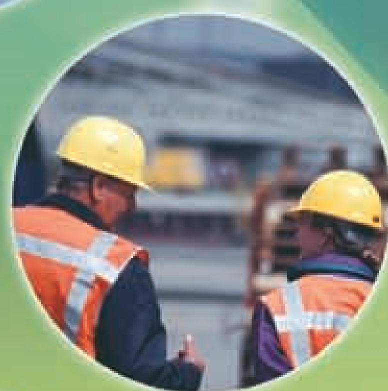
中裕燃氣控股有限公司
ZHONGYU GAS HOLDINGS LIMITED

(Stock Code 股份代號：8070)



Annual Report 2009
年報

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This report, for which the directors of Zhongyu Gas Holdings Limited (the "Company") collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") for the purpose of giving information with regard to the Company and its subsidiaries (collectively the "Group"). The directors of the Company (the "Directors"), having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

Contents

Corporate Information

EXECUTIVE DIRECTORS

Mr. Wang Wenliang *(Chairman)*
Mr. Hao Yu *(Chief Executive Officer)*
Mr. Lu Zhaoheng
Mr. Lui Siu Keung *(Chief Financial Officer)*

NON-EXECUTIVE DIRECTORS

Mr. Xu Yongxuan *(Vice Chairman)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wang Shunlong
Dr. Luo Yongtai
Mr. Hung, Randy King Kuen

QUALIFIED ACCOUNTANT

Mr. Lui Siu Keung

COMPANY SECRETARY

Mr. Lui Siu Keung

COMPLIANCE OFFICER

Mr. Hao Yu

AUTHORISED REPRESENTATIVES

Mr. Wang Wenliang
Mr. Hao Yu

AUDIT COMMITTEE

Mr. Wang Shunlong *(Chairman)*
Dr. Luo Yongtai
Mr. Hung, Randy King Kuen

REMUNERATION COMMITTEE

Mr. Wang Shunlong *(Chairman)*
Dr. Luo Yongtai
Mr. Hung, Randy King Kuen

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AUDITOR

Deloitte Touche Tohmatsu

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The Hong Kong & Shanghai Banking Corporation Limited

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

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Hong Kong

STOCK CODE

8070

Chairman's Statement

To all shareholders:

On behalf of the board of directors, I am pleased to announce that overall encouraging annual results have been recorded for the year ended 31 December 2009. The Group's natural gas operations continued to develop rapidly in 2009. Turnover amounted to approximately HK$844,150,000 in 2009, representing a growth of 20.1% as compared to HK$703,020,000 in 2008. The outstanding revenue growth was mainly attributable to the continuous expansion in the Group's downstream gas distribution in the People's Republic of China (the "PRC"), comprising of sales of natural gas and operation of CNG filing stations.

BUSINESS REVIEW

The past year was a challenging but fruitful period for the Group. The exploration of CBM in Henan province operated smoothly. Under the joint venture company, Henan Zhongyu Coalbed Methane Development and Utilization Company Limited, the drilling of 33 wells in the Jiaozuo CBM block have been completed, and all of them have entered into the dewatering and releasing process. Evaluations by independent parties have indicated enormous CBM reserves located in our Jiaozuo CBM block. In 2010, the Group will further extend the trial and exploration in the Jiaozuo CBM blocks so as to better master its reserve estimates, with the aim of hastening the commercial production of the CBM.

Regarding its downstream natural gas distribution business, the Group has acquired two additional piped gas projects in 2009, making a total of 11 downstream projects in aggregate. As China's economy continues its rapid development pace in 2009, the significant growth of domestic consumption has boosted the sales of piped gas. Against this backdrop, the Group's downstream gas sales volume has reached 220,928,200 m^3 in 2009.

During the year, the Group completed the construction of two additional CNG filling stations in Jiyuan City and Sanmenxia City, Henan Province, which commenced operations in April and December 2009 respectively. This brings the Group's current total to five CNG filling stations. Additionally, the Group also plans to erect one CNG filling stations in Nanjing and one in Luohe City, Jiyuan City and Samenxia City respectively by the end of 2010 in order to increase the Group's market share.

Due to continued urbanization and increase of demand for public transport, the Group believes that the construction of CNG filling stations will provide a solid foundation for further enhancement of the Group's vertically integrated value chain.

PROSPECTS

The Group is confident in its future prospects since the steady growth of the natural gas market in China is expected to be maintained due to the favorable domestic business environment and the growing demand for piped gas consumption arising from the progressing urbanization in China. In the future, the Group will expand its downstream natural gas distribution with a focus on high margin commercial and industrial users and gas refueling stations with the goal of increasing its penetration rate in the nine cities it is operating in.

In order to ease shortage of the natural gas supply and to meet robust demand for clean energy, the construction works for building of the 2nd West-East pipeline will be completed by the end of 2010 and commercial operation was scheduled to commence in early 2011. With the aim to secure the Group's future natural gas supply and further develop its downstream natural gas distribution business in Luohe City, Jiyuan City and Senmenxia City, where the West-East natural gas pipeline branch networks will cover, the Group has entered into 3 outline agreements for natural gas sales and transportation with the local natural gas suppliers respectively in 2009.

Chairman's Statement

The surging demand for clean energy and concerns over environmental issues have also prompted the Chinese government to place environmental protection and utilization of clean energy high on its agenda, and to adopt many favorable policies and rewarding schemes to encourage the exploration and utilization of CBM. Going forward, being one of the early movers in the PRC's unconventional natural gas sector, the Group will hasten the commercialization of its CBM production in Henan by advancing the exploration technology, extending the exploration of CBM to coal blocks outside Jiaozuo city, and optimizing our vertically integrated value chain.

In addition to the abovementioned strategies, the Group is cautiously seeking for suitable investment opportunities. With our healthy financial position, together with the constant cash inflow generated by our downstream projects, we believe that we would be able to prudently increase our market penetration. At the same time, we will strive to enhance our operation efficiency by cooperating with promising peers in the industry.

In January 2010, China Gas Holdings Limited ("China Gas") (Stock Code: 384) proposed to acquire all of the issued shares of the Group. We believe that this acquisition, should it be completed, will generate synergy effects on business development that are expected to enhance our market position and boost the Group's future development potential.

We believe that Zhongyu Gas is well-positioned to tackle the challenges imposed by the global economic environment and maximize our shareholders' returns.

Finally, I would like to extend my greatest appreciation to our management team and staff for their dedication and contribution. I would also like to take this opportunity to express appreciation to our shareholders and customers for their continuous support and confidence in the Group.

Wang Wenliang
Chairman
Zhengzhou, the PRC
24th June, 2010

Management Discussion and Analysis

BUSINESS REVIEW

Overall

We are an early mover in developing a vertically integrated gas operation from upstream resource development to downstream distribution in the PRC. During the year under review, we are principally engaged in (i) the exploration, exploitation and development of coalbed methane gas ("CBM") and (ii) the development, construction of gas pipeline network and sales of piped gas and sales of natural gas from compressed natural gas ("CNG") filling stations for vehicles in the People's Republic of China (the "PRC").

Upstream CBM Exploration

With the aim to ensure sufficient and cost-effective gas supply for the Group's downstream gas projects located in Henan Province, the PRC and enhance the Group's profitability, the Group tapped into the upper stream CBM supply market in the PRC in 2007.

As at 31st December, 2009, the Group secured eight coal blocks, situated at Jiaozuo, Zhengzhou, Pingdingshan (including Yuzhou and Ruzhou), Hebi, Yima, Yongxia, Henan Province, the PRC to explore, exploit, develop and produce CBM.

As at 31st December, 2009, the Group successfully completed drilling of 33 vertical wells in Jiaozuo and all of them have entered into dewatering and releasing process since third quarter 2008 and some are showing positive result until now. In April 2008, the Group has appointed Netherland, Sewell & Associates, Inc. ("NSAI"), a renowned energy research firm, to prepare an independent report confirming the extent of the Group's CBM deposits. The estimated low, medium and high gas volumes in Jiaozuo CBM block as of 1st April, 2008 were approximately 4,166.9 BCF (approximately 118.0 bln m^3), 5,916.3 BCF (approximately 167.5 bln m^3) and 9,275.6 BCF (approximately 262.7 bln m^3) respectively. The result indicates an enormous CBM reserves located in our Jiaozuo CBM block, and approximates to the preliminary gas volume estimation which was conducted by the related domestic CBM exploration institutions and announced by the Group before. Going onward, the Group will further extend the trial and exploration in Jiaozuo CBM blocks as well as to better master its reserve estimates, with the aim of hastening the commercial production of the CBM.

Downstream Natural Gas Distribution

The Group' downstream natural gas distribution business primarily comprises sales of piped gas, gas pipeline construction and sales of natural gas from CNG filling stations for vehicles.

As at 31st December, 2009, the Group secured 11 exclusive gas projects, three in Shandong Province, the PRC and eight in Henan Province, the PRC. Among 11 gas projects, two new piped gas projects, including 臨沂山林燃氣有限公司 (Linyi Shanlin Gas Company Limited) and 修武中裕燃氣發展有限公司 (Xiu Wu Zhongyu Gas Development Company Limited), were secured by the Group during the year.

The cities in which the Group's gas projects operate currently have a total connectable urban population of approximately 3,284,000. It is estimated that there are an aggregate of approximately 925,000 connectable residential households in such cities.

Management Discussion and Analysis

With the aim to enhance the Group's turnover and results, the Group has commenced to develop CNG vehicle gas filling business in the PRC since September 2007. In September 2007, one CNG filling station has been erected and commenced its operation in Linyi City, Shandong Province, the PRC. In October 2008, the Group has completed construction of a new CNG filling station in Luohe City, Henan Province, the PRC. The commercial operation of such CNG filling station has been commenced from the end of November 2008. In March 2009, the Group has completed the construction of a new CNG filling station in Jiyuan City, Henan Province, the PRC, and such CNG filling station commenced commercial operation on 1st April, 2009. In December 2009, one CNG filling station has been completed construction and commenced its operation in Sanmenxia City, Henan Province, the PRC.

On 7th September, 2009, the group acquired the entire equity interest of 南京裕聯壓縮氣有限公司 (Nanjing Yulian Compressed Gas Company Limited) ("Nanjing Yulian"), a company established in the PRC with limited liability. Nanjing Yulian is an investment holding company and has no other business save for the holding of 70% equity interests in 南京裕聯天然氣加氣有限公司 (Nanjing Yulian Natural Gas Filling Company Limited) ("Nanjing Yulian NG Filling"). Nanjing Yulian obtained approval from local authorities of Nanjing, the PRC to construct a total of eight CNG filling stations in Nanjing. Nanjing Yulian NG Filling has erected one CNG filling station and commenced its operation in Nanjing, the PRC during the year. In future, the Group plans to erect two new CNG filling stations in Luohe City, Jiyuan City, Samenxia City and Nanjing respectively by 2010 in order to increase the Group's market share.

In order to ease shortage of the natural gas supply and to meet robust demand for clean energy, the construction works for building of West-East natural gas transmission project second pipeline progresses were projected to be completed by the end of 2010 and the commercial operation was planned to be commenced in early 2011. With the aim to secure the Group's future natural gas supply and further develop the Group's downstream natural gas distribution business in Luohe City, Jiyuan City and Sanmenxia City, where West-East natural gas pipeline branch networks will cover, the Group has entered into 3 outline agreements of natural gas sales and transportation with the local natural gas suppliers respectively.

Sales of Piped Gas

Sales of piped gas to customers provide the Group with a recurring stream of revenue. Because of the huge usage of piped gas by our industrial/commercial customers and the increase in the accumulated number of residential customers, sales of piped gas has become the largest component of the Group's total turnover since 2007 and still the largest one in 2008. Nearly 90% of total sales of piped gas for the year ended 31st December, 2009 were derived from provision of natural gas. Fees charged by the Group for provision of piped natural gas are required to obtain approval from local pricing bureaus. During the year under review, the total unit of natural gas provided by the Group to its customers was approximately 220,928,200 m^3 (2008: 170,778,000 m^3) among which, sales volume to its residential customers was approximately 27,497,800 m^3 (2008: 17,738,000 m^3); to its commercial/industrial customers was approximately 156,364,100 m^3 (2008: 120,668,000 m^3); to its wholesale customers was approximately 37,066,300 m^3 (2008: 32,372,000 m^3).

Gas Pipeline Construction

Connection revenue from gas pipeline construction is one-off connection fees paid by residential households and industrial/commercial customers for the connection of their premises to the piped gas networks operated by the Group. Connection fees charged by the Group are required to obtain approval from local pricing bureaus. During the year under review, the average connection fees charged to residential households by the Group was approximately RMB2,100. The connection fees charged to industrial/commercial customers by the Group was significantly higher amounts than that charged to residential households and was determined on a case basis. With the aim to minimize our risk on the recoverability of amounts due from customers of contract work, commencing from the year 2007, 20-40% of the contract sum is required to be paid in advance by our customers before the commencement of their premises to our piped gas networks. As the Group's downstream gas distribution business is still at the development stage, connection revenue from gas pipeline construction remained a significant component of the Group's turnover in 2009.

During the year under review, the Group made new gas pipeline connection for 77,612 residential households (2008: 50,291 residential households) and 269 industrial/commercial customers (2008: 333 industrial/commercial customers). As at 31st December, 2009, the Group have the accumulated number of residential households of 343,770 (2008: 266,158 residential households) and industrial/commercial customers of 1320 (2008: 1051 industrial/commercial customers). As at 31st December, 2009, the Group's penetration rate reached 37% (2008: 30%) (represented by the percentage of accumulated number of residential households to estimated an aggregate of connectable residential households).

Sales of Natural Gas From CNG Filling Stations

During the year under review, the total unit of CNG provided by the Group to its customers was approximately 16,664,800 m^3 (2008: 6,113,000 m^3).

Event After The Reporting Period

On 17th January, 2010, the board of directors of the Company received voluntary conditional cash and securities exchange offer ("Offer") proposed by a wholly owned subsidiary of China Gas Holdings Limited ("China Gas"), a listed company in the Stock Exchange (Stock code: 384), (i) to acquire the entire issued share capital of the Company, (ii) for the acquisition of all outstanding convertible bonds and (iii) for the cancellation of all the outstanding share option of the Company. The consideration will be satisfied by the cash and ordinary shares of China Gas. According to the joint announcement of the Company and China Gas dated 26th January, 2010, after being takeover by China Gas, the Company will still maintain the public float not less than 25% in compliance with the Listing Rules. Details of the proposed takeover are set out in the joint announcement of the Company and China Gas dated 26th January, 2010, offer document of the China Gas dated 17th May, 2010 and response document of the Company dated on 31st May, 2010.

On 26th May, 2010, the Company had also informed the legal advisers to Rich Legend International Limited, a wholly owned subsidiary of China Gas (the "Offeror") and China Gas that it had received:

(a) letters of objection from the joint venture partners of 5 of its 19 operating subsidiaries in the PRC which stated that they object to the Offers and the change in control of the Company, and that if the Company proceeds with the Offers, they would refuse to co-operate with the new management and that the local government may revoke the concession rights of the Company's subsidiaries in the PRC;

(b) in addition to the letters of objection from the above-mentioned 5 joint venture partners, another joint venture partner of 焦作中燃城市燃氣發展有限公司 (a PRC subsidiary of the Company) has also verbally expressed its objection to the Offers and a change in control of the Company;

(c) letters from 3 of the 9 PRC local governments where the Company has operations stating that they would revoke the concession rights of the Company's subsidiaries if the Company proceeds with the Offers without their consent; and

(d) letters of objection from banks who, in aggregate, have lent RMB137,000,000 to the Group. The banks have notified the Company's subsidiaries that the banks are aware of the Offers and that if the Offers complete, resulting in a change in control of the Company, the banks would seek a full repayment of loans made to such subsidiaries of the Company.

The Company has sought PRC legal advice in relation to the above and has received a PRC legal opinion on 28th May, 2010 ("Legal Opinion"). The legal opinion states, among other things, that (i) consent from the relevant joint venture partners to the Offers and/or a change in control of the Company is not required as a matter of PRC law, (ii) such a change in control of the Company should not affect the legal validity of the concession rights granted by the local government authorities, and (iii) there is no requirement to obtain consent to the Offers and/or a change in control of the Company under PRC law or the relevant loan agreements between the Company's subsidiaries and the banks, and there is no stipulation under PRC law or the relevant loan agreements that the banks may call for repayment of the loans in full if there is a change in control of the Company.

However, as set out in the legal opinion, notwithstanding that there is no requirement under PRC law to obtain consents from the joint venture partners and/or the local government authorities, there is a risk that (a) the joint venture partners may still refuse to co-operate with a new management if there is a change in control of the Company; and (b) the local government authorities may revoke the concession rights of the subsidiaries in the PRC which would affect the operation of the Group. As a result, the Directors consider that if the above events materialize, it might result in material changes to the financial position of the Group.

According to the announcement dated 15th June, 2010, the Offeror has received 52.72% and 61.77% form of acceptance for share offer and option offer respectively. No acceptance for convertible bond offer has been received. However, the Offeror has been informed by the legal advisers of Hezhong, that the acceptance of the share offer purportedly made by Hezhong may not have been duly authorised and therefore may be invalid. The Offeror and China Gas are seeking further clarification and confirmation of the status of the acceptance of the share offer by Hezhong. The Offer will remain open for acceptance until 28th June, 2010. The conclusion of the Offer has not been made as at the date these consolidated financial statements were authorised for issuance.

Reference is made to the announcements dated 31st March, 2010 (the "Announcement A"), 23rd April, 2010, 14th May, 2010 (the "Announcement B") issued by the Company in relation to its inability to announce its annual results and publish its annual report for the year ended 31st December, 2009 and its quarterly results for the three months ended 31st March, 2010. As set out in the Announcement A in relation to its inability to announce its annual results and publish its annual report for the year ended 31st December, 2009, the senior management of some of the major subsidiaries of Company have not provided the external auditors with responses to their follow-up questions for the purpose of finalising the audit and as a result, the annual results and annual report of Company for the year ended 31st December, 2009 and the quarterly results for the three months ended 31st March, 2010 had not been issued by 31st March, 2010 and 15th May, 2010, respectively, as required by the GEM Listing Rules.

As set out in the Announcement B, after continuous efforts made by the Directors, on 18th May, 2010, the Directors received a notification from the representative of the senior management of the relevant subsidiaries of Company that they will resume cooperation with the Company to complete the audit of the Company's financial statements for the year ended 31st December, 2009. On 24th May, 2010, the senior management of the relevant subsidiaries of Company commenced providing the outstanding information to the auditor of the Company. In connection with the above, the Company's annual results for the year ended 31st December, 2009 and its quarterly results for the three months ended 31st March, 2010 were published on 24th June, 2010. The Company's annual report for the year ended 31st December, 2009 and its quarterly report for the three months ended 31st March, 2010 will be published on 30th June, 2010.

