958,000 and loss of HK$491,000 between the date of acquisition and the end of the reporting period.

(ii) On April 30, 2009, a subsidiary of the Group entered into a share transfer agreement with independent third parties pursuant to which a non-wholly owned subsidiary of the Group acquired 80% additional equity interest in 上海華辰 at a consideration of RMB54,500,000 (approximately HK$62,644,000). The non-wholly owned subsidiary of the Group originally held 20% equity interest as at March 31, 2009 and was classified as an associate of the Group. The transaction was completed on May 31, 2009, on which date the control of 上海華辰 was passed to the Group.

	Acquiree's carrying amount and fair value before combination
	HK$'000
NET ASSETS ACQUIRED	
Property, plant and equipment	128,259
Available-for-sale investments	1,034
Trade and other receivables	46,400
Bank balances and cash	199
Trade and other payables	(36,753)
Amount due to a vendor	(83,943)
	55,196
Less: Interest held prior to acquisition	
– Interest in an associate	(17,628)
Goodwill	25,076
	62,644
SATISFIED BY	
Cash consideration	62,644
NET CASH OUTFLOW ARISING ON ACQUISITION	
Cash consideration paid	(62,644)
Bank balances and cash acquired	199
	(62,445)

上海華辰 principally engages in the provision of shipping delivery services, technical development, providing consultancy services and agent of delivery. The goodwill arising on the acquisition of 上海華辰 is attributable to the anticipated synergy effect of the shipping delivery business of the Company.

上海華辰 contributed to the Group's loss of HK$5,443,000 between the date of acquisition and the end of the reporting period. No revenue is contributed by 上海華辰 to the Group as the principal activity is different from that of the Group, and the revenue of 上海華辰 was classified as other income of the Group.

(iii) On April 26, 2009, the Company and a subsidiary of the Group entered into acquisition agreements with independent third parties pursuant to which the Group acquired 100% equity interest in Brilliant China, which in turn holds 100% registered capital of Beijing Zhongmin Zhongran Trading Company Limited ("Zhongmin Zhongran"), which in turn holds 45.45% of registered capital of Fujian Anran which is considered as a jointly controlled entity of the Group, at an aggregate consideration of HK$385,254,000. The acquisition was completed on August 31, 2010, on which date the control of Brilliant China was passed to the Group.

	Acquiree's carrying amount before combination	Fair value adjustments	Fair values
	HK$'000	*HK$'000*	*HK$'000*
NET ASSETS ACQUIRED			
Property, plant and equipment	262,895	45,495	308,390
Prepaid lease payments	13,680	8,538	22,218
Intangible assets			
– exclusive rights of natural gas operations	–	298,574	298,574
Interests in associates	31,098	24,424	55,522
Inventories	1,248	–	1,248
Trade and other receivables	40,057	–	40,057
Bank balances and cash	29,406	–	29,406
Trade and other payables	(99,532)	–	(99,532)
Obligation on capital injection to Fujian Anran by Zhongmin Zhongran	(46,897)	–	(46,897)
Bank borrowings	(158,039)	–	(158,039)
Deferred taxation	–	(88,152)	(88,152)
	73,916	288,879	362,795
Minority interest			(77,407)
Goodwill			99,866
			385,254
SATISFIED BY			
Cash consideration			385,254
NET CASH OUTFLOW ARISING ON ACQUISITION			
Cash paid			(385,254)
Bank balances and cash acquired			29,406
			(355,848)

Zhongmin Zhongran is principally engaged in, among other matters, wholesale of gas equipment and parts, import and export business, technical consultation and technical service provider and Fujian Anran is principally engaged in the provision of gas fuel and gas pipeline connection, transportation and distribution of LPG and retail of bottled LPG and supply of video lottery operating system and bottled equipment in the PRC. The goodwill arising on the acquisition of Brilliant China is attributable to the anticipated profitability of the gas connection and sales of piped gas businesses of this group.

The fair value of the property, plant and equipment has been arrived at on the basis of a valuation carried out as at August 31, 2009 by CB Richard Ellis Limited. The valuation was arrived at using the depreciated replacement cost method. The valuation has taken into consideration several factors, including current price of materials, labour and contractor's overhead which was available in the market if the Group acquire or build the same assets as at the valuation date after deduction of depreciation based on the economic useful life of the assets and the current condition of the assets.

The fair value of the intangible assets has been arrived at on the basis of a valuation carried out as at valuation dated August 31, 2009 by CB Richard Ellis Limited. The valuation was arrived at using multiple-period excess earning method. The valuation was determined by discounting the value of expected economic benefits that exceed an appropriate rate of return on other assets being used to generate anticipated economic benefits. The discount rate of 14% used in the valuation comprises the cost of equity and cost of debt of the entity.

Brilliant China contributed to the Group's revenue and profit of HK$98,855,000 and of HK$21,732,000 respectively between the date of acquisition and the end of the reporting period.

(iv) On April 8, 2009, a subsidiary of the Group entered into an acquisition agreement with an independent third party pursuant to which the Group acquired 80% equity interest in 遼陽中燃 at a consideration of RMB74,122,000 (approximately HK$85,198,000). The acquisition was completed on April 30, 2009, on which date the control of 遼陽中燃 was passed to the Group.

	Acquiree's carrying amount before combination	**Fair value adjustments**	**Fair values**
	HK$'000	*HK$'000*	*HK$'000*
NET ASSETS ACQUIRED			
Property, plant and equipment	64,908	–	64,908
Prepaid lease payments	25,336	–	25,336
Available-for-sale investments	586	–	586
Intangible assets			
– exclusive right of natural gas operation	–	10,559	10,559
Trade and other receivables	29,345	–	29,345
Inventories	12,378	–	12,378
Bank balances and cash	11,908	–	11,908
Trade and other payables	(48,539)	–	(48,539)
Bank borrowings	(31,264)	–	(31,264)
Deferred taxation	–	(2,640)	(2,640)
	64,658	7,919	72,577
Minority interest			(14,515)
Goodwill			27,136
			85,198
SATISFIED BY			
Cash consideration			85,198
NET CASH OUTFLOW ARISING ON ACQUISITION			
Cash consideration paid			(85,198)
Bank balances and cash acquired			11,908
			(73,290)

遼陽中燃 principally engages in the installation of natural gas pipeline network and sale of natural gas in PRC. The goodwill arising on the acquisition of 遼陽中燃 is attributable to the anticipated profitability of the gas connection and sales of piped gas businesses of 遼陽中燃.

遼陽中燃 contributed to the Group's revenue and profit of HK$74,152,000 and of HK$2,959,000 respectively between the date of acquisition and the end of the reporting period.

(v) On November 11, 2009, a subsidiary of the Group entered into an acquisition agreement with an independent third party pursuant to which the Group acquired 100% equity interest in 牡丹江大通燃氣 at a consideration of RMB97,000,000 (approximately HK$111,494,000). The acquisition was completed on December 16, 2009, on which date the control of in 牡丹江大通燃氣 was passed to the Group.

	Acquiree's carrying amount before combination	**Fair value adjustments**	**Fair values**
	HK$'000	*HK$'000*	*HK$'000*
NET ASSETS ACQUIRED			
Property, plant and equipment	112,917	–	112,917
Prepaid lease payments	13,250	15,721	28,971
Intangible assets			
– exclusive right of natural gas operation	–	12,091	12,091
Trade and other receivables	3,553	–	3,553
Inventories	6,854	–	6,854
Bank balances and cash	1,164	–	1,164
Trade and other payables	(63,514)	–	(63,514)
Bank borrowings	(13,985)	–	(13,985)
Deferred taxation	–	(6,953)	(6,953)
	60,239	20,859	81,098
Goodwill			30,396
			111,494
SATISFIED BY			
Cash consideration			111,494
NET CASH OUTFLOW ARISING ON ACQUISITION			
Cash consideration paid			(111,494)
Bank balances and cash acquired			1,164
			(110,330)

牡丹江大通燃氣 principally engages in the installation of natural gas pipeline network and sale of natural gas in PRC. The goodwill arising on the acquisition of 牡丹江大通燃氣 is attributable to the anticipated profitability of the gas connection and sales of piped gas businesses of 牡丹江大通燃氣.

牡丹江大通燃氣 contributed to the Group's revenue and profit of HK$10,114,000 and of HK$943,000 respectively between the date of acquisition and the end of the reporting period.

The fair values of the identifiable assets and liabilities of 牡丹江大通燃氣 acquired were determined provisionally during the year ended March 31, 2010. No fair value adjustments were made to the carrying amounts of the identifiable assets and liabilities of 牡丹江大通燃氣 as a result of completing the initial accounting during the year ended March 31, 2011.

(vi) On December 18, 2009, a subsidiary of the Group entered into an acquisition agreement with an independent third party pursuant to which the Group acquired 80% equity interest in 南昌中燃 at a consideration of RMB28,000,000 (approximately HK$32,184,000). The acquisition was completed on January 31, 2010, on which date the control of 南昌中燃 was passed to the Group.

	Acquiree's carrying amount before combination	**Fair value adjustments**	**Fair values**
	HK$'000	*HK$'000*	*HK$'000*
NET ASSETS ACQUIRED			
Property, plant and equipment	168	–	168
Intangible assets	–	8,133	8,133
Trade and other receivables	45	–	45
Inventories	174	–	174
Bank balances and cash	15,179	–	15,179
Trade and other payables	(100)	–	(100)
Deferred taxation	–	(2,033)	(2,033)
	15,466	6,100	21,566
Minority interest			(4,313)
Goodwill			14,931
			32,184
SATISFIED BY			
Cash consideration			32,184
NET CASH OUTFLOW ARISING ON ACQUISITION			
Cash consideration paid			(32,184)
Bank balances and cash acquired			15,179
			(17,005)

南昌中燃 principally engages in the installation of natural gas pipeline network and sale of natural gas in PRC. The goodwill arising on the acquisition of 南昌中燃 is attributable to the anticipated profitability of the gas connection and sales of piped gas businesses of 南昌中燃.

南昌中燃 contributed to the Group's revenue and loss of HK$139,000 and of HK$284,000 respectively between the date of acquisition and the end of the reporting period.

The fair values of the identifiable assets and liabilities of 南昌中燃 acquired were determined provisionally during the year ended March 31, 2010. No fair value adjustments were made to the carrying amounts of the identifiable assets and liabilities of 南昌中燃 as a result of completing the initial accounting during the year ended March 31, 2011.

(vii) On April 29, 2006, a subsidiary of the Group entered into a share transfer agreement with 廣西南方食品集團股份有限公司 ("南方食品") (formerly known as 廣西南方控股股份有限公司), the ultimate holding company of 南寧管道燃氣有限責任公司 ("南寧管道") ("First Vendor") pursuant to which the subsidiary agreed to acquire 60% equity interest in 南寧管道 at an aggregate consideration of RMB111,000,000 (approximately HK$127,586,000). As at March 31, 2009, the transaction has not yet been completed as it was pending for the completion of change in the shareholders of 南寧管道 for 南方食品 to get the control of 南寧管道 pursuant to the share transfer agreement.

In January, 2010, a subsidiary of the Group entered into another share transfer agreement with the minority shareholder of 南寧管道 ("Second Vendor") pursuant to which the subsidiary agreed to acquire 20% equity interest in 南寧管道 at a consideration of RMB33,000,000 (approximately HK$37,931,000). This acquisition was completed in early March, 2010.

Because of the successful acquisition from the Second Vendor, the Group decided to revise the share transfer agreement with the First Vendor at March 11, 2010 and acquire only 40% equity interest in 南寧管道. The consideration was adjusted upward to RMB122,700,000 (approximately HK$141,035,000) to slightly compensate the First Vendor on the increase in the fair value of the net assets of 南寧管道 since 2006. The acquisition of 40% equity interest from First Vendor was completed on March 31, 2010, on which date the control of 南寧管道 was passed to the Group.

	Acquiree's carrying amount before combination	Fair value adjustments	Fair values
	HK$'000	*HK$'000*	*HK$'000*
NET ASSETS ACQUIRED			
Property, plant and equipment	507,034	59,220	566,254
Prepaid lease payments	11,280	–	11,280
Intangible assets			
– exclusive right of natural gas operation	–	625,040	625,040
Trade and other receivables	16,541	–	16,541
Inventories	7,164	–	7,164
Bank balances and cash	7,837	–	7,837
Trade and other payables	(432,254)	–	(432,254)
Bank borrowings	(39,046)	–	(39,046)
Deferred taxation	–	(171,065)	(171,065)
	78,556	513,195	591,751
Minority interest			(236,700)
Discount on acquisition			(176,085)
			178,966
SATISFIED BY			
Cash consideration paid by the Group			37,587
Deposit paid for acquisition			63,218
Deferred cash consideration			78,161
			178,966
NET CASH OUTFLOW ARISING ON ACQUISITION			
Cash consideration paid			(37,587)
Bank balances and cash acquired			7,837
			(29,750)

According to the share transfer agreement with the First Vendor, the remaining cash consideration should be settled within 5 business days after the legal title of 南寧管道 has been passed to the subsidiary of the Group. The deferred cash consideration has been settled in April 2010. 南寧管道 principally engages in the installation of natural gas pipeline network and sale of natural gas in PRC.

The fair value of the property, plant and equipment has been arrived at on the basis of a valuation carried out as at March 31, 2010 by CB Richard Ellis Limited. The valuation was arrived at using the depreciated replacement cost method. The valuation has taken into consideration several factors, including current price of materials, labour and contractor's overhead which was available in the market if the Group acquire or build the same assets as at the valuation date after deduction of depreciation based on the economics useful life of the assets and the current condition of the assets.

The fair value of the intangible assets has been arrived at on the basis of a valuation carried out as at March 31, 2010 by CB Richard Ellis Limited. The valuation was arrived at using multiple-period excess earning method. The valuation was determined by discounting the value of expected economic benefits that exceed an appropriate rate of return on other assets being used to generate anticipated economic benefits. The discount rate of 14% used in the valuation comprises the cost of equity and cost of debt of the entity.

The directors of the Company have reassessed the identification and measurement of fair values of Nanning Pipeline's identifiable assets, liabilities and contingent liabilities. The net fair value of the identifiable assets, liabilities and contingent liabilities of Nanning Pipeline attributable to the 60% shareholding acquired by the Company exceeded the cost of acquisition by an amount of HK$176,085,000, which represented a discount on acquisition of Nanning Pipeline, and has been recognised in the consolidated income statement for the year ended March 31, 2010.

The management considered that the discount on acquisition of HK$176,085,000 arising on the acquisition of 南寧管道 was mainly due to the below market consideration for the acquisition of 60% equity interest in 南寧管道 agreed in 2006 in which the Group was willing to enter into the share transfer agreement with the First Vendor, at which time a lawsuit on the First Vendor's ownership on 南寧管道 was undergoing. In addition, the fair value of the net assets of 南寧管道 increased between the date of share transfer agreement in 2006 to the completion date of the acquisition as the economic environment for operating natural gas business in the PRC is getting more favourable. Although the consideration was adjusted upward subsequently, the adjustment is not in line with the increase in the fair value of the net assets of 南寧管道.

The Group has applied the similar basis for the negotiation of the consideration for the acquisition of the 20% equity interest in 南寧管道 from the Second Vendor in January, 2010 and a below market consideration was resulted as well.

If the above acquisitions during the year ended March 31, 2010 had been completed on April 1, 2009, total group revenue and profit for the year would have been HK$10,580,133,000 and HK$1,080,039,000 respectively. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of the operations of the Group that actually would have been achieved had above acquisitions been completed on April 1, 2009, nor is it intended to be projection of future results.

43. DISPOSAL OF SUBSIDIARIES

(i) Pursuant to ordinary resolution passed in the shareholders' meeting of 鄂托克旗中燃燃氣發展有限公司 ("鄂托克旗中燃") held on August 9, 2010, the Group applied to dissolve 鄂托克旗中燃. The dissolution was completed on September 7, 2010 and there was no gain or loss arising from the dissolution of the subsidiary.

	HK$'000
NET ASSETS OF SUBSIDIARY DISSOLVED	
Property, plant and equipment	1,362
Bank balances and cash	15,878
Non-controlling interests	17,240
Refund of capital upon the dissolution	(3,448)
Refund of capital upon the dissolution	13,792
SATISFIED BY:	
Cash received by the Group	13,792
NET CASH OUTFLOW ARISING ON DISSOLUTION	
Cash received by the Group	13,792
Bank balances disposed of	(15,878)
	(2,086)

(ii) On December 16, 2009, the Group and the non-controlling interests contributed RMB5,600,000 (approximately HK$6,437,000) and RMB10,400,000 (approximately HK$11,954,000) to 榆林中燃, a subsidiary in which the Group originally held 60% equity interest before capital contribution made on December 2009. The capital contributed has led to a decrease in the Group's shareholding in 榆林中燃 from 60% to 40% as well as a change of the composition of the board of directors. According to the new Article of Association, all the major financial and operating decisions must require unanimous consent from all venturers. 榆林中燃 was reclassified to a jointly controlled entity of the Group. The net assets of 榆林中燃 to be disposed of at the date of disposal were as follows:

	HK$'000
60% OF NET ASSETS OF 榆林中燃 DISPOSED OF	
Property, plant and equipment	26
Other receivables	26
Bank balances and cash	13,134
	13,186
Minority interests	(1,373)
	11,813
Gain on disposal	141
Capital contributed by other shareholder	11,954
NET CASH OUTFLOW ARISING ON DISPOSAL	
Capital contributed by the other shareholder	11,954
Bank balances and cash acquired	(13,134)
	(1,180)

44. DISPOSAL/DISSOLUTION OF JOINTLY CONTROLLED ENTITIES

(i) Pursuant to ordinary resolution passed in the board of directors' meeting of 京港燃氣 held on December 25, 2009, the Group applied to dissolve 京港燃氣. The dissolution was completed on December 31, 2010 and the loss which arises on dissolution of jointly controlled entity was HK$932,000.

	HK$'000
NET ASSET OF JOINTLY CONTROLLED ENTITY DISSOLVED	
Property, plant and equipment	811
Bank balances and cash	18,109
	18,920
Loss on dissolution	(932)
Refund of capital upon the dissolution	17,988
SATISFIED BY:	
Cash received by the Group	17,988
NET CASH OUTFLOW ARISING ON DISSOLUTION	
Bank balances disposed of	(18,109)
Cash received by the Group	17,988
	(121)

(ii) Pursuant to an ordinary resolution passed in the board of directors' meeting of 紹興中燃城市燃氣發展有限公司 ("紹興中燃") held on September 30, 2009, the Group applied to dissolve 紹興中燃. The dissolution was completed on December 28, 2009 and the loss which arose on dissolution of jointly controlled entity was HK$3,791,000.

	HK$'000
NET ASSETS OF JOINTLY CONTROLLED ENTITY DISSOLVED	
Property, plant and equipment	20,328
Bank balances and cash	21,821
	42,149
Loss on dissolution	(3,791)
Refund of capital upon the dissolution	38,358
SATISFIED BY	
Cash received by the Group	38,358
NET CASH INFLOW ARISING ON DISSOLUTION	
Cash received by the Group	38,358
Bank balances and cash disposed of	(21,821)
	16,537

(iii) Pursuant to an ordinary resolution passed in the annual general meeting of 中燃投資有限公司 ("中燃投資") held on May 26, 2009, the Group entered into a share transfer agreement with 重慶鼎發, an associate of the Group, to disposal of 49% equity interest in 重慶鼎旺化工有限公司 ("重慶鼎旺"). The disposal was completed on November 1, 2009 and the consideration received from disposal of jointly controlled entity was HK$16,000,000. The net assets of 重慶鼎旺 at the date of disposal were as follows:

	HK$'000
49% NET ASSETS OF 重慶鼎旺 DISPOSED OF	
Property, plant and equipment	28,342
Inventories	796
Trade and other receivables	937
Bank balances and cash	18
Trade and other payables	(12,070)
	18,023
Loss on disposal	(2,023)
	16,000
SATISFIED BY	
Cash consideration received by the Group	16,000
NET CASH INFLOW ARISING ON DISPOSAL	
Cash consideration	16,000
Bank balances and cash disposed of	(18)
	15,982

45. OPERATING LEASE ARRANGEMENTS

The Group as lessee

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

	2011	**2010**
	HK$'000	*HK$'000*
Within one year	44,092	31,978
In the second to fifth year inclusive	63,373	54,603
After five years	35,671	27,191
	143,136	113,772

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

The Group as lessor

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

	2011	**2010**
	HK$'000	*HK$'000*
Within one year	10,656	8,025
In the second to fifth year inclusive	15,436	13,926
After five years	1,464	–
	27,556	21,951

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

46. CAPITAL COMMITMENTS

The Group has entered into the following transactions, which have not been completed at the end of the reporting period nor at the date these consolidated financial statements were authorised for issuance.

(i) On March 19, 2010, a subsidiary of the Company entered into cooperation agreement with 錦州市娘娘官臨港產業區管委會 to set up a wholly-owned subsidiary. According to the cooperation agreement, the registered capital of the subsidiary will be USD3,000,000 (approximately HK$23,250,000) and the total amount will be contributed by the Group in cash.

(ii) On March 10, 2011, a wholly-owned subsidiary of the Company entered into an equity transfer agreement ("Equity Transfer Agreement") with independent third parties to acquire 100% equity interest in Panva Gas Holdings Limited ("Panva Gas") at a total cash consideration of HK$530,000,000. Panva Gas is an investment holding company and its subsidiaries are principally engaged in retail business of LPG in the PRC. Total deposit of HK$133,627,000 was paid for the year ended March 31, 2011. Subsequent to the end of reporting period, a wholly-owned subsidiary of the Company entered into supplementary agreement with the vendor. The details of supplementary agreement are set out in note 52(ii).

(iii) On March 13, 2011, a wholly-owned subsidiary of the Company entered into an equity transfer agreement with independent third parties to acquire remaining 49% equity interest in 江蘇中油長江石化有限公司 ("江蘇中油") at a total cash consideration of RMB32,000,000 (approximately HK$38,095,000). Upon the completion of the acquisition, together with the 51% equity interest in 江蘇中油 hold by the Group, 江蘇中油 will become a wholly-owned subsidiary of the Company. The transaction has not been completed as March 31, 2011, and the consideration payable is recognised as a commitment to acquire a non-controlling interest as at March 31, 2011 under trade and other payables (note 33).

In addition to those disclosed above, as at March 31, 2011, the Group has capital commitments in respect of the acquisition for property, plant and equipment and construction materials for property, plant and equipment contracted for but not provided in the consolidated financial statements amounting to HK$219,208,000 (2010: HK$146,754,000) and HK$28,157,000 (2010: HK$140,194,000) respectively.

47. PLEDGE OF ASSETS

Carrying amount of the non-current and current assets pledged to banks to secure loan facilities granted to the Group is as follows:

	2011	2010
	HK$'000	*HK$'000*
		(restated)
Long-term loan facilities		
Investment properties	41,980	27,220
Property, plant and equipment	307,859	318,543
Prepaid lease payments	42,394	18,575
Short-term loan facilities		
Inventories	127,041	138,729
Trade receivables	40,012	86,817
Pledged bank deposits	1,647,444	489,103
	2,206,730	1,078,987

48. RETIREMENT BENEFITS SCHEMES

With effective from December 1, 2000, the Group has joined a MPF Scheme for all employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Group with respect of the MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years at March 31, 2011 and 2010.

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

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

49. SHARE OPTION SCHEME AND SHARE-BASED PAYMENTS

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

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

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

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

The following table discloses details of the Company's share options held by employees (including directors) and movements in such holdings during the two years ended March 31, 2011:

Date of grant	Vesting period	Exercisable period	Exercise price per share HK$	Number of share options at 4.1.2009	Granted during the year	Exercised during the year *(Note 3)*	Number of share options at 3.31.2010	Transfer during the year *(Note 5)*	Lapsed during the year *(Note 6)*	Exercised during the year *(Note 3)*	Number of share options at 3.31.2011
Directors											
1.9.2004	1.9.2004 to 8.30.2004	9.1.2004 to 1.8.2014	0.80	31,240,711	–	(4,300,000)	26,940,711	–	(10,000,000)	(7,940,711)	9,000,000
10.6.2004	*(Note 1)*	*(Note 1)*	0.71	220,000,000	–	–	220,000,000	–	(90,000,000)	–	130,000,000
10.6.2004	10.6.2004 to 3.19.2005	3.20.2005 to 10.5.2014 *(Note 2)*	0.71	7,400,000	–	(700,000)	6,700,000	–	–	(6,700,000)	–
10.20.2005	10.20.2005 to 10.19.2010	10.20.2010 to 10.19.2015	1.50	5,000,000	–	–	5,000,000	6,000,000	(5,000,000)	–	6,000,000
8.23.2007	8.23.2007 to 9.18.2008	9.19.2008 to 8.22.2017	2.32	–	–	–	–	3,000,000	–	–	3,000,000
8.3.2009	*(Note 4)*	*(Note 4)*	2.10	–	200,000,000	–	200,000,000	–	(100,000,000)	–	100,000,000
8.3.2009	8.3.2009 to 8.2.2011	8.3.2011 to 8.2.2014	2.10	–	37,000,000	–	37,000,000	–	(14,000,000)	–	23,000,000
9.17.2009	9.17.2009 to 9.16.2012	9.17.2012 to 9.16.2014	2.60	–	–	–	–	2,000,000	–	–	2,000,000
				263,640,711	237,000,000	(5,000,000)	495,640,711	11,000,000	(219,000,000)	(14,640,711)	273,000,000
Other employees											
1.9.2004	1.9.2004 to 8.30.2004	9.1.2004 to 1.8.2014	0.80	47,130,000	–	(10,250,000)	36,880,000	–	–	(33,970,000)	2,910,000
10.6.2004	10.6.2004 to 3.19.2005	3.20.2005 to 10.5.2014 *(Note 2)*	0.71	88,160,000	–	(3,160,000)	85,000,000	–	–	(51,000,000)	34,000,000
10.20.2005	10.20.2005 to 10.19.2010	10.20.2010 to 10.19.2015	1.50	151,800,000	–	–	151,800,000	(6,000,000)	–	(21,800,000)	124,000,000
1.27.2006	1.27.2006 to 1.26.2011	1.27.2011 to 1.26.2016	1.52	6,500,000	–	–	6,500,000	–	–	–	6,500,000
8.23.2007	8.23.2007 to 9.18.2008	9.19.2008 to 8.22.2017	2.32	3,000,000	–	–	3,000,000	(3,000,000)	–	–	–
8.7.2008	8.7.2008 to 9.2.2009	9.3.2009 to 8.6.2018	1.77	1,500,000	–	–	1,500,000	–	–	(1,500,000)	–
8.7.2008	8.7.2008 to 9.2.2010	9.3.2010 to 8.6.2018	1.77	1,500,000	–	–	1,500,000	–	–	(1,500,000)	–
8.3.2009	*(Note 4)*	*(Note 4)*	2.10	–	100,000,000	–	100,000,000	–	–	–	100,000,000
8.3.2009	8.3.2009 to 8.2.2011	8.3.2011 to 8.2.2014	2.10	–	53,394,000	–	53,394,000	–	–	–	53,394,000
9.17.2009	9.17.2009 to 10.13.2009	10.14.2009 to 9.16.2014	2.60	–	5,000,000	–	5,000,000	–	–	(3,500,000)	1,500,000
9.17.2009	9.17.2009 to 9.16.2012	9.17.2012 to 9.16.2014	2.60	–	5,000,000	–	5,000,000	(2,000,000)	–	–	3,000,000
				299,590,000	163,394,000	(13,410,000)	449,574,000	(11,000,000)	–	(113,270,000)	325,304,000
				563,230,711	400,394,000	(18,410,000)	945,214,711	–	(219,000,000)	(127,910,711)	598,304,000
Weighted average exercise price				HK$0.97	HK$2.11	HK$0.78	HK$1.42	N/A	HK$1.46	HK$0.95	HK$1.55
Exercisable at the end of the year				396,930,711			385,020,711				316,910,000

Notes:

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

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

(3) The weighted average share price on exercise dates and the weighted average price immediately before exercise dates are HK$4.11 (2010: HK$3.48) per share.