FINANCIAL REVIEW

Turnover

	2009		2008		
	%	of total	%	of total	Changes
	HK$'000	%	HK$'000	%	%
Sales of piped gas	**494,208**	**58.5**	407,850	58	21.2
Connection revenue from gas pipeline construction	**253,438**	**30.0**	234,405	33.4	8.1
Sales of liquefied petroleum gas	**33,908**	**4.0**	37,110	5.3	(8.6)
Operation of CNG filling stations	**50,103**	**5.9**	19,249	2.7	160.3
Sales of stoves and related equipment	**12,493**	**1.5**	4,406	0.6	183.5
Total	**844,150**	**100.0**	703,020	100.0	20.1

Turnover increased by 20.1% to approximately HK$844,150,000 in 2009 from approximately HK$703,020,000 in 2008. The tremendous growth in turnover was mainly attributable to the robust growth in sales of piped gas and operation of CNG filing stations.

The rapid growth in sales of piped gas was mainly attributable to the increase in the number of households and industrial/commercial users connected as well as the increase in the total gas consumption, which was mainly resulted from the organic growth of the Group's downstream gas distribution business in Linyi City, Louhe City, Jiaozuo City and Yanshi City, Shandong and Henan Province, the PRC. The acquisition of Linyi Shalin in May 2009 has pushed up the sales during the year. On the other hand, the continuous strong development in property market in Henan Province, and many new residential properties are developed in recent year, which leaded to increase demand for natural gas from the new developed residential area.

The substantial increase in revenue from operation of CNG filing stations was mainly attributable to the increase in number of CNG vehicle gas refueling stations in Luohe City and Jiyuan City, Henan Province. Moreover, the sharp increase in revenue was due to additional 30% taxis in Luohe City are converted to usage of natural gas. On the other hand, the newly acquired Nanjing Yulian NG Filling contributed approximately HK$4,866,000 to the Group's revenue from operation of CNG filing stations.

Gross profit margin

The overall gross profit margin in 2009 amounted to approximately 30.4% (2008: 32.2%). The decrease was mainly due to the increase in the proportion of turnover derived from sales of piped gas, which in general has a relatively low profit margin, in the Group's total turnover to approximately 58.5% for the year ended 31st December, 2009 from approximately 58.0% in 2008 and the decrease in the gross profit margin of revenue from gas operation of CNG filing stations to approximately 21.1% for the year ended 31st December, 2009 from approximately 33.0% in 2008, resulting from lower the selling price to gain more market share.

Management Discussion and Analysis

Other income

Other income decreased to approximately HK$9,669,000 in 2009 from approximately HK$14,094,000 in 2008. The 2009 balance mainly represented the bank interest income of approximately HK$2,520,000, the gain on repurchase of convertible bond of approximately HK$1,562,000, and Sundry income (including proceeds from disposal of certain fixed assets and local government rewards) of approximately HK$4,098,000.

Selling and distribution costs

Selling and distribution costs increased by 23.6% to approximately HK$28,728,000 in 2009 from approximately HK$23,237,000 in 2008. The increase was mainly attributable to the increase in (i) staff costs and related expenses increased by 37.2% to approximately HK$18,597,000 from approximately HK$13,550,000 as a result of the increase in headcount as well as increased salary for PRC subsidiaries and (ii) repairs and maintenance expenses increased by 29.2% to approximately HK$4,061,000 from approximately HK$3,143,000.

Administrative expenses

Administrative expenses increased by 7.6% to approximately HK$109,706,000 in 2009 from approximately HK$102,001,000 in 2008. The increase was mainly attributable to (i) staff costs and related expenses increased by 15.9% to approximately HK$36,828,000 in 2009 from approximately HK$31,780,000 in 2008 resulting from the increase in headcount as well as increased salary for PRC subsidiaries; (ii) depreciation cost increased by 16.3% to approximately HK$31,819,000 in 2009 from approximately HK$27,369,000 in 2008 resulting from the additional equipment for the development of the gas refill station; (iii) loss on disposal of property, plant and equipment increased by 2,676.9% to approximately HK$5,887,000 in 2009 from approximately HK$212,000 in 2008 resulting from the written off CIP for the CBM business.

Other expenses

Other expenses increased to approximately HK$21,087,000 in 2009 from approximately HK$48,507,000 in 2008. Other expense for the year under review includes: (i) one-off recognition of equity-settled share based payments approximately HK$5,174,000 resulting from the issuance of share options by the Company on 29th March, 2007 and on 3rd April, 2008 (2008: HK$7,104,000); (ii) allowance for doubtful debt approximately HK$2,075,000 (2008: HK$8,413,000); (iii) impairment loss recognised on loan receivable approximately HK$4,722,000 (2008: HK$nil); (iv) development costs incurred for exploration of CBM in the PRC of approximately HK$9,116,000 (2008: HK$32,990,000). Such development costs mainly include cost of technical services and studies, exploration drilling, fracturing and dewatering. Pursuant to the Group's accounting policy, development cost shall be treated as expenses if the discovery of commercial reserve is not confirmed within one year.

Finance costs

Finance costs decreased by 15.9% to approximately HK$44,338,000 in 2009 from approximately HK$52,740,000 in 2008. The increase was mainly attributable to the decrease in (i) non-cash effective interest expense charged on convertible bonds issued on 25th June, 2007 decreased by 11.9% to approximately HK$28,997,000 in 2009 from approximately HK$32,903,000 in 2008; (ii) interest on bank borrowings decreased by 22.7% to approximately HK$15,341,000 in 2009 from approximately HK$19,837,000 in 2008 resulting from the decrease in the average bank borrowings.

Impairment loss recognised on amounts due from customers for contract work

The Group recorded impairment loss recognised amounts due from customers for contract work of approximately HK$318,000 (2008: HK$12,938,000). Pursuant to the Group's accounting policy, amounts due from customers for contract work would be made impairment if those respective contract works are not completed within one year.

Change in fair value of derivative financial instruments

The Group recorded a non-cash gain arising on change in fair value of derivative financial instruments which was issued by the Company in 2007 of HK$17,672,000 in 2009 (2008: HK$28,075,000).

Impairment loss recognized on other intangible assets

In 2008, due to the uncertainty of sufficient quantities of potentially economic CBM reserves and natural gas to be supplied to the CNG filling stations, the group made an impairment loss on other intangible assets of approximately HK$107,485,000 which includes (i) impairment loss on development costs incurred for exploration of CBM of approximately HK$39,593,000; (ii) impairment loss on the licences possessed by Jiyuan Yulian Compressed Gas Co. Ltd, Luohe Yulian Compressed Gas Co. Ltd, and Sanmenxia Yulian Compressed Gas Co. Ltd. to operate eight CNG filling stations of approximately HK$67,892,000. No impairment loss recognised on other intangible assets was made in 2009.

Income tax expenses

No provision of Hong Kong Profits Tax has been made as the Group had no assessable profits arising in Hong Kong for the year 2009 and 2008.

Pursuant to the relevant laws and regulations in the PRC, certain PRC subsidiaries of the Group and the jointly controlled entity are exempted from PRC Enterprise Income Tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years. The tax concession arrangement of the aforesaid PRC subsidiaries will be expired from 2010 to 2011. According to New Law, the tax concession arrangement will not be granted to all new applicants incorporated after 16th March, 2007. As for the existing group entities entitle to such tax concession but have not commenced their first profit-making year will be exempted from PRC Enterprise Income Tax for two years, followed by a 50% reduction for the next three years regardless of its reported results commencing from 1st January, 2008 and the charge of PRC Enterprise Income Tax for the year has been provided for after taking these tax incentive into account.

Under the EIT Law of the PRC, withholding tax is imposed on the dividend declared to non-PRC tax residents in respect of profits earned by PRC subsidiaries from 1st January, 2008 onwards. During the year ended 31st December, 2009, withholding tax amounted to HK$6,640,000 was charged by the PRC tax authority which levied on the dividends paid to overseas group entities.

Accordingly, the income tax expenses in 2009 amounted to approximately HK$34,772,000 (2008: HK$13,323,000).

Management Discussion and Analysis

Adjusted Earnings from continuing operations before interests, taxation, depreciation and amortisation ("Adjusted EBITDA")

Excluding impairment loss recognised on amounts due from customers for contract work, impairment loss recognised on other intangible assets and change in fair value of derivative financial instruments, the Group's Adjusted EBITDA was approximately HK$145,054,000 in 2009, representing an increase of 38.1% as compared with that of approximately HK$105,037,000 in 2008.

Profit attributable to owners

As a result of the above, profit attributable to owners was approximately HK$20,060,000 in 2009 (2008: HK$92,797,000 (loss)).

LIQUIDITY, FINANCIAL RESOURCES AND WORKING CAPITAL

Liquidity

As at 31st December, 2009, the Group's net current liabilities increased by approximately HK$14,955,000 or 127.7% to approximately HK$26,668,000 (2008: HK$11,713,000).

The increase was mainly attributable to (i) incline the carrying amount repayable within one year from approximately HK$114,675,000 in 2008 to HK$243,146,000 in 2009; (ii) deferred income and advance received increased by 132.3% to approximately HK$108,421,000 in 2009 from approximately HK$46,670,000 in 2008.

As at 31st December, 2009, the Group's current ratio, represented by a ratio of total current assets to total current liabilities, was approximately 1.0 (2008: 1.0).

As at 31st December, 2009, the total assets increased by approximately HK$109,171,000 or 7.2% to HK$1,630,853,000 (2008: HK$1,521,682,000).

Interest bearing loans and other borrowings represents bank loans and convertible bonds.

As at 31st December, 2009, the total bank loans decreased by approximately HK$91,439,000 or 42.7% to HK$305,756,000 (2008: HK$214,317,000).

As at 31st December, 2009, the convertible bonds amounted to approximately HK$142,647,000 (2008: HK$233,141,000).

As at 31st December, 2009, the Group's gearing ratio, represented by a ratio of total interest-bearing loans and other borrowings to total assets, was 0.27 (2008: 0.29).

Financial resources

During the year under review, the Group generally financed its operations with internally generated resources and long term and short term debts.

Working capital

In view of the Group's current financial and liquidity positions and in the absence of unforeseen circumstances, the Directors are of the opinion that the Group has sufficient working capital for its present requirements.

EXPOSURE TO EXCHANGE RATE FLUCTUATIONS

During the year under review, the Group experienced only immaterial exchange rates fluctuations as most of the Group's monetary assets and liabilities were denominated in either Renminbi or the United States dollars and the Group conducted its business transactions principally in Renminbi. The Group expects that the appreciation of Renminbi against the United States dollars will continue in the foreseeable future. Accordingly, the Group considered that as the exchange rate risk of the Group is considered to be minimal, the Group did not employ any financial instruments for hedging purposes.

EMPLOYEE INFORMATION

As at 31st December, 2009, the Group had a total of 1,937 employees (2008: 1,761) in Hong Kong and the PRC, and the total remuneration for the year under review was approximately HK$77,892,000 (2008: HK$67,797,000). The increase was mainly due to salary raise and the increase in the number of headcount resulting from the Group's business expansion by acquiring and establishing a number of companies during the year under review. More than 99.6% of the Group's employees are located in the PRC.

The Group's remuneration and bonus policies are basically determined by the performance of individual employees.

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

The Company has adopted a share option scheme whereby certain employees of the Group and other individuals providing similar services may be granted options to acquire shares.

CHARGE ON THE GROUP'S ASSETS

As at 31st December, 2009, the Group did not have any charges on the Group's assets.

Management Discussion and Analysis

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

As at 31st December, 2009, the Directors did not have any future plans for material investment or capital assets.

CAPITAL COMMITMENTS

On 5th March, 2009, the Group entered into a sales and purchase agreement with the Seller for the acquisition of certain assets and liabilities ("Acquired Assets"), which is mainly comprised of gas pipeline network in the area of Jiaozuo City, with a total consideration of HK$54,271,000 (2008: HK$53,781,000) (equivalent to RMB47,649,000) of which HK$29,936,000 (equivalent to RMB26,284,000) was used to repay certain bank borrowings of the Acquired Assets.

CONTINGENT LIABILITIES

As at 31st December, 2009, the Group did not have any contingent liabilities.

Biographical Information of Directors

EXECUTIVE DIRECTORS

Mr. Wang Wenliang, aged 39, is the Chairman of Zhongyu Gas Holdings Limited (the "Company"). He joined the Company in July 2003. Mr. Wang is responsible for the overall strategic development of the Company and its subsidiaries (collectively the "Group"). Mr. Wang has held investments in various industries in the PRC including aluminium, property, and information technology. Mr. Wang has been a deputy general manager of a company in Zhengzhou, People's Republic of China (the "PRC") (whose principal business is the manufacture and sale of aluminium products) since 1996 and has been a deputy general manager of a company in Henan Province, the PRC (whose principal business is property management and rental) since 1997. Mr. Wang also has been a president of a company in Henan Province, the PRC since 2000, the principal business of which is the provision of software development, networking engineering services, sale of computer and peripheral products, and provision of Internet services. Mr. Wang completed his postgraduate course in Finance in the Chinese Academy of Social Science in the PRC in 2001. Mr. Wang is a chairman and director of Hezhong Investment Holding Company Limited ("Hezhong").

Mr. Hao Yu, aged 37, is the Chief Executive Officer of the Company. He joined the Company in July 2003. Mr. Hao is responsible for supervising the implementation of the Group's strategic plans and managing the day-to-day operation of the Group. He received his master degree in Enterprise Management from the Tianjin University of Finance and Economics in the PRC in 2001 and doctorate degree in Managerial Science and Engineering from the University of Tianjin, the PRC in 2005. Mr. Hao has about eight years' working experience in the securities industry in the PRC, holding various positions with responsibilities in daily operations and business planning. Mr. Hao is a director of Hezhong.

Mr. Lu Zhaoheng, aged 45, graduated from 重慶建築工程學院 (The Architecture and Engineering Institute of Chongqing) in 1984, specialising in City Natural Gas Heat Energy Engineering. Mr. Lu has accumulated about twenty-two years of experience in the development and commercialisation of natural gas in the PRC. Mr. Lu held various positions in 河南省城鄉規劃設計院 (The City Planning Design Institute of Henan Province) and 鄭州市市政規劃設計院 (The Planning Design Institute of Zhengzhou City) and was mainly responsible for the planning, design and consultation regarding natural gas projects. Mr. Lu is mainly responsible for the management of the Group's piped natural gas projects. Mr. Lu joined the Company in June 2004.

Mr. Lui Siu Keung, aged 38, was appointed as an Executive Director of the Company in October 2007 and is the Chief Financial Officer, Company Secretary and Qualified Accountant of the Company. He joined the Company in 2003 and is responsible for the financial and accounting operation of the Group. Mr. Lui has approximately fourteen years of experience in corporate finance, accounting and auditing fields. He graduated from The Hong Kong Polytechnic University with a bachelor of arts degree in accountancy. Mr. Lui is an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Lui is an independent non-executive director of Co-Prosperity Holdings Limited (Stock Code: 707).

Biographical Information of Directors

NON-EXECUTIVE DIRECTORS

Mr. Xu Yongxuan, aged 64, the Vice Chairman of the Company. He graduated from the Beijing Institute of Petroleum, specialising in Geophysics in 1965. Mr. Xu had been an executive director of Greater China Sci-Tech Holdings Limited, the issued shares of which are listed on the main board of The Stock Exchange of Hong Kong Limited, for the period from October 2001 to January 2004. Mr. Xu joined the Company in March 2004.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wang Shunlong, aged 45, is the Chairman of the Audit Committee and Remuneration Committee of the Company. He is a managing director of Hony Capital, sponsored by Legend Holdings Limited. He graduated from Tsinghua University in the PRC with a doctoral degree in engineering and was employed by the Eindhoven University of Technology in The Netherlands as a researcher for three years. Mr. Wang has over fourteen years of experience in corporate management and investment planning. He joined the Company in July 2003.

Dr. Luo Yongtai, aged 63, is a member of the Audit Committee and Remuneration Committee of the Company. He is a professor in management of Tianjin University of Finance and Economics, the head of the Microeconomic Institute of Tianjin University of Finance and Economics, a member of the committee of the Tianjin City People's Political Consultative Conference, the deputy supervisor of the People's Republic of China System Engineering Committee and also held positions in various professional organisations. Mr. Luo is a beneficiary of the Expert Special Subsidy granted by the State Council of the PRC and has been engaged in various national and provincial projects in recent years. Mr. Luo is also an independent director of two companies listed on the Shanghai Stock Exchange. He joined the Group in July 2003.

Mr. Hung, Randy King Kuen, aged 44, is a member of the Audit Committee and Remuneration Committee of the Company. Mr. Hung is a fellow certified public accountant in Hong Kong and a certified public accountant in the United States. Currently, he is an executive director of China Shineway Pharmaceutical Group Limited (Stock Code: 2877) and an independent non-executive director of Zhongtian International Limited (Stock Code: 2379). Mr. Hung is a member of the American Institute of Certified Public Accountants, a fellow of the Hong Kong Institute of Certified Public Accountants, a member of the Hong Kong Securities Institute, and a council member of the Hong Kong Institute of Directors. Mr. Hung holds a MBA degree in international management from the University of London, a bachelor's degree of accounting and a certificate of programming and data processing from the University of Southern California, a certificate of China Accounting, Finance, Taxation and Law from the Chinese University of Hong Kong Securities Institute Specialist Certificate in corporate finance. Mr. Hung joined the Company in September 2004.

Corporate Governance Report

The board of directors (the "Directors") and the management of Zhongyu Gas Holdings Limited (the "Company") are committed to high standards of corporate governance. Corporate governance system is set up to achieve a balance of the interests of different participants in the corporation, to direct and manage corporate affairs and to monitor corporate performance. The Company is dedicated to continue improving its corporate governance practices to ensure accountable, transparent and efficient management.

Save as disclosed herein, the Company has fully complied with all requirements of the Code (the "Code") on Corporate Governance Practices, as set out in Appendix 15 of the rules governing the listing of securities on the Growth Enterprise Market operated by the Stock Exchange of Hong Kong Limited ("GEM Listing Rules") for the year ended 31st December, 2009. The following summarizes the corporate governance practices of the Company and the reasons for deviations, if any, from the Code.

A. BOARD OF DIRECTORS

The board of Directors (the "Board"), holds responsibility for leadership and control of the corporation. By directing and supervising corporate affairs, the Board plays an important role in protecting and enhancing long-term shareholder value.