(4) The exercise of option will be subject to the condition that the annual consolidated profit after taxation of the Company and its subsidiaries which shall be certified by the auditors appointed by the Company as at the date of the exercise of the options being not less than HK$1.5 billion. Exercisable period is between August 3, 2009 to August 2, 2019.

(5) The options transferred relates to appointment of a director, Mr. Leung Wing Cheong, Eric, on December 23, 2010, who received the options in his capacity as an employee before the appointment as director.

(6) The options lapsed were due to the board of directors resolved by majority vote that Mr. Li Xiao Yun and Mr. Xu Ying be removed as the Chairman and the Vice Chairman of the Company respectively on March 3, 2011 and Mr. Kim Joong Ho, Mr. Rackets William Hugh and Mr. R.K. Goel resigned as directors on April 13, 2010, April 13, 2010 and February 28, 2011 respectively.

The consideration received during the year from the directors and employees for taking up the options granted amounted to HK$10 (2010: HK$10).

In accordance with HKFRS 2 "Share-based payment", fair value of share options granted to employees determined at the date of grant is expensed over the vesting period, with a corresponding adjustment to the Group's employee share-based compensation reserve. In the current year, an amount of share-based payment expenses in respect of its share options of approximately HK$37,500,000 (2010: HK$32,870,000) has been recognised with a corresponding adjustment recognised in the Group's employee share-based compensation reserve.

The options outstanding as at March 31, 2011 have a weighted average remaining contractual life of 4 years (2010: 5 years). During the year ended March 31, 2010, options were granted on August 3, 2009 and September 17, 2009 respectively. The estimated fair values of the options granted are HK$336,766,000 and HK$91,966,000.

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

	Share option grant date	
	August 3, 2009	September 17, 2009
Share price	HK$2.1	HK$2.6
Exercise price	HK$2.1	HK$2.6
Expected volatility *(Note a)*	57.86%	58.05%
Expected life *(Note b)*	2.5 years to 5 years	2.5 years to 4 years
Risk free rate *(Note c)*	0.626% to 1.66%	0.724% to 1.502%
Expected dividend yield *(Note d)*	0.667%	0.538%

Notes:

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

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

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

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

50. RELATED PARTY TRANSACTIONS

Apart from the amounts due from/to related parties and transactions as disclosed in notes 28, 30, 33, 37 and 52 respectively, the Group entered into the following transactions with major related parties that are not members of the Group:

(i) During the year ended March 31, 2011, the Group purchased gas for total amount of HK$143,186,000 (2010: HK$126,359,000) from non-controlling interests of subsidiaries.

(ii) During the year ended March 31, 2011, the Group paid rental expense to a shareholder of a jointly controlled entity in respect of leasehold land and buildings for total of HK$13,633,000 (2010: HK$8,506,000).

(iii) During the year ended March 31, 2011, the Group received interest income for total amount of HK$8,000,000 (2010: HK$9,922,000) from an associate.

(iv) During the year ended March 31, 2011, the Group paid construction fee which are recorded as cost of property, plant and equipment in the consolidated statement of financial position for total amount of HK$71,054,000 (2010: HK$174,262,000) to an associate.

(v) During the year ended March 31, 2011, the Group paid interest expense for total amount of HK$3,455,000 (2010: HK$7,132,000) to a non-controlling interest of a subsidiary.

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

	2011	2010
	HK$'000	*HK$'000*
Short-term benefits	30,932	37,740
Post employment benefits	60	48
Share-based payments	15,128	12,631
	46,120	50,419

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

51. MAJOR NON-CASH TRANSACTIONS

(i) During the year, the non-controlling interest of Luohe Zhongyu withdrew registered capital of HK$7,934,000 from Loche Zhongyu resulting in deemed acquisition of additional interest in Luohe Zhongyu. The return of capital was satisfied by property, plant and equipment and prepaid lease payment held by Luohe Zhongyu with carrying amount of HK$816,000 and HK$5,354,000 respectively. Details are set out in note 40(A)(iii).

(ii) During the year ended March 31, 2010, a wholly-owned subsidiary of the Company has further acquired additional interest of 4.5% in Zhongyou Hua Dian from a minority shareholder at a consideration of RMB10,850,000 (approximately HK$12,471,000). The consideration was satisfied by way of transfer of an available-for-sale investment with a carrying value of RMB10,850,000 (approximately HK$12,471,000) as a consideration.

(iii) During the year ended March 31, 2010, the Bonds with principal amount of US$2,000,000 had been converted into 9,012,000 Company's shares. Details had disclosed in note 35 to the consolidated financial statements.

52. EVENTS AFTER THE REPORTING PERIOD

(i) On April 8, 2011, Zhongyu Gas entered into a placing agreement with the placing agent, pursuant to which the placing agent agreed to place up to 394,000,000 new shares of Zhongyu Gas at a price of HK$0.41 per placing share. The board of directors noted that the placing has been completed on April 18, 2011. As a result of the placing, the Group's effective interest in Zhongyu Gas was reduced from approximately 56.33% to approximately 46.96%. As a result, Zhongyu Gas ceased to be a subsidiary of the Group and become an associate.

(ii) Subsequent to a subsidiary of the Company entered into the Equity Transfer Agreement for the acquisition of 100% equity interest in Panva Gas (details set out in note 46(ii)), on June 4, 2011, a subsidiary of the Company entered into the supplemental agreement with the vendors, pursuant to which (i) a subsidiary of the Company has conditionally agreed to purchase and the vendors have conditionally agreed to sell 49% of the entire shares of Panva Gas for a total cash consideration of HK$259,000,000; and (ii) the vendors have agreed to grant the call option to the Group for acquiring the remaining 51% issued shares of Panva Gas held by the vendors at a total cash consideration of HK$270,300,000 within 1 year after the completion of the acquisition of 49% of the entire shares of Panva Gas by the Group. The acquisition was completed in June 2011.

53. PARTICULAR OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries are as follows:

Name of subsidiary	Place of incorporation or registration/ operations	Form of business structure	Paid up share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company 2011 %	2010 %	Principal activities
Hai Xia Finance Limited	Hong Kong	Incorporated	Ordinary HK$2	100##	100##	Securities investment
Iwai's Holdings (Hong Kong) Limited	Hong Kong	Incorporated	Ordinary HK$1,000 Non-voting deferred shares HK$1,000,000 *(Note 1)*	100## –	100## –	Investment holding, property investment and provision of management services to group companies
Wellgem Asia Limited	Hong Kong	Incorporated	Ordinary HK$10,000	100#	100#	Property development
Zhongran Gas (Shenzhen) Company Limited*	PRC	Wholly-foreign owned enterprises ("WFOE")	Registered US$29,800,000	100#	100#	Investment holding and treasury
中燃投資	PRC	WFOE	Registered RMB898,637,000	100#	100#	Investment holding and treasury
Beijing Zhongran Xiangke Oil Gas Technology Company Limited*	PRC	Sino-foreign equity joint venture	Registered RMB20,000,000	60##	60##	Trading of natural gas and gas pipeline construction
Elegant Cheer Limited	Hong Kong	Incorporated	Ordinary HK$10,000	100##	100##	Property holding
Wuhan China Natural Gas Investment Company Limited*	PRC	WFOE	Registered RMB69,980,000	100##	100##	Investment holding
Yiyang Central Gas & City Gas Development Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB44,000,000	80##	80##	Trading of natural gas and gas pipeline construction

Name of subsidiary	Place of incorporation or registration/ operations	Form of business structure	Paid up share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company 2011 %	2010 %	Principal activities
Wuhu City Natural Gas Development Company Limited*	PRC	Sino-foreign equity joint venture	Registered RMB100,000,000	90##	90##	Trading of natural gas and gas pipeline construction
北京中油翔科科技有限公司	PRC	Limited liability company	Registered RMB2,000,000	80##	80##	Trading of natural gas and gas pipeline construction
唐山翔科燃氣有限公司	PRC	Limited liability company	Registered RMB1,000,000	70##	70##	Trading of natural gas and gas pipeline construction
廊坊市翔科危險貨物運輸有限公司	PRC	Limited liability company	Registered RMB500,000	80##	80##	Trading of natural gas and gas pipeline construction
廊坊市翔科油氣技術有限公司	PRC	Limited liability company	Registered RMB2,680,000	51##	51##	Trading of natural gas and gas pipeline construction
Yichang Zhongran City Gas Development Limited*	PRC	Limited liability company	Registered RMB70,000,000	70##	70##	Trading of natural gas and gas pipeline construction
槁城翔科燃氣有限公司	PRC	Limited liability company	Registered RMB2,000,000	95##	95##	Trading of natural gas and gas pipeline construction
Clever Decision Enterprises Limited	BVI	Incorporated	Ordinary US$100	100##	100##	Investment holding
北京通寶華油燃氣技術發展有限公司	PRC	WFOE	Registered RMB20,000,000	100##	100##	Investment holding
Huainan China Gas City Gas Development Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB72,000,000	100##	100##	Trading of natural gas and gas pipeline construction
壽縣中燃城市燃氣有限公司	PRC	Sino-foreign equity joint venture	Registered RMB3,000,000	100##	100##	Trading of natural gas and gas pipeline construction

Name of subsidiary	Place of incorporation or registration/ operations	Form of business structure	Paid up share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company		Principal activities
				2011	2010	
				%	%	
Suizhou Zhongran City Gas Development Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB35,000,000	100##	100##	Trading of natural gas and gas pipeline construction
Xiaogan China Gas Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB48,950,000	100##	100##	Trading of natural gas and gas pipeline construction
Xiaogan (Zhongya) China Gas Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB16,002,000	100##	100##	Trading of natural gas and gas pipeline construction
Hanchuan Jchina Gas Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB11,274,000	100##	100##	Trading of natural gas and gas pipeline construction
Yunmeng China Gas Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB9,708,000	100##	100##	Trading of natural gas and gas pipeline construction
Yingcheng Jiaxu China Gas Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB10,074,000	100##	100##	Trading of natural gas and gas pipeline construction
Danyyang Zhongran Gas Co., Ltd.*	PRC	WFOE	Registered HK$20,000,000	100##	100##	Trading of natural gas and gas pipeline construction
Pizhou Zhongran City Gas Development Co., Ltd.*	PRC	WFOE	Registered US$3,060,000	100##	100##	Trading of natural gas and gas pipeline
Suzhou Zhongran City Gas Development Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered US$3,625,000	75##	75##	Trading of natural gas and gas pipeline construction
Cangzhou Zhongran City Gas Development Co., Ltd.*	PRC	WFOE	Registered HK$2,000,000	100##	100##	Trading of natural gas and gas
Nanpixian Zhongran City Gas Development Co., Ltd.*	PRC	WFOE	Registered HK$2,000,000	100##	100##	Trading of natural gas and gas pipeline

Name of subsidiary	Place of incorporation or registration/ operations	Form of business structure	Paid up share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company 2011 %	2010 %	Principal activities
Wuhuxian Zhongran City Gas Development Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB10,000,000	100##	100##	Trading of natural gas and gas pipeline construction
Qinzhou Zhongran City Gas Development Co., Ltd.*	PRC	WFOE	Registered RMB20,000,000	100##	100##	Trading of natural gas and gas pipeline construction
Yangzhong Zhongran City Gas Development Co., Ltd.*	PRC	WFOE	Registered US$1,000,000	100##	100##	Trading of natural gas and gas pipeline construction
Tianmen Zhongran City Gas Development Co., Ltd.*	PRC	WFOE	Registered RMB10,000,000	100##	100##	Trading of natural gas and gas pipeline construction
Baoji Zhongran City Gas Development Co., Ltd.	PRC	Sino-foreign equity joint venture	Registered RMB265,725,000	64##	64##	Trading of natural gas and gas pipeline construction
Nanjing Zhongran City Gas Development Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB200,000,000	100##	100##	Trading of natural gas and gas pipeline construction
Yulin Zhongran City Gas Development Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB20,000,000	100##	100##	Trading of natural gas and gas pipeline construction
烏審旗中燃城市燃氣發展有限公司	PRC	WFOE	Registered RMB50,000,000	100##	100##	Trading of natural gas and gas pipeline construction
Fushun Zhongran City Gas Development Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB133,330,000	100##	100##	Trading of natural gas and gas pipeline construction
Wuwei Zhongran City Gas Development Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB18,000,000	100##	100##	Trading of natural gas and gas pipeline construction
重慶渝北區天然氣有限責任公司	PRC	Sino-foreign equity joint venture	Registered RMB5,060,000	100##	100##	Trading of natural gas and gas pipeline construction

Name of subsidiary	Place of incorporation or registration/ operations	Form of business structure	Paid up share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company 2011 %	2010 %	Principal activities
包頭市燃氣有限公司	PRC	Sino-foreign equity joint venture	Registered RMB183,800,000	80##	80##	Trading of natural gas and gas pipeline construction
包頭市申銀天然氣加氣有限公司	PRC	Sino-foreign equity joint venture	Registered RMB30,000,000	80##	80##	Natural gas refill services and gas station administration
包頭市申銀管道工程有限公司	PRC	Sino-foreign equity joint venture	Registered RMB10,000,000	80##	80##	Design, construction and maintenance of city pipeline projects
Zhongyou Hua Dian	PRC	Limited liability company	Registered RMB220,000,000	100##	87.5##	Trading of LPG
上海中油能源控股有限公司	PRC	Limited liability company	Registered RMB500,000,000###	100##	100##	Investment in petrochemical facilities of storage and transportation, fundamental facilities of pier, sales of raw chemical materials and construction materials
溫州中化燃氣有限公司	PRC	Limited liability company	Registered RMB20,000,000	100## *(note 2)*	87.5##	Sale of inflammable gas, LPG, inflammable liquid and inflammable solid
溫州中燃能源有限公司	PRC	Limited liability company	Registered RMB3,000,000	100## *(note 2)*	87.5##	Retailing and wholesaling of LPG and accessories
廣州華凱石油燃氣有限公司	PRC	Limited liability company	Registered USD8,000,000	65## *(note 2)*	56.9##	Manufacturing of highly purified LPG, highly purified propane and butane

Name of subsidiary	Place of incorporation or registration/ operations	Form of business structure	Paid up share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company 2011 %	2010 %	Principal activities
廣西中油能源有限公司	PRC	Limited liability company	Registered USD7,000,000	86## (note 2)	52.5##	Storing and trading of LPG. Sales of chemical products, filling of LPG and delivery of hazardous products
江蘇中油	PRC	Limited liability company	Registered US$10,000,000	50.86## (note 2)	44.5## (note 3)	Producing and storing LPG and chemical product
廈門中油鷺航油氣有限公司	PRC	Limited liability company	Registered RMB21,250,000	70## (note 2)	61.25##	Operation of gas in cities, filling of LPG, delivery of hazardous products and wholesaling and retailing of chemical products
China Gas Corporate Services	Hong Kong	Incorporated Limited	Ordinary HK$2	100##	100##	Nominee and secretarial services
Iwai Style Limited Limited	Hong Kong	Incorporated	Ordinary HK$2	100##	100##	Provision of management services to the Group
上海華辰	PRC	Limited liability company	Registered RMB60,000,000	100##	100##	Shipping delivery services, technical development, providing consultancy services and services and agent of delivery
南京新浦口	PRC	Limited liability company	Registered RMB30,000,000	100##	100##	Trading of natural gas and gas pipeline construction

Name of subsidiary	Place of incorporation or registration/ operations	Form of business structure	Paid up share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company 2011 %	2010 %	Principal activities
遼陽中燃	PRC	Limited liability company	Ordinary RMB68,500,000	80##	80##	Trading of natural gas and gas pipeline construction
Brilliant China	BVI	Incorporated	Ordinary US$50,000	100##	100##	Investment holding
Zhongmin Zhongran	PRC	Limited liability company	Ordinary HK$30,000,000	100##	100##	Investment holding
牡丹江大通燃氣	PRC	Limited liability company	Ordinary RMB40,000,000	100##	100##	Trading of natural gas and gas pipeline construction
南昌中燃	PRC	Limited liability company	Ordinary RMB15,000,000	80##	80##	Trading of natural gas and gas pipeline construction
深圳中燃	PRC	Limited liability company	Ordinary RMB50,000,000	95##	95##	Trading of natural gas and gas pipeline construction
南寧管道	PRC	Limited liability company	Registered RMB60,000,000	60##	60##	Trading of natural gas and gas pipeline construction
Zhongyu Gas	Cayman Island	Limited liability company	Ordinary HK$19,740,000	56.33##	–	Investment holding, trading of natural gas and gas pipeline construction

* English name is for identification purposes only.

\# The proportion of nominal value of issued share capital/registered capital/registered capital directly held by the Company.

\## The proportion of nominal value of issued share capital/registered capital/registered capital indirectly held by the Company.

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

Notes:

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

(2) The increase in effective interest in these companies, being subsidiaries of Zhongyou Hua Dian, attributable to the Group was due to the acquisition of additional interest of 12.5% in Zhongyou Hua Dian during the year ended March 31, 2011 as disclosed in note 40(A)(i).

(3) The Group has 44.5% indirect effective interest in 江蘇中油 through the 50.86% direct interest held by an 87.5% owned subsidiary, Zhongyou Hua Dian for the year ended March 31, 2010. Therefore the Group has control over this entity and it is considered as a subsidiary of the Company.

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

Financial statements for the year ended March 31, 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 March 2010

	Notes	2010 HK$'000	2009 HK$'000
Revenue	7	10,211,959	6,323,823
Cost of sales		(8,095,667)	(4,894,474)
Gross profit		2,116,292	1,429,349
Other income	8	273,885	225,756
Other gains and losses	9	295,805	(490,131)
Selling and distribution costs		(445,012)	(330,414)
Administrative expenses		(606,658)	(468,475)
Finance costs	10	(522,677)	(409,800)
Discounts on acquisition of an associate, a jointly controlled entity and businesses	11	176,387	236,262
Share of results of associates	20	(114,402)	12,884
Profit before taxation		1,173,620	205,431
Taxation	12	(158,119)	(71,472)
Profit for the year	13	1,015,501	133,959
Other comprehensive income			
Increase in fair value on available-for-sale investments		7,958	8,452
Exchange difference arising on translation		1,240	12,993
Other comprehensive income for the year		9,198	21,445
Total comprehensive income for the year		1,024,699	155,404
Profit for the year attributable to:			
Owners of the Company		875,636	103,679
Minority interests		139,865	30,280
		1,015,501	133,959
Total comprehensive income attributable to:			
Owners of the Company		884,834	113,994
Minority interests		139,865	41,410
		1,024,699	155,404
Earnings per share	16		
Basic		HK26.19 cents	HK3.11 cents
Diluted		HK19.82 cents	HK2.93 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 March 2010

	Notes	**2010** *HK$'000*	**2009** *HK$'000* (restated)
Non-current assets			
Investment properties	*17*	343,158	295,127
Property, plant and equipment	*18*	11,064,337	9,132,277
Prepaid lease payments	*19*	957,655	869,075
Interests in associates	*20*	957,709	1,000,966
Available-for-sale investments	*22*	82,838	41,995
Derivative financial instrument	*29*	9,759	–
Goodwill	*23*	900,577	684,467
Other intangible assets	*24*	1,254,675	320,297
Deposits for acquisition of property, plant and equipment		254,751	276,197
Prepayment for acquisition of a subsidiary and an associate		–	63,218
Amounts due from associates	*30*	–	68,966
Deferred tax assets	*39*	88,155	56,890
		15,913,614	12,809,475
Current assets			
Inventories	*26*	564,163	540,898
Amounts due from customers for contract work	*27*	103,265	219,993
Trade and other receivables	*28*	1,871,061	1,285,698
Derivative financial instruments	*29*	2,909	1,261
Amounts due from associates	*30*	138,236	243,250
Prepaid lease payments	*19*	27,459	16,173
Held-for-trading investments	*31*	15,468	11,544
Pledged bank deposits	*32*	489,103	847,759
Bank balances and cash	*32*	3,872,316	2,048,698
		7,083,980	5,215,274
Current liabilities			
Trade and other payables	*33*	3,182,020	2,603,313
Derivative financial instruments	*29*	–	782
Amounts due to customers for contract work	*27*	239,316	121,743
Taxation		146,162	51,733
Amounts due to associates	*30*	23,867	–
Bank and other borrowings – due within one year	*34*	5,294,761	3,103,855
		8,886,126	5,881,426
Net current liabilities		(1,802,146)	(666,152)
Total assets less current liabilities		14,111,468	12,143,323

	Notes	2010 HK$'000	2009 HK$'000 (restated)
Equity			
Share capital	35	33,610	33,336
Reserves		4,089,412	3,189,934
Equity attributable to owners of the Company		4,123,022	3,223,270
Minority interests		1,107,215	758,858
Total equity		5,230,237	3,982,128
Non-current liabilities			
Derivative financial instruments	29	–	360,087
Amount due to a minority shareholder of a subsidiary	37	356,591	356,591
Bank and other borrowings – due after one year	34	8,021,345	7,194,067
Convertible bonds	38	–	14,823
Deferred taxation	39	503,295	235,627
		8,881,231	8,161,195
		14,111,468	12,143,323

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2010

	Attributable to owners of the Company											
	Share capital HK$'000	Share premium HK$'000	Employee share-based compensation reserve HK$'000	Translation reserve HK$'000 (note 36)	Investment revaluation reserve HK$'000 (note 36)	Properties revaluation reserve HK$'000	Special reserve HK$'000 (note i)	Statutory funds HK$'000 (note ii)	Accumulated profits HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1 April 2008	33,314	1,949,866	49,333	283,690	(8,452)	1,601	1,602	77,694	751,924	3,140,572	545,435	3,686,007
Other comprehensive income for the year	-	-	-	1,863	8,452	-	-	-	-	10,315	11,130	21,445
Profit for the year	-	-	-	-	-	-	-	-	103,679	103,679	30,280	133,959
Total comprehensive income for the year	-	-	-	1,863	8,452	-	-	-	103,679	113,994	41,410	155,404
Recognition of equity-settled share based payments	-	-	6,981	-	-	-	-	-	-	6,981	-	6,981
Exercise of share options	22	1,698	-	-	-	-	-	-	-	1,720	-	1,720
Acquisitions of subsidiaries	-	-	-	-	-	-	-	-	-	-	204,899	204,899
Capital contribution from minority shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	-	14,175	14,175
Dividends paid by subsidiaries to its minority shareholders	-	-	-	-	-	-	-	-	-	-	(47,061)	(47,061)
Dividends paid	-	-	-	-	-	-	-	-	(39,997)	(39,997)	-	(39,997)
Transfer	-	-	-	-	-	-	-	34,216	(34,216)	-	-	-
At 31 March 2009, as restated	33,336	1,951,564	56,314	285,553	-	1,601	1,602	111,910	781,390	3,223,270	758,858	3,982,128
At 1 April 2009, as restated	33,336	1,951,564	56,314	285,553	-	1,601	1,602	111,910	781,390	3,223,270	758,858	3,982,128
Other comprehensive income for the year	-	-	-	1,240	7,958	-	-	-	-	9,198	-	9,198
Profit for the year	-	-	-	-	-	-	-	-	875,636	875,636	139,865	1,015,501
Total comprehensive income for the year	-	-	-	1,240	7,958	-	-	-	875,636	884,834	139,865	1,024,699
Recognition of equity-settled share based payments	-	-	32,870	-	-	-	-	-	-	32,870	-	32,870
Exercise of share options	184	14,196	-	-	-	-	-	-	-	14,380	-	14,380
Issue of new ordinary shares	90	14,254	-	-	-	-	-	-	-	14,344	-	14,344
Acquisitions of subsidiaries	-	-	-	-	-	-	-	-	-	-	332,935	332,935
Acquisitions of additional interest of subsidiaries	-	-	-	-	-	-	-	-	-	-	(5,284)	(5,284)
Transfer to accumulated profits upon disposal of jointly controlled entities	-	-	-	(9,066)	-	-	-	-	9,066	-	-	-
Transfer to accumulated profits upon disposal of a subsidiary	-	-	-	(62)	-	-	-	-	62	-	-	-
Disposal of a subsidiary *(note 43)*	-	-	-	-	-	-	-	-	-	-	(1,373)	(1,373)
Capital contribution from minority shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	-	9,280	9,280
Commitment to acquire minority interest *(note iii)*	-	-	-	-	-	-	-	-	-	-	(94,991)	(94,991)
Dividends paid by subsidiaries to its minority shareholders	-	-	-	-	-	-	-	-	-	-	(32,075)	(32,075)
Dividends paid	-	-	-	-	-	-	-	-	(46,676)	(46,676)	-	(46,676)
Transfer	-	-	-	-	-	-	-	106,217	(106,217)	-	-	-
At 31 March 2010	33,610	1,980,014	89,184	277,665	7,958	1,601	1,602	218,127	1,513,261	4,123,022	1,107,215	5,230,237

Note:

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

(ii) In accordance with statutory requirements in the People's Republic of China, other than Hong Kong (the "PRC"), subsidiaries registered in the PRC are required to transfer a certain percentage of the annual net income from accumulated profits to the statutory funds, until the statutory funds are accumulated up to 50% of their registered capital. Under normal circumstances, the statutory funds are not allowed to be distributed to shareholders as dividends. The statutory funds shall only be used for making good losses, capitalisation into paid-in capital and expansion of its productions and operations.