A.1 Board composition

As at 31st December, 2009, the Board included eight Directors, of which four are executive Directors, one is non-executive Director and the remaining three are independent non-executive Directors. The composition of the Board is as follows:

Executive Directors:	Mr. Wang Wenliang *(Chairman)* Mr. Hao Yu *(Chief Executive Officer)* Mr. Lu Zhaoheng Mr. Lui Siu Keung *(Chief Financial Officer)*
Non-executive Directors:	Mr. Xu Yongxuan *(Vice-Chairman)*
Independent Non-executive Directors:	Mr. Wang Shunlong Dr. Luo Yongtai Mr. Hung, Randy King Kuen

The Company received a written annual confirmation of independence from each of the independent non-executive Directors pursuant to the Rule 5.09 of the GEM Listing Rules. The Company considered each non-executive Director is independent.

With a balanced Board consisting of three-eighths members of independent non-executive Directors, the Board considered that the Company can effectively exercise independent judgment.

Given the business nature, the Board members have distinct skills and experience in a variety of business range, which includes city gas network design and operation, organizational management, financial and securities trading market, etc. The relevant biographies and the respective roles of all Directors in the Board are set out on pages 14 and 15 in this report.

The primary roles of the Board are to set the corporate strategy by determining business objectives, development plan and strategic policies; to make day-to-day operations delegated to the management then to monitor their operating and financial performance; to avoid risks and oversee corporate affairs.

A.2 Board meetings and information supply

The Board meets regularly and board meetings were held quarterly and additional meetings would be arranged, if and when required. All Directors can attend meetings in person or through other electronic means of communication.

The Company Secretary assists the Chairman in establishing the meeting agenda and each Director may request inclusion of matters in the agenda.

Notice of at least 14 days in advance is given of a regular board meeting to give all Directors an opportunity to attend.

The management of the Company has supply the Board with adequate information in a timely manner to enable it to make informed decisions. In addition, the management are invited, if and when requested, to attend board meetings to make presentation and answer the queries raised by the Board.

All Directors have access to the advice and services of the Company Secretary with a view to ensuring that board procedures, and all applicable rules and regulations, are followed.

Minutes of board meetings are kept by the Company Secretary and such minutes are open for inspection at any reasonable time on reasonable notice by any Director.

Minutes of board meetings are recorded in sufficient detail and draft and final versions of minutes of board meetings are sent to all Directors for their comment and records respectively, in both cases within a reasonable time after the board meeting is held.

If and when a substantial shareholder of the Company or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter would not be dealt with by way of circulation but a board meeting would be held. Independent non-executive Directors who and whose associates, have no material interest in the transaction are present at such board meeting.

For the year ended 31st December, 2009, the Board held 9 board meetings. The attendance records of all board meetings are set out below:

Executive Directors		
Mr. Wang Wenliang *(Chairman)*	9	100%
Mr. Hao Yu *(Chief Executive Officer)*	9	100%
Mr. Lu Zhaoheng	9	100%
Mr. Lui Siu Keung *(Chief Financial Officer)*	9	100%
Non-executive Directors		
Mr. Xu Yongxuan *(Vice Chairman)*	9	100%
Independent Non-executive Directors		
Mr. Wang Shunlong	9	100%
Dr. Luo Yongtai	9	100%
Mr. Hung, Randy King Kuen	9	100%

A.3 Chairman and Chief executive officer

The roles and responsibilities of the Chairman of the Board and the Chief Executive Officer of the Company are separate and are performed by two different Directors. The Chairman is responsible for offering leadership and effectiveness for the Board, arranging all key and appropriate issues are discussed by the Board in a timely manner, and ensuring the Board acts in the best interests of the Company and its subsidiaries (collectively the "Group") by establishing constructive relations between executive and non-executive Directors and providing effective communication with shareholders; whereas the Chief Executive Officer is responsible for running the Group's business, supervising the implementation of the Group's strategy in achieving the overall commercial objectives and managing the day-to-day operation of the Group.

A.4 Appointments and re-election

According to the Company's articles of association, the Company may by ordinary resolution elect any person to be a Director either to fill a casual vacancy on the Board, or as an addition to the existing Board and the Directors shall have the power from time to time and at any time to appoint any person to be a Director either to fill a casual vacancy on the Board, or as an addition to the existing Board. Any Director so appointed by the Board shall hold office only until the next following annual general meeting of the company and shall then be eligible for reelection.

Each non-executive Director of the Company is appointed by the Board with no specific terms but he shall hold office only until the next following annual general meeting of the Company and shall then be eligible for reelection. The details of procedure for retirement of Directors are as follows:

According to the Company's articles of association, exclusive for the Directors holding office of the Chairman and the Chief executive officer which are not subject to retirement by rotation or to be taken into account in determining the number of Directors to retire in each year, one-third of the Directors shall retire from office by rotation at the annual general meeting. The Directors to retire by rotation shall include any Director who wishes to retire and not to offer himself for re-election. Any further Director so to retire shall be those of the other Directors subject to retirement by rotation who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected Directors on the same day those to retire shall be determined by lot. Any Director appointed pursuant to the Company's articles of association as stated in the paragraph one under the heading "A4. Appointment and re-election" shall not be taken into account in determining which particular Directors or the number of Directors who are to retire by rotation.

At the 2008 AGM, Mr. Wang Shunlong, Dr. Luo Yongtai and Mr. Hung, Randy King Kuen, three of the eight Directors subject to retirement by rotation, retired and re-elected to the Board by the shareholders of the Company.

A.5 Responsibilities of directors

Directors are provided sufficient and appropriate information by management periodically to ensure they have a proper understanding of the operations and business of the Group, and to enable them to be fully aware of their responsibilities. When a new Director is appointed, he is offered some briefings and other induction materials to familiarize with the Group promptly. Besides every Director is required to disclose his interests, potential conflict of interests, and changes in a timely manner referred to the written responsibilities guideline, the non-executive Directors are ensured to participating in board meetings and serve on relevant committees, to make an independent judgment on corporate affairs and to develop a balanced understanding of the view of shareholders. Individual Directors may also seek independent professional advice outside, at the Company's expense, to provide advice on any specific matter. The Company also encourages all Directors to join in kinds of programs of continuous professional development to develop and refresh their knowledge and skills, in order to discharge their responsibilities positively and constructively.

A.6 Directors' securities transaction

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM listing rules. Having made specific enquiry of all Directors, they all confirmed having complied with the required standard of dealings and the code of conduct regarding securities transactions by Directors adopted by the Group.

B. REMUNERATION MATTERS

The Board has established a Remuneration Committee comprising three independent non-executive Directors. The Remuneration Committee is held once a year and its primary responsibilities are after consulting with the Chairman and the Chief Executive Officer in respect of their recommendations, for executive Directors and senior managements, on a formal and transparent procedure to set policy and structure on their remuneration and recommend to the Board in order to attract and retain them; to determine their specific remuneration packages including benefits in kind, pension rights and compensation policy; to review and approve their performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time; to ensure no Director and his associate can decide their own remuneration.

One remuneration meeting has been held on 23rd March, 2009 to review the remuneration packages of Directors which are nominal by market standards. The Remuneration Committee also consider and approve (i) the remuneration of the Directors for the year ending 31st December, 2010; (ii) salary increase of the management of the Group; and (iii) range of salary increase of employees of the Group. The attendance record of the remuneration committee meeting is set out below:

Independent Non-executive Directors		
Mr. Wang Shunlong *(Chairman)*	1	100%
Dr. Luo Yongtai	1	100%
Mr. Hung, Randy King Kuen	1	100%

C. ACCOUNTABILITY AND AUDIT

C.1 Financial reporting

Code provision C.1 provision that generally, Directors acknowledge their responsibilities for preparing accounts with sufficient and reliable financial information in each financial period, while the auditors appointed by the Group provide auditors' report on financial statements. The Company has deviated to announce its annual results and publish its annual report for the year ended 31 December 2009 and its quarterly results for the three months ended 31 March 2010 in the limits of three months and 45 days respectively after the each financial period according with the GEM Listing Rules.

Reference is made to the announcements dated 31st March, 2010 (the "Announcement A"), 23rd April, 2010 and 14th May, 2010 (the "Announcement" B) issued by the Company in relation to its inability to announce its annual results and publish its annual report for the year ended 31st December, 2009 and its quarterly results for the three months ended 31st March, 2010. As set out in the Announcement A in relation to its inability to announce its annual results and publish its annual report for the year ended 31st December, 2009, the senior management of some of the major subsidiaries of Company have not provided the external auditors with responses to their follow-up questions for the purpose of finalising the audit and as a result, the annual results and annual report of Company for the year ended 31st December, 2009 and the quarterly results for the three months ended 31st March, 2010 had not been issued by 31st March, 2010 and 15th May, 2010, respectively, as required by the GEM Listing Rules.

As set out in the Announcement B, after continuous efforts made by the Directors, on 18th May, 2010, the Directors received a notification from the representative of the senior management of the relevant subsidiaries of Company that they will resume cooperation with the Company to complete the audit of the Company's financial statements for the year ended 31st December, 2009. On 24th May, 2010, the senior management of the relevant subsidiaries of Company commenced providing the outstanding information to the auditor of the Company. In connection with the above, the Company's annual results for the year ended 31st December, 2009 and its quarterly results for the three months ended 31st March, 2010 were published on 24th June, 2010. The Company's annual report for the year ended 31st December, 2009 and its quarterly report for the three months ended 31 March 2010 will be published on 30th June, 2010.

C.2 Internal controls

The internal control system has a key role in the management of risks that are significant to the fulfillment of corporation business objectives. Internal control is designed to facilitate the effectiveness and efficiency of operations, to help ensure the reliability of internal and external reporting, to assist compliance with laws and regulations, and to manage and control risk appropriately rather than to eliminate it.

Directors are responsible for the Group's internal control system, and through the Company's Audit Committee, conduct a review of the effectiveness of the system annually. Management is accountable to the Board for ongoing monitoring the system of internal control. By covering financial, operational, and compliance controls and risk management, the Board takes the following procedures to achieve business objectives: A distinct organizational structure exists with defined lines of authority and control responsibilities.

- As the Board sets up corporate strategy and delegates daily operation power to senior management, both senior managers in administration headquarter and heads in divisions or projects are involved in the strategic plan and resource allocation to achieve their annual operational and financial targets.

- A comprehensive performance assessment system is implemented to provide financial and operational performance evaluation for both the management and employees once a year. When there are variances against targets or quality requirements, to find the reasons and take appropriate actions to eliminate gaps.

According to business nature and management structure, the Company has established different departments in two levels. The administration headquarter has major responsibilities to prepare and accomplish the Group's business development plan, to conduct day-to-day operation and report to senior management directly, to appoint and direct administrative officers in gas project divisions then to assess their business performances, to implement internal control and avoid operational and financial risks. Compared with headquarter offices, the gas project divisions hold very similar duties except that all their daily jobs are done in a lower level and they have to report to the accordance administration departments respectively on different operational matters.

In order to realize effective financial controls, through maintenance of proper accounting records, the upper and lower financial departments both ensure the Group is not unnecessarily exposed to avoidable financial risks and the financial information can be used only within the business and for publication is reliable. They also contribute to pre-setting annual financial budgets, saving expenses and safeguarding of assets, including the prevention and detection of fraud.

The operational control is the other important part of the whole internal control system. To achieve effective result and avoid operational risks, human resource department employs motivation plan to attract employees with necessary knowledge, skills and information, while administrative and engineering departments in two levels pay more attention to ensure efficient operational management and construct high quality city gas projects. In addition, all employees have some responsibility for internal control as part of their accountability for achieving Group's objectives. With delegated authority, they are allowed to establish, operate and monitor the system of internal control, and are required to have an understanding of the Group, its objectives, the energy industries and gas markets, and the risks it faces.

In 2009, after applied in reviews of the effectiveness of internal control system through the Company's Audit Committee, the Board believes no suspected frauds and irregularities, internal control deficiencies or suspected infringement of laws, rules and regulations exist in the Group, which illustrates the system of internal controls is inadequate. The Board is also satisfied that the Group has fully complied with the code provisions on internal controls as set forth in the Code.

C.3 Audit committee

The Company has established the Audit Committee in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules. The primary duties of the Audit Committee are: to independently review and supervise the financial reporting process and internal control systems, to ensure good communications among Directors and the Company's auditors, to recommend the appointment of external auditors on an annual basis and approval of the audit fees, to assist the Board in oversight of the independence, qualifications, performance and compensation of the independent accountant, to review quarterly, interim and annual results announcements as well as the financial statements prior to their approval by the Board, to provide audit report, advice, accounting policies and comments to all Directors.

The Audit Committee comprises three independent non-executive Directors who have extensive experience in financial matters, including Mr. Wang Shunlong, Dr. Luo Yongtai and Mr. Hung, Randy King Kuen. Mr. Wang Shunlong is the chairman of the Audit Committee. In 2009, the Audit Committee held two meetings to check the effectiveness of the internal control system; to review all draft annual, quarterly and interim financial reports, circulars and announcements; and know about the external auditors' statutory audit plan and the Letters of Representation, and to consider and approve the audit fees. The attendance records of the audit committee meetings are set out below:

Independent Non-executive Directors		
Mr. Wang Shunlong *(Chairman)*	2	100%
Dr. Luo Yongtai	2	100%
Mr. Hung, Randy King Kuen	2	100%

C.4 Auditors' remuneration

The remuneration in respect of audit service provided by Deloitte Touche Tohmatsu, being the Company's auditors during the year 2009 amounted to HK$1,750,000.

Directors' Report

The directors present their annual report and the audited consolidated financial statements for the year ended 31st December, 2009.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company and provides corporate management services to its subsidiaries. The activities of the Company's subsidiaries are set out in notes 44 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2009 are set out in the consolidated statement of comprehensive income on page 34.

The directors do not recommend the payment of a dividend and propose that are the profit for the year be retained.

INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

The Group revalued all of its investment properties at the year end date. The increase in fair value of investment properties, which has been credited to the consolidated statement of comprehensive income, amounted to HK$911,000.

Details of these and other movements during the year in investment properties and property, plant and equipment of the Group are set out in notes 17 and 18 to the consolidated financial statements respectively.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 32 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for distributions of dividends to shareholders subject to the provisions of its Articles of Association and provided that immediately following the distribution of dividends, the Company is able to pay its debts as they fall due in the ordinary course of business. In the opinion of the directors, as at 31st December, 2009, the Company's reserves available for distribution amounted to HK$648,315,000 which consisted of share premium of HK$625,142,000 and accumulated profit of HK$23,173,000.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year, the Company repurchased a total of 1,050,000 shares through The Stock Exchange of Hong Kong Limited (the "Stock Exchange") of which all shares were cancelled as at 31st December, 2009. Details of the repurchase of shares are set out in note 32 to the consolidated financial statements.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the shares during the year.

DIRECTORS

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

Executive Directors

Mr. Wang Wenliang *(Chairman)*
Mr. Hao Yu *(Chief Executive Officer)*
Mr. Lu Zhaoheng
Mr. Lui Siu Keung *(Chief Financial Officer)*

Non-executive Directors

Mr. Xu Yongxuan *(Vice-Chairman)*

Independent non-executive Directors

Mr. Wang Shunlong
Dr. Luo Yongtai
Mr. Hung, Randy King Kuen

In accordance with the provisions of the Company's Articles of Association, Messrs. Hao Yu, Lu Zhaoheng and Lui Siu Keung retire by rotation and, being eligible, offer themselves for re-election.

DIRECTORS SERVICE CONTRACTS

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

The term of office of each non-executive Director is the period up to his retirement by rotation in accordance with the Company's Articles of Association.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company, its subsidiaries, its ultimate holding company or any subsidiaries of its ultimate holding company was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DISCLOSURE OF INTERESTS

(a) Interests of Directors

As at 31st December, 2009, the interests and short positions of the Directors and the Chief Executive of the Company and their associates in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO")) which (a) are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) are required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, were as follows:

Long positions in the Shares of the Company:

Name of directors	Notes	Nature of shares and/or underlying shares	Type of interests	Approximate percentage of issued share capital
Mr. Wang Wenliang	1	956,923,542	Beneficial and interest in corporation	49.10%
Mr. Hao Yu	2	1,010,759,542	Beneficial and interest in corporation	51.86%
Mr. Lu Zhaoheng	3	8,004,000	Beneficial	0.41%
Mr. Xu Yongxuan	4	5,004,000	Beneficial	0.26%
Mr. Lui Siu Keung	5	12,000,000	Beneficial	0.62%
Dr. Luo Yongtai	6	2,000,000	Beneficial	0.10%
Mr. Hung, Randy King Kuen	6	2,000,000	Beneficial	0.10%

Notes:

1. Among these Shares and/or underlying Shares, 945,755,542 Shares are held by Hezhong Investment Holding Company Limited ("Hezhong"). Mr. Wang Wenliang is beneficially interested in 60% of the issued share capital of Hezhong. 10,002,000 underlying Shares are to be allotted and issued upon exercise the rights attaching to the share options granted at an exercise price of HK$0.31 per share under the share option scheme adopted by the Company on 24th October, 2003. The remaining 1,166,000 held Shares were held by Mr. Wang Wenliang directly.

2. Among these Shares and/or underlying Shares, 945,755,542 Shares are held by Hezhong. Mr. Hao Yu is interested in 40% of the issue share capital of Hezhong. The remaining 8,004,000 and 57,000,000 underlying Shares are to be allotted and issued upon exercise the rights attaching to the share options granted at an exercise price of HK$0.31 per share and HK$0.56 per share respectively under the share option scheme adopted by the Company on 24th October, 2003.

3. Among these Shares and/or underlying Shares, 1,000,000 Shares are held by Mr. Lu Zhaoheng. 4,004,000 and 3,000,000 underlying Shares are to be allotted and issued upon exercise the rights attaching to the share options granted at an exercise price of HK$0.31 per share and HK$0.80 per share respectively under the share option scheme adopted by the Company on 24th October, 2003.

4. 5,004,000 underlying Shares are to be allotted and issued upon exercise the rights attaching to the share options granted at an exercise price of HK$0.31 per share under the share option scheme adopted by the Company on 24th October, 2003.

5. 9,000,000 and 3,000,000 underlying Shares are to be allotted and issued upon exercise the rights attaching to the share option granted at an exercise price of HK$0.56 per share and HK$0.80 per share respectively under the share option scheme adopted by the Company on 24th October, 2003.

6. These underlying Shares are to be allotted and issued upon exercise the rights attaching to the share option granted at an exercise price of HK$0.80 per share under the share option scheme adopted by the Company on 24th October, 2003.

Save as disclosed above, as at 31st December, 2009, none of the Directors nor the chief executive of the Company had or was deemed to have any interests and short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) are 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 and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) are required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

(b) *Interests of substantial shareholders of the Company*

So far as is known to the Directors, as at 31st December, 2009, the following entities (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group, or substantial Shareholder which were recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Long positions in the shares

Name of shareholder	Type of interest	Number of shares	Approximate percentage of interests
Hezhong	Beneficial	945,755,542	48.81%
Perry Capital (Asia) Limited	Deemed/Beneficial	367,794,657	19.01%
Perry Capital LLC	Deemed/Beneficial	367,794,657	19.01%
Perry Corp.	Deemed/Beneficial	367,794,657	19.01%
Perry Richard Cayne	Deemed/Beneficial	367,794,657	19.01%
Perry Partners International, Inc.	Beneficial	309,367,204	16.00%

Notes:

1. Hezhong is beneficially interested in 945,755,542 shares. Mr. Wang Wenliang and Mr. Hao Yu are beneficially interested in 60% and 40% of the issued share capital of Hezhong respectively.

2. According to the disclosure of interests pages as shown in the website of the Stock Exchange, Perry Richard Cayne holds as to 100% equity interests of Perry Corp. Perry Corp. holds as to 40% equity interest of Perry Capital LLC. Perry Capital LLC holds as to 100% equity interests of Perry Capital (Asia) Limited. Apart from the information ascertained in the disclosure of interests pages as shown in the website of the Stock Exchange, the Company has no further information.

Save as disclosed above, as at 31st December, 2009, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group, or substantial Shareholder which were recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

SHARE OPTIONS

Particulars of the Company's share option schemes are set out in note 35 to the consolidated financial statements.

The following table discloses movements in the Company's share options during the year.

Directors	Exercise period	Exercise price HK$	Number of share options: As at 1st January, 2009	Exercised during the year	Outstanding at 31st December, 2009
Wang Wenliang	13.6.2006 to 12.6.2015	0.31	10,002,000	–	10,002,000
Xu Yongxuan	13.6.2006 to 12.6.2015	0.31	5,004,000	–	5,004,000
Hao Yu	13.6.2006 to 12.6.2015	0.31	8,004,000	–	8,004,000
	29.3.2007 to 28.3.2017	0.56	57,000,000	–	57,000,000
Lu Zhaoheng	13.6.2006 to 12.6.2015	0.31	5,004,000	–	5,004,000
	3.4.2010 to 2.4.2011	0.80	900,000	–	900,000
	3.4.2011 to 2.4.2012	0.80	900,000	–	900,000
	3.4.2012 to 2.4.2018	0.80	1,200,000	–	1,200,000
Lui Siu Keung	29.3.2007 to 28.3.2017	0.56	9,000,000	–	9,000,000
	3.4.2010 to 2.4.2011	0.80	900,000	–	900,000
	3.4.2011 to 2.4.2012	0.80	900,000	–	900,000
	3.4.2012 to 2.4.2018	0.80	1,200,000	–	1,200,000
Luo Yongtai	3.4.2010 to 2.4.2011	0.80	600,000	–	600,000
	3.4.2011 to 2.4.2012	0.80	600,000	–	600,000
	3.4.2012 to 2.4.2018	0.80	800,000	–	800,000
Hung, Randy King Kuen	3.4.2010 to 2.4.2011	0.80	600,000	–	600,000
	3.4.2011 to 2.4.2012	0.80	600,000	–	600,000
	3.4.2012 to 2.4.2018	0.80	800,000	–	800,000
			104,014,000	–	104,014,000
Employees and others	13.6.2006 to 12.6.2015	0.31	24,978,000	(10,858,000)	14,120,000
	29.3.2007 to 28.3.2017	0.56	5,100,000	(5,100,000)	–
	3.9.2010 to 2.4.2011	0.80	11,520,000	–	11,520,000
	3.4.2011 to 2.4.2012	0.80	11,520,000	–	11,520,000
	3.4.2013 to 2.4.2018	0.80	15,360,000	–	15,360,000
			172,492,000	(15,958,000)	156,534,000

Save as disclosed above, at no time during the year was the Company, its subsidiaries, its ultimate holding company or any subsidiaries of its ultimate holding company a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2009, our five largest supplier comprised 31% of our total purchase for the year. The Group's largest supplier accounted for 13% of the total purchase for the year. The aggregate sales attributable to the Group's five largest customers were less than 30% of total turnover for the year.

At no time during the year did a director, an associate of a director, or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest suppliers or customers.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers all of the independent non-executive directors are independent.

EMOLUMENT POLICY

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

The Company has adopted a share option scheme as an incentive to Directors and eligible employees, details of the scheme are set out in note 35 to the consolidated financial statements.

COMPETING BUSINESS

During the year, none of the Directors, the management shareholders or substantial shareholders of the Company or their respective associates (as defined in the GEM Listing Rules) had any interest in a business which competed with or might compete with the business of the Group.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2009.

EVENT AFTER THE REPORTING PERIOD

Details of significant events occurring after the end of reporting period are set out in note 43 to the consolidated financial statements.

AUDITOR

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

On behalf of the Board

Wang Wenliang
Chairman

Zhengzhou, the People's Republic of China
24th June, 2010

Independent Auditor's Report

Deloitte.
德勤

TO THE MEMBERS OF ZHONGYU GAS HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Zhongyu Gas Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 34 to 116 which comprise the consolidated statement of financial position as at 31st December, 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st December, 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Without qualifying our opinion, we draw attention to note 2 to the consolidated financial statements which discloses that subsequent to the end of the reporting period, the Group received a voluntary conditional cash and securities exchange offer (the "Offer") to acquire the entire issued share capital and outstanding convertible bonds of the Company as well as cancellation of the outstanding share options of the Company. The Group has received objections from the minority shareholders of certain subsidiaries of the Company in the People's Republic of China ("PRC"), certain local PRC governments and certain local banks in relation to the Offer. The consequences threatened in the objections if the Offer is completed and results in a change of control of the Company include (i) refusal by the minority shareholders to co-operate with new management in the future; (ii) the local governments would revoke the concession rights of certain subsidiaries of the Company in the PRC; and (iii) the bank would seek a full repayment of loans made to the Group amounting to RMB137,000,000. These actions, if they were to materialise, may have a significant impact on the Group's operations in the future. Accordingly these conditions, along with other matters as set forth in note 2 to the consolidated financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
24th June, 2010

Consolidated Statement of Comprehensive Income

For year ended 31st December, 2009

	NOTES	2009 HK$'000	2008 HK$'000
Turnover	7	**844,150**	703,020
Cost of sales		**(587,402)**	(476,523)
Gross profit		**256,748**	226,497
Other income and gains	9	**9,669**	14,094
Selling and distribution costs		**(28,728)**	(23,237)
Administrative expenses		**(109,706)**	(102,001)
Other expenses		**(21,087)**	(48,507)
Finance costs	10	**(44,338)**	(52,740)
Impairment loss recognised on amounts due from customers for contract work		**(318)**	(12,938)
Impairment loss recognised on other intangible assets	20	**–**	(107,485)
Change in fair value of derivative financial instruments	33	**17,672**	28,075
Profit (loss) before tax		**79,912**	(78,242)
Income tax expenses	11	**(34,772)**	(13,323)
Profit (loss) for the year	12	**45,140**	(91,565)
Other comprehensive income			
Exchange differences arising on translation		**7,728**	55,044
Total comprehensive income (loss) for the year		**52,868**	(36,521)
Profit (loss) for the year attributable to:			
Owners of the Company		**20,060**	(92,797)
Minority interests		**25,080**	1,232
		45,140	(91,565)
Total comprehensive income (loss) attributable to:			
Owners of the Company		**26,808**	(41,067)
Minority interests		**26,060**	4,546
		52,868	(36,521)
Earnings (loss) per share	16		
Basic		**1.04 cent**	(4.79 cent)
Diluted		**1.03 cent**	(4.79 cent)

Consolidated Statement of Financial Position

At 31st December, 2009

	NOTES	**2009 HK$'000**	2008 HK$'000
Non-current assets			
Investment properties	17	**5,574**	4,617
Property, plant and equipment	18	**696,702**	564,478
Goodwill	19	**100,793**	99,312
Other intangible assets	20	**183,999**	120,161
Deposits paid for acquisition of property, plant and equipment	21	**46,097**	42,494
Prepaid lease payments	22	**57,973**	59,069
Available-for-sale investment	23	**2,847**	–
		1,093,985	890,131
Current assets			
Inventories	24	**36,217**	38,960
Trade receivables	25	**29,527**	57,417
Deposits, prepayments and other receivables	25	**36,173**	29,751
Prepaid lease payments	22	**1,617**	1,527
Amounts due from customers for contract work	27	**6,081**	15,737
Pledged bank deposit	28	**13,474**	13,826
Bank balances and cash	28	**413,779**	474,333
		536,868	631,551
Current liabilities			
Deferred income and advance received	30	**108,421**	46,670
Derivative financial instruments	29	**2,986**	101,961
Trade payables	30	**101,887**	68,725
Other payables and accrued charges	30	**63,666**	55,634
Amounts due to customers for contract work	27	**12,022**	10,872
Bank borrowings	31	**243,146**	114,675
Convertible bonds	33	**14,265**	233,141
Tax payables		**17,143**	11,586
		563,536	643,264
Net current liabilities		**(26,668)**	(11,713)
Total assets less current liabilities		**1,067,317**	878,418

Consolidated Statement of Financial Position

At 31st December, 2009

	NOTES	2009 HK$'000	2008 HK$'000
Capital and reserves			
Share capital	32	**19,490**	19,341
Reserves		**674,307**	636,446
Equity attributable to owners of the Company		**693,797**	655,787
Minority interests		**119,964**	105,588
Total equity		**813,761**	761,375
Non-current liabilities			
Bank borrowings	31	**62,610**	99,642
Convertible bonds	33	**128,382**	–
Derivative financial instruments	29	**42,639**	–
Deferred taxation	34	**19,925**	17,401
		253,556	117,043
		1,067,317	878,418

The consolidated financial statements on pages 34 to 116 were approved and authorised for issue by the Board of Directors on 24th June, 2010 and are signed on its behalf by:

DIRECTOR DIRECTOR

Consolidated Statement of Changes in Equity

For the Year ended 31st December, 2009

	Attributable to owners of the Company										
	Share capital HK$'000	Share premium HK$'000	Share option reserve HK$'000	Property revaluation reserve HK$'000	Other reserve HK$'000 (Note a)	Statutory surplus reserve HK$'000 (Note b)	Translation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1st January, 2008	19,440	623,920	14,071	1,128	7,607	–	52,302	(21,871)	696,597	65,249	761,846
Loss for the year	–	–	–	–	–	–	–	(92,797)	(92,797)	1,232	(91,565)
Other comprehensive income (loss) for the year	–	–	–	–	–	–	51,730	–	51,730	3,314	55,044
Total comprehensive income (loss) for the year (note c)	–	–	–	–	–	–	51,730	(92,797)	(41,067)	4,546	(36,521)
Recognition of equity-settled share-based payments	–	–	7,104	–	–	–	–	–	7,104	–	7,104
Business combination by contract alone without acquiring interest (Note 38)	–	–	–	–	–	–	–	–	–	35,793	35,793
Exercise of share options	26	969	(204)	–	–	–	–	–	791	–	791
Shares repurchased and cancelled	(89)	(6,541)	–	–	–	–	–	–	(6,630)	–	(6,630)
Share repurchased and not yet cancelled (note 32)	(36)	(972)	–	–	–	–	–	–	(1,008)	–	(1,008)
At 31st December, 2008	19,341	617,376	20,971	1,128	7,607	–	104,032	(114,668)	655,787	105,588	761,375
Profit for the year	–	–	–	–	–	–	–	20,060	20,060	25,080	45,140
Other comprehensive income for the year (note c)	–	–	–	–	–	–	6,748	–	6,748	980	7,728
Total comprehensive income for the year	–	–	–	–	–	–	6,748	20,060	26,808	26,060	52,868

Consolidated Statement of Changes in Equity

For the Year ended 31st December, 2009

	Attributable to owners of the Company										
	Share capital HK$'000	Share premium HK$'000	Share option reserve HK$'000	Property revaluation reserve HK$'000	Other reserve HK$'000 (Note a)	Statutory surplus reserve HK$'000 (Note b)	Translation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
Transfer to statutory surplus reserve	–	–	–	–	–	22,386	–	(22,386)	–	–	–
Recognition of equity-settled share-based payments	–	–	5,174	–	–	–	–	–	5,174	–	5,174
Acquisition of business (note 36)	–	–	–	–	–	–	–	–	–	5,416	5,416
Capital contribution from minority shareholders of a subsidiary	–	–	–	–	–	–	–	–	–	3,645	3,645
Exercise of share options	160	8,163	(1,887)	–	–	–	–	–	6,436	–	6,436
Shares repurchased and cancelled	(11)	(397)	–	–	–	–	–	–	(408)	–	(408)
Dividend paid by subsidiaries to its minority shareholders	–	–	–	–	–	–	–	–	–	(20,745)	(20,745)
At 31st December, 2009	19,490	625,142	24,258	1,128	7,607	22,386	110,780	(116,994)	693,797	119,964	813,761

Notes:

(a) Other reserve represents the discount on acquisition arising from the acquisition of China City Gas Construction Explore Company Limited and China City Gas Construction Holdings Company Limited from the ultimate holding company accounted for by the Group as a deemed contribution which was credited to the other reserve.

(b) The article of association of PRC subsidiaries state that it may make an appropriation of 10% of its profit for the year (prepared under generally accepted accounting principles in the PRC) each year to the statutory surplus reserve until the balance reaches 50% of the paid-in capital. The statutory surplus reserve shall only be used for making good losses, capitalisation into paid-in capital and expansion of its production and operation.

(c) All the other comprehensive income for the years ended 31st December, 2009 and 2008 represent exchange differences arising from translation of assets and liabilities of a group entity in the PRC into the presentation currency of the Group. There is no tax effect relating to other comprehensive income.

Consolidated Statement of Cash Flows

For the Year ended 31st December, 2009

	2009 HK$'000	2008 HK$'000
Operating activities		
Profit (loss) before tax	**79,912**	(78,242)
Adjustments for:		
Depreciation of property, plant and equipment	**31,819**	27,369
Share-based payment expense	**5,174**	7,104
Amortisation of other intangible assets	**4,721**	9,346
Amortisation of prepaid lease payments	**1,618**	1,476
Gain on repurchase of convertible bonds	**(1,562)**	–
Loss on disposal of property, plant and equipment	**5,887**	212
Impairment loss recognised on other intangible assets	**–**	107,485
Allowance for doubtful debts		
– trade receivable	**(276)**	1,723
– other receivable	**2,351**	6,690
Impairment loss recognised on amounts due from customers for contract work	**318**	12,938
Impairment loss recognised on loan receivables	**4,722**	–
Interest income	**(2,520)**	(7,336)
Finance costs	**44,338**	52,740
Change in fair value of derivative financial instruments	**(17,672)**	(28,075)
Change in fair value of investment properties	**(911)**	(337)
Operating cash flows before movements in working capital	**157,919**	113,093
Decrease (increase) in inventories	**2,747**	(1,541)
Decrease (increase) in trade receivables	**28,166**	(31,480)
Increase in deposits, prepayments and other receivables	**(8,333)**	(4,456)
Decrease in amounts due from customers for contract work	**9,338**	3,851
Increase in deferred income and advance received	**48,419**	10,480
Increase in trade payables	**27,346**	2,350
(Decrease) Increase in other payables and accrued charges	**(8,846)**	7,366
Increase in amounts due to customers for contract work	**1,150**	9,073
Cash generated from operations	**257,906**	108,736
Interest received	**2,520**	3,432
Income taxes and withholding tax paid	**(26,850)**	(5,417)
Net cash from operating activities	**233,576**	106,751

Consolidated Statement of Cash Flows

For the Year ended 31st December, 2009

	NOTES	2009 HK$'000	2008 HK$'000
Investing activities			
Purchases of property, plant and equipment		**(135,699)**	(72,023)
(Increase) decrease in loan receivables		**(4,722)**	133,190
Proceeds on disposal of property, plant and equipment		**557**	712
Acquisition of a subsidiary, net of cash and cash equivalents acquired	36	**264**	–
Business combination by contract alone without acquiring additional interest, net of cash and cash equivalent acquired	38	**–**	10,011
Repayments from related companies		**–**	118
Decrease in trust monies placed with a financial institution		**–**	42,964
Decrease (increase) in pledged bank deposits		**352**	(12,655)
Addition of prepaid lease payments		**(67)**	(9,761)
Increase in deposit paid for acquisition of property, plant and equipment		**(3,216)**	–
Purchase of intangible assets		**(67,432)**	–
Increase in available-for-sale investment		**(2,847)**	–
Interest received from loan receivables		**–**	3,904
Government grants received for depreciable assets		**16,400**	–
Net cash (used in) from investing activities		**(196,410)**	96,460
Financing activities			
New loans raised		**256,401**	70,429
Interest paid		**(24,325)**	(25,378)
Repayments of borrowings		**(166,914)**	(155,367)
Repayments to related companies		**–**	(1,105)
Proceed from issue of ordinary shares		**6,436**	791
Dividend paid by subsidiaries to its minority shareholders		**(20,745)**	–
Capital contribution from minority shareholders of a subsidiary		**3,645**	–
Payment on repurchase of shares		**(408)**	(7,638)
Repurchase of convertible bonds		**(153,616)**	–
Net cash used in financing activities		**(99,526)**	(118,268)
Net (decrease) increase in cash and cash equivalents		**(62,360)**	84,943
Cash and cash equivalents at 1st January		**474,333**	365,545
Effect of foreign exchange rate changes		**1,806**	23,845
Cash and cash equivalents at 31st December, represented by bank balances and cash		**413,779**	474,333

1. GENERAL

The Company was incorporated in the Cayman Islands on 12th February, 2001 as an exempted company with limited liability under the Companies Law (2001 Revision) of the Cayman Islands. The shares of the Company were listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its parent and ultimate holding company is Hezhong Investment Holding Company Limited ("Hezhong"), incorporated in the British Virgin Islands. The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Corporate Information" of the Group's annual report.

The Company acts as an investment holding company and provides corporate management services to its subsidiaries.

The Company's subsidiaries are principally engaged in the development, construction and operation of natural gas and coalbed gas projects in the People's Republic of China ("PRC").