(iii) During the year, the Group entered a sales and purchase agreement with the minority shareholder of a subsidiary in the PRC in respect of the acquisition of 12.5% equity interest in the subsidiary of the Group, Zhejiang Zhongyou Hua Dian Energy Co. Ltd. ("Zhongyou Hua Dian") for a consideration of RMB82,642,000 (approximate to HK$94,991,000). The consideration has been paid before end of the reporting period. The transaction has not been completed at the end of the reporting period.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 March 2010

	Notes	**2010** *HK$'000*	**2009** *HK$'000* (restated)
OPERATING ACTIVITIES			
Profit before taxation		1,173,620	205,431
Adjustments for:			
Change in fair value of investment properties		(44,645)	(5,726)
Impairment loss recognised on available-for-sale investments		–	14,947
Impairment loss on amounts due from customers for contract work		51,418	36,864
Allowance for trade receivables		75,112	53,883
Depreciation of property, plant and equipment		474,668	333,914
Release of prepaid lease payments		27,987	20,614
Amortisation of intangible assets		20,019	12,685
Change in fair value of held-for-trading investments		(11,798)	–
Loss on disposal of property, plant and equipment		4,253	27,564
Loss on disposal of jointly controlled entities		5,814	–
Gain on disposal of a subsidiary		(141)	–
Loss on disposal of an associate		1,190	–
Interest expense		522,677	409,800
Share of results of associates		114,402	(12,884)
Discounts on acquisition of an associate, a jointly controlled entity and businesses		(176,387)	(236,262)
Share-based payments		32,870	6,981
Interest income		(34,891)	(59,290)
Change in fair value of derivative financial instruments		(372,755)	366,320
Net exchange gain		–	(63,366)
Operating cash flows before movements in working capital		1,863,413	1,111,475
Decrease in inventories		4,630	55,114
Decrease in amounts due from customers for contract work		61,941	26,668
(Increase) decrease in trade and other receivables		(426,197)	194,450
Decrease in held-for-trading investments		7,874	23,843
Decrease in trade and other payables		(264,130)	(454,357)
Increase in amount due to customers for contract work		117,573	105,720
(Decrease) increase in amount due to minority shareholders of subsidiaries		(17,823)	22,292
Increase in amount due to shareholders of jointly controlled entities		3,105	–
Cash from operations		1,350,386	1,085,205
PRC Enterprise Income Tax paid		(98,556)	(62,553)
NET CASH GENERATED FROM OPERATING ACTIVITIES		1,251,830	1,022,652

	Notes	2010 HK$'000	2009 HK$'000 (restated)
INVESTING ACTIVITIES			
Interest received		34,891	59,290
Repayment of loan receivable		–	15,000
Decrease (increase) in amounts due from associates		173,980	(58,915)
Deposits paid for acquisition of property, plant and equipment		(112,886)	(277,606)
Decrease in pledged bank deposits		358,656	33,530
Addition of property, plant and equipment		(1,128,699)	(1,423,094)
Addition of prepaid lease payments		(36,118)	(40,075)
Addition of available-for-sale investments		(43,736)	–
Proceeds from disposal of property, plant and equipment		6,169	1,536
Acquisition of assets through purchase of subsidiaries, net of cash and cash equivalents acquired	*40*	(8,317)	(28,358)
Acquisition additional interest in a jointly controlled entity, net of cash and cash equivalents acquired	*41(A)*	(7,438)	–
Acquisition of jointly controlled entities, net of cash and cash equivalents acquired	*41(B)*	–	(20,042)
Acquisition of businesses, net of cash and cash equivalents acquired	*42*	(656,434)	(241,485)
Disposal of jointly controlled entities, net of cash and cash equivalents received	*44*	32,519	–
Disposal of an associate	*20(d)*	330	–
Disposal of a subsidiary	*43*	(1,180)	–
Acquisition of interests in associates		(34,771)	(3,301)
Advance to minority shareholders of subsidiaries		(141,895)	(23,843)
Repayment from (advance to) shareholders of jointly controlled entities		41,667	(22,517)
Settlement of deferred consideration in respect of prior year's acquisition of subsidiaries		(48,068)	–
Capital injection into a jointly controlled entity		(23,449)	–
NET CASH USED IN INVESTING ACTIVITIES		(1,594,779)	(2,029,880)

	Notes	2010 HK$'000	2009 HK$'000 (restated)
FINANCING ACTIVITIES			
Interest paid		(473,432)	(360,066)
Proceeds from issue of ordinary shares		14,380	1,720
Dividends paid		(46,676)	(39,997)
New bank and other borrowings raised		6,915,685	3,894,133
Repayments of bank and other borrowings		(4,147,562)	(2,015,180)
(Repayment to) advance from shareholders of jointly controlled entities		(12,728)	34,255
Advance from minority shareholders of subsidiaries		2,870	18,640
Advance from associates		23,867	–
Advance payment for acquisition of additional interest in a subsidiary		(94,991)	–
Capital contribution from minority shareholders of subsidiaries		9,280	14,175
Dividend paid by subsidiaries to its minority shareholders		(32,075)	(47,061)
NET CASH GENERATED FROM FINANCING ACTIVITIES		2,158,618	1,500,619
NET INCREASE IN CASH AND CASH EQUIVALENTS		1,815,669	493,391
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		2,048,698	1,510,044
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		7,949	45,263
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		3,872,316	2,048,698
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		3,872,316	2,048,698

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2010

1. GENERAL

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

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out note 53.

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

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

In the current year, the Group has applied the following new and revised Standards, Amendments and Interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKAS 1 (Revised 2007)	Presentation of financial statements
HKAS 23 (Revised 2007)	Borrowing costs
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate
HKFRS 2 (Amendment)	Vesting conditions and cancellations
HKFRS 7 (Amendment)	Improving disclosures about financial instruments
HKFRS 8	Operating segments
HK(IFRIC) – INT 9 & HKAS 39 (Amendments)	Embedded derivatives
HK(IFRIC) – INT 13	Customer loyalty programmes
HK(IFRIC) – INT 15	Agreements for the construction of real estate
HK(IFRIC) – INT 16	Hedges of a net investment in a foreign operation
HK(IFRIC) – INT 18	Transfers of assets from customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

Except as described below, the adoption of the new and revised HKFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

HKAS 1 (Revised 2007) Presentation of Financial Statements

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the consolidated financial statements) and changes in the format and content of the consolidated financial statements.

HKFRS 8 Operating Segments

HKFRS 8 is a disclosure standard that has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14 (see note 7).

Amendments to HKFRS 7 – Financial Instruments: Disclosures

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

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)	Amendment to HKFRS 5 as part of improvements to HKFRSs 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKFRSs (Amendments)	Improvements to HKFRSs 2010[3]
HKAS 24 (Revised)	Related party disclosures[7]
HKAS 27 (Revised)	Consolidated and separate financial statements[1]
HKAS 32 (Amendment)	Classification of rights issues[5]
HKAS 39 (Amendment)	Eligible hedged items[1]
HKFRS 1 (Amendment)	Additional exemptions for first-time adopters[4]
HKFRS 1 (Amendment)	Limited exemption from comparative HKFRS 7 disclosures for first-time adopters[6]
HKFRS 2 (Amendment)	Group cash-settled share-based payment transactions[4]
HKFRS 3 (Revised)	Business combinations[1]
HKFRS 9	Financial instruments[8]
HK(IFRIC) – INT 14 (Amendment)	Prepayments of a minimum funding requirement[7]
HK(IFRIC) – INT 17	Distributions of non-cash assets to owners[1]
HK(IFRIC) – INT 19	Extinguishing financial liabilities with equity instrument[6]

1 Effective for annual periods beginning on or after 1 July 2009.
2 Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.
3 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.
4 Effective for annual periods beginning on or after 1 January 2010.
5 Effective for annual periods beginning on or after 1 February 2010.
6 Effective for annual periods beginning on or after 1 July 2010.
7 Effective for annual periods beginning on or after 1 January 2011.
8 Effective for annual periods beginning on or after 1 January 2013.

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 April 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary.

HKFRS 9 "Financial Instruments" introduces new requirements for the classification and measurement of financial assets and will be effective from 1 April 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" to be measured at either amortised cost or fair value. Specially, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 will affect the classification and measurement of the Group's financial assets.

In addition, as part of "Improvements to HKFRSs 2009", HKAS 17 "Leases" has been amended in relation to the classification of leasehold land. The amendments will be effective from 1 April 2010, with earlier application permitted. Before the amendments to HKAS 17, leasees were required to classify leasehold land as operating leases and presented as prepaid lease payments in the consolidated statement of financial position. The amendments have removed such a requirement. Instead, the amendments require the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The application of the amendments to HKAS 17 might affect the classification and measurement of the Group's leasehold land.

The directors of the Company anticipate that the application of the other new or revised Standards, Amendments or Interpretations will have no material impact on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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 statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

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

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Acquisition of additional interest in a subsidiary

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

Business combinations

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

If the initial accounting for a business combination can be determined provisionally by the end of the period in which the combination is effected because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined provisionally, the Group accounts for the combination using those provisional values. The Group recognises any adjustments to those provisional values as a result of completing the initial accounting within one year from the acquisition date. Any such adjustments are made retrospectively as if those adjustments had been made at the acquisition date.

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

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

Goodwill

Capitalised goodwill arising on acquisitions prior to 1 April 2005

Goodwill arising on an acquisition of net assets and operation of another entity or a jointly controlled entity for which the agreement date is before 1 April 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant acquiree at the date of acquisition.

For previously capitalised goodwill arising on acquisitions of net assets and operations another entity or a jointly controlled entity before 1 April 2005, the Group has discontinued amortisation from 1 April 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired.

Capitalised goodwill arising on acquisitions on or after 1 April 2005

Goodwill arising on the acquisition of a business or a jointly controlled entity is carried at cost less any accumulated impairment losses and is presented separately in the consolidated statement of financial position.

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

On subsequent disposal of a business or a jointly controlled entity, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Interests in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, interests in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate. Any reversal of impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

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

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Investments in jointly controlled entities

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

The Group recognises its interests in jointly controlled entities using proportionate consolidation. The Group's share of each of the assets, liabilities, income and expenses of the jointly controlled entities are combined with the Group's similar line items, line by line, in the consolidated financial statements.

Any goodwill arising on the acquisition of the Group's interest in jointly controlled entities is accounted for in accordance with the Group's accounting policy for goodwill arising on acquisition on a business or jointly controlled entities (see above).

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

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

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.

Revenue from sales of natural gas, liquefied petroleum gas ("LPG"), coke and gas appliances are recognised when the gas or goods are delivered and title has passed.

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

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount 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, which include land and buildings held for use in the production or supply of goods and services or for administrative purposes, other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

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

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

Construction in progress

Construction in progress represents property, plant and equipment in the course of construction for production or for the Group's own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Investment properties

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

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

Leasehold land held for undetermined future use

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

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the item is derecognised.

Intangible assets

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill when 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.

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, as measured by reference to the proportion that contract cost incurred for work performed to date bear the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expense in the period in which they are incurred.

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

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as an amount due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as an amount due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

Inventories

Inventories, including construction materials, gas appliances and gas for sales, LPG, coke, consumables and spare parts, are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Leasing

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

The Group as lessor

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

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases and amortised 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 the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group entities are translated into the presentation currency of the Group (i.e. Hong Kong dollar) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which a foreign operation is disposed of.

Retirement benefit costs

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

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 statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using the tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in jointly controlled entities, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction on production of qualifying assets, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Financial instruments

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

Financial assets

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

Effective interest method

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

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

Financial assets at fair value through profit or loss

A financial asset is classified as held for trading if:

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

Held-for-trading investments are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables including amounts due from associates, trade and other receivables, pledged bank deposits and bank balances are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as (a) loan and receivable, (b) held to maturity investments or (c) financial assets at fair value through profit or loss. Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation is reclassified to profit or loss (see accounting policy on impairment loss on financial assets below).

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

Impairment of financial assets

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

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

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

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

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

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

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

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

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in investment revaluation reserve.

Financial liabilities and equity

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

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

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 (including all fee paid or received that form an integral part of the effective interest rate, transaction costs and other premium or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

Financial liabilities

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

Convertible bonds that contain liability component and conversion/redemption option derivatives

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

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

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

Obligation to acquire minority interests

A forward contract which contains an obligation to acquire minority interest of a subsidiary is initially recognised at the present value of the contracted amount (consideration payable) with a corresponding debit to equity (minority interests) and 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.

Derivative financial instruments

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

Embedded derivatives

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

Derecognition

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

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

Equity settled share-based payment transactions

Share options granted to employees of the Company after 7 November 2002 and vested on or after 1 April 2005

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period with a corresponding increase in equity (employee share-based compensation reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with a corresponding adjustment to employee share-based compensation 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.

Share options granted to employees of the Company and vested before 1 April 2005

The financial impact of the share options granted and fully vested before 1 April 2005 is not recorded in the consolidated financial statements until such time as the options are exercised, and no charge is recognised in profit or loss in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

Government grants

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognised as a deduction from the carrying amount of the relevant asset in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Other government grants are recognised as other income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

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

At the end of the reporting period, 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 any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. In addition, intangible assets with indefinite useful lives are tested for impairment annually, and whenever there is on indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

4. RESTATEMENTS

During the year ended 31 March 2009, the Group acquired a business through a subsidiary of which the fair values of the identifiable assets, liabilities and contingent liabilities acquired were determined provisionally. During the year ended 31 March 2010, the Group made certain fair value adjustments, with reference to the valuation reports, to the carrying amounts of the identifiable assets and liabilities of the business acquired as a result of completing the initial accounting. The adjustments to the fair values at the acquisition date of the identifiable assets, liabilities and contingent liabilities were made as if initial accounting had been completed on the acquisition date.

The cumulative effects of the above restatements on the consolidated statement of financial position as at 31 March 2009 are summarised below:

	As at 31 March 2009	**Subsequent fair value adjustments on acquisition of business** *(note 42(B)(i))*	**As at 31 March 2009**
	HK$'000	*HK$'000*	*HK$'000*
	(originally stated)		(restated)
Property, plant and equipment	9,239,775	(107,498)	9,132,277
Goodwill	633,620	50,847	684,467
Interests in associates	1,006,332	(5,366)	1,000,966
Deferred taxation	(262,501)	26,874	(235,627)
Other assets and liabilities	(6,599,955)	–	(6,599,955)
Net assets	4,017,271	(35,143)	3,982,128
Minority interests	794,001	(35,143)	758,858
Other reserves items	3,223,270	–	3,223,270
	4,017,271	(35,143)	3,982,128

The above restatements did not result in respect of the depreciation on property, plant and equipment material financial impact and related tax effect for the current and prior years.

The above restatements relate to an acquisition which was effected during the year ended 31 March 2009 and hence have no financial impact on the consolidated statement of financial position as at 1 April 2008. Accordingly no restated consolidated statement of financial position as at 1 April 2008 is presented.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting periods, 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.

Fair value of derivative financial instruments

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

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. When the actual future cash flows are less than expected, a material impairment loss may arise. The carrying amount of goodwill at 31 March 2010 was HK$900,577,000 (2009: HK$684,467,000) with no impairment loss recognised. Details of the value in use calculation are set out in note 25.

Impairment of intangible assets

At the end of the reporting period, management reconsidered the recoverability of its intangible assets arising from the acquisitions of businesses/assets, in which the carrying amount at 31 March 2010 was HK$1,254,675,000 (2009: HK$320,297,000). The business of the cash generating unit ("CGU") continues to progress in a satisfactory manner. Detailed valuation analysis has been carried out and management is confident that the carrying amount of the asset will be recovered in full. This situation will be closely monitored. Any change in the business environment may lead to the change of expected future cashflows in the future. If the future recoverable amounts fall below the carrying amounts, additional impairment is required.

Depreciation of property, plant and equipment

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

Deferred taxation

As at 31 March 2010, the Group has unused tax losses of HK$1,675,899,000 (2009: HK$846,411,000) available for offset against future profits. No deferred tax asset in relation to these unused tax losses approximately to HK$1,631,806,000 (2009: HK$824,338,000) has been recognised in the consolidated statement of financial position. In cases where there are future profits generated to utilise the tax losses, a material deferred tax assets may arise, which would be recognised in the consolidated statement of comprehensive income for the period in which such future profits are recorded.

Revenue recognition of gas connection contract

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

6. FINANCIAL INSTRUMENTS

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debts, which include the bank and other borrowings, amount due to a minority shareholder of a subsidiary and convertible bonds disclosed in notes 34, 37 and 38 respectively, and equity attributable to owners of the Company, comprising issued share capital disclosed in note 35, reserves and accumulated profits as disclosed in consolidated statements of changes in equity. The management reviews the capital structure by considering the cost of capital and the risks associated with each class of capital. In view of this, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt. The Group's overall strategy remains unchanged throughout the year.

Categories of financial instruments

	2010	**2009**
	HK$'000	*HK$'000*
Financial assets		
Available-for-sale investments	82,838	41,995
Held-for-trading investments	15,468	11,544
Loans and receivables (including cash and cash equivalents)	5,667,985	4,120,309
FVTPL– Derivative financial assets	12,668	1,261
Financial liabilities		
Amortised cost	16,063,221	12,551,946
FVTPL– Derivative financial liabilities	–	360,869

Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, held-for-trading investments, amount due from/to an associate, trade and other receivables, derivative financial instruments, trade and other payables, amounts due from/to minority shareholders of subsidiaries, bank and other borrowings, pledged bank deposits and bank balances. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies applied by the Group on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risks

Currency risk

The Group collects most of its revenue in RMB and most of the expenditures as well as capital expenditures are also denominated in RMB. However, the Group has convertible bonds, certain bank balances, trade payables and bank and other borrowings that are not denominated in functional currency of the respective group entities. The appreciation or devaluation of RMB against foreign currencies may have positive or negative impact on the results of operations of the Group.

The Group currently does not have a foreign currency hedging policy but the director's monitor foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise. As at end of the reporting period, the carrying amounts of the Group's monetary assets and liabilities that are denominated in foreign currency are as follows:

	Assets		Liabilities	
	2010	**2009**	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
United States Dollars ("USD")	796,306	373,531	4,232,459	3,448,881
HK$	43,758	11,895	–	–
Japanese Yen ("JPY")	–	–	451,622	47,479
Euro ("EUR")	–	–	–	22,907

Sensitivity analysis

The following table details the Group's sensitivity to a 5% (2009: 5%) increase and decrease in RMB against respective foreign currencies and all other variables were held constant. 5% (2009: 5%) is the sensitivity rate used by management in the assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currencies denominated monetary items and adjusts its translation at the year end for a 5% (2009: 5%) change in foreign currencies rates. A positive number below indicates an increase in post-tax profit for the year where RMB strengthen 5% (2009: 5%) against the respective foreign currencies. For a 5% (2009: 5%) weakening of RMB against respective foreign currencies, there would be an equal and opposite impact on the post-tax profit for the year.

	Increase (decrease) in post-tax profit for the year	
	2010	**2009**
	HK$'000	*HK$'000*
USD impact	128,856	153,768
HK$ impact	(1,641)	(595)
JPY impact	16,936	2,374
EUR impact	–	1,145
	144,151	156,692

Interest rate risks

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

The Group's fair value interest rate risk relates primarily to fixed-rate bank and other borrowings, amount due to a minority shareholder of a subsidiary and the convertible bonds issued by the Group (see notes 34, 37 and 38 for details of these borrowings and convertible bonds respectively). In relation to the fixed-rate bank and other borrowings, the Group entered into interest rate swaps to manage its exposures to changes in fair values of the borrowings. These hedging activities do not qualify for hedge accounting. The changes in fair value of the interest rate swaps are recognised in the profit and loss as they arise.

The Group's cash flow interest rate risk primarily relates to variable-rate bank balances and floating-rate bank and other borrowings (see notes 32 and 34 for details of bank balances and these borrowings respectively). It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

Sensitivity analysis

The sensitivity analyses have been determined based on the exposure to interest rate risk for both floating-rate bank and other borrowings and interest rate swaps, together with the interest capitalised to construction in progress at the end of the reporting period. Floating-rate bank balances have not been included in the sensitivity analysis as the management considers that the interest rate would not fluctuate significantly in the near future and therefore the financial impact to the group is not significant. A change of 100 basis points (2009: 100 basis points) was applied to the yield curves and interest rate on both floating-rate bank and other borrowings and interest rate swap, together with the interest capitalised to construction in progress. The applied change 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 the interest rate of variable rate bank and other borrowings and interest rate swaps, together with the interest capitalised to construction in progress had been 100 basis points (2009: 100 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year, after taking amount of interest capitalised, would increase/decrease by HK$87,870,000 (2009: HK$192,710,000).

Equity price risk

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

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to equity price risks of listed equity instrument at the reporting date. A 10% (2009: 10%) change is used when reporting equity price risk internally to key management personnel and represents management's assessment of the reasonably possible change in equity price.

For the year ended 31 March 2010, if the market bid prices of the listed investments had been 10% (2009: 10%) higher/lower and all other variables were held constant, the Group's post-tax profit for the year would increase/decrease by HK$1,292,000 (2009: HK$1,404,000) and the Group's investment revaluation reserve will increase/decrease by HK$1,323,000 (2009: nil) respectively. This is mainly attributable to the changes in fair values of the listed held-for-trading investments and available-for-sale investments respectively.

Credit risk

As at 31 March 2010, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counter parties or debtors in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each half-reporting end date and end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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

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

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

Liquidity risk

The Group has net current liabilities of HK$1,802,146,000 as at 31 March 2010. The consolidated financial statements have been prepared on a going concern basis because the directors believe that the Group has sufficient funds to finance its current working capital requirements taking into account of the cash flows from operations and assuming the continuing ability to utilise of the available long-term bank loans facilities. As at 31 March 2010, the Group had available unutilised long-term bank loans facilities of HK$8,888,805,000 (2009: HK$12,914,680,000). Details of the Group's bank and other borrowings at 31 March 2010 are set out in note 34.

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

Liquidity tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal gross cash flows. To the extent that interest flows are floating rate, the undiscounted amount is based on interest rate at the end of the reporting period.

In addition, the following tables detail the Group's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted contractual net cash (inflows) and outflows on derivative instruments that settle on a gross basis and in accordance with contractual maturities as the management consider that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the reporting date.

	Weighted average contractual interest rate	Payable on demand	Less than 1 month	Between 1 to 3 months	Between 3 months to 1 year	Between 1 to 5 years	Over 5 years	Total undiscounted cash flows	Carrying amount at the end of reporting period
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 March 2010									
Non-derivative financial liabilities									
Trade payables	–	–	340,065	1,011,614	333,800	–	–	1,685,479	1,685,479
Other payables and accrued charges	–	–	380,514	102,177	45,576	–	–	528,267	528,267
Amounts due to minority shareholders of subsidiaries	–	50,501	–	–	–	–	–	50,501	50,501
Amounts due to shareholders of jointly controlled entities	–	24,668	–	–	–	–	–	24,668	24,668
Obligation on capital injection to Fujian Anran (as defined in note 21) by Zhongmin Zhongran (as defined in note 42(A)(iii))	–	–	–	–	23,448	–	–	23,448	23,448
Deferred cash consideration for acquisition of businesses	–	–	–	–	78,161	–	–	78,161	78,161
Bank and other borrowings									
– fixed rate	6.05%	–	–	–	2,069,799	1,604,565	2,182,647	5,857,011	5,016,495
– floating rate	6.75%	–	230	24,954	3,601,534	3,058,447	3,487,515	10,172,680	8,299,611
Amount due to a minority shareholder of a subsidiary	2%	–	–	–	7,132	377,986	–	385,118	356,591
		75,169	720,809	1,138,745	6,159,450	5,040,998	5,670,162	18,805,333	16,063,221

	Weighted average contractual interest rate	Payable on demand	Less than 1 month	Between 1 to 3 months	Between 3 months to 1 year	Between 1 to 5 years	Over 5 years	Total undiscounted cash flows	Carrying amount at the end of reporting period
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 March 2009									
Non-derivative financial liabilities									
Trade payables	–	–	304,908	907,030	299,291	–	–	1,511,229	1,511,229
Other payables and accrued charges	–	–	131,934	96,610	43,092	–	–	271,636	271,636
Amounts due to minority shareholders of subsidiaries	–	65,454	–	–	–	–	–	65,454	65,454
Amounts due to shareholders of jointly controlled entities	–	34,291	–	–	–	–	–	34,291	34,291
Bank and other borrowings									
– fixed rate	5.99%	–	–	–	2,942,472	2,066,739	3,699,403	8,708,614	7,392,080
– floating rate	6.60%	–	5	498	72,538	582,282	3,151,564	3,806,887	2,905,842
Convertible bonds	4.50%	–	–	–	–	16,157	–	16,157	14,823
Amount due to a minority shareholder of a subsidiary	2%	–	–	–	7,132	385,118	–	392,250	356,591
		99,745	436,842	1,004,138	3,364,525	3,050,296	6,850,967	14,806,518	12,551,946

The amounts included above for variable rate bank borrowings and derivative financial instrument are is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

Fair value

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

- the fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices;

- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis; and

- the fair value of interest rate range accrual swaps as set out in note 30, are calculated using discounted cash flow analysis based on the application yield curve derived from quoted interest rates and quoted spot and forward foreign exchange rates. For an option-based derivative embedded in convertible bonds, the fair value is estimated using option pricing model.