The functional currency of the Company is Renminbi and the presentation currency of the consolidated financial statements is Hong Kong dollars. The directors consider this presentation is more appropriate as the Company is listed on the Stock Exchange.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

On 17th January, 2010, the board of directors received voluntary conditional cash and securities exchange offer (the "Offer") proposed by a wholly owned subsidiary of China Gas Holdings Limited ("China Gas"), a listed company in the Stock Exchange, to acquire the entire issued share capital and outstanding convertible bonds of the Company as well as cancellation of the outstanding share options of the Company. Details of which are set out in note 43 and the announcement of the Group dated 26th January, 2010. In May 2010, the Company received the following:

(a) letters of objection from the minority shareholders of 5 of its subsidiaries in the PRC which stated that they object to the Offer and a change in control of the Company, and that if the Company proceeds with the Offer, they would refuse to cooperate with the new management and that the local government may revoke the concession rights of the Company's subsidiaries in the PRC. In addition, another minority shareholder of another PRC subsidiary of the Company has also verbally expressed its objection to the Offer and a change in control of the Company, and may also seek intervention from the local governments where the Company has operations to revoke the concession rights of such PRC subsidiary if there is a change in control of the Company;

(b) letters from 3 PRC local governments ("3 Governments") where the Company has operations stating that they would revoke the concession rights of certain subsidiaries of the Company if the Company proceeds with the Offer without their consent. 3 out of 5 subsidiaries mentioned in (a) above are under the jurisdiction of the 3 Governments; and

(c) letters of objection from banks, who, in aggregate, have lent RMB137,000,000 to the Group as at 31st May, 2010 and these banks have notified the Company's subsidiaries that they are aware of the Offer and that if the Offer complete, resulting in change of control of the Company, they would seek a full repayment of loans made to such subsidiaries of the Company.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

The Company has sought PRC legal advice in relation to the above and has received a PRC legal opinion on 28th May, 2010 ("Legal Opinion"). The Legal Opinion states, among other things, that (i) consent from the relevant minority shareholders to the Offer and/or a change in control of the Company is not required as a matter of PRC law, (ii) such a change in control of the Company should not affect the legal validity of the concession rights granted by the local governments and (iii) there is no requirement to obtain consent from bank to the Offer and/or a change in control of the Company under PRC law or the relevant loan agreements between the Company's subsidiaries and the banks, and there is no stipulation under PRC law or the relevant loan agreements that the banks may call for repayment of the loans in full if there is a change in control of the Company.

However, as set out in the Legal Opinion, notwithstanding that there is no requirement under PRC law to obtain consents from the minority shareholders and/or the local government authorities, there is a risk that (a) the minority shareholders may still refuse to co-operate with a new management if there is a change in control of the Company; and (b) the local government authorities may revoke the concession rights of the subsidiaries in the PRC which would affect the operation of the Group. As a result, the directors consider that if the above events which were materialise, these actions may have a significant impact to the Group's operation in the future.

In the opinion of the directors, in light of the existing cooperative attitude of the senior management of the subsidiaries in the PRC appointed by the minority shareholders and the favourable Legal Opinion, the directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

3. 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 1st July, 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendments to paragraph 69 of HKAS 1 and 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.

New and revised HKFRSs affecting presentation and disclosure only

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 (see note 8) and changes in the basis of measurement of segment profit or loss, segment assets and segment liabilities.

Improving disclosures about financial instruments (Amendments to HKFRS 7 financial instruments: Disclosure)

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.

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

New and revised HKFRSs affecting the reported results and/or financial position

Amendments to HKAS 1 Presentation of financial statements

As part of Improvements to HKFRSs (2008), HKAS 1 "Presentation of financial statements" has been amended to clarify whether derivatives that are classified as held for trading in accordance with HKAS 39 "Financial instruments: Recognition and measurement" should be presented as current or non-current. The amendment requires derivatives that are held primarily for trading purposes to be presented as current regardless of their maturity dates. In addition, the amendment requires derivatives that are not held for trading purposes to be classified as current or non-current on the basis of their settlement date. Prior to the amendment, the Group presented, as current, all derivatives that are classified as held for trading in accordance with HKAS 39. The amendment has had no impact on the Group's results for the reported periods.

In addition, the Group has adopted the following amendments in advance of their effective date:

As part of Improvements to HKFRSs (2009) early adopted by the Group, HKAS 1 "Presentation of Financial Statements" has been amended regarding the classification of liability as current or non-current. The amendment requires the entity to classify a liability as current when it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. However, terms of liability that could result in its settlement by the issue of the Group's equity instruments at the option of the counterparty do not affect its classification. The early adoption of the amendment has had no material impact on the Group's result for the reporting periods.

As at 31st December, 2009, convertible bonds with carrying amount of HK$128,382,000 and their related derivatives with carrying amount of HK$42,639,000 have been presented as non-current based on the earliest date that the Group is required to transfer cash or other assets. The adoption of HKAS 1 (Revised 2007) has no impact on the consolidated statement of financial position as at 31 December 2008.

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

New and revised HKFRSs affecting the reported results and/or financial position (Continued)

Amendments to HKAS 1 Presentation of financial statements *(Continued)*

The Group has not early applied the following new and revised Standards, Amendments or Interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of improvements to HKFRSs 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2], except for the amendment to paragraph 69 of HKAS 1[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 adopers[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 instruments[6]

1 Effective for annual periods beginning on or after 1st July, 2009.
2 Amendments that are effective for annual periods beginning on or after 1st July, 2009 and 1st January, 2010, as appropriate.
3 Effective for annual periods beginning on or after 1st July, 2010 an 1st January, 2011 as appropriate.
4 Effective for annual periods beginning on or after 1st January, 2010.
5 Effective for annual periods beginning on or after 1st February, 2010.
6 Effective for annual periods beginning on or after 1st July, 2010.
7 Effective for annual periods beginning on or after 1st January, 2011.
8 Effective for annual periods beginning on or after 1st 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 1st January, 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in a Group's ownership interest in a subsidiary.

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

New and revised HKFRSs affecting the reported results and/or financial position *(Continued)*

Amendments to HKAS 1 Presentation of financial statements *(Continued)*

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1st January, 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. Specifically, 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 might affect the classification and measurement of the Group's financial assets.

In addition, as part of Improvements to HKFRSs issued in 2009, HKAS 17 Leases has been amended in relation to the classification of leasehold land. The amendments will be effective from 1st January, 2010, with earlier application permitted. Before the amendments to HKAS 17, lessees 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 and revised Standards, Amendments or Interpretations will have no material impact on the consolidated financial statements.

4. 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 Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the GEM Listing Rules and by the Hong Kong Companies Ordinance.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation

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

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

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

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

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combination by contract alone without acquiring additional interest

If the Group obtains control over a business by contract alone without acquiring additional interest, the assets and liabilities of the business are measured at the carrying values as at the date control is obtained.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses and is presented separately in the consolidated statement of financial position.

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

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

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.

Deposits received by the Group prior to meeting the above criteria for revenue recognition are included in the consolidated statement of financial position under current liabilities.

Connection revenue from gas pipeline construction is recognised when the outcome of a contract can be estimated reliably and the stage of completion at the end of the reporting period can be measured reliably. Revenue from gas connection contracts is recognised on the percentage of completion method, measured by reference to the proportion of contract cost incurred for work performed to date bear to the estimated total contract costs. When the outcome of a gas connection contract cannot be estimated reliably, revenue is recognised only to the extent of contract cost incurred that it is probable to be recoverable.

Revenue from sales of goods is recognised when goods are delivered and title has passed.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition (Continued)

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

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or 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 their estimated residual value, using the straight-line method.

Construction in progress represents buildings, machinery and pipelines under construction for the Group's own use purposes and is carried at cost less any recognised impairment loss. Cost comprises direct and indirect costs of acquisition or construction. Completed items are transferred from construction in progress to the relevant categories of property, plant and equipment when they are ready for their intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for intended use.

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

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 properties 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 and 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 expenses 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 advance received. Amounts billed for work performed but not yet paid by the customers are included in the consolidated statement of financial position under trade receivables.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 leases 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 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 a 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 classified as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliability, leasehold interest in land are accounted for as operating leases and 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.

Retirement benefits costs

Payments to the Mandatory Provident Fund Scheme ("MPF Scheme") and other schemes managed by the PRC government are charged as an expense when employees have rendered services entitling them to the contributions.

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 deferred income in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Other government subsidies are recognised as revenue 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses (see accounting policy on impairment losses on tangible and intangible assets below). Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit and loss in the period when the asset is derecognised.

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 (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. 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 reported at cost less accumulated amortisation and accumulated impairment losses.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets (Continued)

Intangible assets acquired in a business combination

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

Subsequent to initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses (see accounting policy on impairment losses on tangible and intangible assets below). Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

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 amount 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, 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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 profit 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.

Financial instruments

Financial assets and financial liabilities are recognised on 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 two categories, including loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a 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 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investment. 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 reporting period (see accounting policy on impairment loss on financial assets below).

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 receivables, refundable deposits, other receivables, loan receivable, pledged bank deposit and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment of financial assets

Financial assets 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 loans and receivables, the estimated future cash flows of the loans and receivables have been affected.

For available-for-sale equity investments, 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;
- 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 the Group's past experience of collecting payments, 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 of impairment and is measured as the difference between the carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account (if any). Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and other 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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments (Continued)

Financial liabilities and equity

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

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

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 fees 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 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 at fair value through profit or loss

Financial liabilities at FVTPL represent financial liabilities held for trading.

A financial liability is classified as held for trading if it is a derivative that is 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Convertible bonds with liability and derivative components

Convertible loan notes issued by the Group that contain liability, conversion option and early redemption option (which is not closely related to the host liability component) are classified separately into liability and derivative components (including conversion option and early redemption option components) 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. Early redemption options of the bondholders and the Company embedded in non-derivative host liability component with risks and characteristics that are not closely related to the liability component are classified separated from the liability component. At the date of issue, both the liability and derivative 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 derivative component 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 derivative component in proportion to their relative fair values. Transaction costs relating to the derivatives components 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 payables, other payables, accrued charges and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their characteristics and risks 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

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.

Substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least ten per cent different from the discounted present value of the remaining cash flows of the original financial liability. If a modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the modification is not accounted for as an extinguishment, any costs or fees adjust the carrying amount of the liability and are amortised over the remaining terms of the modified liability.

Where the Group repurchases/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 repurchase/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 repurchase, a gain is recognised in profit or loss.

Equity-settled share-based payment transactions

Share options granted to employees

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

At 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 share options reserve.

At the time when the share options are exercised, the amount previously recognised in the share option reserve will be transferred to share premium. When the share options are forfeited after vesting date or are still not exercised at the expiry date, the amount previously recognised in the share option reserve will be transferred to accumulated profits.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Share options granted to consultants

Share options issued in exchange for goods or services are measured at the fair values of the services received, unless that fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of share options granted. The fair values of the services received are recognised as expenses with a corresponding increase in equity (share option reserve), when the counterparties rendered services, unless the services qualify for recognition as assets.

Inventories

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

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 exchange 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 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 at the rate prevailing on the date when fair value was determined are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations in the PRC are translated into the presentation currency of the Group (i.e. Hong Kong dollars) 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 year, 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 (translation reserve).

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

Goodwill and fair value adjustments on identifiable assets acquired on an acquisition of a foreign operation on or after 1st January, 2005 are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in the translation reserve.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies (Continued)

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 not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Revenue recognition of gas connection contract

Revenue from gas connection contracts is recognised on the percentage of completion method, measured by reference to the proportion of the contract costs incurred for the work performed to date over the estimated total contract costs. Accordingly, any changes to the estimated total contract cost may have material impact on the contract revenue and net profit recognised in each accounting period over the contract term. In case when it is probable that total contract costs exceed total contract revenue, the expected loss is recognised as an expense immediately.

Impairment on amounts due from customers for contract work

At the end of the reporting period, management reconsidered the recoverability of its amounts due from customers for contract work. The Group is entitled to issue progress billing based on the stage of completion. However, the management will also consider the likelihood of collection from its customers in determining whether to issue progress billing. In determining whether impairment is required, the Group takes into consideration of the construction progress and the progress payments received from its customers. Impairment is recognised for those contracts that may not be honored by the customers and is recognised on the difference between the estimated future cash flows expected to be received discounted using the effective interest rate and the carrying value. During the year, the Group has recognised impairment loss on amounts due from customers for contract work of HK$318,000 (2008: HK$12,938,000).

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

Estimated impairment of goodwill, other intangible assets, property, plant and equipment and prepaid lease payments

In impairment testing, the Group determines the recoverable amount of the cash generating unit to which the assets belongs. Determining whether impairment needs to be provided requires an estimate the future cash flows expected to arise from the cash generating units. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. Details of the recoverable amount calculation for cash generating units in respect of connection of pipeline construction are set out in note 19, whereas cash generating units in respect of sales of piped gas, sales of CNG filling stations as well as sales of coalbed methane gas are set out in note 20.

Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the relevant assets, after taking into account their estimated residual value, if any. The Group reviews the estimated useful lives of the assets annually in order to determine the amount of depreciation expenses to be recorded during the periods. The useful lives are based on the Group's historical experience with similar assets taking into account anticipated technological changes. The depreciation expenses for future periods are adjusted if there are significant changes from previous estimates.

6. FINANCIAL INSTRUMENTS AND CAPITAL DISCLOSURES

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the borrowings and convertible bonds disclosed in notes 31 and 33 respectively and equity attributable to owners of the Company, comprising issued capital, accumulated losses and other reserves.

The management of the Group reviews the capital structure on a continuous basis taking into account the cost of capital and the risk associated with the capital. The Group will balance its overall capital structure through new share issues, repurchase of shares and the issue of new debt or the redemption of the existing debt.

The Group's overall strategy remains unchanged from prior year.

Categories of financial instruments

	2009	2008
	HK$'000	HK$'000
Financial assets		
Available-for-sale investment	**2,847**	–
Loans and receivables (including cash and cash equivalents)	**477,781**	552,961
Financial liabilities		
Amortised cost	**606,984**	558,207
FVTPL – Derivative financial instruments	**45,625**	101,961
	652,609	660,168

6. FINANCIAL INSTRUMENTS AND CAPITAL DISCLOSURES *(Continued)*

Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, refundable deposits, other receivables, loan receivables, pledged bank deposit and bank balances, trade payables, other payables and accrued charges, convertible bonds (including derivative financial instruments) and bank borrowings. 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

Interest rate risk

The Group's fair value interest rate risk relates primarily fixed-rate bank borrowings (see note 31 for details of these borrowings) and convertible bonds (see note 33 for details). The Group has not used any derivative contracts to hedge these exposure to interest rate risk. The directors of the Company consider that the Group's exposure to fair value interest rate risk is not significant as the fixed-rate bank borrowings are within short maturity period.

The Group's cash flow interest rate risk primarily relates to variable-rate bank balances and bank borrowings (see note 31 for details of these borrowings). The Group has not used any interest rate swaps to mitigate its exposure to cash flow interest rate risk. However, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated. The interest rates of all variable bank borrowings are based on base interest rate fixed by People's Bank of China plus a premium.

The sensitivity analysis has been determined based on the exposure to the floating-rate bank loans and variable-rate bank balances at the end of the reporting period and management's assessment of the reasonably possible change interest rates. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for whole year. If interest rates on bank loans and bank balances had been 50 basis points and 20 basis points respectively (2008: 100 basis points for both bank loans and bank balances) higher/lower and all other variables were held constant, the potential effect on post-tax results for the year is as follows:

	HK$'000
Increase/decrease in post-tax profit for 2009	262
Decrease/increase in post-tax loss for 2008	1,375

6. FINANCIAL INSTRUMENTS AND CAPITAL DISCLOSURES *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risks *(Continued)*

Interest rate risk on derivative component

The Group is required to estimate the fair values of the derivative component embedded in the convertible notes at the end of each reporting period with changes in fair value to be recognised in the consolidated statement of comprehensive income as long as the convertible notes are outstanding. The fair value adjustment will be affected either positively or negatively by the changes in market interest rate.

Sensitivity analysis

For the year ended 31st December, 2009, if the market rate had been 2% higher/lower and all other variables were held constant, the Group's post tax profit for the year would decrease/increase by HK$912,000.

For the year ended 31st December, 2008, if the market rate had been 5% higher/lower and all other variables were held constant, the Group's post tax loss for the year would increase/decrease by HK$5,014,000.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent interest rate risk as the price model used in the fair value valuation of the derivative component involves multiple variables. The variables used to estimate the fair value of the multiple embedded derivative features are interdependent.

Foreign currency risk

The Group collects most of its revenue in RMB and incurs most of the expenditures as well as capital expenditures in RMB. Except for convertible bonds and bank balances denominated in USD and HKD, the directors consider that the Group's exposure to foreign currency exchange risk is insignificant, as the majority of the Group's transactions as well as assets and liabilities are denominated in the functional currency of the respective group entities.

6. FINANCIAL INSTRUMENTS AND CAPITAL DISCLOSURES *(Continued)*

Financial risk management objectives and policies (Continued)

Market risks *(Continued)*

Foreign currency risk (Continued)

As at the end of the reporting period, the Group has convertible bonds denominated in United State Dollars ("USD") and certain bank balances denominated in USD and Hong Kong dollars ("HKD") with carrying amount of HK$142,647,000 (2008: HK$233,141,000), HK$14,360,000 (2008: HK$50,940,000) and HK$10,568,000 (2008: HK$11,196,000) respectively, which is the currency other than the functional currency of the respective group entities.

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

Sensitivity analysis

The Group is mainly exposed to the foreign currency risk in HKD and USD arising from convertible bonds and bank balances.

The following table details the Group's sensitivity to a 5% (2008: 5%) increase and decrease in RMB against USD and 5% (2008: 5%) increase and decrease in RMB against HKD. 5% (2008: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonable possible change in foreign exchange rates. The sensitivity analysis includes only USD and HKD bank balances and convertible bonds, and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates an decrease in post-tax profit and increase in post-tax loss where RMB strengthen 5% against the relevant currency. For a 5% weakening of RMB against in the USD and HKD, there would be an equal and opposite impact on the profit or loss.

	2009 **HK$'000**	2008 HK$'000
USD convertible bonds (liability component)	**(5,956)**	9,734
USD bank balances	**600**	(2,127)
HKD bank balances	**441**	(468)

In the management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

6. FINANCIAL INSTRUMENTS AND CAPITAL DISCLOSURES *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risks *(Continued)*

Price risk on derivative component

The Group is required to estimate the fair value of derivative component including the conversion option embedded in the convertible notes at the end of each reporting period with changes in fair value to be recognised in the consolidated statement of comprehensive income as long as the convertible bonds are outstanding. The fair value adjustment will be affected either positively or negatively, amongst others, by the changes in market interest rate, the Company's share market price and share price volatility.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to the Company's share price risk at the reporting date only. If the Company's share price had been 10% higher/lower and all other variables were held constant, the Group's post-tax profit (2008: post-tax loss) for the year (as a result of changes in fair value of derivative component of convertible bonds) would decrease/increase by HK$11,945,000 and (2008: post-tax loss would increase/decrease by HK$4,758,000).