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

Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

		2010	
	Level 1	**Level 2**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Financial assets at FVTPL			
Derivative financial assets			
Interest rate range accrual swaps	–	12,668	12,668
Held-for-trading investments	15,468	–	15,468
Available-for-sale financial assets			
Listed equity securities	13,230	–	13,230
Unlisted club debentures	–	3,494	3,494
Total	28,698	16,162	44,860

There were no transfer between Level 1 and 2 in the current year.

7. REVENUE AND SEGMENT INFORMATION

Revenue

Revenue mainly represents, the net amounts received and receivable for sales of piped gas and LPG and construction contract revenue from gas connection contracts by the Group for the year and is analysed as follows:

	2010	**2009**
	HK$'000	*HK$'000*
Sales of piped gas	3,831,627	2,678,377
Gas connection income	1,461,573	1,127,403
Sales of LPG	4,637,924	2,272,173
Sales of coke and gas appliances	268,845	235,369
Others	11,990	10,501
	10,211,959	6,323,823

Segment information

The Group has adopted HKFRS 8 "Operating Segments" with effect from 1 April 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor standard (HKAS 14 "Segment Reporting") required an entity to identify two sets of segment (business and geographical), using a risks and rewards approach. In the past, the Group's primary reporting format was business segments, comprising (i) sales of piped gas; (ii) gas connection; (iii) sales of LPG; (iv) sales of coke and gas appliances and (v) others (mainly represents the property investment). However, for the purpose of resources allocation and assessment of performance, the Group's chief operating decision makers of the Group, the managing directors of the Group are more specifically focused on (i), (ii) and (iii) and (iv). Property investment information is not reported internally to the managing directors of the Group. The Group's operating segments under HKFRS 8 are therefore as follows:

i) Sales of piped gas;

ii) Gas connection;

iii) Sales of LPG; and

iv) Sales of coke and gas appliance.

Information regarding the above segments is presented below. Amounts reported for the prior period have been restated to conform to the requirements of HKFRS 8.

Segment revenues and results

The following is an analysis of the Group's revenue and results by operating segment.

For the year ended 31 March 2010

	Sales of piped gas	Gas connection	Sales of LPG	Sales of coke and gas appliances	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
SEGMENT REVENUE	3,831,627	1,461,573	4,637,924	268,845	10,199,969
SEGMENT PROFIT	662,543	569,940	74,471	10,499	1,317,453
Revenue arising from property investment					11,990
Interest and other gains					49,279
Unallocated corporate expenses					(154,946)
Finance costs					(522,677)
Change in fair value of investment properties					44,645
Change in fair value of derivative financial instruments					372,755
Loss on disposal of jointly controlled entities					(5,815)
Loss on disposal of an associate					(1,190)
Gain on disposal of a subsidiary					141
Discount on acquisition of a jointly controlled entity					302
Discount on acquisition of businesses					176,085
Share of results of associates					(114,402)
Group's profit before taxation					1,173,620

Reconciliation of revenue

	HK$'000
Total revenue for operating segments	10,199,969
Rental income	11,990
Group's revenue	10,211,959

For the year ended 31 March 2009

	Sales of piped gas	Gas connection	Sales of LPG	Sales of coke and gas appliances	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
SEGMENT REVENUE	2,678,377	1,127,403	2,272,173	235,369	6,313,322
SEGMENT PROFIT (LOSS)	430,010	310,578	(3,992)	5,415	742,011
Revenue arising from property investment					10,501
Interest and other gains					125,586
Unallocated corporate expenses					(151,419)
Finance costs					(409,800)
Change in fair value of investment properties					5,726
Change in fair value of derivative financial instruments					(366,320)
Discount on acquisition of a jointly controlled entity					8,860
Discount on acquisition of an associate					227,402
Share of results of associates					12,884
Group's profit before taxation					205,431

Reconciliation of revenue

	HK$'000
Total revenue for operating segments	6,313,322
Rental income	10,501
Group's revenue	6,323,823

All of the segment revenue reported above is from external customers.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit (loss) represents the profit earned by or loss from each segment without allocation of bank interest income, property rental income, exchange gain, central administration cost, change in fair value of investment properties, and held-for-trading investment, loss on disposal of an associate, jointly controlled entities, impairment loss recognised on available-for-sale investments, gain on disposal of a subsidiary, change in fair value of derivative financial instruments, discount on acquisition of an associate, a jointly controlled entity and businesses, share of results of associates, finance cost and taxation. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and performance assessment.

Segment assets and liabilities

The following is an analysis of the Group's segment assets and segment liabilities that are regularly reviewed by the chief operating decision maker:

At 31 March 2010

	Sales of piped gas	Gas connection	Sales of LPG	Sales of coke and gas appliances	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS					
Segment assets	12,495,032	894,068	3,168,140	191,065	16,748,305
Investment properties					343,158
Property, plant and equipment (for corporate)					122,812
Prepaid lease payments (for corporate)					54,692
Interests in associates					957,709
Available-for-sale investments					82,838
Deferred tax assets					88,155
Held-for-trading investments					15,468
Derivative financial instruments					12,668
Other receivables (for corporate)					210,370
Pledged bank deposits					489,103
Bank balances and cash					3,872,316
Consolidated total assets					22,997,594
LIABILITIES					
Segment liabilities	407,159	1,382,981	899,068	193,792	2,883,000
Other payables (for corporate)					562,204
Taxation					146,162
Bank and other borrowings					13,316,105
Amount due to a minority shareholder of a subsidiary					356,591
Deferred taxation					503,295
Consolidated total liabilities					17,767,357

As 31 March 2009 (restated)

	Sales of piped gas	Gas connection	Sales of LPG	Sales of coke and gas appliances	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS					
Segment assets	9,366,364	776,330	3,033,346	37,000	13,213,040
Investment properties					295,127
Property, plant and equipment (for corporate)					81,048
Prepaid lease payments (for corporate)					57,011
Interests in associates					1,000,966
Available-for-sale investments					41,995
Deferred tax assets					56,890
Held-for-trading investments					11,544
Derivative financial instruments					1,261
Other receivables (for corporate)					369,410
Pledged bank deposits					847,759
Bank balances and cash					2,048,698
Consolidated total assets					18,024,749
LIABILITIES					
Segment liabilities	279,459	1,132,019	844,799	54,949	2,311,226
Other payables (for corporate)					413,830
Derivative financial instruments					360,869
Taxation					51,733
Bank and other borrowings					10,297,922
Amount due to a minority shareholder of a subsidiary					356,591
Convertible bonds					14,823
Deferred taxation					235,627
Consolidated total liabilities					14,042,621

For the purposes of monitoring segment performances and allocating resources to the segment:

- All assets are allocated to segment other than interests in associates, available-for-sale investments, deferred tax assets, held-for-trading investments, derivative financial instruments, pledged bank deposits and bank balances and cash of the Group, and corporate assets of the Group.

- All liabilities are allocated to segment other than derivative financial instruments, taxation, bank and other borrowing, amount due to a minority shareholder of a subsidiary, convertible bonds and deferred taxation of the Group, and corporate liabilities of the Group.

Other segment information

	Sales of piped gas *HK$'000*	Gas connection *HK$'000*	Sales of LPG *HK$'000*	Sales of coke and gas appliances *HK$'000*	Segment total *HK$'000*	Unallocated *HK$'000*	Consolidated *HK$'000*
Amounts included in the measure of segment result or segment assets:							
2010							
Additions of prepaid lease payment	112,087	–	15,766	–	127,853	–	127,853
Additions to goodwill	181,548	–	34,562	–	216,110	–	216,110
Additions to intangible assets	954,397	–	–	–	954,397	–	954,397
Additions to property, plant and equipment	2,245,727	–	207,406	–	2,453,133	12,713	2,465,846
Loss on disposal of property, plant and equipment	3,694	–	559	–	4,253	–	4,253
Amortisation of intangible assets	20,019	–	–	–	20,019	–	20,019
Release of prepaid lease payment	12,772	–	12,895	–	25,667	2,320	27,987
Depreciation of property, plant and equipment	319,309	–	150,707	–	470,016	4,652	474,668
Impairment losses of amounts due from customers for contract work	–	51,418	–	–	51,418	–	51,418
Allowance for trade receivables	–	75,112	–	–	75,112	–	75,112
2009 (restated)							
Addition of prepaid lease payment	48,706	–	433,611	–	482,317	–	482,317
Additions to goodwill	53,688	–	201,357	–	255,045	–	255,045
Additions to intangible assets	14,161	–	–	–	14,161	–	14,161
Additions to property, plant and equipment	1,626,649	–	2,029,252	–	3,655,901	2,980	3,658,881
Loss on disposal of property, plant and equipment	27,499	–	65	–	27,564	–	27,564
Amortisation of intangible assets	12,685	–	–	–	12,685	–	12,685
Release of prepaid lease payment	12,358	–	6,480	–	18,838	1,776	20,614
Depreciation of property, plant and equipment	289,133	–	40,240	–	329,373	4,541	333,914
Impairment losses of amounts due from customers for contract work	–	36,864	–	–	36,864	–	36,864
Allowance for trade receivables	–	53,883	–	–	53,883	–	53,883

	2010 *HK$'000*	**2009** *HK$'000*
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss:		
Discounts on acquisition of an associate, a jointly controlled entity and businesses	176,387	236,262
Share of results of associates	(114,402)	12,884

Geographical information

The Group's operations are mainly located in the PRC.

The following table provides an analysis of the Group's revenue by location of external customers:

	2010	2009
	HK$'000	*HK$'000*
Hong Kong	960	960
PRC	10,210,999	6,322,863
	10,211,959	6,323,823

None of the customer contributes over 10% of the total revenue of the Group.

The following is the information about non-current assets other than financial instruments and deferred tax assets by the geographical area in which the assets are located:

	2010	2009
	HK$'000	*HK$'000*
		(restated)
Hong Kong	115,664	84,917
PRC	14,659,489	11,555,741
	14,775,153	11,640,658

8. OTHER INCOME

	2010	2009
	HK$'000	*HK$'000*
Interest income	34,891	59,290
Subsidies from PRC governmental authorities:		
– compensation of loss incurred in coal gas operation *(note a)*	14,395	11,059
– subsidy for replacement of pipelines for natural gas supply *(note b)*	36,813	32,028
– tax refund *(note c)*	2,813	3,637
Repair and maintenance services fee	9,661	9,318
Other services income	44,905	14,211
Income from leasing of equipments	22,291	12,165
Transportation income	52,603	–
Foreign exchange gain	–	63,366
Compensation income *(note d)*	22,988	–
Others	32,525	20,682
	273,885	225,756

Notes:

(a) Pursuant to notice of compensation dated 28 August 2007 issued by the relevant government authority in the PRC, 撫順中燃城市發展有限公司 ("撫順中燃"), a subsidiary of the Company, received a compensation from the government authority to subsidise for the increase in cost of sales of natural gas by reference to monthly purchase volume by 撫順中燃 for both years.

(b) For the year ended 31 March 2010, 撫順中燃 received a subsidy of HK$26,296,000 (2009: HK$23,233,000) from 撫順市財政局 for the cost incurred for the setting up of pipeline network for the customers in new urban areas and replacement of old pipeline network of the natural gas users in Fushun city. All the required work has been completed by 撫順中燃. All the costs incurred were recognised as cost of sales in profit or loss during the year. In addition, 淮南中燃城市發展有限公司 ("淮南中燃"), a subsidiary of the Company, was entitled to receive subsidies of HK$10,517,000 for the year (2009: HK$8,795,000) from 淮南市財政局 for its additional costs incurred in certain gas connection contracts in which the connection fee is fixed by the relevant government authority in the PRC.

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

(d) During the year, a subsidiary of the Group, 瀋陽中燃城市燃氣發展有限公司 ("瀋陽中燃") received an one-off compensation of HK$22,988,000 from an independent third party, 瀋陽沈南燃氣有限公司 ("瀋陽沈南"). This relates to disputes with 瀋陽沈南 regarding the operating right in a particular area in the PRC. 瀋陽中燃 also agreed to give up the operating right in that particular area.

9. OTHER GAINS AND LOSSES

	2010	**2009**
	HK$'000	*HK$'000*
Other gains and losses comprise:		
Loss on disposal of jointly controlled entities *(note 44)*	(5,814)	–
Loss on disposal of an associate *(note 20)*	(1,190)	–
Gain on disposal of a subsidiary *(note 43)*	141	–
Change in fair value of investment properties	44,645	5,726
Change in fair value of held-for-trading investments	11,798	(23,843)
Impairment loss recognised on available-for-sale investments	–	(14,947)
Impairment loss on amounts due from customers for contract work *(note 27)*	(51,418)	(36,864)
Allowance for trade and other receivables *(note 28)*	(75,112)	(53,883)
Change in fair value of derivative financial instruments *(note 29)*	372,755	(366,320)
	295,805	(490,131)

10. FINANCE COSTS

	2010	2009
	HK$'000	*HK$'000*
Interest on:		
Bank loans and other borrowings wholly repayable within five years	212,909	192,295
Bank loans and other borrowings not wholly repayable within five years	278,393	292,683
Convertible bonds *(note 38)*	39	645
	491,341	485,623
Net interest expense on interest rate swaps	111,032	23,649
Interest capitalised to construction in progress	(79,696)	(99,472)
	522,677	409,800

11. DISCOUNTS ON ACQUISITION OF AN ASSOCIATE, A JOINTLY CONTROLLED ENTITY AND BUSINESSES

	2010	2009
	HK$'000	*HK$'000*
Discount on acquisition of an associate *(note 20)*	–	227,402
Discount on acquisition of a jointly controlled entity *(note 41)*	302	8,860
Discount on acquisition of businesses *(note 42(A)(vii))*	176,085	–
	176,387	236,262

12. TAXATION

	2010	2009
	HK$'000	*HK$'000*
PRC Enterprise Income Tax	192,985	98,696
Deferred taxation *(note 39)*	(34,866)	(27,224)
	158,119	71,472

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

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

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

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

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

	Hong Kong		**PRC**		**Total**	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Profit (loss) before taxation	95,670	(587,991)	1,077,950	793,422	1,173,620	205,431
Tax at the domestic income tax rate	15,786	(97,019)	269,487	198,356	285,273	101,337
Tax effect of share of results of associates	–	–	28,601	(3,221)	28,601	(3,221)
Tax effect of expenses not deductible for tax purpose	25,694	65,884	17,859	25,858	43,553	91,742
Tax effect of income not taxable for tax purpose	(61,548)	(147)	(57,603)	(69,837)	(119,151)	(69,984)
Tax effect of estimated tax losses not recognised	20,068	31,282	176,966	34,094	197,034	65,376
Tax effect of income tax at concessionary rate	–	–	(277,191)	(113,778)	(277,191)	(113,778)
Taxation	–	–	158,119	71,472	158,119	71,472

Note: The applicable tax rate for Hong Kong and PRC are 16.5% (2009: 16.5%) and 25% (2009: 25%) respectively.

13. PROFIT FOR THE YEAR

	2010	2009
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging (crediting):		
Auditor's remuneration	5,500	5,500
Depreciation of property, plant and equipment	474,668	333,914
Release of prepaid lease payments	27,987	20,614
Amortisation of intangible assets included in cost of sales	20,019	12,685
Minimum lease payments for operating leases in respect of:		
– rented premises	61,611	19,037
– equipments	24,279	55,087
	85,890	74,124
Loss on disposal of property, plant and equipment	4,253	27,564
Share of tax of associates (included in share of results of associates)	4,175	2,286
Staff costs:		
Directors' emoluments *(note 14)*	27,719	26,722
Salaries and allowances of other staffs	362,686	300,697
Contributions to retirement benefit scheme contributions of other staffs	68,072	58,449
Less: amount capitalised in construction in progress	(24,889)	(17,546)
	433,588	368,322
Cost of inventories recognised as expenses in respect of:		
Sales of piped gas	2,771,000	1,768,878
Sales of LPG	4,042,734	1,966,301
Contract costs recognised as expense in respect of gas connection construction contracts	439,402	269,215
Sales of coke and gas appliances	219,496	196,654
	7,472,632	4,201,048
Rental income from investment properties less outgoings of HK$1,671,000 (2009: HK$1,496,000)	(10,319)	(9,005)

14. EMOLUMENTS OF DIRECTORS AND EMPLOYEES

Directors

The emoluments paid or payable to each of the 13 (2009: 14) directors were as follow:

2010

	Directors' fees *HK$'000*	**Salaries and other benefits** *HK$'000*	**Performance related incentive payments** *HK$'000* *(Note)*	**Share-based payments** *HK$'000*	**Contributions to retirement benefits scheme** *HK$'000*	**Total emoluments** *HK$'000*
Executive directors						
Mr. Li Xiao Yun	3,000	–	–	138	–	3,138
Mr. Xu Ying	–	7,188	2,679	–	12	9,879
Mr. Liu Ming Hui	–	7,188	5,358	–	12	12,558
Mr. Ma Jin Long	–	300	–	–	–	300
Mr. Zhu Wei Wei	–	468	160	–	12	640
Non-executive directors						
Mr. Feng Zhuo Zhi	120	–	–	–	–	120
Mr. R.K. Goel	–	–	–	–	–	–
Mr. Kim Joong Ho	120	–	–	–	–	120
Mr. Rackets William Hugh	124	–	–	–	–	124
Mr. Jo Yamagata	120	–	–	–	–	120
Independent non-executive directors						
Mr. Zhao Yu Hua	240	–	–	–	–	240
Dr. Mao Er Wan	240	–	–	–	–	240
Ms. Wong Sin Yue, Cynthia	240	–	–	–	–	240
	4,204	15,144	8,197	138	36	27,719

2009

	Directors' fees	Salaries and other benefits	Performance related incentive payments	Share-based payments	Contributions to retirement benefits scheme	Total emoluments
	HK$'000	*HK$'000*	*HK$'000* *(Note)*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors						
Mr. Li Xiao Yun	3,000	–	–	138	–	3,138
Mr. Xu Ying	–	7,188	2,395	–	12	9,595
Mr. Liu Ming Hui	–	7,188	4,791	–	12	11,991
Mr. Ma Jin Long	–	165	–	–	–	165
Mr. Zhu Wei Wei	–	628	–	–	12	640
Non-executive directors						
Mr. Feng Zhuo Zhi	120	–	–	–	–	120
Mr. Mark Gelinas*	120	–	–	–	–	120
Mr. R.K. Goel	30	–	–	–	–	30
Mr. Kim Joong Ho	83	–	–	–	–	83
Mr. Rackets William Hugh	–	–	–	–	–	–
Mr. Jo Yamagata	120	–	–	–	–	120
Independent non-executive directors						
Mr. Zhao Yu Hua	240	–	–	–	–	240
Dr. Mao Er Wan	240	–	–	–	–	240
Ms. Wong Sin Yue, Cynthia	240	–	–	–	–	240
	4,193	15,169	7,186	138	36	26,722

* The director resigned on 20 March 2009.

Note: The performance related incentive payments of Mr. Xu Ying and Mr. Liu Ming Hui are determined by reference to the Group performance and according to pre-determined percentage approved by the Remuneration Committee, while that of Mr. Zhu Wei Wei is determined by reference to the individual performance and approved by Remuneration Committee.

Employees

Of the five individuals with the highest emoluments in the Group, three (2009: three) were directors of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining two (2009: two) individuals were as follows:

	2010	2009
	HK$'000	*HK$'000*
Salaries and other benefits	10,195	10,845
Retirement benefit scheme contributions	24	24
	10,219	10,869

Their emoluments were within the following bands:

	2010 No. of employee	2009 No. of employee
HK3,000,001 to HK3,500,000	1	–
HK$3,500,001 to HK$4,000,000	–	1
HK$6,500,001 to HK7,000,000	1	–
HK$7,000,001 to HK$7,500,000	–	1

15. DIVIDENDS

	2010 *HK$'000*	2009 *HK$'000*
Final dividend paid in respect of financial year ended 31 March 2009 of HK$0.014 (2009: HK$0.012 in respect of financial year ended 31 March 2008) per share	46,676	39,997

A final dividend of HK$0.017 in respect of the year ended 31 March 2010 (2009: final dividend of HK$0.014 in respect of the year ended 31 March 2009) per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

16. EARNINGS PER SHARE

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

	2010 *HK$'000*	2009 *HK$'000*
Earnings for the purposes of basic and diluted earnings per share, being profit for the year attributable to owners of the Company	875,636	103,679

	2010 *'000*	2009 *'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share	3,343,913	3,333,233
Adjustment for effect of dilutive potential ordinary shares:		
Share options *(note a)*	1,074,507	204,537
Weighted average number of ordinary shares for the purpose of diluted earnings per share	4,418,420	3,537,770

Notes:

(a) During the year ended 31 March 2009, the computation of diluted earnings per share does not take into account the effects of the options with anti-dilutive effect.

(b) During the year ended 31 March 2009, the computation of diluted earnings per share does not assume the conversion of convertible bonds as the assumed conversion would result in an increase in earnings per share.

All outstanding convertible bonds were converted during the year ended 31 March 2010. The impact on diluted earnings per share on assumed conversion is not considered significant and therefore has not been accounted for in the calculation.

17. INVESTMENT PROPERTIES

	HK$'000
At 1 April 2008	219,100
Acquired on acquisition of business *(note 42(B)(i))*	70,301
Change in fair value	5,726
At 31 March 2009	295,127
Acquired on acquisition of additional interest of a jointly controlled entity *(note 41(A))*	3,386
Change in fair value	44,645
At 31 March 2010	343,158

The Group's investment properties are analysed as follows:

	2010 *HK$'000*	**2009** *HK$'000*
Properties held under medium term leases:		
– in Hong Kong	78,420	56,400
– in the PRC	264,738	238,727
	343,158	295,127

The fair value of the Group's investment properties in Hong Kong at 31 March 2010 has been arrived at on the basis of a valuation carried out as at that date by LCH (Asia-Pacific) Surveyors Limited. The resulting surplus of HK$22,020,000 (2009: deficit of HK$1,700,000) was included in consolidated statement of comprehensive income. The valuation was arrived at by reference to comparable market transactions for similar properties.

The fair value of the Group's investment properties in the PRC has been arrived at on the basis of a valuation carried out at these dates by CB Richard Ellis Limited. The resulting surplus of HK$22,625,000 (2009: surplus of HK$7,426,000) was credited to consolidated statement of comprehensive income. The valuation was arrived at by reference to standard land prices set by the PRC government and comparable market transactions as available in the locality.

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

18. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Pipelines HK$'000	Construction in progress HK$'000	Machinery and equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Vessels HK$'000	Total HK$'000
COST								
At 1 April 2008	450,129	3,403,090	1,399,851	515,298	31,127	126,058	–	5,925,553
Additions	13,691	137,488	1,247,394	90,602	30,157	38,094	–	1,557,426
Acquired on acquisition of subsidiaries	550	–	28,802	–	78	411	–	29,841
Acquired on acquisition of a jointly controlled entity	1,537	33,485	–	757	25	33	–	35,837
Acquired on acquisition of businesses	697,476	231,851	201,104	848,902	35,893	20,551	–	2,035,777
Disposals	(45,850)	–	–	(8,592)	(1,467)	(6,731)	–	(62,640)
Reclassification	24,959	927,741	(997,509)	44,809	–	–	–	–
Exchange realignment	27,201	124,839	70,995	52,093	2,623	5,633	–	283,384
At 31 March 2009 as restated	1,169,693	4,858,494	1,950,637	1,543,869	98,436	184,049	–	9,805,178
Additions	63,019	19,173	1,077,523	29,115	32,039	42,162	–	1,263,031
Acquired on acquisition of businesses	82,309	609,460	307,782	46,491	5,001	7,703	127,775	1,186,521
Acquired on acquisition of additional interest in a jointly controlled entity	968	3,961	11,198	41	31	95	–	16,294
Disposal for the year	(2,499)	(7,814)	–	(1,263)	(1,281)	(6,845)	–	(19,702)
Disposal of jointly controlled entities	–	(2,436)	(25,906)	(21,839)	(350)	–	–	(50,531)
Disposal of a subsidiary	–	–	–	–	(27)	–	–	(27)
Reclassification	147,767	662,854	(955,996)	145,375	–	–	–	–
At 31 March 2010	1,461,257	6,143,692	2,365,238	1,741,789	133,849	227,164	127,775	12,200,764
DEPRECIATION AND IMPAIRMENT								
At 1 April 2008	29,542	175,740	–	103,622	11,400	38,973	–	359,277
Provided for the year	43,999	162,685	–	96,023	10,505	20,702	–	333,914
Eliminated on disposals	(24,489)	–	–	(4,288)	(1,295)	(3,468)	–	(33,540)
Exchange realignment	1,701	6,216	–	3,629	439	1,265	–	13,250
At 31 March 2009	50,753	344,641	–	198,986	21,049	57,472	–	672,901
Provided for the year	44,440	231,979	–	79,339	25,918	72,644	20,348	474,668
Eliminated on disposals	(2,064)	(1,249)	–	(167)	(618)	(5,182)	–	(9,280)
Eliminated on disposal of jointly controlled entities	–	(148)	–	(1,511)	(202)	–	–	(1,861)
Eliminated on disposal of a subsidiary	–	–	–	–	(1)	–	–	(1)
At 31 March 2010	93,129	575,223	–	276,647	46,146	124,934	20,348	1,136,427
CARRYING VALUES								
At 31 March 2010	1,368,128	5,568,469	2,365,238	1,465,142	87,703	102,230	107,427	11,064,337
At 31 March 2009 as restated	1,118,940	4,513,853	1,950,637	1,344,883	77,387	126,577	–	9,132,277

The carrying value of land and buildings of the Group shown above is situated on land with the following lease terms:

	2010	**2009**
	HK$'000	*HK$'000*
In Hong Kong		
Long lease	7,795	6,080
In PRC		
Long lease	340,083	278,215
Medium term lease	1,020,250	834,645
	1,368,128	1,118,940

The pipelines of the Group are located in the PRC.