In management's opinion, the sensitivity analysis is unrepresentative of the inherent market risk as the pricing model used in the fair value valuation of the conversion option involves multiple variables. The variables used to estimate the fair value of the multiple embedded derivative features are interdependent.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December, 2009 in relation to each class of recognised financial assets is the carrying amount 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 the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies and the Group has limited exposure to any single financial institution. The directors of the Company consider that the Group does not have any other significant concentration of credit risk.

6. FINANCIAL INSTRUMENTS AND CAPITAL DISCLOSURES *(Continued)*

Financial risk management objectives and policies (Continued)

Credit risk *(Continued)*

The policy of allowances for doubtful debts of the Group is based on the evaluation of collectibility and aging analysis of accounts and on management's estimate. In determining whether impairment is required, the Group takes into consideration the 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

As at as at 31st December, 2009 the Group has net current liabilities of approximately HK$26,668,000 (2008: HK$11,713,000). 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 cashflows from operations. In relation to the Offer as set out in note 2, the directors considers that it might not affect the financial position of the Group nor the oppropriateness of going concern basis of the Group.

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The bank balances have maturity less than three months. In addition to issuance of new shares, the Group also relies on bank borrowings and convertible bonds as a significant source of liquidity. The management monitors the utilisation of bank borrowings or convertible bonds and ensures compliance with the relevant covenants.

The following table details the Group's remaining contractual maturity for its financial liabilities, including the derivative components of the convertible bonds. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest (estimated based on interest rate at the end of the reporting period) and principal cash flows.

6. FINANCIAL INSTRUMENTS AND CAPITAL DISCLOSURES *(Continued)*

Financial risk management objectives and policies (Continued)

Liquidity risk *(Continued)*

Liquidity tables

	Weighted average effective interest rate %	**Less than 3 month HK$'000**	**3 months to 1 year HK$'000**	**1 – 5 years HK$'000**	**Total undiscounted cash flow HK$'000**	**Carrying amount at 31.12.2009 HK$'000**
2009						
Non-derivative financial liabilities						
Trade payables	**–**	**36,767**	**65,120**	**–**	**101,887**	**101,887**
Other payables	**–**	**56,694**	**–**	**–**	**56,694**	**56,694**
Bank borrowings						
– fixed rate	**5.43%**	**164,515**	**49,378**	**–**	**213,893**	**202,870**
– variable rate	**6.98%**	**5,295**	**37,748**	**73,753**	**116,796**	**102,886**
Convertible bonds (note 33) (note a)	**20.42%**	**–**	**21,130**	**192,465**	**213,595**	**188,272**
		263,271	**173,376**	**266,218**	**702,865**	**652,609**

	Weighted average effective interest rate %	Less than 3 month HK$'000	3 months to 1 year HK$'000	1 – 5 years HK$'000	Total undiscounted cash flow HK$'000	Carrying amount at 31.12.2009 HK$'000
2008						
Non-derivative financial liabilities						
Trade payables	–	24,105	44,620	–	68,725	68,725
Other payables	–	42,024	–	–	42,024	42,024
Bank borrowings						
– fixed rate	7.47%	36,173	52,313	–	88,486	82,280
– variable rate	7.00%	–	34,630	121,368	155,998	132,037
Convertible bonds (note 33) (note a)	16.18%	–	400,920	–	400,920	335,102
		102,302	532,483	121,368	756,153	660,168

6. FINANCIAL INSTRUMENTS AND CAPITAL DISCLOSURES *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

Liquidity tables (Continued)

Notes:

(a) For the year ended 31st December, 2009, the amount of undiscounted cash flow represents the minimum redemption amount including the relevant interest payment of the convertible bond required under option 1 set out in note 33 on the assumption that no early conversion would take place before its maturity. The carrying amount represents the liability components carried at amortised cost with an effective interest rate of 20.42% and the fair value of derivatives embedded in the convertible bonds (details are set out in note 33).

For the year ended 31 December 2008, The amount of undiscounted cash flow represents the redemption amount including the relevant interest payment of the convertible bond on the assumption that the bondholders would exercise the early redemption option in 2009. The carrying amount represents the liability components carried at amortised cost with an effective interest rate of 16.18% and the fair value of derivatives embedded in the convertible bonds (details are set out in note 33).

(b) The amounts included above for variable interest rate instruments for non-derivative financial liabilities 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 derivative instruments is calculated using option pricing models with applicable yield curve for optional derivatives.

- 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.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values except for the liability component of the convertible bonds with the carrying amount of HK$142,647,000 (2008: HK$233,141,000) as stated in note 33 which has fair value of HK$152,901,000 (2008: HK$243,245,000).

6. FINANCIAL INSTRUMENTS AND CAPITAL DISCLOSURES *(Continued)*

Fair value (Continued)

Fair value measurements recognised in the 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).

As at 31st December, 2009, the derivative financial instruments amounted to HK$45,625,000 which were grouped in Level 3.

Reconciliation of Level 3 fair value measurements of derivative financial instruments

	Derivatives financial liabilities HK$'000
At 1st January, 2009	101,961
Changes in fair value – profit or loss	(17,672)
Repurchase during the year (Note)	(38,664)
At 31st December, 2009	45,625

Note: During the year, the Company has repurchased a total principal amount of US$19,000,000 (approximately HK$148,200,000) of convertible bond from certain bondholders. The relevant derivative financial instruments related to the repurchase portion has been be derecognised and included in the calculation of gain/loss on repurchase of convertible bonds.

The fair value gain of approximately HK$17,672,000 is reported separately on the consolidated statement of comprehensive income as "Change in fair value of derivative financial instruments".

Of the fair value, gains of approximately HK$17,672,000 included in profit or loss, gain of approximately HK$7,904,000 relates to derivative financial instruments held at the end of the reporting period.

The significant assumptions used in determining the fair value of derivative financial instruments were set out in note 29.

7. TURNOVER

Turnover represents the net amounts received and receivable for goods sold and services rendered by the Group to outside customers, net of discounts and related taxes. An analysis of the Group's turnover for the year is as follows:

	2009 HK$'000	2008 HK$'000
Sales of piped gas	**494,208**	407,850
Connection revenue from gas pipeline construction	**253,438**	234,405
Sales of liquefied petroleum gas	**33,908**	37,110
Operation of compressed natural gas ("CNG") filling stations	**50,103**	19,249
Sales of stoves and related equipment	**12,493**	4,406
	844,150	703,020

8. SEGMENT INFORMATION

The Group has adopted HKFRS 8 Operating Segments with effect from 1st January, 2009. HKFRS 8 is a disclosure standard that 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 for the purpose of allocating resources to the segment and assessing their performance. In contrast, the predecessor Standard (HKAS 14 Segment Reporting) required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach. In the past, the Group's primary reporting format was business segments. The application of HKFRS 8 has not resulted in a redesignation of the Group's operating segments as compared with the primary segments determined in accordance with HKAS 14. Nor has the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss, segment assets and segment liabilities.

The Group's executive directors are the chief operating decision makers as they collectively make strategic decisions on resources allocation and performance assessment. The Group is principally engaged in development, construction and operation of natural gas and coalbed gas projects in the PRC. Nearly all identifiable assets of the Group are located in PRC. Information reported to the Group's executive directors for the purpose of resources allocation and assessment of performance focuses on the type of products or services. Each type of product or service is managed by an unique business unit within the Group whose performance is assessed independently. The Group's operating segments under HKFRS 8 are therefore as follows:

(a) sales of piped gas

(b) connection revenue from gas pipeline construction

(c) sales of liquefied petroleum gas

(d) operation of CNG filling stations

(e) sales of coalbed methane gas ("CBM")

(f) Sales of stoves and related equipment

8. SEGMENT INFORMATION *(Continued)*

Segment revenue and results

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

For the year ended 31st December, 2009

	Sales of piped gas HK$'000	Connection revenue from gas pipeline construction HK$'000	Sales of liquefied petroleum gas HK$'000	Operation of CNG filling stations HK$'000	Sales of CBM HK$'000	Sales of stoves and related equipment HK$'000	Consolidated HK$'000
Segment revenue	494,208	253,438	33,908	50,103	–	12,493	844,150
Segment profit (loss)	36,179	112,440	(4,246)	7,508	(18,873)	5,410	138,418
Interests and other income							4,081
Central corporate expenses							(35,921)
Finance costs							(44,338)
Change in fair value of derivative financial instruments							17,672
Profit before tax							79,912

8. SEGMENT INFORMATION *(Continued)*

Segment revenue and results (Continued)

For the year ended 31st December, 2008

	Sales of piped gas HK$'000	Connection revenue from gas pipeline construction HK$'000	Sales of liquefied petroleum gas HK$'000	Operation of CNG filling stations HK$'000	Sales of CBM HK$'000	Sales of stoves and related equipment HK$'000	Consolidated HK$'000
Segment revenue	407,850	234,405	37,110	19,249	–	4,406	703,020
Segment profit (loss)	38,413	91,540	(5,813)	(64,923)	(82,553)	132	(23,204)
Interests and other income							8,298
Central corporate expenses							(38,671)
Finance costs							(52,740)
Change in fair value of derivative financial instruments							28,075
Loss before tax							(78,242)

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 4. Segment profit (loss) represents the profit earned by/loss from each segment without allocation of central administration costs, directors' salaries, share option expenses, investment income, impairment loss recognised an loan receivables, finance cost and change in fair value of derivatives financial instruments and income tax expenses. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

8. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating segment:

As at 31st December, 2009

	Sales of piped gas HK$'000	Connection revenue from gas pipeline construction HK$'000	Sales of liquefied petroleum gas HK$'000	Operation of CNG filling stations HK$'000	Sales of CBM HK$'000	Sales of stoves and related equipment HK$'000	Consolidated HK$'000
ASSETS							
Segment assets	957,037	40,958	14,516	132,460	6,946	1,599	1,153,516
Investment properties							5,574
Available-for-sales investment							2,847
Buildings for corporate use							32,563
Prepaid lease payments for corporate use							3,280
Pledged bank deposit							13,474
Bank balances							413,779
Other assets							5,820
Consolidated assets							1,630,853
LIABILITIES							
Segment liabilities	163,900	86,114	20,894	1,629	–	5,435	277,972
Derivative financial instruments							45,625
Tax payables							17,143
Bank borrowings							305,756
Deferred tax liabilities							19,925
Convertible bonds							142,647
Other liabilities							8,024
Consolidated liabilities							817,092

8. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities *(Continued)*

As at 31st December, 2008

	Sales of piped gas HK$'000	Connection revenue from gas pipeline construction HK$'000	Sales of liquefied petroleum gas HK$'000	Operation of CNG filling stations HK$'000	Sales of CBM HK$'000	Sales of stoves and related equipment HK$'000	Consolidated HK$'000
ASSETS							
Segment assets	822,242	80,063	13,489	55,615	7,060	1,207	979,676
Investment properties							4,617
Buildings for corporate use							44,173
Prepaid lease payments for corporate use							3,298
Pledged bank deposit							13,826
Bank balances							474,333
Other assets							1,759
Consolidated total assets							1,521,682
LIABILITIES							
Segment liabilities	101,170	45,226	16,215	2,826	–	5,183	170,620
Derivative financial instruments							101,961
Tax payables							11,586
Bank borrowings							214,317
Deferred tax liabilities							17,401
Convertible bonds							233,141
Other liabilities							11,281
Consolidated total liabilities							760,307

8. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities (Continued)

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

- all assets are allocated to reportable segments, other than investment properties, available-for-sales investment, buildings and prepaid lease payments for corporate use, certain corporate deposits, prepayments and other receivables, pledged bank deposits and bank balances.

- all liabilities are allocated to operating segments, other than derivative financial instruments, tax payables, certain corporate other payables and accrued charges, bank borrowings, deferred tax liabilities and convertible bonds.

Other segment information

2009

	Sales of piped gas HK$'000	Connection revenue from gas pipeline construction HK$'000	Sales of liquefied petroleum gas HK$'000	Operations of CNG filling stations HK$'000	Sales of CBM HK$'000	Sales of stoves and related equipment HK$'000	Segment Total HK$'000	Unallocated HK$'000	Consolidated HK$'000
Amounts included in the measure of segment profit or loss or segment assets:									
Capital additions	145,260	–	4,916	83,363	–	–	233,539	–	233,539
Loss on disposal of property, plant and equipment	392	–	–	–	5,495	–	5,887	–	5,887
Amortisation of prepaid lease payment	1,377	–	–	241	–	–	1,618	–	1,618
Depreciation of property, plant and equipment	26,157	–	1,430	1,128	1,554	–	30,269	1,550	31,819
Amortisation of other intangible assets	3,762	–	–	959	–	–	4,721	–	4,721
Allowance for doubtful debts	1,153	–	–	–	–	–	1,153	922	2,075
Impairment loss recognised on amounts due from customers for contract work	–	318	–	–	–	–	318	–	318
Research and development cost	–	–	–	–	9,116	–	9,116	–	9,116

8. SEGMENT INFORMATION *(Continued)*

Other segment information (Continued)

2008

	Sales of piped gas HK$'000	Connection revenue from gas pipeline construction HK$'000	Sales of liquefied petroleum gas HK$'000	Operations of CNG filling stations HK$'000	Sales of CBM HK$'000	Sales of stoves and related equipment HK$'000	Segment Total HK$'000	Unallocated HK$'000	Consolidated HK$'000
Amounts included in the measure of segment profit or loss or segment assets:									
Capital additions	114,138	–	–	13,511	3,143	–	130,792	987	131,779
Loss on disposal of property, plant and equipment	212	–	–	–	–	–	212	–	212
Amortisation of prepaid lease payment	1,361	–	–	115	–	–	1,476	–	1,476
Depreciation of property, plant and equipment	24,190	–	1,326	68	1,283	–	26,867	502	27,369
Amortisation of other intangible assets	3,754	–	–	3,085	2,507	–	9,346	–	9,346
Allowance for doubtful debts	6,739	–	213	–	–	–	6,952	1,461	8,413
Impairment loss recognised on amounts due from customers for contract work	–	12,938	–	–	–	–	12,938	–	12,938
Impairment loss recognised on other intangible assets	–	–	–	67,892	39,593	–	107,485	–	107,485
Research and development cost	–	–	–	–	32,990	–	32,990	–	32,990

Geographical information

All the turnover of the Group for the both years are derived from the PRC. None of the customer contributes over 10% of total revenue of the Group.

All the non-current assets (other than financial instruments) of the Group located in the PRC.

9. OTHER INCOME AND GAINS

	2009 HK$'000	2008 HK$'000
Bank interest income	**2,520**	3,432
Interest income from loan receivables	**–**	3,904
Gain on repurchase of convertible bonds	**1,562**	–
Government subsidy (note)	**578**	1,258
Increase in fair value of investment properties	**911**	337
Sundry income	**4,098**	5,163
	9,669	14,094

Note: During the year ended 31st December, 2009, the Group has received a subsidy of HK$578,000 (2008: HK$1,258,000) from the government in Jiyuan City for promoting the use of natural gas. There are no conditions attached to the subsidy granted to the Group.

10. FINANCE COSTS

	2009 HK$'000	2008 HK$'000
Interest on bank borrowings wholly repayable within five years	**21,348**	22,258
Effective interest expense on convertible bonds	**28,997**	32,903
Total borrowing costs	**50,345**	55,161
Less: Amounts capitalised in construction in progress	**(6,007)**	(2,421)
	44,338	52,740

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 5.62% (2008: 6.2%) to expenditure on qualifying assets.

11. INCOME TAX EXPENSES

	2009 HK$'000	2008 HK$'000
PRC Enterprise Income Tax:		
Current tax	**25,505**	13,424
Underprovision in prior years	**262**	–
PRC withholding tax	**6,640**	–
	32,407	13,424
Deferred tax (note 34):		
Current year	**2,365**	(101)
	34,772	13,323

On 26th June, 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

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 1st January, 2008 onwards.

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Company and its subsidiaries had no assessable profits arising in Hong Kong for both years.

Pursuant to the relevant laws and regulations in the PRC, certain PRC subsidiaries of the Group are exempted from the EIT Law for two years starting from their first profit-making year, followed by a 50% reduction for the next three years. The tax concession arrangement of the aforesaid PRC subsidiaries will be expired from 2010 to 2011. According to New Law, the tax concession arrangement will not be granted to all new applicants incorporated after 16th March, 2007. As for the existing group entities entitle to such tax concession but have not commenced their first profit-making year they will be exempted from the EIT Law for two years, followed by a 50% reduction for the next three years regardless of its reported results commencing from 1st January, 2008 and the charge of the EIT Law for the year has been provided for after taking these tax incentive into account.

Under the EIT Law of the PRC, withholding tax is imposed on the dividend declared to non PRC tax residents in respect of profits earned by PRC subsidiaries from 1st January, 2008 onwards. During the year ended 31st December, 2009, withholding tax amounted to HK$6,640,000 was charged by the PRC tax authority which levied on the dividends paid to overseas group entities.