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

Leasehold land and buildings	Over the shorter of the remaining terms of the leases or 50 years
Pipelines	Over the shorter of 30 years or the operation period of the relevant company
Machinery and equipment	5% – 10%
Furniture and fixtures	15% – 50%
Motor vehicles	25%
Vessels	7% (new vessels acquired from suppliers) or 34% (acquired from second hand market)

At 31 March 2010, interest capitalised in construction in progress amounted to HK$79,696,000 (2009: HK$99,472,000).

As at 31 March 2010, the Group is in the process of obtaining title deeds from relevant government authorities for its land and buildings in the PRC amounting to HK$105,497,000 (2009: HK$64,411,000). In the opinion of the directors, the Group is not required to incur additional cost in obtaining the title deeds for its land and buildings in the PRC.

At 31 March 2010, the directors of the Company considered that the leasehold land element of the buildings with the carrying value of HK$51,906,000 (2009: HK$49,324,000) cannot be separately identified.

19. PREPAID LEASE PAYMENTS

	2010 *HK$'000*	2009 *HK$'000*
The Group's prepaid lease payments comprise:		
Leasehold land in Hong Kong		
Long lease	20,468	21,994
Leasehold land in the PRC		
Long lease	519,726	532,700
Medium term lease	444,920	330,554
	985,114	885,248
Analysed for reporting purposes as:		
Non-current portion	957,655	869,075
Current portion	27,459	16,173
	985,114	885,248

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

During the year, the Group is in the process of obtaining title deeds from relevant government authorities for its prepaid lease payments in the PRC amounting to HK$86,275,000 (2009: HK$73,425,000). In the opinion of the directors, the Group is not required to incur additional cost in obtaining the title deeds for its prepaid lease payments in the PRC.

20. INTERESTS IN ASSOCIATES

	2010 *HK$'000*	2009 *HK$'000*
Cost of investments in associates – unlisted	684,208	612,791
Share of pre-acquisition dividend	(1,296)	(1,296)
Share of post-acquisition profit and other comprehensive income (net of dividend received)	41,827	156,501
Discount on acquisition of associates	232,970	232,970
	957,709	1,000,966

The Group had interests in the following associates:

Name of entity	Form of business structure	Place of registration/ incorporation	Principal place of operation	Class of capital	Proportion of nominal value of registered/issued capital held by the Group 2010 %	2009 %	Principal activities
北京宏達斯特燃氣技術開發公司	Sino-foreign equity joint venture	PRC	PRC	Registered	22.10	22.10	Trading of natural gas
北京華昊恒通有限責任公司	Sino-foreign equity joint venture	PRC	PRC	Registered	– *(note d)*	19.60 *(note a)*	Trading of natural gas
重慶市川東燃氣工程建設有限公司 ("川東燃氣")	Sino-foreign equity joint venture	PRC	PRC	Registered	44.00	44.00	Trading of natural gas, gas pipeline construction
重慶鼎發實業股份有限公司 ("重慶鼎發")	Sino-foreign equity joint venture	PRC	PRC	Registered	38.69	38.69	Exploration, collection transportation, purification and sales of natural gas
重慶市渝北區佳渝天然氣有限公司	Sino-foreign equity joint venture	PRC	PRC	Registered	47.83	47.83	Trading of natural gas
哈爾濱中慶燃氣有限責任公司 ("哈爾濱中慶")	Sino-foreign equity joint venture	PRC	PRC	Registered	48.00	48.00	Trading of nature gas and gas pipeline construction
福安市三誠液化氣有限公司	Limited liability company	PRC	PRC	Registered	33.20	33.20	Trading of LPG
福建省晉江廈華石化有限公司	Limited liability company	PRC	PRC	Registered	29.05	29.05	Refining process, storage or LPG
上海中油國電油品有限公司	Limited liability company	PRC	PRC	Registered	41.50	41.50	Sales of fuel oil (except hazardous products), instruments, mechanical and electrical facilities, construction materials
上海華辰船務有限公司 ("上海華辰")	Limited liability company	PRC	PRC	Registered	– *(note c)*	16.60 *(note b)*	Shipping delivery services, technical development, providing consultancy services and agent of delivery

Name of entity	Form of business structure	Place of registration/ incorporation	Principal place of operation	Class of capital	Proportion of nominal value of registered/issued capital held by the Group 2010 %	2009 %	Principal activities
湖北能源集團鄂東天然氣有限公司	Limited liability company	PRC	PRC	Registered	25.00	–	Trading of natural gas, gas pipeline construction
福州安然居管道燃氣有限公司	Limited liability company	PRC	PRC	Registered	24.00	–	Trading of natural gas, gas pipeline construction
德化廣安天然氣有限公司	Limited liability company	PRC	PRC	Registered	24.00	–	Trading of natural gas
廈門嘉安燃氣有限公司	Limited liability company	PRC	PRC	Registered	24.00	–	Trading of natural gas

Notes:

(a) The Group is able to exercise significant influence over this company because it has the power to appoint two out of the six directors of that company under the provisions stated in the Articles of Association of that Company.

(b) At 31 March 2010, 20% equity interest of 上海華辰 was held by a non-wholly owned subsidiary of which the Group held 83% equity interest on it. The Group is able to exercise significant influence over this company because it has the power to appoint one out of the three directors of that company under the provisions stated in the Articles of Association of that Company.

(c) During the year, a non-wholly owned subsidiary of the Group has acquired 80% additional equity interest in 上海華辰 and was classified as a subsidiary upon completion of acquisition. The details were set out in Note 42(A)(ii).

(d) On 23 December 2009, the Group has entered into an agreement with an independent third party to dispose of Group's 19.60% interest in 北京華昊恒通有限責任公司 at a consideration of HK$330,000, leading to a loss on disposal of HK$1,190,000 recognised in the consolidated statement of comprehensive income.

During the year ended 31 March 2009, a discount on acquisition of HK$227,402,000 arose on the acquisition of 哈爾濱中慶 and had been included in consolidated statement of comprehensive income. The interest in 哈爾濱中慶 as acquired by the Group was previously owned by 哈爾濱市人民政府國有資產監督管理委員會. The acquisition of 哈爾濱中慶 was acquired as a result of a tender in August 2007 to 哈爾濱產權交易中心.The Directors consider that the sale of the 48% equity interests in 哈爾濱中慶 by 哈爾濱市人民政府國有資產監督管理委員會 was made with an intention of bringing in foreign capital and expertise in the operation and management of natural gas projects in the PRC which is in line with the national policy in the PRC.

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

	2010 *HK$'000*	2009 *HK$'000* (restated)
Total assets	4,060,486	4,273,480
Total liabilities	(1,864,661)	(2,023,824)
Net assets	2,195,825	2,249,656
The Group's share of associates' net assets	957,709	1,000,966
Revenue	1,245,587	674,251
Change in fair value of investment properties	–	(11,306)
Loss on disposal of a subsidiary *(note)*	(281,195)	–
(Loss) profit for the year	(256,842)	6,517
The Group's share of results of associates for the year	(114,402)	12,884

Note: During the year ended 31 March 2010, a loss on disposal of HK$281,195,000 was arisen on the disposal of a subsidiary of 川東燃氣, namely 湖北康樂苑發展有限公司. The amount has been included as loss in the determination of the Group's share of results of associates.

21. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

As at 31 March 2010 and 2009, the Group had interests in the following significant jointly controlled entities:

Name of entity	Form of business structure	Place of registration/ incorporation	Principal place of operation	Class of capital	Proportion of nominal value of registered/issued capital held by the Group 2010 %	2009 %	Principal activity
Beijing Jinggang Gas Development Company Limited*	Sino-foreign equity joint venture	PRC	PRC	Registered	49.0	49.0	Trading of natural gas and gas pipeline construction
柳州中燃城市燃氣有限 公司	Sino-foreign equity joint venture	PRC	PRC	Registered	50.0	50.0	Trading of natural gas and gas pipeline construction
揚州中燃城市燃氣發展有限公司	Sino-foreign equity joint venture	PRC	PRC	Registered	50.0	50.0	Trading of natural gas and gas pipeline construction

Name of entity	Form of business structure	Place of registration/ incorporation	Principal place of operation	Class of capital	Proportion of nominal value of registered/issued capital held by the Group 2010 %	2009 %	Principal activity
呼和浩特中燃城市燃氣發展有限公司 ("呼和浩特")	Sino-foreign equity joint venture	PRC	PRC	Registered	51.0 *(note a)*	50.0	Trading of natural gas and gas pipeline construction
德州中燃城市燃氣發展有限公司 ("德州中燃")	Sino-foreign equity joint venture	PRC	PRC	Registered	49.0	49.0	Trading of natural gas and gas pipeline construction
蕪湖中燃新福利汽車燃氣有限公司	Sino-foreign equity joint venture	PRC	PRC	Registered	50.0	50.0	Nature gas refill service and gas station administration
重慶鼎旺化工有限公司 ("重慶鼎旺")	Equity joint venture	PRC	PRC	Registered	– *(note b)*	49.0	Purifying technology service of natural gas
China Gas – SK Energy Holdings Company Limited ("China Gas -SK Energy")	Incorporated	Hong Kong	Hong Kong	Ordinary	50.0	50.0	Trading of natural gas and gas pipeline construction
China Oman Energy Company Limited ("China Oman")	Incorporated	Bermuda	Hong Kong	Ordinary	50.0	50.0	Development of energy import projects from Middle East to PRC
泰能天然氣有限公司	Equity joint venture	PRC	PRC	Registered	51.0	51.0	Trading of natural gas
Fujian Anran Gas Investment Company Limited ("Fujian Anran")	Limited liability company	PRC	PRC	Registered	49.0	–	Investment holding
重慶長南天然氣輸配有限責任公司	Limited liability company	PRC	PRC	Registered	49.0	–	Trading of natural gas and gas pipeline construction
榆林中燃天然氣有限公司 ("榆林中燃")	Limited liability company	PRC	PRC	Registered	40.0 *(note c)*	–	Trading of natural gas and gas pipeline construction

* English name is for identification purposes only.

Notes:

(a) During the year ended 31 March 2010, the Group has acquired 1% additional equity interest in 呼和浩特 at a consideration of RMB10,207,000 (approximately HK$11,732,000). The composition of the board of directors as stipulated in the Articles of Association of 呼和浩特 has not been unchanged after the acquisition. The details were set out in note 41(A).

(b) During the year ended 31 March 2010, 重慶鼎旺 was disposed of to 重慶鼎發, an associate of the Group, at a consideration of HK$16,000,000. The details were set out in note 44(ii).

(c) During the year ended 31 March 2010, a subsidiary of the Group and the minority shareholder of 榆林中燃 have contributed additional capital to 榆林中燃 which resulted in a change of shareholding of both shareholders and the composition of the board of directors of 榆林中燃 (note 43). According to the new Articles of Association, all the major financial and operating decisions require unanimous consent from all venturers. Accordingly, the Group's interest in 榆林中燃 was reclassified from a subsidiary to in a joint controlled entity of the Group.

As all the major financial and operating decisions of the above entities require unanimous consent from all venturers, they are accounted for as jointly controlled entities.

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

	2010	**2009**
	HK$'000	*HK$'000*
Current assets	811,744	625,259
Non-current assets	4,351,061	2,217,330
Current liabilities	1,052,969	723,995
Non-current liabilities	1,056,260	543,753
Income recognised in profit or loss	1,339,183	990,112
Expenses recognised in profit or loss	1,204,889	915,780

22. AVAILABLE-FOR-SALE INVESTMENTS

	2010	**2009**
	HK$'000	*HK$'000*
Equity securities listed in Hong Kong, at fair value	13,230	5,272
Unlisted equity securities, at cost less impairment	66,114	33,008
Club debenture, at fair value	3,494	3,715
	82,838	41,995

Equity securities listed in Hong Kong are stated at fair value. The fair values of listed equity securities are based on quoted market bid price. Change in fair value of the listed equity securities classified as available-for-sale investments for the year ended 31 March 2010 with a increase of HK$7,958,000 (2009: decrease of HK$6,495,000) was recognised in the consolidated statement of comprehensive income. For the year ended 31 March 2009, the Group recognised impairment loss of HK$14,947,000 to the consolidated statement of comprehensive income.

Unlisted equity securities issued by private entities incorporated in the PRC. Those private entities are engaged in the sales and distribution of LPG in the PRC. They are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

Club debentures are stated at fair value. Fair value of the club debenture has been determined by reference to the bid prices quoted in the second hand market. No fair value change was recognised in both years.

23. GOODWILL

	HK$'000
COST	
At 1 April 2008	429,422
Arising on acquisition of businesses *(note 42)*	255,045
At 31 March 2009, as restated	684,467
Arising on acquisition of additional interest in a subsidiary *(note 40(A))*	15,504
Arising on acquisition of businesses *(note 42)*	200,606
At 31 March 2010	900,577
CARRYING VALUES	
At 31 March 2010	900,577
At 31 March 2009, as restated	684,467

The Group tests for impairment of goodwill annually and in the financial year in which the acquisition takes place, or more frequently if there are indications that goodwill might be impaired. Particulars regarding impairment testing on goodwill are disclosed in note 25.

24. OTHER INTANGIBLE ASSETS

	Exclusive rights of natural gas operations	Customer Relationship	Technical expertise	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
COST				
At 1 April 2008	300,780	15,000	13,637	329,417
Acquired on acquisition of a subsidiary *(note 40(B)(ii))*	7,037	–	–	7,037
Acquired on acquisition of businesses *(note 42)*	7,124	–	–	7,124
At 31 March 2009	314,941	15,000	13,637	343,578
Acquired on acquisition of businesses *(note 42)*	954,397	–	–	954,397
At 31 March 2010	1,269,338	15,000	13,637	1,297,975
AMORTISATION				
At 1 April 2008	8,234	1,794	568	10,596
Charge for the year	10,504	1,500	681	12,685
At 31 March 2009	18,738	3,294	1,249	23,281
Charge for the year	17,838	1,500	681	20,019
At 31 March 2010	36,576	4,794	1,930	43,300
CARRYING VALUES				
At 31 March 2010	1,232,762	10,206	11,707	1,254,675
At 31 March 2009	296,203	11,706	12,388	320,297

Note: The exclusive rights of natural gas operation, customer relationship and technical expertise are amortised on a straight-line method over the period of 30 years, 10 years and 20 years respectively. Particulars regarding impairment testing on other intangible assets are disclosed in note 25.

25. IMPAIRMENT TESTING ON GOODWILL AND OTHER INTANGIBLE ASSETS

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

	Goodwill		Exclusive rights of natural gas operations		Customer relationship		Technical expertise	
	2010	2009	2010	2009	2010	2009	2010	2009
	HK$'000	*HK$'000* (restated)	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Subsidiaries or jointly controlled entities engaged in natural gas business								
Clever Decision Enterprise Limited	141,716	141,716	–	–	–	–	–	–
宿州中燃城市燃氣發展有限公司 ("宿州中燃")	44,802	44,802	–	–	–	–	–	–
北京中油翔科科技有限公司	15,540	15,540	–	–	–	–	–	–
柳州中燃	65,981	65,981	–	–	–	–	–	–
Positive Rise Energy Limited ("Positive Rise")	100,086	100,086	86,693	89,821	–	–	–	–
包頭市燃氣有限公司("包頭燃氣")	–	–	22,967	23,804	–	–	–	–
China City Natural Gas Investment Limited ("CGNGIL")	–	–	61,291	63,629	–	–	–	–
呼和浩特	–	–	10,385	10,784	–	–	–	–
撫順中燃	–	–	3,464	3,597	–	–	–	–
杭州東能管道燃氣有限公司 ("杭州東能")	–	–	58,536	60,885	–	–	–	–
德州中燃	–	–	28,780	29,811	–	–	–	–
China Gas Investment Development Limited ("CGIDL")	–	–	–	–	10,206	11,706	–	–
China Oman	–	–	–	–	–	–	11,707	12,388
湖南明程貿易發展有限公司 ("湖南明程")	53,688	53,688	3,369	3,558	–	–	–	–
Brilliant China Investments Limited ("Brilliant China")	99,866	–	291,939	–	–	–	–	–
南寧管道燃氣有限責任公司 ("南寧管道")	–	–	625,040	–	–	–	–	–
南昌中燃城市燃氣發展有限公司 ("南昌中燃")	14,931	–	8,087	–	–	–	–	–
遼陽中燃城市燃氣發展有限公司 ("遼陽中燃")	27,136	–	10,354	–	–	–	–	–
牡丹江大通燃氣有限公司 ("牡丹江大通燃氣")	30,396	–	11,990	–	–	–	–	–
深圳市中燃燃氣有限公司 ("深圳中燃")	6,018	–	–	–	–	–	–	–
Other CGUs	64,498	61,297	9,867	10,314	–	–	–	–
Subsidiaries engaged in LPG business								
Zhongyou Hua Dian	210,843	201,357	–	–	–	–	–	–
上海華辰	25,076	–	–	–	–	–	–	–
	900,577	684,467	1,232,762	296,203	10,206	11,706	11,707	12,388

The recoverable amounts of the CGUs are determined based on value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Group prepares cash flows forecasts derived from the most recent financial budgets approved by management for the next five years. The CGUs cashflows beyond the 5-year period are extrapolated using a steady 3% (2009: 3%) growth rate for natural gas business and 5% (2009: 5%) for LPG business. The financial budgets and growth rates are estimated according to the stage of each operation with reference to the development curve of the natural gas industry in the PRC region. The rates used to discount the forecast cash flows for CGUs are from 15% to 17% (2009: 15% to 17%). In the opinion of the directors, no material impairment loss is identified for both years.

26. INVENTORIES

	2010	2009
	HK$'000	*HK$'000*
Construction materials	133,134	113,329
Consumables, spare parts and coke materials	135,315	59,364
Natural gas	11,228	25,992
LPG	284,486	342,213
	564,163	540,898

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

	2010	2009
	HK$'000	*HK$'000*
Contracts in progress at end of the reporting period:		
Contract costs incurred plus recognised profits less recognised losses	727,364	527,111
Less: Progress billings	(863,415)	(428,861)
	(136,051)	98,250
Analysed for reporting purposes as:		
Amounts due from customers for contract work	103,265	219,993
Amounts due to customers for contract work	(239,316)	(121,743)
	(136,051)	98,250

At 31 March 2010 and 2009, there was no retention monies held by customers for contract work performed. At 31 March 2010, advances received from customers for contract work not yet commenced amounted to HK$430,269,000 (2009: HK$258,592,000) which were included in trade and other payables in note 33.

During the year ended 31 March 2010, the Group recognised losses of HK$51,418,000 (2009: HK$36,864,000) in respect of contract costs incurred. The directors of the Company reviewed the recoverable amounts of contract costs incurred and identified certain projects are unlikely to be completed in foreseeable future due to the delay of construction work of relevant property development projects in the PRC. In the opinion of directors of the Company, the amounts are unlikely to be recovered from its customers and accordingly, losses are recognised in full in the consolidated statement of comprehensive income.

28. TRADE AND OTHER RECEIVABLES

	2010	**2009**
	HK$'000	*HK$'000*
Trade receivables	820,144	655,774
Less: Accumulated allowances	(221,497)	(146,079)
Trade receivables	598,647	509,695
Deposits paid for construction and other materials	100,278	75,134
Deposits paid for purchase of natural gas and LPG	306,555	130,983
Advance payments to sub-contractors	150,151	105,806
Tender deposits	66,107	17,644
Rental and utilities deposits	24,541	22,752
Other tax recoverable	43,260	36,522
Other receivables, deposits and prepayments	345,742	251,610
Amounts due from minority shareholders of subsidiaries	212,050	70,155
Amounts due from shareholders of jointly controlled entities	23,730	65,397
Total trade and other receivables	1,871,061	1,285,698

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

The following is an aged analysis of trade receivables net of impairment losses presented based on invoice date at the end of the reporting period:

	2010	**2009**
	HK$'000	*HK$'000*
0 – 180 days	480,797	344,066
181 – 365 days	74,793	92,333
Over 365 days	43,057	73,296
	598,647	509,695

The trade receivables with carrying amount of HK$480,797,000 (2009: HK$344,066,000) are neither past due nor impaired at the reporting date for which the Group believes that the amounts are considered recoverable.

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

During the year ended 31 March 2010, the Group made an allowance of HK$75,112,000 (2009: HK$53,883,000) in respect of the trade receivables related to the gas pipeline construction business, which was past due at the reporting date with long age and slow repayments were received from respective customers since the due date. The directors of the Company considered the related receivables may be impaired and specific allowance is made.

Movement in the allowance for bad and doubtful debts:

	2010	2009
	HK$'000	*HK$'000*
Balance at the beginning of the year	146,079	79,187
Exchange differences	306	13,009
Charge for the year	75,112	53,883
Balance at the end of the year	221,497	146,079

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

Included in the Group's trade receivables are debtors, with a carrying amount of HK$117,850,000 (2009: HK$165,629,000) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amount are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these trade receivable is 270 days (2009: 320 days) as at 31 March 2010.

Ageing of trade receivables which are past due but not impaired:

	2010	2009
	HK$'000	*HK$'000*
180 – 365 days	74,793	92,333
Over 365 days	43,057	73,296
	117,850	165,629

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

29. DERIVATIVE FINANCIAL INSTRUMENTS

	2010	2009
	HK$'000	*HK$'000*
Derivative financial assets:		
Non-current		
Interest rate range accrual swap transactions not qualified for hedge accounting	9,759	–
Current		
Interest rate range accrual swap transactions not qualified for hedge accounting	2,909	–
Early redemption option embedded in convertible bonds *(note 38(c))*	–	1,261
	2,909	1,261
Derivative financial liabilities:		
Non-current		
Interest rate range accrual swap transactions not qualified for hedge accounting	–	360,087
Current		
Embedded conversion option *(note 38(b))*	–	782

Interest rate range accrual swap transactions

Major terms of the outstanding interest rate swap transactions as at 31 March 2010 and 2009 are as follows:

Notional amount	Maturity dates	Pay leg	Receive leg
RMB2,000,000,000 in aggregate	From 4 September 2011 to 12 December 2011	6.60% – 6.65%	Relative movement of 2-year, 10-year and 30-year USD swap rates
US$200,000,000 in aggregate	From 12 October 2010 to 13 June 2011	From USD LIBOR + 0.60% to USD LIBOR + 2.35%	Relative movement of 2-year, 10-year and 30-year USD swap rates

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

Derivatives embedded in convertible bonds

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

Early redemption option represented the fair value of the Company's option to early redeem in respect of convertible bond issued on 29 June 2005 (as detailed in note 38) into equity of the Company.

With the full conversion of the convertible bonds during the year end 31 March 2010, there is no derivatives embedded in convertible bonds at 31 March 2010.

The fair value of the embedded conversion and early redemption option at 31 March 2009 were calculated using the Black-Scholes-Merton Option Pricing Model. The inputs into the model were as follows:

	2009	
	Embedded conversion option	**Early redemption option**
Conversion price/redemption price/exercise price	HK$1.731	HK$1.210
Expected volatility *(note a)*	70.72%	70.72%
Expected life *(note b)*	1.25 years	1.25 years
Risk free rate *(note c)*	0.51%	0.51%

Notes:

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

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

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

During the year, a gain of HK$372,755,000 (2009: a loss of HK$366,320,000) was recognised in respect of the changes in fair values of derivative financial instruments.

30. AMOUNTS DUE FROM/TO ASSOCIATES

	2010	**2009**
	HK$'000	*HK$'000*
Amounts due from associates		
Non-current portion *(note a)*	–	68,966
Current portion *(note b)*	138,236	243,250
	138,236	312,216

Notes:

(a) The balance at 31 March 2009 was unsecured, interest bearing at 5.31% per annum and repayable on 1 June 2010.

(b) Included in the balance is an amount of HK$77,361,000 (2009: HK$76,264,000) which is unsecured, interest bearing at 5.31% to 6.93% per annum and repayable within a year. The remaining balance of HK$60,875,000 (2008: HK$166,986,000) are of trade nature with aging within 180 days based on invoice date. A credit period of 30 to 180 days is granted to these trade customers. All balances are neither past due nor impaired at the reporting date as there has not been a significant change in credit quality and the Group believes that the amounts are considered recoverable.

The amounts due to associates are unsecured, non-interest bearing and repayable on demand.

31. HELD-FOR-TRADING INVESTMENTS

	2010	**2009**
	HK$'000	*HK$'000*
Listed securities at fair value		
– Equity securities listed in Hong Kong	15,468	11,460
– Equity securities listed in the PRC	–	84
	15,468	11,544

32. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less and carry interest at market rates which range from 0.03% to 1.71% per annum (2009: 0.03% to 1.21% per annum).

Pledged bank deposits represent deposits pledged to banks to secure banking facilities granted to the Group. Deposits amounting to HK$489,103,000 (2009: HK$847,759,000) have been pledged to secure short-term bank loans and undrawn short-term facilities and are therefore classified as current assets. The pledged bank deposits carry fixed interest rate of 1.00% to 3.47% (2009: 0.81% to 3.42%) per annum.

The details of the Group's pledged bank deposits and bank balances and cash which are denominated in currencies other than the functional currency of the respective group entities are set out below:

	USD	**HK$**
	HK$'000 equivalent	*HK$'000*
At 31 March 2010	796,306	43,758
At 31 March 2009	373,531	11,895

33. TRADE AND OTHER PAYABLES

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

	2010	**2009**
	HK$'000	*HK$'000*
0 – 90 days	1,058,186	1,142,836
91 – 180 days	245,035	119,262
Over 180 days	382,258	249,131
Trade and bill payables	1,685,479	1,511,229
Other payables and accrued charges	128,572	164,996
Construction fee payables	154,119	99,303
Other tax payables	57,392	102,071
Accrued staff costs	85,512	71,159
Loan interest payables	47,481	49,245
Deposits received from customers	55,191	12,709
Advance payments from customers	361,227	186,196
Advances received from customers for contract works that have not yet been started	430,269	258,592
Amounts due to minority shareholders of subsidiaries	50,501	65,454
Amounts due to shareholders of jointly controlled entities	24,668	34,291
Obligation on capital injection to Fujian Anran by Zhongmin Zhongran (as defined in note 42(A)(iii))	23,448	–
Deferred cash consideration for the acquisition of businesses *(note 42)*	78,161	48,068
	3,182,020	2,603,313

Included in the amounts due to minority shareholders of subsidiaries and shareholders of jointly controlled entities are trade payable amounting to HK$4,469,000 (2009: HK$22,292,000) and HK$9,136,000 (2009: HK$6,031,000) respectively. All of the balances were aged within 90 days based on invoice date and the average credit period is 90 days.

The non-trade balances of amounts due to minority shareholders of subsidiaries and shareholders of jointly controlled entities are unsecured, non-interest bearing and repayable on demand.

34. BANK AND OTHER BORROWINGS

	2010	2009
	HK$'000	*HK$'000*
Bank and other borrowings comprise the following:		
Bank loans	10,640,014	7,741,596
Trust receipt loans	1,686,715	1,586,521
Mortgage loan	7,566	11,904
Other bank loans	763,635	669,138
Other loans	218,176	288,763
	13,316,106	10,297,922
Secured	8,250,069	7,563,605
Unsecured	5,066,037	2,734,317
	13,316,106	10,297,922

Other bank loans represent the loans from discounting of intercompany receivables with full recourse.

	2010	2009
	HK$'000	*HK$'000*
The maturity profile of the above loans is as follows:		
Within one year	5,294,761	3,103,855
More than one year, but not exceeding two years	662,620	355,753
More than two years, but not exceeding five years	3,063,156	2,430,918
More than five years	4,295,569	4,407,396
	13,316,106	10,297,922
Less: Amount due within one year shown under current liabilities	(5,294,761)	(3,103,855)
Amount due after one year	8,021,345	7,194,067
Borrowings comprise:		
Fixed-rate borrowings	5,016,495	7,392,080
Floating-rate borrowings		
– LIBOR plus 1.5%	2,706,958	2,072,957
– Base rate of People's Bank of China	5,592,653	832,885
	13,316,106	10,297,922

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

	2010	2009
Effective interest rate per annum:		
Fixed-rate borrowings	2.10% to 7.83%	2.10% to 7.83%
Floating-rate borrowings	3.84% to 8.00%	3.56% to 8.00%

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

	EUR *HK$'000 equivalent*	USD *HK$'000 equivalent*	JPY *HK$'000 equivalent*
At 31 March 2010	–	4,232,459	95,031
At 31 March 2009	22,907	3,434,058	47,479

35. SHARE CAPITAL

	Ordinary shares		Convertible preference shares		Total
	No. of shares '000 at HK$0.01 each	*HK$'000*	*No. of shares '000* at HK$1.00 each	*HK$'000*	*HK$'000*
Authorised	9,000,000	90,000	124,902	124,902	214,902
Issued and fully paid:					
At 1 April 2008	3,331,444	33,314	–	–	33,314
Exercise of share options *(note 49)*	2,170	22	–	–	22
At 31 March 2009	3,333,614	33,336	–	–	33,336
Exercise of share options *(note 49)*	18,410	184	–	–	184
Issue of new ordinary shares *(Note)*	9,012	90	–	–	90
At 31 March 2010	3,361,036	33,610	–	–	33,610

Note: During the year ended 31 March 2010, the bondholders of the Bond (as defined in note 38) have fully converted the remaining of the Bond into 9,012,000 ordinary shares of HK$0.01 each in the Company at a conversion price of HK$1.731 per share.

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

36. RESERVES

Translation reserve

	2010	**2009**
	HK$'000	*HK$'000*
At the beginning of the reporting period	285,553	283,690
Exchange difference arising on translation	1,240	1,863
Release upon disposal of jointly controlled entities	(9,066)	–
Release upon disposal of a subsidiary	(62)	–
At the end of the reporting period	277,665	285,553

Investment revaluation reserve

	2010	**2009**
	HK$'000	*HK$'000*
At the beginning of the reporting period	–	(8,452)
Increase in fair value on available-for-sale investments	7,958	8,452
At the end of the reporting period	7,958	–

37. AMOUNT DUE TO A MINORITY SHAREHOLDER OF A SUBSIDIARY

The amount is unsecured, bearing fixed-rate interest at 2% per annum, repayable in year 2013 and denominated in JPY. Accordingly, the amount is classified as a non-current liability as at the end of the reporting period.

38. CONVERTIBLE BONDS

On 23 June 2005, the Company entered into a conditional subscription agreement with CQS Convertible and Quantitative Strategies Master Fund Limited ("CQS") and Courtenay Enterprises Limited ("Courtenay"), independent third parties of the Group, whereby CQS and Courtenay subscribed the USD denominated Bonds ("the Bond") issued at par by the Company in an aggregate principal amount of US$40,000,000. The Bond was issued on 29 June 2005 ("the Issue Date") and carries interest at 1% per annum and is matured on 29 June 2010. The conversion price of the Bond is HK$1.731 and can be converted at any time on or after Issue Date up to 19 June 2010. Unless previously redeemed, converted or purchased and cancelled, the Bonds will be redeemed at 127.070 per cent of their principal amount on 29 June 2010. All or some of the Bonds may be redeemed at the option of the relevant holder on 29 June 2009 at 115.314 per cent of their principal amount. The Bond are listed on the Stock Exchange (Stock Code: 2562) on 1 June 2006.

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

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

(b) Embedded conversion option of the Bond to be accounted for as a separate financial liability represents the fair value of the option to convert the liability into equity of the Company.

(c) Embedded early redemption option of the Bond represents the Company's option to early redeem all or part of the Bond by bond holder on or before 19 June 2010 at the conversion price of HK$1.731.

(d) Mandatory redemption option of the Bond represents redemption at the option of the bond holders on 29 June 2009 at 115.314 per cent of the principal amount of the Bond.

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

	Liability	**Embedded conversion option**	**Early redemption option**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2008	14,334	4,264	(2,614)	15,984
Change in fair value	–	(3,482)	1,353	(2,129)
Interest charged *(note 10)*	645	–	–	645
Interest paid	(156)	–	–	(156)
At 31 March 2009	14,823	782	(1,261)	14,344
Converted during the year *(note)*	(14,823)	(782)	1,261	(14,344)
Interest charged *(note 10)*	39	–	–	39
Interest paid	(39)	–	–	(39)
At 31 March 2010	–	–	–	–

Note: In the opinion of directors, the financial impact on the change in fair values of conversion option and early redemption options up to the date of conversion of convertible bonds are not significant.

39. DEFERRED TAXATION

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

	Accelerated tax depreciation	Revaluation on investment properties	Revaluation on property, plant and equipment and prepaid lease payments	Tax losses	Intangible assets	Impairment on trade receivables and amounts due from customers for contract work	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2008, as restated	472	22,659	29,095	(3,925)	56,643	(34,203)	70,741
Acquisition of businesses *(note 42)*	–	–	133,440	–	1,780	–	135,220
(Credit) charge to profit or loss for the year	(1)	1,575	(4,421)	283	(1,973)	(22,687)	(27,224)
At 31 March 2009, as restated	471	24,234	158,114	(3,642)	56,450	(56,890)	178,737
Acquisition of additional interest of a jointly controlled entity *(note 41(A))*	–	426	–	–	–	–	426
Acquisition of businesses *(note 42)*	–	–	88,152	–	182,691	–	270,843
Charge (credit) to profit or loss for the year	–	9,289	(7,067)	(3,633)	(2,190)	(31,265)	(34,866)
At 31 March 2010	471	33,949	239,199	(7,275)	236,951	(88,155)	415,140

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

	2010	**2009**
	HK$'000	*HK$'000* (restated)
Deferred tax assets	88,155	56,890
Deferred tax liabilities	(503,295)	(235,627)
	(415,140)	(178,737)

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profit earned by PRC subsidiaries from 1 January 2009 onward. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to HK$940,618,000 (2009: HK$469,250,000) as the Group is able to control the timing of reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

All jointly controlled entities and associates are held directly by certain wholly-owned subsidiaries of the Group established in the PRC which are therefore not subject to the abovementioned withholding tax.

At the end of the reporting period, the Group has estimated unused tax losses of HK$1,675,899,000 (2009: HK$846,411,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$44,093,000 (2009: HK$22,073,000) of the tax losses. No deferred tax asset has been recognised for the remaining estimated tax losses of HK$1,631,806,000 (2009: HK$824,338,000) due to the uncertainty of future profits streams. Included in unrecognised estimated tax losses are losses of HK$985,949,000 (2009: HK$278,085,000) that will expire in 5 years from the year of origination. Other losses may be carried forward indefinitely.

40. ACQUISITION OF SUBSIDIARIES AND ADDITIONAL INTEREST IN SUBSIDIARIES

(A) Acquisition of additional interest in subsidiaries in 2010

(i) On 7 October 2009, a wholly-owned subsidiary of the Company entered into a share transfer agreement with a minority shareholder of Zhongyou Hua Dian in relation to the acquisition of 4.5% equity interest at a total consideration of RMB10,850,000 (approximately HK$12,471,000). The consideration was satisfied by way of transfer of an available-for-sale investment of the Group with carrying value of RMB10,850,000 (approximately HK$12,471,000). Goodwill arising from the acquisition of additional interest in Zhongyou Huadian is HK$9,486,000.

(ii) On 16 December 2009, a wholly-owned subsidiary of the Company entered into a share transfer agreement with a minority shareholder of 深圳中燃 in relation to the acquisition of 4% equity interest at a total consideration of RMB7,235,700 (approximately HK$8,317,000). Goodwill arising from the acquisition of additional interest in 深圳中燃 is HK$6,018,000.

(B) Acquisition of assets through purchase of subsidiaries in 2009

(i) On 7 August 2008, the Group acquired 90% equity interest in 烏審旗明月天然氣開發有限公司 ("烏審旗明月") for RMB19,267,000 (equivalent to HK$22,145,000). 烏審旗明月 has not commenced business at the date of acquisition.

	HK$'000
NET ASSETS ACQUIRED	
Property, plant and equipment	20,735
Prepaid lease payments	5,430
Inventories	55
Bank balances and cash	4
Other payables	(1,618)
	24,606
Minority interests	(2,461)
	22,145
SATISFIED BY	
Cash consideration	22,145
NET CASH OUTFLOW ARISING ON ACQUISITION	
Cash paid	(22,145)
Bank balances and cash acquired	4
	(22,141)

(ii) On 4 August 2008 and 22 August 2008, the Group entered into agreements with two independent third parties pursuant to which the Group subscribed for 50% interest in 寧夏深中天然氣發展有限公司 ("寧夏深中") for RMB11,000,000 (equivalent to HK$12,222,000) and acquired further 25% interest in 寧夏深中 from the two independent third parties for a consideration of RMB8,000,000 (equivalent to HK$8,889,000) respectively. 寧夏深中 has not commenced business at the date of acquisition.

	HK$'000
NET ASSETS ACQUIRED	
Property, plant and equipment	9,106
Prepaid lease payment	836
Intangible assets – exclusive rights of natural gas operations	7,037
Inventories	1,855
Other receivables	4,486
Bank balances and cash	2,672
Other payables	(10,066)
	15,926
Cash injection by the Group	12,222
	28,148
Minority interests	(7,037)
	21,111
SATISFIED BY	
Cash consideration	8,889
Cash injection to 寧夏深中	12,222
	21,111
NET CASH OUTFLOW ARISING ON ACQUISITION	
Cash paid	(8,889)
Bank balances and cash acquired	2,672
	(6,217)

41. ACQUISITION OF A JOINTLY CONTROLLED ENTITY

(A) Acquisition of additional interest in a jointly controlled entity in 2010

On 16 June 2008, a wholly-owned subsidiary of the Company entered into a share transfer agreement with an independent third party pursuant to which the Group acquired 1% additional equity interest in 呼和浩特, a jointly controlled entity in 2009, at a total consideration of RMB10,207,000 (approximately HK$11,732,000). The acquisition was completed on 1 April 2009.

	HK$'000
NET ASSETS ACQUIRED ATTRIBUTABLE TO 1% EQUITY INTEREST IN 呼和浩特	
Investment properties	3,386
Property, plant and equipment	16,294
Prepaid lease payments	2,909
Inventories	335
Trade and other receivables	1,927
Pledged bank deposits	1,047
Bank balances and cash	3,247
Trade and other payables	(8,958)
Bank and other borrowings	(7,727)
Deferred taxation	(426)
	12,034
Discount on acquisition	(302)
	11,732
SATISFIED BY	
Cash consideration	11,732
NET CASH OUTFLOW ARISING ON ACQUISITION	
Cash consideration paid	(11,732)
Bank balances and cash acquired	4,294
	(7,438)

(B) Establishment of a jointly controlled entity in 2009

On 31 August 2008, a jointly controlled entity, China Gas – SK Energy, which the Group owns 50% issued share capital, established a jointly controlled entity in the PRC, namely 金華中燃愛思開匯能城市燃氣發展有限公司 ("金華中燃"), which China Gas – SK Energy owns 50% issued share capital. China Gas – SK Energy contributed the capital in cash of RMB70,000,000 (equivalent to HK$80,269,000) and the other shareholder contributed the capital in the form of assets and liabilities. The assets and liabilities contributed by the other shareholder enables 金華中燃 to continue the operation of the existing natural gas business which the other shareholder previously engaged. This transaction has been accounted for using the purchase method of accounting.

	Carrying amount of net assets injected by other shareholder of 金華中燃	Fair value adjustments	Fair value of net assets injected by the other shareholder of 金華中燃	Fair value of net assets under proportionate consolidation
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
NET ASSETS ACQUIRED				
Property, plant and equipment	143,382	(33)	143,349	35,837
Trade and other receivables	68	(68)	–	–
Inventories	76	–	76	19
Bank balances and cash	100	–	100	25
Trade and other payables	(27,817)	–	(27,817)	(6,954)
	115,809	(101)	115,708	28,927
Cash injection by China Gas – SK Energy			80,269	20,067
Discount on acquisition			–	(8,860)
Total consideration			195,977	40,134
SATISFIED BY				
Cash injection to 金華中燃 by the Group				40,134
NET CASH OUTFLOW ARISING ON ACQUISITION				
Cash paid				(40,134)
Bank balances and cash acquired				20,092
				(20,042)

42. ACQUISITION OF BUSINESSES

(A) Acquisition of businesses through purchase of subsidiaries in 2010

(i) On 24 April 2009, a subsidiary of the Group entered into a share transfer agreement with independent third parties pursuant to which the Group acquired 100% equity interest in 南京市浦口區城市燃氣發展有限公司 ("南京新浦口") at a consideration of RMB7,465,700 (approximately HK$8,581,000). The transaction was completed on 22 May 2009, on which date the control of 南京新浦口 was passed to the Group.

	Acquiree's carrying amount and fair value before combination
	HK$'000
NET ASSETS ACQUIRED	
Property, plant and equipment	5,625
Prepaid lease payment	1,021
Inventories	538
Other receivables	485
Bank balances and cash	815
Trade and other payables	(3,104)
	5,380
Goodwill	3,201
	8,581
SATISFIED BY	
Cash consideration	8,581
NET CASH OUTFLOW ARISING ON ACQUISITION	
Cash consideration paid	(8,581)
Bank balances and cash acquired	815
	(7,766)

南京新浦口 is principally engaged in the installation of natural gas pipeline network and sale of natural gas in 南京新浦口 region of Nanjing, the PRC. The goodwill arising on the acquisition of 南京新浦口 is attributable to the anticipated synergy effect of the gas connection and sales of piped gas business of the Company.

南京新浦口 contributed to the Group's revenue of HK$8,958,000 and loss of HK$491,000 between the date of acquisition and the end of the reporting period.

(ii) On 30 April 2009, a subsidiary of the Group entered into a share transfer agreement with independent third parties pursuant to which is a non-wholly owned subsidiary of the Group acquired 80% additional equity interest in 上海華辰 at a consideration of RMB54,500,000 (approximately HK$62,644,000) of which is a non-wholly owned subsidiary of the Group originally held 20% equity interest as at 31 March 2009 and was classified as an associate of the Group. The transaction was completed on 30 May 2009, on which date the control of 上海華辰 was passed to the Group.

	Acquiree's carrying amount and fair value before combination
	HK$'000
NET ASSETS ACQUIRED	
Property, plant and equipment	128,259
Available-for-sale investments	1,034
Trade and other receivables	46,400
Bank balances and cash	199
Trade and other payables	(36,753)
Amount due to a vendor	(83,943)
	55,196
Less: Interest held prior to acquisition	
– Interest in an associate	(17,628)
Goodwill	25,076
	62,644
SATISFIED BY	
Cash consideration	62,644
NET CASH OUTFLOW ARISING ON ACQUISITION	
Cash consideration paid	(62,644)
Bank balances and cash acquired	199
	(62,445)

上海華辰 principally engages in the provision of shipping delivery services, technical development, providing consultancy services and agent of delivery. The goodwill arising on the acquisition of 上海華辰 is attributable to the anticipated synergy effect of the shipping delivery business of the Company.

上海華辰 contributed to the Group's loss of HK$5,443,000 between the date of acquisition and the end of the reporting period. No revenue is contributed by 上海華辰 to the Group as the principal activity is different from that of the Group, and the revenue of 上海華辰 was classified as other income of the Group.

(iii) On 26 April 2009, the Company entered into a conditional agreement with Chinese People Holdings Company Limited pursuant to which the Company acquired 100% equity interest in Brilliant China and its subsidiary, Beijing Zhongmin Zhongran Trading Company Limited ("Zhongmin Zhongran"), which in turn holds 45.45% of registered capital of Fujian Anran which is considered as a jointly controlled entity of the Group, at the consideration of HK$339,277,000.

At the same time, a subsidiary of the Company also entered into a conditional agreement with Beijing Zhongmin Company Limited pursuant to which the subsidiary acquired 3.55% equity interest of Fujian Anran at the consideration of RMB40,000,000 (approximately HK$45,977,000).

The acquisition was completed on 31 August 2009, on which date the control of Brilliant China was passed to the Group.

	Acquiree's carrying amount before combination	**Fair value adjustments**	**Fair values**
	HK$'000	*HK$'000*	*HK$'000*
NET ASSETS ACQUIRED			
Property, plant and equipment	262,895	45,495	308,390
Prepaid lease payments	13,680	8,538	22,218
Intangible assets – exclusive rights of natural gas operations	–	298,574	298,574
Interests in associates	31,098	24,424	55,522
Inventories	1,248	–	1,248
Trade and other receivables	40,057	–	40,057
Bank balances and cash	29,406	–	29,406
Trade and other payables	(99,532)	–	(99,532)
Obligation on capital injection to Fujian Anran by Zhongmin Zhongran	(46,897)	–	(46,897)
Bank borrowings	(158,039)	–	(158,039)
Deferred taxation	–	(88,152)	(88,152)
	73,916	288,879	362,795
Minority interest			(77,407)
Goodwill			99,866
			385,254
SATISFIED BY			
Cash consideration			385,254
NET CASH OUTFLOW ARISING ON ACQUISITION			
Cash paid			(385,254)
Bank balances and cash acquired			29,406
			(355,848)

Zhongmin Zhongran is principally engaged in, among other matters, wholesale of gas equipment and parts, import and export business, technical consultation and technical service provider and Fujian Anran is principally engaged in the provision of gas fuel and gas pipeline connection, transportation and distribution of liquefied petroleum gas and retail of bottled liquefied petroleum gas and supply of video lottery operating system and bottled equipment in the PRC. The goodwill arising on the acquisition of Brilliant China is attributable to the anticipated profitability of the gas connection and sales of piped gas businesses of this group.

The fair value of the property, plant and equipment has been arrived at on the basis of a valuation carried out as at 31 August 2009 by CB Richard Ellis Limited. The valuation was arrived at using the depreciated replacement cost method. The valuation has taken into consideration several factors including current price of materials, labour and contractor's overhead which was available in the market if the Group acquire or build the same assets as at the valuation date after deduction of depreciation based on the economics useful life of the assets and the current condition of the assets.

The fair value of the intangible assets has been arrived at on the basis of a valuation carried out as at valuation dated 31 August 2009 by CB Richard Ellis Limited. The valuation was arrived at using multiple-period excess earning method. The valuation was determined by discounting the value of expected economic benefits that exceed an appropriate rate of return on other assets being used to generate anticipated economic benefits. The discount rate of 14% used in the valuation comprises the cost of equity and cost of debt of the entity.

Brilliant China contributed to the Group's revenue and profit of HK$98,855,000 and of HK$21,732,000 respectively between the date of acquisition and the end of the reporting period.

(iv) On 8 April 2009, a subsidiary of the Group entered into an acquisition agreement with an independent third party pursuant to which the Group acquired 80% equity interest in 遼陽中燃 at a consideration of RMB74,122,000 (approximately HK$85,198,000). The acquisition was completed on 30 April 2009, on which date the control of 遼陽中燃 was passed to the Group.

	Acquiree's carrying amount before combination	Fair value adjustments	Fair values
	HK$'000	*HK$'000*	*HK$'000*
NET ASSETS ACQUIRED			
Property, plant and equipment	64,908	–	64,908
Prepaid lease payments	25,336	–	25,336
Available-for-sale investments	586	–	586
Intangible assets – exclusive right of natural gas operation	–	10,559	10,559
Trade and other receivables	29,345	–	29,345
Inventories	12,378	–	12,378
Bank balances and cash	11,908	–	11,908
Trade and other payables	(48,539)	–	(48,539)
Bank borrowings	(31,264)	–	(31,264)
Deferred taxation	–	(2,640)	(2,640)
	64,658	7,919	72,577
Minority interest			(14,515)
Goodwill			27,136
			85,198
SATISFIED BY			
Cash consideration			85,198
NET CASH OUTFLOW ARISING ON ACQUISITION			
Cash consideration paid			(85,198)
Bank balances and cash acquired			11,908
			(73,290)

遼陽中燃 principally engages in the installation of natural gas pipeline network and sale of natural gas in PRC. The goodwill arising on the acquisition of 遼陽中燃 is attributable to the anticipated profitability of the gas connection and sales of piped gas businesses of 遼陽中燃.

遼陽中燃 contributed to the Group's revenue and profit of HK$74,152,000 and of HK$2,959,000 respectively between the date of acquisition and the end of the reporting period.

(v) On 11 November 2009, a subsidiary of the Group entered into an acquisition agreement with an independent third party pursuant to which the Group acquired 100% equity interest in 牡丹江大通燃氣 at a consideration of RMB97,000,000 (approximately HK$111,494,000). The acquisition was completed on 16 December 2009, on which date the control of in 牡丹江大通燃氣 was passed to the Group.

	Acquiree's carrying amount before combination	**Fair value adjustments**	**Provisional fair values**
	HK$'000	*HK$'000*	*HK$'000*
NET ASSETS ACQUIRED			
Property, plant and equipment	112,917	–	112,917
Prepaid lease payments	13,250	15,721	28,971
Intangible assets – exclusive right of natural gas operation	–	12,091	12,091
Trade and other receivables	3,553	–	3,553
Inventories	6,854	–	6,854
Bank balances and cash	1,164	–	1,164
Trade and other payables	(63,514)	–	(63,514)
Bank borrowings	(13,985)	–	(13,985)
Deferred taxation	–	(6,953)	(6,953)
	60,239	20,859	81,098
Goodwill			30,396
			111,494
SATISFIED BY			
Cash consideration			111,494
NET CASH OUTFLOW ARISING ON ACQUISITION			
Cash consideration paid			(111,494)
Bank balances and cash acquired			1,164
			(110,330)

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

牡丹江大通燃氣 principally engages in the installation of natural gas pipeline network and sale of natural gas in PRC. The goodwill arising on the acquisition of 牡丹江大通燃氣 is attributable to the anticipated profitability of the gas connection and sales of piped gas businesses of 牡丹江大通燃氣.

牡丹江大通燃氣 contributed to the Group's revenue and profit of HK$10,114,000 and of HK$943,000 respectively between the date of acquisition and the end of the reporting period.

(vi) On 18 December 2009, a subsidiary of the Group entered into an acquisition agreement with an independent third party pursuant to which the Group acquired 80% equity interest in 南昌中燃 at a consideration of RMB28,000,000 (approximately HK$32,184,000). The acquisition was completed on 31 January 2010, on which date the control of 南昌中燃 was passed to the Group.

	Acquiree's carrying amount before combination	**Fair value adjustments**	**Provisional fair values**
	HK$'000	*HK$'000*	*HK$'000*
NET ASSETS ACQUIRED			
Property, plant and equipment	168	–	168
Intangible assets	–	8,133	8,133
Trade and other receivables	45	–	45
Inventories	174	–	174
Bank balances and cash	15,179	–	15,179
Trade and other payables	(100)	–	(100)
Deferred taxation	–	(2,033)	(2,033)
	15,466	6,100	21,566
Minority interest			(4,313)
Goodwill			14,931
			32,184
SATISFIED BY			
Cash consideration			32,184
NET CASH OUTFLOW ARISING ON ACQUISITION			
Cash consideration paid			(32,184)
Bank balances and cash acquired			15,179
			(17,005)

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

南昌中燃 principally engages in the installation of natural gas pipeline network and sale of natural gas in PRC. The goodwill arising on the acquisition of 南昌中燃 is attributable to the anticipated profitability of the gas connection and sales of piped gas businesses of 南昌中燃.