11. INCOME TAX EXPENSES *(Continued)*

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

	Hong Kong		PRC		Total	
	2009	2008	**2009**	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Profit (loss) before tax	**(28,339)**	(24,300)	**108,251**	(53,942)	**79,912**	(78,242)
Taxation at the domestic income tax rate	**(4,676)**	(4,010)	**27,062**	(13,486)	**22,386**	(17,496)
Tax effect of expenses not deductible for tax purpose	**7,274**	8,115	**1,239**	16,973	**8,513**	25,088
Tax effect of income not taxable for tax purpose	**(2,955)**	(4,686)	**–**	–	**(2,955)**	(4,686)
Overprovision in respect of prior years	**–**	–	**262**	–	**262**	–
Tax effect of estimated tax losses not recognised	**357**	581	**7,016**	27,456	**7,373**	28,037
Utilisation of estimated tax losses previously not recognised	**–**	–	**(503)**	–	**(503)**	–
Effect of tax exemptions granted to PRC subsidiaries and a jointly controlled entity	**–**	–	**–**	(5,421)	**–**	(5,421)
Income tax on concessionary rate	**–**	–	**(8,600)**	(12,199)	**(8,600)**	(12,199)
Withholding tax levied on dividend paid	**6,640**	–	**–**	–	**6,640**	–
Withholding tax levied on undistributed earnings of subsidiaries (note 34)	**1,656**	–	**–**	–	**1,656**	–
Tax charge for the year	**8,296**	–	**26,476**	13,323	**34,772**	13,323

12. PROFIT (LOSS) FOR THE YEAR

	2009 HK$'000	2008 HK$'000
Profit (loss) for the year has been arrived at after charging (crediting):		
Auditor's remuneration	**1,750**	1,500
Amortisation of other intangible assets (included in cost of sales)	**4,721**	9,346
Amortisation of prepaid lease payments	**1,618**	1,476
Depreciation of property, plant and equipment	**31,819**	27,369
Loss on disposal of property, plant and equipment	**5,887**	212
Research and development cost (included in other expenses)	**9,116**	32,990
Allowance (reversal) for doubtful debts (included in other expenses)		
– trade receivables	**(276)**	1,723
– other receivables	**2,351**	6,690
Impairment loss recognised on loan receivables (included in other expenses)	**4,722**	–
Employee benefits expenses, other than directors (including contributions to retirement benefits schemes of HK$8,564,000 (2008: HK$6,736,000))	**76,104**	64,079
Employee share option benefits other than directors	**1,788**	3,718
Exchange (gain) loss	**(321)**	4,102
Operating lease rentals in respect of rented premises	**3,483**	2,969
Cost of inventories recognised as expense in respect of:		
Contract cost for gas pipeline construction	**43,778**	28,307
Cost of inventories recognised as expenses in respect of sales of piped gas, liquefied petroleum gas and stoves equipment	**444,698**	341,140
	488,476	369,447
Gross rental income from investment properties with minimal outgoings	**(789)**	(618)

13. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the 10 (2008: 10) directors were as follows:

	2009 HK$'000	2008 HK$'000
Fees	**2,440**	2,440
Other emoluments:		
– Salaries and other benefits	**1,723**	1,598
– Contributions to retirement benefits scheme	**12**	12
– Employee share option benefits	**3,386**	3,386
Total emoluments	**7,561**	7,436

13. DIRECTORS' EMOLUMENTS *(Continued)*

The emoluments of directors are analysed as follows:

	2009					2008				
	Employee share option benefits HK$'000	**Salaries and other benefits HK$'000**	**Fees HK$'000**	**Contributions to retirement benefits scheme HK$'000**	**Total HK$'000**	Employee share option benefits HK$'000	Salaries and other benefits HK$'000	Fees HK$'000	Contributions to retirement benefits scheme HK$'000	Total HK$'000
Wang Wenliang	**–**	**–**	**1,200**	**–**	**1,200**	–	–	1,200	–	1,200
Hao Yu	**2,584**	**–**	**720**	**–**	**3,304**	2,584	–	720	–	3,304
Lu Zhaoheng	**241**	**366**	**–**	**–**	**607**	241	378	–	–	619
Lui Siu Keung	**241**	**1,357**	**–**	**12**	**1,610**	241	1,220	–	12	1,473
Xu Yongxuan	**–**	**–**	**240**	**–**	**240**	–	–	240	–	240
Wang Lei	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–
Nicholas John Ashley Rigg	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–
Wang Shunlong	**–**	**–**	**100**	**–**	**100**	–	–	100	–	100
Luo Yongtai	**160**	**–**	**100**	**–**	**260**	160	–	100	–	260
Hung, Randy King Kuen	**160**	**–**	**80**	**–**	**240**	160	–	80	–	240
	3,386	**1,723**	**2,440**	**12**	**7,561**	3,386	1,598	2,440	12	7,436

No emoluments were paid by the Group to the directors as a discretionary bonus or an inducement to join or upon joining the Group or as a compensation for loss of office for the year.

No directors waived any emoluments during the year.

14. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2008: four) were directors of the Company whose emoluments are included in the disclosures in note 13 above. The emolument of the remaining two (2008: one) individuals was as follows:

	2009 HK$'000	2008 HK$'000
Salaries and other benefits	**832**	336
Contributions to retirement benefits scheme	**20**	20
	852	356

Their emoluments were within the band of Nil to HK$1,000,000.

15. DIVIDENDS

No dividend was paid or proposed during 2009, nor has any dividend been proposed since the end of the reporting period (2008: nil).

16. EARNINGS (LOSS) PER SHARE

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

	2009	2008
	HK$'000	HK$'000
Earnings (loss)		
Earnings (loss) for the purposes of basic earnings (loss) per share, being profit (loss) for the year attributable to owners of the Company	**20,060**	(92,797)

	2009	2008
	'000	'000
Number of shares		
Weighted average number of shares for the purpose of basic earnings (loss) per share	**1,935,952**	1,939,290
Effect of dilutive potential ordinary shares:		
Share options issued by the Company (note a & b)	**19,562**	
Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share	**1,955,514**	

16. EARNINGS (LOSS) PER SHARE *(Continued)*

Notes:

(a) The exercise of the Company's outstanding share options would result in a decrease in loss per share for the year ended 31st December, 2008.

(b) For the year ended 31st December, 2009, weighted average number of ordinary shares for the purpose of the computation of diluted earnings per share has taken into account the effect of the options with dilutive effect.

(c) The conversion of the Company's outstanding convertible bonds would increase (2008: decrease) the earnings (2008: loss) per share, after taking into account of the effect of effective interest, change in fair value of derivative component and gain on repurchase of the convertible bonds net of related tax expenses, if any.

Diluted loss per share has not been presented for the year ended 31st December, 2008 due to the reasons stated in (a) and (c) above.

17. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1st January, 2008	4,074
Exchange adjustments	206
Increase in fair value recognised in profit or loss	337
At 31st December, 2008	4,617
Exchange adjustments	46
Increase in fair value recognised in profit or loss	911
At 31st December, 2009	5,574

The fair value of the Group's investment properties at 31st December, 2009 and 2008 have been arrived at on the basis of a valuation carried out on that date by河南九鼎資產評估有限公司. The valuation was arrived at by reference to rental yield for similar properties in the same locations and conditions.

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

	Buildings HK$'000	Construction in progress HK$'000	Leasehold improvements HK$'000	Pipelines HK$'000	Machinery and equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
COST								
At 1st January, 2008	69,224	24,735	4,957	312,962	42,891	2,490	20,667	477,926
Acquired on business combination by contract alone without acquiring additional interest (note 38)	5,802	1,152	1,267	22,194	4,834	–	741	35,990
Exchange adjustments	3,843	453	141	18,004	2,425	114	1,244	26,224
Additions	2,167	56,372	3,210	221	2,231	2,069	8,174	74,444
Disposals	(68)	–	–	–	(93)	(67)	(1,833)	(2,061)
Transfer	5,337	(40,244)	–	27,874	7,033	–	–	–
At 31st December, 2008	86,305	42,468	9,575	381,255	59,321	4,606	28,993	612,523
Acquired on acquisition of a subsidiary (note 36)	683	–	–	21,466	1,186	20	404	23,759
Acquisition of assets through acquisition of a subsidiary (note 37)	–	2,108	–	–	20	120	239	2,487
Exchange adjustments	839	399	86	3,257	639	40	304	5,564
Additions	2,177	118,357	4,470	247	6,200	357	7,411	139,219
Disposals	(30)	(5,496)	–	(702)	(187)	(31)	(1,170)	(7,616)
Transfer	7,534	(107,982)	–	89,280	11,168	–	–	–
At 31st December, 2009	97,508	49,854	14,131	494,803	78,347	5,112	36,181	775,936
DEPRECIATION								
At 1st January, 2008	1,967	–	894	9,096	3,930	381	4,483	20,751
Exchange adjustments	113	–	44	462	200	15	228	1,062
Provided for the year	3,126	–	694	12,041	6,178	658	4,672	27,369
Eliminated on disposals	(3)	–	–	–	(40)	(17)	(1,077)	(1,137)
At 31st December, 2008	5,203	–	1,632	21,599	10,268	1,037	8,306	48,045
Exchange adjustments	65	–	14	193	130	12	128	542
Provided for the year	3,835	–	470	13,226	8,502	703	5,083	31,819
Eliminated on disposals	(8)	–	–	(315)	(214)	(10)	(625)	(1,172)
At 31st December, 2009	9,095	–	2,116	34,703	18,686	1,742	12,892	79,234
CARRYING VALUES								
At 31st December, 2009	88,413	49,854	12,015	460,100	59,661	3,370	23,289	696,702
At 31st December, 2008	81,102	42,468	7,943	359,656	49,053	3,569	20,687	564,478

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

The buildings of the Group are situated outside Hong Kong with medium-term lease.

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

Buildings	Over the shorter of 30 years or the remaining terms of leases
Leasehold improvements	Over the remaining term of leases
Pipelines	Over the shorter of 30 years or operation period of the relevant company
Machinery and equipment	6% – 30%
Furniture and fixtures	20%
Motor vehicles	10% – 18%

At 31st December, 2009, the Group is in process of obtaining title deeds from relevant government authority for its buildings in the PRC amounting to HK$23,802,000 (2008: HK$24,190,000). In the opinion of the directors, the Group is not required to incur additional cost in obtaining the title deeds for its buildings in the PRC.

The Group has pledged certain buildings in the PRC having a carrying value of approximately HK$24,696,000 (2008: HK$27,216,000) to secure certain bank borrowings granted to the Group.

19. GOODWILL

	2009	2008
	HK$'000	HK$'000
Cost and carrying amount		
At 1st January	**99,312**	94,512
Exchange adjustments	**906**	4,800
Arising on acquisition of business (note 36)	**575**	–
At 31st December	**100,793**	99,312

The Group tests goodwill annually or more frequently if there are indications that goodwill might be impaired.

For the purposes of impairment testing, the carrying amount of goodwill has been allocated to a group of cash-generating units ("CGUs"), relating to sales of piped gas ("Unit A") amounting to HK$49,682,000 in aggregate (2008: HK$48,663,000) and connection of pipeline constructions ("Unit B") amounting to HK$51,111,000 (2008: HK$50,649,000) in aggregate.

The basis of the recoverable amounts and their major underlying assumptions of CGUs engaged in Unit B are summarised below:

The recoverable amounts of the CGUs have been determined individually based on a value in use calculation. For impairment assessment purposes, cash flow projections based on financial budgets approved by management covering a 15-year period (2008: 15-year period) at a discount rate of 13% (2008: 13%) was used. The cash flows of the CGUs beyond the 5-year period (2008: 5-year period) of the financial budgets are extrapolated using a steady 2% (2008: 2%) growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Another key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the individual CGUs' past performance and management's expectations for the market development. At the end of the reporting period, the recoverable amounts of the CGUs exceeded the respective carrying amounts, therefore, no impairment loss is considered necessary.

Impairment assessment of Unit A is set out in note 20.

20. OTHER INTANGIBLE ASSETS

	Development costs HK$'000	Exclusive rights of operation HK$'000	Other operating rights HK$'000	Total HK$'000
COST				
At 1st January, 2008	40,065	83,823	92,546	216,434
Exchange adjustments	2,035	4,912	4,700	11,647
Acquired on business combination by contract alone without acquiring additional interest (note 38)	–	11,584	–	11,584
At 31st December, 2008	42,100	100,319	97,246	239,665
Exchange adjustments	384	925	886	2,195
Acquired on acquisition of assets through purchase of a subsidiary (note 37)	–	–	67,432	67,432
At 31st December, 2009	42,484	101,244	165,564	309,292
AMORTISATION				
At 1st January, 2008	–	2,535	–	2,535
Exchange adjustments	–	138	–	138
Charge for the year	2,507	3,754	3,085	9,346
Impairment loss recognised	39,593	–	67,892	107,485
At 31st December, 2008	42,100	6,427	70,977	119,504
Exchange adjustments	384	38	646	1,068
Charge for the year	–	3,762	959	4,721
At 31st December, 2009	42,484	10,227	72,582	125,293
CARRYING VALUES				
At 31st December, 2009	–	91,017	92,982	183,999
At 31st December, 2008	–	93,892	26,269	120,161

20. OTHER INTANGIBLE ASSETS *(Continued)*

Development costs represent costs incurred for extraction of coalbed methane gas ("CBM") in the PRC.

The exclusive rights of operation represent sales and distribution of natural gas in certain cities in Henan province and Linyi City and is amortised on a straight-line method over the period of 30 years, which is the period being granted for exclusive operations in the relevant cities.

Other operating rights represent the licences possessed by Jiyuan Yulian Compressed Gas Co. Ltd ("JYCG"), Luohe Yulian Compressed Gas Co. Ltd ("LYCG"), Sanmenxia Yulian Compressed Gas Co. Ltd. ("SYCG") (collectively named as "Acquired Companies") and Nanjing Yulian Compressed Gas Co. Ltd. ("NYCS") to operate sixteen CNG filling stations in Jiyuan City, Luohe City, Sanmenxia City and Nanjing City and is amortised on a straight-line method over a period of 30 years, which is the period of the licenses being granted for operating CNG filling stations. Details of acquisition of other operating right of NYCS are set out in note 37.

The Group tests intangible assets annually or more frequently if there are indications that intangible assets might be impaired.

For the purposes of impairment testing, the carrying amounts of intangible assets have been allocated to the cash-generating units as follow:

	2009 **HK$'000**	2008 HK$'000
Subsidiaries engaged in sales of piped gas ("Unit A")	**91,017**	93,892
Operation of CNG filling stations ("Unit C")	**92,982**	26,269
Sales of CBM ("Unit D")	**Nil**	Nil

Impairment testing on Unit A

Unit A consisted of several CGUs. The recoverable amounts of these CGUs (comprising in aggregate intangible assets of HK$91,017,000 (2008: HK$93,892,000), goodwill of approximately HK$49,682,000 (2008: HK$48,663,000), property, plant and equipment of HK$620,245,000 (2008: HK$486,718,000) and prepaid lease payment of HK$46,972,000 (2008: HK$48,381,000) have been determined based on a value in use calculation using the following assumptions for 2009 and 2008:

Period of cash flow projections	14 years (2008: 15 years)
Growth rate beyond 5-year period extrapolated in the financial budgets approved by the management	2%
Discount rate	13%

This growth rate is based on the relevant industry growth forecast and does not exceed the average long-term growth rate for the relevant industry. Another key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the individual CGUs' past performance and management's expectations for the market development. At the end of reporting period, the recoverable amounts of CGUs exceeded the their respective carrying amounts, no impairment is considered necessary.

20. OTHER INTANGIBLE ASSETS *(Continued)*

Impairment testing on Unit C

Unit C consisted of several CGUs which represent individual subsidiaries engaging in the operation of CNG filling stations. The recoverable amounts of these CGUs (comprising in aggregate intangible assets of HK$92,982,000 (2008: HK$26,269,000), property, plant and equipment of HK$28,141,000 (2008: HK$13,433,000) and prepaid lease payment of HK$9,338,000 (2008: HK$9,494,000) have been determined based on a value in use calculation using the following assumptions for 2009 and 2008:

Period of cash flow projections	28 years (2008: 29 years)
Growth rate beyond 5-year period extrapolated in the financial budgets approved by the management	0%
Discount rate	16%

For the year ended 31st December 2008, due to the insufficient quantities of natural gas to be supplied to certain CNG filling stations in PRC operated by several of these subsidiaries, full impairment loss amounting to approximately HK$67,892,000 has been recognised in respect of the intangible assets held by these subsidiaries attaching to these CGUs. For the remaining CGUs, no impairment loss is considered necessary as the recoverable amounts exceeds their respective carrying amounts at 31st December, 2008.

For the year ended 31st December 2009, the management determined that the cities that confronted by lack of natural gas in year 2008 will not be able to resolve the shortage in the near future, therefore, reversal of previously made impairment loss is not considered necessary. No impairment loss is considered necessary in respect of the remaining CGUs (including several new CGUs arose from acquisition of business in 2009) as the recoverable amounts exceeds their respective carrying amounts at 31st December 2009.

Impairment testing on Unit D

For the year ended 31st December 2008, the management originally anticipated that the commercial production of CBM will commence by the fourth quarter of 2008 after the completion of the de-watering and releasing process. The production is delayed because the de-watering process was longer than expected and will not be completed within the next one year. In view of the delay, the expected future economic benefits associated with Unit D is considered as less than probable. Accordingly, the management has recognised full impairment on the carrying amount of the development costs previously capitalised of HK$39,593,000 and additional research and development costs of HK$32,990,000 were charged to the profit and loss during the year ended 31st December, 2008.

During the year ended 31st December 2009, the Group continues the de-watering process. The management is unable to demonstrate the technical feasibility of completing the extraction process for the purpose of commercial production in the near future. As a result, the additional cost incurred for Unit D amounting to HK$9,116,000 was charged to the profit and loss as research and development cost.

21. DEPOSITS PAID FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

Included in deposits paid for acquisition of property, plant and equipment is an amount of HK$42,881,000 (2008: HK$42,494,000) paid to the Finance Bureau of Jiaozuo City for the purpose of acquiring certain assets and liabilities which mainly comprised of gas pipeline network in the area of Jiaozuo City. On 5th March, 2009, the Group entered into a sale and purchase agreement with the 焦作市建設投資(控股)有限公司 ("Seller"). The transactions have not completed at the date these consolidated financial statements were authorised for issuance. Details are set out in note 42.

22. PREPAID LEASE PAYMENTS

All the Group's prepaid lease payments comprise property interests in leasehold land in the PRC with medium-term lease and amortised over the terms of relevant leases ranging from 30 to 50 years.

At 31st December, 2009, the Group is in process of obtaining land use right certificate from relevant government authority for its land in the PRC amounting to HK$8,842,000 (2008: HK$9,012,000). In the opinion of the directors, the Group is not required to incur additional cost in obtaining the land use right certificate for its land in the PRC.

The Group has pledged certain leasehold land in the PRC having a net book value of approximately HK$23,920,000 (2008: HK$24,107,000) to secure certain bank borrowings granted to the Group.

23. AVAILABLE-FOR-SALE INVESTMENT

	2009	2008
	HK$'000	HK$'000
Available-for-sale investment comprise:		
Unlisted equity security at cost less impairment	**2,847**	–

The above unlisted investment represents 10% in equity interest of Linyi Gas Pipeline Transport Company Limited (臨沂管道燃氣輸配有限公司). It is measured at cost less impairment at the end of the reporting period date because the range of reasonable fair value estimates is so significant that the directors of the Group are of the opinion that its fair value cannot be measured reliably.

24. INVENTORIES

	2009	2008
	HK$'000	HK$'000
Construction materials	**31,605**	33,815
Finished goods	**4,612**	5,145
	36,217	38,960

25. TRADE RECEIVABLES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

The Group allows an average credit period of 30 days to its trade customers. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period:

	2009	2008
	HK$'000	HK$'000
0 – 30 days	**26,925**	46,154
Over 30 days	**2,602**	11,263
Trade receivables	**29,527**	57,417

Included in deposits, prepayments and other receivables is advance to suppliers of natural gas and construction materials amounting to HK$17,062,000 (2008: HK$19,368,000).