南昌中燃 contributed to the Group's revenue and loss of HK$139,000 and of HK$284,000 respectively between the date of acquisition and the end of the reporting period.

(vii) On 29 April 2006, a subsidiary of the Group entered into a share transfer agreement with 廣西南方食品集團股份有限公司 ("南方食品") (formerly known as 廣西南方控股股份有限公司), the ultimate holding company of 南寧管道 ("First Vendor") pursuant to which the subsidiary agreed to acquire 60% equity interest in 南寧管道 at an aggregate consideration of RMB111,000,000 (approximately HK$127,586,000). As at March 31, 2009, the transaction has not yet been completed as it was pending for the completion of change in the shareholders of 南寧管道 for 南方食品 to get the control of 南寧管道 pursuant to the share transfer agreement.

In January, 2010, that subsidiary entered into another share transfer agreement with the minority shareholder of 南寧管道 ("Second Vendor") pursuant to which the subsidiary agreed to acquire 20% equity interest in 南寧管道 at a consideration of RMB33,000,000 (approximately HK$37,931,000). This acquisition was completed in early March, 2010.

Because of the successful acquisition from the Second Vendor, the Group decided to revise the share transfer agreement with the First Vendor at 11 March 2010 and acquire only 40% equity interest in 南寧管道. The consideration was adjusted upward to RMB122,700,000 (approximately HK$141,035,000) to slightly compensate the First Vendor on the increase in the fair value of the net assets of 南寧管道 since 2006. The acquisition of 40% equity interest from First Vendor was completed on 31 March 2010, on which date the control of 南寧管道 was passed to the Group.

	Acquiree's carrying amount before combination	**Fair value adjustments**	**Fair values**
	HK$'000	*HK$'000*	*HK$'000*
NET ASSETS ACQUIRED			
Property, plant and equipment	507,034	59,220	566,254
Prepaid lease payments	11,280	–	11,280
Intangible assets – exclusive right of natural gas operation	–	625,040	625,040
Trade and other receivables	16,541	–	16,541
Inventories	7,164	–	7,164
Bank balances and cash	7,837	–	7,837
Trade and other payables	(432,254)	–	(432,254)
Bank borrowings	(39,046)	–	(39,046)
Deferred taxation	–	(171,065)	(171,065)
	78,556	513,195	591,751
Minority interest			(236,700)
Discount on acquisition			(176,085)
			178,966
SATISFIED BY			
Cash consideration paid by the Group			37,587
Deposit paid for acquisition			63,218
Deferred cash consideration			78,161
			178,966
NET CASH OUTFLOW ARISING ON ACQUISITION			
Cash consideration paid			(37,587)
Bank balances and cash acquired			7,837
			(29,750)

According to the share transfer agreement with the First Vendor, the remaining cash consideration should be settled within 5 business days after the legal title of 南寧管道 has been passed to the subsidiary of the Group. The deferred cash consideration has been settled in April 2010. 南寧管道 principally engages in the installation of natural gas pipeline network and sale of natural gas in PRC.

The fair value of the property, plant and equipment has been arrived at on the basis of a valuation carried out as at 31 March 2010, by CB Richard Ellis Limited. The valuation was arrived at using the cost of depreciated replacement cost method. The valuation has taken into consideration several factors including current price of materials, labour and contractor's overhead which was available in the market if the Group acquire or build the same assets as at the valuation date after deduction of depreciation based on the economics useful life of the assets and the current condition of the assets.

The fair value of the intangible assets has been arrived at on the basis of a valuation carried out as at 31 March 2010, by CB Richard Ellis Limited. The valuation was arrived at using multiple-period excess earning method. The valuation was determined by discounting the value of expected economic benefits that exceed an appropriate rate of return on other assets being used to generate anticipated economic benefits. The discount rate of 14% used in the valuation comprises the cost of equity and cost of debt of 南寧管道.

The directors of the Company have reassessed the identification and measurement of fair values of Nanning Pipeline's identifiable assets, liabilities and contingent liabilities. The net fair value of the identifiable assets, liabilities and contingent liabilities of Nanning Pipeline attributable to the 60% shareholding acquired by the Company exceeded the cost of acquisition by an amount of HK$176,085,000, which represented a discount on acquisition of Nanning Pipeline, and has been recognised in the consolidated income statement for the year ended 31 March 2010.

The management consider that the discount on acquisition of HK$176,085,000 arising on the acquisition of 南寧管道 was mainly due to the below market consideration for the acquisition of 60% equity interest in 南寧管道 agreed in 2006 in which the Group was willing to enter into the share transfer agreement with the First Vendor, at which time a lawsuit on the First Vendor's ownership on 南寧管道 was undergoing. In addition, the fair value of the net assets of 南寧管道 was increased between the date of share transfer agreement in 2006 to the completion date of the acquisition as the economic environment for operating natural gas business in the PRC is getting more favourable. Although the consideration was adjusted upward subsequently, the adjustment is not in line with the increase in the fair value of the net assets of 南寧管道.

The Group has applied the similar basis for the negotiation of the consideration for the acquisition of the 20% equity interest in 南寧管道 from the Second Vendor in January, 2010 and a below market consideration was resulted as well.

If the above acquisitions during the year ended 31 March 2010 had been completed on 1 April 2009, total group revenue and profit for the year would have been HK$673,682,000 and HK$100,453,000 respectively. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of the operations of the Group that actually would have been achieved had above acquisitions been completed on 1 April 2009, nor is it intended to be projection of future results.

(B) Acquisition of businesses through purchase of subsidiaries in 2009

(i) On 30 September 2008, the Group acquired 83% equity interests in Zhongyou Hua Dian for cash of RMB501,780,000 (equivalent to HK$557,533,000).

	Acquiree's carrying amount before combination	Provisional fair value adjustments	Provisional fair values as previously stated	Prior year adjustments upon completion of initial accounting	Adjusted fair values
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
NET ASSETS ACQUIRED					
Investment properties	70,301	–	70,301	–	70,301
Property, plant and equipment	1,728,955	351,250	2,080,205	(107,498)	1,972,707
Prepaid lease payments	143,607	290,004	433,611	–	433,611
Interests in associates	37,574	–	37,574	(5,366)	32,208
Available-for-sale investment	29,349	–	29,349	–	29,349
Inventories	288,326	–	288,326	–	288,326
Trade and other receivables	548,987	–	548,987	–	548,987
Pledged bank deposits	716,692	–	716,692	–	716,692
Bank balances and cash	294,874	–	294,874	–	294,874
Trade and other payables	(1,319,157)	–	(1,319,157)	–	(1,319,157)
Bank borrowings	(2,422,099)	–	(2,422,099)	–	(2,422,099)
Deferred taxation	–	(160,314)	(160,314)	26,874	(133,440)
	117,409	480,940	598,349	(85,990)	512,359
Minority interests					(156,183)
Goodwill					201,357
					557,533
SATISFIED BY					
Cash consideration paid by the Group					519,620
Deferred cash consideration					37,913
					557,533
NET CASH OUTFLOW ARISING ON ACQUISITION					
Cash consideration paid					(519,620)
Bank balances and cash acquired					294,874
					(224,746)

Zhongyou Hua Dian principally engages in the business of trading of LPG business. The goodwill arising on the acquisition of Zhongyou Hua Dian is attributable to the anticipated profitability of the trading of LPG business of this group.

Zhongyou Hua Dian contributed to the Group's revenue and loss of HK$2,076,887,000 and HK$153,342,000 for the year respectively.

The deferred cash consideration will be payable within one year after completion of the acquisition. The amount has been settled during the year ended 31 March 2010.

(ii) On 11 August 2008, the Group acquired 95% of 湖南明程, which holds 57% of registered capital of 佳木斯恒佳管道燃氣有限公司 ("佳木斯") for consideration of RMB29,450,000 (equivalent to HK$33,851,000).

	Acquirees' carrying amounts before combination	**Fair value adjustments**	**Fair values**
	HK$'000	*HK$'000*	*HK$'000*
NET ASSETS ACQUIRED			
Property, plant and equipment	46,319	–	46,319
Prepaid lease payment	2,187	–	2,187
Intangible asset – exclusive rights of natural gas operations	–	3,558	3,558
Trade and other receivables	46,356	–	46,356
Bank balances and cash	6,713	–	6,713
Trade and other payables	(99,988)	–	(99,988)
Deferred taxation	–	(889)	(889)
	1,587	2,669	4,256
Minority interests			(24,093)
Goodwill			53,688
Total consideration			33,851
SATISFIED BY			
Cash consideration paid by the Group			23,696
Deferred cash consideration			10,155
			33,851
NET CASH OUTFLOW ARISING ON ACQUISITION			
Cash consideration paid			(23,696)
Bank balances and cash acquired			6,713
			(16,983)

湖南明程 is an investment holding company and 佳木斯 is engaged in the operation of gas connection and sales of piped gas businesses in the PRC. The goodwill arising on the acquisition of 湖南明程 is attributable to the anticipated profitability of the gas connection and sales of piped gas businesses of this group.

湖南明程 contributed to the Group's revenue and profit of HK$78,579,000 and HK$32,076,000 respectively for the year.

The deferred cash consideration will be payable within one year after completion of the acquisition. The amount has been settled during the year ended 31 March 2010.

(iii) On 11 July 2008, the Group entered into cooperation agreement with independent third parties pursuant to which the Group acquired 51% equity interest in 大連金城燃氣有限公司 ("大連金城") for RMB13,490,000 (equivalent to HK$15,506,000) and the other shareholder contributed the additional capital in form of assets and liabilities.

	Acquirees' carrying amounts before combination	Fair value adjustments	Fair values
	HK$'000	*HK$'000*	*HK$'000*
NET ASSETS ACQUIRED			
Property, plant and equipment	16,751	–	16,751
Intangible asset – exclusive rights of natural gas operations	–	3,566	3,566
Prepaid lease payment	195	–	195
Inventories	458	–	458
Other receivables	1,544	–	1,544
Bank balances and cash	244	–	244
Trade and other payables	(6,742)	–	(6,742)
Deferred taxation	–	(891)	(891)
	12,450	2,675	15,125
Cash injection by the Group			15,506
Minority interests			(15,125)
			15,506
SATISFIED BY			
Cash injection by the Group			15,506
NET CASH INFLOW ARISING ON ACQUISITION			
Bank balances and cash acquired			244

大連金城 is principally engaged in the installation of nature gas pipeline network and related facilities and sale of natural gas in the PRC.

大連金城 contributed to the Group's revenue and loss of HK$548,000 and HK$567,000 respectively for the year.

If the above acquisitions during the year ended 31 March 2009 had been completed on 1 April 2008, total group revenue and profit for the year would have been HK$9,188,455,000 and HK$32,490,000 respectively. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had above acquisitions been completed on 1 April 2008, nor is it intended to be projection of future results.

43. DISPOSAL OF A SUBSIDIARY

On 16 December 2009, the Group and the minority shareholders contributed RMB5,600,000 (approximately HK$6,437,000) and RMB10,400,000 (approximately HK$11,954,000) to 榆林中燃, a subsidiary in which the Group held originally 60% equity interest before capital contribution made on December 2009. The capital contributed has led to a decrease in the Group's shareholding in 榆林中燃 from 60% to 40% as well as a change of the composition of the board of directors. According to the new Article of Association, all the major financial and operating decisions must require unanimous consent from all venturers. 榆林中燃 was reclassified to a jointly controlled entity of the Group. The net assets of 榆林中燃 to be disposed of at the date of disposal were as follows:

	HK$'000
60% OF NET ASSETS OF 榆林中燃 DISPOSED OF	
Property, plant and equipment	26
Other receivables	26
Bank balances and cash	13,134
	13,186
Minority interests	(1,373)
	11,813
Gain on disposal	141
Capital contributed by other shareholder	11,954
NET CASH OUTFLOW ARISING ON DISPOSAL	
Capital contributed by the other shareholder	11,954
Bank balances and cash acquired	(13,134)
	(1,180)

44. DISPOSAL OF JOINTLY CONTROLLED ENTITIES

(i) Pursuant to an ordinary resolution passed in the board of directors' meeting of 紹興中燃城市燃氣發展有限公司 ("紹興中燃") held on 30 September 2009, the Group applied to dissolve 紹興中燃. The dissolution was completed on 28 December 2009 and the loss which arose on dissolution of jointly controlled entity was HK$3,791,000.

	HK$'000
NET ASSETS OF JOINTLY CONTROLLED ENTITY DISSOLVED	
Property, plant and equipment	20,328
Bank balances and cash	21,821
	42,149
Loss on dissolution	(3,791)
Refund of capital upon the dissolution	38,358
SATISFIED BY	
Cash received by the Group	38,358
NET CASH INFLOW ARISING ON DISSOLUTION	
Cash received by the Group	38,358
Bank balances and cash disposed of	(21,821)
	16,537

(ii) Pursuant to an ordinary resolution passed in the annual general meeting of 中燃投資 held on 26 May 2009, the Group entered into a share transfer agreement with 重慶鼎發, an associate of the Group. The disposal was completed on 1 November 2009 and the consideration received from disposal of jointly controlled entity was HK$16,000,000. The net assets of 重慶鼎旺 at the date of disposal were as follows:

	HK$'000
49% NET ASSETS OF 重慶鼎旺 DISPOSED OF	
Property, plant and equipment	28,342
Inventories	796
Trade and other receivables	937
Bank balances and cash	18
Trade and other payables	(12,070)
	18,023
Loss on disposal	(2,023)
	16,000
SATISFIED BY	
Cash consideration received by the Group	16,000
NET CASH INFLOW ARISING ON DISPOSAL	
Cash consideration	16,000
Bank balances and cash disposed of	(18)
	15,982

45. OPERATING LEASE ARRANGEMENTS

The Group as lessee

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

	2010	**2009**
	HK$'000	*HK$'000*
Within one year	31,978	12,237
In the second to fifth year inclusive	54,603	10,884
After five years	27,191	1,498
	113,772	24,619

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

The Group as lessor

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

	2010	**2009**
	HK$'000	*HK$'000*
Within one year	8,025	8,154
In the second to fifth year inclusive	13,926	7,735
	21,951	15,889

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

46. CAPITAL COMMITMENTS

The Group has entered into the following transactions, which have not been completed at the end of the reporting period nor at the date these consolidated financial statements were authorised for issuance.

(i) On 24 March 2009, a subsidiary of the Company entered into share transfer agreements with independent third parties to acquire 90% equity interest of 廣西來賓帝恒燃氣有限公司 and 廣西百色帝恒燃氣有限公司 at a total consideration of RMB24,000,000 (approximate HK$27,586,000) and RMB10,000,000 (approximately HK$11,494,000) respectively. 廣西來賓帝恒燃氣有限公司 and 廣西百色帝恒燃氣有限公司 are principally engaged in the natural gas business in the PRC.

(ii) On 29 March 2010, a subsidiary of the Company entered into share transfer agreements with independent third parties to acquire 100% equity interest of 張家界市三峽燃氣有限公司 at an aggregate consideration of RMB31,800,000 (approximate HK$36,552,000). 張家界市三峽燃氣有限公司 is principally engaged in the natural gas business in the PRC.

(iii) On 19 March 2010, a subsidiary of the Company entered into cooperation agreement with the 錦州市娘娘官臨港產業區管委會 to set up a wholly-owned subsidiary. According to the cooperation agreement, the registered capital of the subsidiary will be USD3,000,000 (approximate HK$23,250,000) and the total amount will be contributed by the Group in cash.

(iv) On 24 March 2010, a subsidiary of the Company entered into cooperation agreement with the 新興縣城市管理局 to set up a wholly-owned subsidiary. According to the cooperation agreement, the registered capital of the subsidiary will be RMB15,000,000 (approximate HK$17,241,000) and the total amount will be contributed by the Group in cash.

Save as disclosed above, as at 31 March 2010, the Group has capital commitments in respect of the acquisition for property, plant and equipment and construction materials for property, plant and equipment contracted for but not provided in the consolidated financial statements amounting to HK$146,754,000 (2009: HK$208,150,000) and HK$140,194,000 (2009: HK$93,312,000) respectively.

47. PLEDGE OF ASSETS

Carrying amount of the non-current and current assets pledged to banks to secure loan facilities granted to the Group is as follows:

	2010	**2009**
	HK$'000	*HK$'000*
Long-term loan facilities		
Investment properties	27,220	19,200
Property, plant and equipment	298,075	457,164
Prepaid lease payments	39,043	37,047
Short-term loan facilities		
Inventories	138,729	87,651
Trade receivables	86,817	45,878
Pledged bank deposits	489,103	847,759
	1,078,987	1,494,699

48. RETIREMENT BENEFITS SCHEMES

With effective from 1 December 2000, the Group has joined a MPF Scheme for all employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Group with respect of the MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years at 31 March 2010 and 2009.

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

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

49. SHARE OPTION SCHEME AND SHARE BASED PAYMENTS

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

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

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

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

The following table discloses details of the Company's share options held by employees (including directors) and movements in such holdings during the two years ended 31 March 2010:

Date of grant	Vesting period	Exercisable period	Exercise price per share HK$	Number of share options at 4.1.2008	Granted during the year	Exercised during the year *(Note 3)*	Number of share options at 3.31.2009	Granted during the year	Exercised during the year *(Note 3)*	Number of share options at 3.31.2010
Directors										
1.9.2004	1.9.2004 to 8.30.2004	9.1.2004 to 1.8.2014	0.80	31,240,711	–	–	31,240,711	–	(4,300,000)	26,940,711
10.6.2004	*(Note 1)*	*(Note 1)*	0.71	220,000,000	–	–	220,000,000	–	–	220,000,000
10.6.2004	10.6.2004 to 3.19.2005	3.20.2005 to 10.5.2014 *(Note 2)*	0.71	7,400,000	–	–	7,400,000	–	(700,000)	6,700,000
10.20.2005	10.20.2005 to 10.19.2010	10.20.2010 to 10.19.2015	1.50	5,000,000	–	–	5,000,000	–	–	5,000,000
8.3.2009	*(Note 4)*	8.3.2009 to 8.2.2019	2.10	–	–	–	–	200,000,000	–	200,000,000
8.3.2009	8.3.2009 to 8.2.2011	8.3.2011 to 8.2.2014	2.10	–	–	–	–	37,000,000	–	37,000,000
				263,640,711	–	–	263,640,711	237,000,000	(5,000,000)	495,640,711

Date of grant	Vesting period	Exercisable period	Exercise price per share HK$	Number of share options at 4.1.2008	Granted during the year	Exercised during the year (Note 3)	Number of share options at 3.31.2009	Granted during the year	Exercised during the year (Note 3)	Number of share options at 3.31.2010
Other employees										
1.9.2004	1.9.2004 to 8.30.2004	9.1.2004 to 1.8.2014	0.80	49,110,000	–	(1,980,000)	47,130,000	–	(10,250,000)	36,880,000
10.6.2004	10.6.2004 to 3.19.2005 *(Note 2)*	3.20.2005 to 10.5.2014	0.71	88,350,000	–	(190,000)	88,160,000	–	(3,160,000)	85,000,000
10.20.2005	10.20.2005 to 10.19.2010	10.20.2010 to 10.19.2015	1.50	151,800,000	–	–	151,800,000	–	–	151,800,000
1.27.2006	1.27.2006 to 1.26.2011	1.27.2011 to 1.26.2016	1.52	6,500,000	–	–	6,500,000	–	–	6,500,000
8.23.2007	8.23.2007 to 9.18.2009	9.19.2008 to 8.22.2017	2.32	3,000,000	–	–	3,000,000	–	–	3,000,000
8.7.2008	8.7.2008 to 9.2.2009	9.3.2009 to 8.6.2018	1.77	–	1,500,000	–	1,500,000	–	–	1,500,000
8.7.2008	8.7.2008 to 9.2.2010	9.3.2010 to 8.6.2018	1.77	–	1,500,000	–	1,500,000	–	–	1,500,000
8.3.2009	*(Note 4)*	*(Note 4)*	2.10	–	–	–	–	100,000,000	–	100,000,000
8.3.2009	8.3.2009 to 8.2.2011	8.3.2012 to 8.2.2014	2.10	–	–	–	–	53,394,000	–	53,394,000
9.17.2009	9.17.2009 to 10.13.2009	10.14.2009 to 9.16.2014	2.60	–	–	–	–	5,000,000	–	5,000,000
9.17.2009	9.17.2009 to 9.16.2012	9.17.2012 to 9.16.2014	2.60	–	–	–	–	5,000,000	–	5,000,000
				298,760,000	3,000,000	(2,170,000)	299,590,000	163,394,000	(13,410,000)	449,574,000
				562,400,711	3,000,000	(2,170,000)	563,230,711	400,394,000	(18,410,000)	945,214,711
Weighted average exercise price				HK$0.93	HK$1.77	HK$0.79	HK$0.97	HK$2.11	HK$0.78	HK$1.42
Exercisable at the end of the year				396,100,711			396,930,711			386,520,711

Notes:

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

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

(3) The weighted average share price on exercise dates and the weighted average price immediately before exercise dates are HK$3.48 (2009: HK$2.20) per share.

(4) The exercise of option will be subject to the condition that the annual consolidated profit after taxation of the Company and its subsidiaries which shall be certified by the auditors appointed by the Company as at the date of the exercise of the options being not less than HK$1.5 billion. Exercisable period is between 3 August 2009 to 2 August 2019.

The consideration received during the year from the directors and employees for taking up the options granted amounted to HK$10 (2009: HK$20).

In accordance with HKFRS 2 "Share-based payment", fair value of share options granted to employees determined at the date of grant is expensed over the vesting period, with a corresponding adjustment to the Group's employee share-based compensation reserve. In the current year, an amount of share based payment expenses in respect of its share options of approximately HK$32,870,000 (2009: HK$6,981,000) has been recognised with a corresponding adjustment recognised in the Group's employee share-based compensation reserve.

The options outstanding as at 31 March 2010 have a weighted average remaining contractual life of 5 years (2009: 6 years). During the year ended 31 March 2010, options were granted on 3 August 2009 and 17 September 2009 respectively. The estimated fair values of the options granted are HK$336,766,000 and HK$91,966,000. During the year ended 31 March 2010, options were granted on 7 August 2008. The estimated fair values of the options granted are HK$2,333,000.

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

	Share option grant date		
	3 August 2009	**17 September 2009**	**7 August 2008**
Share price	HK$2.1	HK$2.6	HK$1.78
Exercise price	HK$2.1	HK$2.6	HK$1.77
Expected volatility *(note a)*	57.86%	58.05%	52.55% to 53.23%
Expected life *(note b)*	2.5 years to 5 years	2.5 years to 4 years	5.5 years to 6 years
Risk free rate *(note c)*	0.626% to 1.66%	0.724% to 1.502%	3.221% to 3.278%
Expected dividend yield *(note d)*	0.667%	0.538%	1.9%

Notes:

(a) The expected volatility was determined by calculating the historical volatility of the Company's share price over 260 trade days (2009: 260 trade days) immediately before share option grant date.

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

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

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

50. RELATED PARTY TRANSACTIONS

Apart from the amounts due from/to related parties as disclosed in notes 28, 30, 33 and 37, the Group entered into the following transactions with related parties that are not members of the Group:

(i) During the year ended 31 March 2010, the Group purchased gas for total amount of HK$126,359,000 (2009: HK$113,746,000) from minority shareholders of subsidiaries.

(ii) During the year ended 31 March 2010, the Group paid rental expense to a shareholder of a jointly controlled entity in respect of leasehold land and buildings for total of HK$8,506,000 (2009: HK$7,844,000).

(iii) During the year ended 31 March 2010, the Group received interest income for total amount of HK$9,922,000 (2009: HK$7,299,000) from an associate.

(iv) During the year ended 31 March 2010, the Group paid construction fee which are recorded as cost of property, plant and equipment in the consolidated statement of financial position for total amount of HK$174,262,000 (2009: HK$181,206,000) to an associate.

(v) During the year ended 31 March 2010 the Group paid interest expense for total amount of HK$7,132,000 (2009: HK$7,132,000) to a minority shareholder of a subsidiary.

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

	2010	**2009**
	HK$'000	*HK$'000*
Short-term benefits	37,890	37,429
Post employment benefits	48	60
	37,938	37,489

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

51. MAJOR NON-CASH TRANSACTIONS

(i) During the year ended 31 March 2010, a wholly-owned subsidiary of the Company has further acquired additional interest of 4.5% in Zhongyou Hua Dian from a minority shareholder at a consideration of RMB10,850,000 (approximately HK$12,471,000). The consideration was satisfied by way of transfer of an available-for-sale investment with a carrying value of RMB10,850,000 (approximately HK$12,471,000) as a consideration.

(ii) During the year, the Bonds with principal amount of US$2,000,000 had been converted into 9,012,000 Company's shares. Details had disclosed in note 35 to the consolidated financial statements.

52. EVENT AFTER THE REPORTING PERIOD

On 17 January 2010, a wholly owned subsidiary of the Group offered a voluntary conditional cash and securities exchange offer ("Offer") to Zhongyu Gas Holdings Limited ("Zhongyu Gas"), a listed company in the Stock Exchange, (i) to acquire the entire issued share capital of Zhongyu Gas, (ii) for the acquisition of all outstanding convertible bonds and (iii) for the cancellation of all the outstanding share option of Zhongyu Gas. Details of the proposed takeover are set out in the joint announcement of the Company and Zhongyu Gas dated 26 January 2010. The acquisition have not been completed at the date these consolidated financial statement were authorized for issuance.

53. PARTICULAR OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries are as follows:

Name of subsidiary	Place of incorporation or registration/ operations	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company 2010 %	2009 %	Principal activities
Hai Xia Finance Limited	Hong Kong	Incorporated	Ordinary HK$2	100##	100##	Securities investment
Iwai's Holdings (Hong Kong) Limited	Hong Kong	Incorporated	Ordinary HK$1,000 Non-voting deferred shares HK$1,000,000 *(Note 1)*	100## –	100## –	Investment holding, property investment and provision of management services to group companies
Wellgem Asia Limited	Hong Kong	Incorporated	Ordinary HK$10,000	100#	100#	Property development
Zhongran Gas (Shenzhen) Company Limited*	PRC	Wholly-foreign owned enterprises ("WFOE")	Registered US$29,800,000	100#	100#	Investment holding and treasury
中燃投資有限公司	PRC	WFOE	Registered RMB898,637,000	100#	100#	Investment holding and treasury
Beijing Zhongran Xiangke Oil Gas Technology Company Limited*	PRC	Sino-foreign equity joint venture	Registered RMB20,000,000	60##	60##	Trading of natural gas and gas pipeline construction
Elegant Cheer Limited	Hong Kong	Incorporated	Ordinary HK$10,000	100##	100##	Property holding
Wuhan China Natural Gas Investment Company Limited*	PRC	WFOE	Registered RMB69,980,000	100##	100##	Investment holding
Yiyang Central Gas & City Gas Development Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB44,000,000	80##	80##	Trading of natural gas and gas pipeline construction
Wuhu City Natural Gas Development Company Limited*	PRC	Sino-foreign equity joint venture	Registered RMB100,000,000	90##	90##	Trading of natural gas and gas pipeline construction
北京中油翔科科技有限公司	PRC	Limited liability company	Registered RMB2,000,000	80##	80##	Trading of natural gas and gas pipeline construction

Name of subsidiary	Place of incorporation or registration/ operations	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company 2010 %	2009 %	Principal activities
唐山翔科燃氣有限公司	PRC	Limited liability company	Registered RMB1,000,000	70##	70##	Trading of natural gas and gas pipeline construction
廊坊市翔科危險貨物運輸有限公司	PRC	Limited liability company	Registered RMB500,000	80##	80##	Trading of natural gas and gas pipeline construction
廊坊市翔科油氣技術有限公司	PRC	Limited liability company	Registered RMB2,680,000	51##	51##	Trading of natural gas and gas pipeline construction
Yichang Zhongran City Gas Development Limited*	PRC	Limited liability company	Registered RMB70,000,000	70##	70##	Trading of natural gas and gas pipeline construction
藁城翔科燃氣有限公司	PRC	Limited liability company	Registered RMB2,000,000	95##	95##	Trading of natural gas and gas pipeline construction
Clever Decision Enterprises Limited	BVI	Incorporated	Ordinary US$100	100##	100##	Investment holding
北京通寶華油燃氣技術發展有限公司	PRC	WFOE	Registered RMB20,000,000	100##	100##	Investment holding
Huainan China Gas City Gas Development Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB72,000,000	100##	100##	Trading of natural gas and gas pipeline construction
壽縣中燃	PRC	Sino-foreign equity joint venture	Registered RMB3,000,000	100##	100##	Trading of natural gas and gas pipeline construction
Suizhou Zhongran City Gas Development Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB35,000,000	100##	100##	Trading of natural gas and gas pipeline construction
Xiaogan China Gas Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB48,950,000	100##	100##	Trading of natural gas and gas pipeline construction

Name of subsidiary	Place of incorporation or registration/ operations	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company 2010 %	2009 %	Principal activities
Xiaogan Zhongya China Gas Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB16,002,000	100##	100##	Trading of natural gas and gas pipeline construction
Hanchuan Jchina Gas Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB11,274,000	100##	100##	Trading of natural gas and gas pipeline construction
Yunmeng China Gas Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB9,708,000	100##	100##	Trading of natural gas and gas pipeline construction
Yingcheng Jiaxu China Gas Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB10,074,000	100##	100##	Trading of natural gas and gas pipeline construction
Danyyang Zhongran Gas Co., Ltd.*	PRC	WFOE	Registered HK$20,000,000	100##	100##	Trading of natural gas and gas pipeline construction
Pizhou Zhongran City Gas Development Co., Ltd.*	PRC	WFOE	Registered US$3,060,000	100##	100##	Trading of natural gas and gas pipeline
Suzhou Zhongran City Gas Development Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered US$3,625,000	75##	75##	Trading of natural gas and gas pipeline construction
Cangzhou Zhongran City Gas Development Co., Ltd.*	PRC	WFOE	Registered HK$2,000,000	100##	100##	Trading of natural gas and gas pipeline construction
Nanpixian Zhongran City Gas Development Co., Ltd.*	PRC	WFOE	Registered HK$2,000,000	100##	100##	Trading of natural gas and gas pipeline
Wuhuxian Zhongran City Gas Development Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB10,000,000	100##	100##	Trading of natural gas and gas pipeline construction
Qinzhou Zhongran City Gas Development Co., Ltd.*	PRC	WFOE	Registered RMB20,000,000	100##	100##	Trading of natural gas and gas pipeline construction

Name of subsidiary	Place of incorporation or registration/ operations	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company 2010 %	2009 %	Principal activities
Yangzhong Zhongran City Gas Development Co., Ltd.*	PRC	WFOE	Registered US$1,000,000	100##	100##	Trading of natural gas and gas pipeline construction
Tianmen Zhongran City Gas Development Co., Ltd.*	PRC	WFOE	Registered RMB10,000,000	100##	100##	Trading of natural gas and gas pipeline construction
Baoji Zhongran City Gas Development Co., Ltd.	PRC	Sino-foreign equity joint venture	Registered RMB265,725,000	64##	64##	Trading of natural gas and gas pipeline construction
Nanjing Zhongran City Gas Development Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB200,000,000	100##	100##	Trading of natural gas and gas pipeline construction
Yulin Zhongran City Gas Development Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB20,000,000	100##	100##	Trading of natural gas and gas pipeline construction
烏審旗中燃城市燃氣發展有限公司	PRC	WFOE	Registered RMB50,000,000	100##	100##	Trading of natural gas and gas pipeline construction
Fushun Zhongran City Gas Development Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB133,330,000	100##	100##	Trading of natural gas and gas pipeline construction
Wuwei Zhongran City Gas Development Co., Ltd.*	PRC	Sino-foreign equity joint venture	Registered RMB18,000,000	100##	100##	Trading of natural gas and gas pipeline construction
重慶渝北	PRC	Sino-foreign equity joint venture	Registered RMB5,060,000	100##	100##	Trading of natural gas and gas pipeline construction
包頭燃氣	PRC	Sino-foreign equity joint venture	Registered RMB183,800,000	80##	80##	Trading of natural gas and gas pipeline construction
包頭加氣	PRC	Sino-foreign equity joint venture	Registered RMB30,000,000	80##	80##	Natural gas refill services and gas station administration

Name of subsidiary	Place of incorporation or registration/ operations	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company 2010 %	2009 %	Principal activities
包頭申銀	PRC	Sino-foreign equity joint venture	Registered RMB10,000,000	80##	80##	Design, construction and maintenance of city pipeline projects
Zhongyou Hua Dian	PRC	Limited liability company	Registered RMB220,000,000	87.5##	83##	Trading of LPG
上海中油能源控股有限公司	PRC	Limited liability company	Registered RMB500,000,000###	100##	83##	Investment in petrochemical facilities of storage and transportation, fundamental facilities of pier, sales of raw chemical materials and construction materials
溫州中化燃氣有限公司	PRC	Limited liability company	Registered RMB20,000,000	87.5##	83##	Sale of inflammable gas, LPG, inflammable liquid and inflammable solid
溫州市華顯燃氣有限公司	PRC	Limited liability company	Registered RMB20,000,000	87.5##	83##	Goods delivery and as agent of steel cylinder testing
溫州中燃能源有限公司	PRC	Limited liability company	Registered RMB3,000,000	87.5##	83##	Retailing and wholesaling of LPG and accessories
廣州華凱石油燃氣有限公司	PRC	Limited liability company	Registered USD8,000,000	56.9##	54##	Manufacturing of highly purified LPG, highly purified propane and butane
廣西中油能源有限公司 *(note 2)*	PRC	Limited liability company	Registered USD7,000,000	60##	60##	Storing and trading of LPG. Sales of chemical products, filling of LPG and delivery of hazardous products

Name of subsidiary	Place of incorporation or registration/ operations	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company		Principal activities
				2010	2009	
				%	%	
江蘇中油長江石化有限公司 *(note 3)*	PRC	Limited liability company	Registered US$10,000,000	50.86##	50.86##	Producing and storing LPG and chemical product
廈門中油鷺航油氣有限公司	PRC	Limited liability company	Registered RMB21,250,000	70##	58##	Operation of gas in cities, filling of LPC, delivery of hazardous products and wholesaling and retailing of chemical products
榆林中燃	PRC	Limited liability company	Registered RMB100,000,000	–	60##	Trading of natural gas and gas pipeline construction
China Gas Corporate Services Limited	Hong Kong	Incorporated	Ordinary HK$2	100##	100##	Nominee and secretarial services
Iwai Style Limited Limited	Hong Kong	Incorporated	Ordinary HK$2	100##	100##	Provision of management services to the Group
上海華辰	PRC	Limited liability company	Registered RMB60,000,000	100##	–	Shipping delivery services, technical development, providing consultancy services and services and agent of delivery
南京新浦口	PRC	Limited liability company	Registered RMB30,000,000	100##	–	Trading of natural gas and gas pipeline construction
遼陽中燃	PRC	Limited liability company	Ordinary RMB68,500,000	80##	–	Trading of natural gas and gas pipeline construction
Brilliant China	BVI	Incorporated	Ordinary US$50,000	100##	–	Investment holding
Zhongmin Zhongran	PRC	Limited liability company	Ordinary HK$30,000,000	100##	–	Investment holding

Name of subsidiary	Place of incorporation or registration/ operations	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company		Principal activities
				2010	2009	
				%	%	
牡丹江大通燃氣	PRC	Limited liability company	Ordinary RMB40,000,000	100##	–	Trading of natural gas and gas pipeline construction
南昌中燃	PRC	Limited liability company	Ordinary RMB15,000,000	80##	–	Trading of natural gas and gas pipeline construction
深圳中燃	PRC	Limited liability company	Ordinary RMB50,000,000	95##	–	Trading of natural gas and gas pipeline construction
南寧管道	PRC	Limited liability company	Registered RMB60,000,000	60##	–	Trading of natural gas and gas pipeline construction

* English name is for identification purposes only.

\# The proportion of nominal value of issued share capital/registered capital/registered capital directly held by the Company.

\## The proportion of nominal value of issued share capital/registered capital/registered capital indirectly held by the Company.

\### The registered capital of the Company increased from RMB100,000,000 to RMB600,000,000 during the period ended 31 October 2009. Zhongran Gas, contributed the additional RMB500,000,000 capital to the Company. Upon the completion of the increase in the registered capital of the Company, the Company acquired 83% interests in the registered capital of Zhongyou Hua Dian from Zhongran Investment at a cash consideration of RMB500,000,000. Subsequently, the Company undergone a capital reduction in which the registered capital is reduced by RMB100,000,000.

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

Notes:

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

(2) The Group has 52.5% indirect interest in 廣西中油能源有限公司 through the 60% direct interest held by a 87.5% owned subsidiary, Zhongyou Hua Dian. Therefore the Group has control over this entity and it is considered as a subsidiary of the Company.

(3) The Group has 44.5% indirect interest in 江蘇中油長江石化有限公司 through the 50.86% direct interest held by an 87.5% owned subsidiary, Zhongyou Hua Dian. Therefore the Group has control over this entity and it is considered as a subsidiary of the Company.

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

CORPORATE INFORMATION ON CHINA GAS

Registered Office	Clarendon House 2 Church Street Hamilton HM11 Bermuda
Head Office and Principal Place of Business in Hong Kong	Room 1601 16th Floor AXA Centre 151 Gloucester Road Wan Chai Hong Kong
Financial Advisor in Respect of the Offers	Macquarie Capital (Hong Kong) Limited
Independent Financial Advisor to the Independent Board Committee in Respect of the Offers	ING Bank N.V.
Auditors	Deloitte Touche Tohmatsu Certified Public Accountants
Company Secretary	Li Man Kit

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility (except with respect to the China Gas Information), includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular (other than the China Gas Information) is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular (other than the China Gas Information) misleading.

The "China Gas Information" consists of (i) the information on China Gas set forth in Part C — Information on the China Gas Group of the letter from the ENN Energy Board; and (ii) the financial information on China Gas set forth in Appendix III of this circular.

2. DIRECTORS' INTERESTS IN SECURITIES

As at the Latest Practicable Date, the interests or short positions of the Directors or chief executive of the Company in the ENN Energy Shares, underlying shares and debentures of the Company and the shares and debentures of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Director or chief executive was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange were as follows:

Long position in Shares and Share Options of the Company

		Interests in shares						
Name of Director	Capacity	Personal interests	Corporate interests	Family interests	Total interests in shares	Interests in underlying shares pursuant to share options	Total aggregate interests in shares and underlying shares	Approximate percentage of the Company's total issued share capital as at the Latest Practicable Date
Mr. Wang Yusuo ("Mr. Wang")	Beneficial owner and interest of controlled corporation	876,000 *(Note 2)*	326,095,000 *(Note 1)*	–	326,971,000	500,000 *(Note 2)*	327,471,000	30.70%
Ms. Zhao Baoju ("Ms. Zhao")	Interest of controlled corporation and interest of spouse	–	326,095,000 *(Note 1)*	876,000 *(Note 2)*	326,971,000	500,000 *(Note 2)*	327,471,000	30.70%
Mr. Cheung Yip Sang	Beneficial owner	–	–	–	–	1,950,000	1,950,000	0.18%

		Interests in shares						
Name of Director	**Capacity**	**Personal interests**	**Corporate interests**	**Family interests**	**Total interests in shares**	**Interests in underlying shares pursuant to share options**	**Total aggregate interests in shares and underlying shares**	**Approximate percentage of the Company's total issued share capital as at the Latest Practicable Date**
Mr. Zhao Jinfeng	Beneficial owner	–	–	–	–	1,180,000	1,180,000	0.11%
Mr. Yu Jianchao	Beneficial owner	–	–	–	–	1,800,000	1,800,000	0.17%
Mr. Cheng Chak Ngok	Beneficial owner	225,000	–	–	225,000	225,000	450,000	0.04%
Mr. Zhao Shengli *(Note 3)*	Beneficial owner	–	–	–	–	1,550,000	1,550,000	0.15%
Mr. Wang Dongzhi *(Note 3)*	Beneficial owner	–	–	–	–	1,225,000	1,225,000	0.11%
Mr. Jin Yongsheng	Beneficial owner	–	–	–	–	200,000	200,000	0.02%
Mr. Wang Guangtian	Beneficial owner	–	–	–	–	200,000	200,000	0.02%
Ms. Yien Yu Yu, Catherine	Beneficial owner	–	–	–	–	200,000	200,000	0.02%
Mr. Kong Chung Kau	Beneficial owner	–	–	–	–	200,000	200,000	0.02%

Notes:

1. The two references to 326,095,000 shares relate to the same block of shares. Such shares are held by ENN Group International Investment Limited ("EGII"), which is beneficially owned as to 50% by Mr. Wang and 50% by Ms. Zhao, the spouse of Mr. Wang.

2. Ms. Zhao, being the spouse of Mr. Wang, is deemed to be interested in these shares and underlying shares held by Mr. Wang, and vice versa.

3. Mr. Zhao Shengli and Mr. Wang Dongzhi were appointed as Executive Directors of the Company on 25 March 2011.

Save as disclosed above, none of the Directors or chief executive of the Company had, as at the Latest Practicable Date, any interests or short positions in the shares, underlying shares and debentures of the Company and the shares and debentures of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Director or chief executive was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had, or is proposed to have, a service contract with any member of the ENN Energy Group (excluding contracts expiring or determinable by the employer within one year without compensation (other than statutory compensation)).

4. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, to the best knowledge of the Directors, none of the Directors or their respective associates (within the meaning defined in the Listing Rules) had any interests in any business which competed or might compete with the business of the ENN Energy Group.

5. INTERESTS IN ASSETS AND CONTRACTS

As at the Latest Practicable Date, none of the Directors or experts named in the section headed "Experts and Consents" in this appendix had any direct or indirect interest in the assets which had been, since December 31, 2011, the date to which the latest published audited consolidated financial statements of the Company have been made up, acquired or disposed of by or leased to any member of the ENN Energy Group (including any company which will become a subsidiary of the Company by reason of an acquisition or which has been agreed or proposed since December 31, 2011, being the date to which the audited consolidated financial statements of the Company have been made up), or were proposed to be acquired or disposed of by or leased to any member of the ENN Energy Group (including any company which will become a subsidiary of the Company by reason of an acquisition or which has been agreed or proposed since December 31, 2011, being the date to which the audited consolidated financial statements of the Company have been made up).

There was no contract or arrangement subsisting as at the Latest Practicable Date in which a Director was materially interested and which was significant in relation to the business of the ENN Energy Group (including any company which will become a subsidiary of the Company by reason of an acquisition or which has been agreed or proposed since December 31, 2011, being the date to which the latest published audited consolidated financial statements of the Company have been made up).

6. MATERIAL CONTRACTS

Set out below are the material contracts (not being contracts entered into in the ordinary course of business) entered or to be entered into by any member of the ENN Energy Group (including any company which will become a subsidiary of the Company by reason of an acquisition or has been agreed or proposed since December 31, 2011, being the date to which the latest published audited consolidated financial statements of the Company have been made up) within the two years immediately preceding the Latest Practicable Date:

(a) Consortium Agreement

(b) Facility Agreement

(c) an escrow agreement dated December 1, 2011 between the Company, the Financial Adviser and Citibank, N.A., Hong Kong Branch as the escrow agent in relation to the opening and operation of an escrow account

7. LITIGATION

As at the Latest Practicable Date, so far as the Directors were aware, no member of the ENN Energy Group (including any company which will become a subsidiary of the Company by reason of an acquisition or which has been agreed or proposed since December 31, 2011, being the date to which the latest published audited consolidated financial statements of the Company have been made up) was engaged in any litigation or arbitration or claim of material importance and the Directors were not aware of any litigation or claims of material importance pending or threatened against any member of the ENN Energy Group (including any company which will become a subsidiary of the Company by reason of an acquisition or which has been agreed or proposed since December 31, 2011, being the date to which the latest published audited consolidated financial statements of the Company have been made up).

8. EXPERTS AND CONSENTS

The names and qualifications of the professional advisers who have been named in this circular or given their opinion or advice which are contained in this circular are set forth below:

Name	Qualification
Citigroup Global Markets Asia Limited	a licensed corporation to carry on business in type 1 (Dealing in Securities), type 4 (Advising on Securities), type 6 (Advising on Corporate Finance) and type 7 (Providing Automated Trading Services) regulated activities under the SFO

The Financial Adviser has given and has not withdrawn its written consent to the issue of this circular with the inclusion of references to its name in the form and context in which they respectively appear.

Save as disclosed herein, as at the Latest Practicable Date, the Financial Adviser does not have any shareholding in any member of the ENN Energy Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the ENN Energy Group.

9. GENERAL

(a) The company secretary of the Company is Mr. Cheng Chak Ngok (a fellow member of the Association of Chartered Certified Accountants in England and the Hong Kong Institute of Certified Public Accountants and an associate member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in England).

(b) The registered office of the Company is Ugland House, P O Box 309, South Church Street, George Town, Grand Cayman, Cayman Islands, British West Indies.

(c) The principal place of business of the Company in Hong Kong is at Rooms 3101–04, 31st Floor, Tower 1, Lippo Centre, 89 Queensway, Hong Kong.

(d) The head office of the Company in the PRC is Building A, ENN Industrial Park, Xinyuan DongDao Road, Economic and Technological Development Zone, Langfang City, Hebei Province, PRC.

(e) The share registrar of the Company in Hong Kong is Computershare Hong Kong Investor Limited at Rooms 1712–16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

10. LANGUAGE

This circular has been printed in English and Chinese. In the event of any inconsistency, the English language text of this circular shall prevail over the Chinese language text.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of the Company, Rooms 3101–04, 31st Floor, Tower 1, Lippo Centre, 89 Queensway, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this circular:

(a) the memorandum and articles of association of the Company;

(b) the annual reports of the ENN Energy Group for the years ended December 31, 2010 and 2011;

(c) the material contracts referred to in the section entitled "6. Material Contracts" of Appendix V;

(d) the written consent referred to in the section headed "8. Experts and Consents" of Appendix V; and

(e) each circular issued by the Company pursuant to the requirement set out in Chapters 14 and/or 14A of the Listing Rules which has been issued since the date of the latest published audited accounts, being December 31, 2011.

ENN 新奥

新奥能源控股有限公司
ENN Energy Holdings Limited

(incorporated in the Cayman Islands with limited liability)
(Stock Code: 2688)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting ("**EGM**") of ENN Energy Holdings Limited (the "**Company**") will be held at Tai Shan Room, Function Room, Level 5, Island Shangri-La Hong Kong, Two Pacific Place, Supreme Court Road, Hong Kong on Friday, July 6, 2012 at 2:00 p.m. for the purpose of considering and, if thought fit, passing the resolutions below with or without amendments.

ENN Energy Shareholders should note the information set forth in Appendix I of the Letter from the Board headed "Risks Associated with the Transaction" included in the circular to shareholders of the Company issued in connection with the consideration of the ordinary resolution of the Company below (the "**circular**").

ORDINARY RESOLUTIONS

"**1. THAT:**

(a) the entering into of the consortium agreement dated December 12, 2011 by and between the Company and Sinopec Corp. in relation to the conduct of the Offers, corporate governance of the China Gas Group after completion of the Offers, post-completion arrangements and other matters in relation to the Offers (the "**Consortium Agreement**"), details of which are also set forth in the circular, and all transactions contemplated thereunder, including any amendments thereof or any waivers thereunder, be and are hereby approved, ratified and confirmed; and (b) any one director of the Company be and is hereby authorized for and on behalf of the Company to execute all such documents, instruments, agreements and deeds and do all such acts, matters and things as he/she may in his/her absolute discretion consider necessary or desirable for the purpose of and in connection with the implementation of the Consortium Agreement and the transactions contemplated thereunder and to agree to such revisions, variations or amendments to any of the terms or the structure of the Consortium Agreement and the transactions and transaction documents contemplated thereunder as he/she may in his/her absolute discretion consider necessary or desirable."

"**2. THAT:**

(a) the acquisition of all the outstanding shares ("**China Gas Shares**") in the issued share capital of China Gas Holdings Limited ("**China Gas**", Stock Code: 384) and the cancellation of the outstanding options ("**China Gas Options**") of China Gas granted pursuant to the share option scheme adopted by China Gas on February 6, 2003, as amended from time to time (other than those China Gas Shares already held by the Company and China Petroleum & Chemical Corporation ("**Sinopec Corp**." and together with the Company, the "**Offerors**") by way of a pre-conditional voluntary general offer (the "**Offers**") by Citigroup Global Markets Asia Limited on behalf of the Offerors for a total cash consideration payable by the Company of up to HK$9,184,866,264 (the "**Total ENN Consideration**"), the details of which are set out in the joint announcement published by the Company and Sinopec Corp. on December 12, 2011, and all transactions contemplated thereunder, be and are hereby approved, ratified and confirmed; and (b) any one director of the Company be and is hereby authorized for and on behalf of the Company to execute all such documents, instruments, agreements and deeds and do all such acts, matters and things as he/she may in his/her absolute discretion consider necessary or desirable for the purpose of and in connection with the implementation of the Offers or any revisions thereof and the transactions contemplated thereunder and (provided that the Company's total financial obligation does not exceed the Total ENN Consideration) to agree to such variations, amendments or revisions of/to any of the terms or the structure of the Offers (including without limitation, the structure of the consortium) and the transactions and transaction documents contemplated thereunder and such waivers of pre-conditions or conditions to the Offers (where applicable) as he/she may in his/her absolute discretion consider necessary or desirable."

By Order of the Board
ENN ENERGY HOLDINGS LIMITED
CHENG Chak Ngok
Executive Director and
Company Secretary

Hong Kong, May 31, 2012

Principal place of business in Hong Kong:
Rooms 3101–04,
Tower One, Lippo Centre
89 Queensway
Hong Kong

Notes:

1. Every shareholder of the Company entitled to attend and vote at the EGM is entitled to appoint one or more proxies to attend and, on a poll, vote in his stead. A proxy need not be a shareholder of the Company.

2. To be valid, a form of proxy and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority, must be deposited at the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the Meeting or any adjournment thereof.

3. Completion and delivery of the form of proxy will not preclude a shareholder of the Company from attending and voting at the Meeting if the shareholder of the Company so desires.

4. Where there are joint registered holders of any share in the Company, any one of such persons may vote at the EGM, either personally or by proxy, in respect of such share as if he was solely entitled thereto; but if more than one of such joint holders be present at the Meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register of members in respect of the relevant joint holding.

5. For the purpose of determining the identity of shareholders of the Company who are entitled to attend and vote at the EGM, the register of members of the Company will be closed from July 4 to July 6, 2012, both days inclusive, during which period no transfer of shares in the Company will be effected.

6. Pursuant to Rule 13.39(4) of the Rule Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, all votes of shareholders at the meeting will be taken by poll.

7. As at the date of this notice, the board of directors of the Company comprises seven executive directors, namely Mr. WANG Yusuo (Chairman), Mr. CHEUNG Yip Sang (Chief Executive Officer), Mr. ZHAO Jinfeng, Mr. YU Jianchao, Mr. CHENG Chak Ngok, Mr. ZHAO Shengli and Mr. WANG Dongzhi; two non-executive directors, namely Ms. ZHAO Baoju and Mr. JIN Yongsheng; and three independent non-executive directors, namely Mr. WANG Guangtian, Ms. YIEN Yu Yu, Catherine and Mr. KONG Chung Kau.