The trade receivables of HK$26,925,000 (2008: HK$46,154,000) were neither past due nor impaired. These customers were local reputable real estate developers and corporate entities in Henan Province and no significant counterparty default was noted in the past.

As at 31st December, 2009, trade receivables of HK$2,602,000 (2008: HK$11,263,000) were past due but not provided for as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these trade receivables is 90 days (2008: 198 days).

Ageing of trade receivables which are past due but not impaired

	2009	2008
	HK$'000	HK$'000
31 – 90 days	**2,594**	4,457
91 – 180 days	**8**	3,534
181 – 365 days	**–**	3,272
	2,602	11,263

25. TRADE RECEIVABLES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES
(Continued)

Movement in the allowance for doubtful debts

Trade receivables

	2009	2008
	HK$'000	HK$'000
Balance at beginning of year	**2,206**	1,312
(Decrease) increase in allowance recognised in profit or loss	**(276)**	1,723
Amounts written off as uncollectible	**–**	(829)
Balance at the end of year	**1,930**	2,206

Other receivables

	2009	2008
	HK$'000	HK$'000
Balance at beginning of year	**6,690**	–
Increase in allowance recognised in profit or loss	**2,351**	6,690
Amounts written off as uncollectible	**(6,690)**	–
Balance at the end of year	**2,351**	6,690

Included in the allowance for doubtful debts are individually impaired trade receivables, which were either in the severe financial difficulties or overdue for a long period time. The Group has made full allowance on these receivables and considered that they are generally not recoverable.

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date of credit was initially granted up to the report date. The trade receivables past due but not provided for were either subsequently settled as at the date these consolidated financial statement 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 believe that there is no further credit provision required in excess of the allowance for doubtful debts.

26. LOAN RECEIVABLES

As at 31st December, 2009, all of the loan receivables granted to independent third parties were unsecured and interest-free. In the opinion of the directors, these loan receivables remained unsettled at the date these consolidated financial statements were aurthorised for issuance. The recoverability of such amounts is remote and accordingly, impairment losses were recognised in full.

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

	2009	2008
	HK$'000	HK$'000
Contracts in progress at the end of the reporting period:		
Contract costs incurred plus recognised profits	**467,527**	311,806
Less: Progress billings	**(438,661)**	(272,452)
Less: Impairment losses recognised (Note)	**(34,807)**	(34,489)
	(5,941)	4,865
Analysed for reporting purposes as:		
Amounts due from customers for contract work	**6,081**	15,737
Amounts due to customers for contract work	**(12,022)**	(10,872)
	(5,941)	4,865

At 31st December, 2009, advances received from customers before the contract work is performed amounted to HK$55,539,000 (2008: HK$24,863,000) and were included in deferred income and advance received.

Note: During the year ended 31st December, 2009 and 2008, the directors of the Company reviewed the recoverable amounts of the amounts due from customers for contract work and identified certain projects have slow construction progress. In the opinion of the directors, the recoverability of such amounts are uncertain and accordingly, impairment losses were recognised in full.

28. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

The bank balances carry interest at market rates which ranged from 0.72% to 2.75% per annum for both years. At 31st December, 2009, the bank balances and cash of approximately HK$388,850,000 (2008: HK$412,197,000) were denominated in Renminbi which are not freely convertible into other currencies.

As at 31st December, 2009, the bank balances and cash consisted of approximately HK$14,360,000 and HK$10,568,000 (2008: HK$50,940,000 and HK$11,196,000) denominated in USD and HKD respectively.

Pursuant to a letter of undertaking, the Group is required to maintain deposits of RMB11,830,000 (equivalent to approximately HK$13,474,000) (2008: RMB12,250,000 (equivalent to approximately HK$13,826,000)) with a bank as a condition precedent to the supply of natural gas from its suppliers. The amount of deposits required to maintain with a bank will be negotiated with suppliers annually by considering the estimated purchase volume for the year. The pledged bank deposits carry interest at average market rate of 1.9% (2008: 3.33%) per annum.

29. DERIVATIVE FINANCIAL INSTRUMENTS

	2009	2008
	HK$'000	HK$'000
Derivatives embedded in convertible bonds analysed as:		
Non-current	**42,639**	–
Current	**2,986**	101,961
	45,625	101,961

The derivatives embedded in convertible bonds comprise (i) conversion option, (ii) early redemption option held by the Company, and (iii) early redemption option held by the bondholders. Because of the modification of the terms in the convertible bonds on 18th May, 2009, the early redemption option held by the bondholders of the remaining principal amount of US$21,000,000 was cancelled. Details of which are set out in note 33.

The fair values of the embedded conversion option as at the respective dates of repurchase, 31st December, 2009 and 31st December, 2008 are calculated using the Monte Carol Simulation Model. The inputs into the model were as follows:

	31.12.2009	**Date of repurchase of principal amount of US$14,000,000** (note 33)	**Date of repurchase of principal amount of US$5,000,000** (note 33)	**31.12.2008**
Conversion price (note 33)	HK$0.7	HK$0.968	HK$0.968	HK$0.968
Expected volatility (note a)	52.20% to 59.06%	60.36%	59.72%	58.16%
Expected life (note b)	2.48 years	3.23 years	3.23 years	3.48 years
Risk free rate (note c)	0.15% to 0.83% per annum	1.24% per annum	1.26% per annum	0.91% per annum

Notes:

(a) Expected volatility 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 embedded conversion option.

(c) The risk free rate is determined by reference to the Hong Kong Exchange Fund Note.

29. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

The fair value of the early redemption option held by the Company as at the respective dates of repurchase and both years and early redemption option held by the bondholders as at the respective dates of repurchase and as at 31st December, 2008 is determined by application of Trinomial method, using effective yield at 5.42% (2008: 5.42%) per annum and time to maturity equal to the expected remaining life of the option.

The current portion of derivative financial instruments represents the fair value of the derivatives in relation to 10% of the Remaining Bond that is due for repayment on 25th June, 2010. Details are explained in note 33.

During the year, a gain of HK$17,672,000 (2008: loss of HK$28,075,000) was recognised as a change in fair value of derivative financial instruments.

30. DEFERRED INCOME AND ADVANCED RECEIVED, TRADE PAYABLES, OTHER PAYABLES AND ACCRUED CHARGES

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

	2009	2008
	HK$'000	HK$'000
0 – 30 days	**71,947**	44,620
31 – 90 days	**7,253**	7,085
91 – 180 days	**2,544**	2,886
Over 180 days	**20,143**	14,134
Trade payables	**101,887**	68,725

The average credit period on purchase of goods is 90 days. The Group has financial risk management policies in place to ensure that all payables within the credit timeframe.

Included in deferred income and advance received are government grants of HK$16,400,000 (2008: nil). Due to redevelopment of Jiaozuo city, Jiaozuo government subsidised the Group for enhancement and relocation of certain pipelines in Jiaozuo city. The work has not commenced as at 31st December, 2009.

Included in other payables and accrued charges are deposits received from customers in relation to gas supply business of HK$15,875,000 (2008: HK$10,028,000) and accrued expense of HK$21,044,000 (2008: HK$28,023,000).

31. BANK BORROWINGS

	2009 **HK$'000**	2008 HK$'000
Bank loans		
Secured	**137,055**	132,037
Unsecured	**168,701**	82,280
	305,756	214,317
Carrying amount repayable:		
Within one year	**243,146**	114,675
More than one year, but not exceeding two years	**39,209**	37,597
More than two years but not exceeding five years	**23,401**	62,045
	305,756	214,317
Less: Amounts due within one year shown under current liabilities	**(243,146)**	(114,675)
	62,610	99,642

The exposure of the Group's fixed-rate borrowings are as follows:

	2009 **HK$'000**	2008 HK$'000
Fixed-rate borrowings:		
Within one year	**202,870**	82,280

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

	2009	2008
Effective interest rate:		
Fixed-rate borrowings	**3.6% – 7.16%**	6.8% – 10%
Variable-rate borrowings	**4.86% – 8.18%**	4.9% – 8.4%

31. BANK BORROWINGS *(Continued)*

As at 31st December, 2009, certain bank loans were secured by the Group's prepaid lease payment and buildings with the carrying amounts of HK$23,920,000 (2008: HK$24,107,000) and HK$24,696,000 (2008: HK$27,216,000) respectively.

The Group's variable-rate borrowings bear interest at People's Bank of China plus a premium ranging from 10% to 30% per annum.

32. SHARE CAPITAL

	Number of shares		**Amount**	
	2009	2008	**2009**	2008
	'000	'000	**HK$'000**	HK$'000
Ordinary shares of HK$0.01 each				
Authorised	**10,000,000**	10,000,000	**100,000**	100,000
Issued and fully paid				
At beginning of year	**1,934,102**	1,943,964	**19,341**	19,440
Exercise of share options (note 35)	**15,958**	2,550	**160**	26
Share repurchased and cancelled (note a)	**(1,050)**	(8,852)	**(11)**	(89)
Share repurchase and not yet cancelled (note b)	**–**	(3,560)	**–**	(36)
At end of year	**1,949,010**	1,934,102	**19,490**	19,341

Notes:

(a) During the year ended 31st December, 2009, the Company repurchased a total of 1,050,000 (2008: 8,852,000) shares through the Stock Exchange at a price ranged from HK$0.38 to HK$0.39 (2008: HK$0.73 to HK$0.83) per share at an aggregate consideration of HK$408,000 (2008: HK$6,630,000). All shares were cancelled upon repurchase.

(b) The Company repurchased a total of 3,560,000 shares through the Stock Exchange at a price range from HK$0.25 to HK$0.29 per share at an aggregate consideration of HK$1,008,000 in December 2008. All these shares were cancelled subsequent to 31st December, 2008.

All the shares issued during the year ended 31st December, 2009 and 2008 rank pari passu with the then existing shares in all respects.

33. CONVERTIBLE BONDS

On 28th May, 2007, the Company entered into a bond subscription agreement with five institutional subscribers of the Group, whereby they 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 25th June, 2007 ("the Issue Date") and carries interest at 1% per annum and will be matured on 25th June, 2012 ("Maturity Date"). The conversion price of the Bond is HK$1.456 and will be subject to adjustment in the event of further issues of shares or other dilution events.

The Bond can be converted at any time after 40 days from the Issue Date up to 5 business days prior to Maturity Date or 7 business days prior to the date of redemption. Unless previously redeemed, converted or purchased and cancelled, the Bonds can be redeemed at 130 per cent of their principal amount on Maturity Date. The bondholders are entitled to redeem the Bonds starting from 24 months after the Issue Date but before the Maturity Date, at 110 per cent of their principal amount. The Company is also entitled to redeem the Bonds starting from 30 months after the Issue Date but not less than 7 business days prior to Maturity Date at 110 per cent of their principal amount.

During the year ended 31st December, 2008, the conversion price of the Bond was adjusted from HK$1.456 to HK$0.968 effective from 25th June, 2008 in accordance with the terms set out in the bond subscription agreement.

During the year ended 31st December, 2009, the Company entered into certain arrangement with the five bondholders of the Bond with aggregate principal amount of US$40,000,000, details as follows:

On 11th March, 2009, the Group entered into a purchase agreement with one of the bondholder ("Bond Holder A") of the Bond pursuant to which the Company agreed to repurchase an aggregate outstanding principal amount of the Bond amounting to US$5,000,000 at 80% of the principal amount. In addition, the Company repaid all the accrued interest to Bond Holder A.

On 23rd March, 2009, the Group entered into an agreement with the remaining four bondholders ("Bond Holders B") of the Bond pursuant to which the Company agreed to repurchase an aggregate outstanding principal amount of the Bond amounting to US$14,000,000 at 110% of the principal amount. In addition, the Company repaid all the accrued interest to Bond Holders B.

The terms and conditions of the remaining principal amount of US$21,000,000 held by Bond Holders B ("the Remaining Bond") have been amended, the coupon rate will be revised from 1% to 2% per annum commencing from 18th May, 2009. This portion of Bond can be redeemed at the option of the Company at either one of the following options:

33. CONVERTIBLE BONDS

Option 1

Date	Redemption amount	Consideration
25th June, 2010	Not less than 10% of the Remaining Bond	110% of the principal amount
25th June, 2011	Not less than 10% of the Remaining Bond	110% of the principal amount
25th June, 2012	Remaining balance	130% of the principal amount

Option 2

Date	Redemption amount	Consideration
25th June, 2010	Not less than 5% of the Remaining Bond	110% of the principal amount
25th June, 2011	Not less than 15% of the Remaining Bond	120% of the principal amount
25th June, 2012	Remaining balance	130% of the principal amount

The conversion price of the Remaining Bond was adjusted from HK$0.968 to HK$0.70 effective from 18th May, 2009 in accordance with the amendment terms set out in the amendment agreement of the Bond dated on 25th March, 2009.

The net proceeds received from the issue of convertible bonds in 2007 contain the following components that are required to be separately accounted for in accordance with HKAS 39 "Financial instruments: Recognition and Measurement":

(a) Liability component of the Bond represents the present value of the contractually determined stream of future cash flows discounted at the rate of interest at that time by the market to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the conversion and redemption option. The effective interest rate of the liability component is 16.18% per annum determined at the date of initial recognition. The revised effective interest rate of the liability component of the Remaining Bonds is 20.42% determined at 18th May, 2009.

(b) Embedded derivatives comprise of three embedded options as follows:

   (i) Embedded conversion option of the Bond represents the option to convert the liability into equity of the Company but the conversion will be settled other than by the exchange of a fixed number of the Company's own equity.

   (ii) Embedded early redemption option of the Bond held by the bondholders represents redemption at the option of the bondholders. Such option under the Remaining Bond has been cancelled on 18th May, 2009.

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

33. CONVERTIBLE BONDS *(Continued)*

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

	Liability HK$'000	Embedded derivative HK$'000 (Note 29)	Total HK$'000
At 1st January, 2008	203,358	130,036	333,394
Interest charged (note 10)	32,903	–	32,903
Interest paid	(3,120)	–	(3,120)
Gain arising on change in fair value	–	(28,075)	(28,075)
At 31st December, 2008	233,141	101,961	335,102
Interest charged (note 10)	28,997	–	28,997
Interest paid	(2,977)	–	(2,977)
Repurchase during the year	(116,514)	(38,664)	(155,178)
Gain arising on change in fair value	–	(17,672)	(17,672)
At 31st December, 2009	142,647	45,625	188,272

The gain on repurchase of the convertible bonds of HK$1,562,000 was recognised and included in other income.

At 31st December, 2009 the directors of the Company consider that the Group will follow Option 1 and redeem 10% of the Remaining Bond ("First Tranche") on 25th June, 2010. The liability component of HK$14,265,000 under current liabilities represents the amortised cost of the First Tranche matured on 25th June, 2010. The amortised cost of remaining 90% of the Remaining Bond of HK$128,382,000 is classified as non-current liability.

34. DEFERRED TAXATION

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

	Revaluation of properties HK$'000	Other intangible assets HK$'000	Undistributed profits of subsidiaries HK$'000	Total HK$'000
At 1st January, 2008	437	16,219	–	16,656
Exchange adjustments	22	824	–	846
Charge (credit) to profit or loss	84	(185)	–	(101)
At 31st December, 2008	543	16,858	–	17,401
Exchange adjustments	5	154	–	159
Charge to profit or loss	229	480	1,656	2,365
At 31st December, 2009	777	17,492	1,656	19,925

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1st January, 2008 onwards. Deferred tax has been provided for in the consolidated financial statements in accordance with the dividend policy of the Group. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to undistributed profits of the PRC subsidiaries amounting to HK$89,695,000 (2008: HK$91,338,000).

At 31st December, 2009, the Group had unused estimated tax losses of HK$182,762,000 (2008: HK$154,545,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unrecognised estimated tax losses due to unpredictability of future profit stream. Included in unrecognised tax losses are losses of PRC subsidiaries of HK$175,195,000 (2008: HK$149,143,000) that will expire in various dates up to 2018. Other losses may be carried forward indefinitely.

35. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option schemes

Pursuant to an ordinary resolution passed on 24th October, 2003, the Company adopted a share option scheme ("Share Option Scheme") pursuant to which the directors of the Company were authorised to grant share option to its employees (including executive directors and any of its subsidiaries) or any person who has contributed or will contributed to the Group.

The Share Option Scheme shall continue in force for the period commencing from 30th September, 2003 and expiring at the close of business on the tenth anniversary thereof, after such period no further options will be granted but the provisions of the Share Option Scheme shall remain in full force and effect in respect of any options granted before its expiry or termination but not yet exercised.

35. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

Equity-settled share option schemes *(Continued)*

Under the Share Option Scheme, the directors of the Company may offer to any employees or any person who has contributions to the Group including directors of the Company or any of its subsidiaries share options to subscribe for shares in the Company in accordance with the terms of the Share Option Scheme.

The maximum number of shares in respect of which share options may be granted under the Share Option Scheme shall not, when aggregated with any shares subject to any other schemes, exceed such number of shares as represents 10% of the issued shares as at the date of approval of the Share Option Scheme (the "Scheme Mandate Limit") which shall be equivalent to 81,080,000 shares. On 25th April, 2005, the Scheme Mandate Limit was refreshed to 106,280,000 shares. On 25th April, 2008, the Scheme Mandate Limit was refreshed to 194,461,354 shares. The Company may seek approval from the shareholders in a general meeting to refresh the Scheme Mandate Limit. However, the total number of shares which may be issued upon exercise of all share options to be granted under all of the schemes of the Company or its subsidiaries under the limit as refreshed must not exceed 10% of the shares in issue as at the date of approval of the Scheme Mandate Limit. Share options previously granted under the Share Option Scheme (excluding those outstanding, cancelled, lapsed in accordance with the Share Option Scheme or any other share option schemes and exercised the share options) will not be counted for the purpose of calculating the Scheme Mandate Limit.

The total number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Share Option Scheme and any other scheme of the Company must not exceed 30% of the total issued shares from time to time.

The total number of shares issued and to be issued on the exercise of share options granted and to be granted in any 12-month period up to the date of grant of each eligible participant shall not exceed 1% of the total issued shares.

The exercise price is determined by the directors of the Company, and shall 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 the Company's shares.

On 13th June, 2005, the Company granted 62,574,000 share options to its directors, employees and certain third parties. Options granted must be taken up within 21 days of the date of grant, upon payment of HK$1 by each of the grantees. The options may be exercised at any time after twelve months from the date of grant of the share options to the tenth anniversary of the date of grant.

On 29th March, 2007, the Company granted 71,100,000 share options to its directors and employees. Options granted must be taken up within 21 days of the date of grant, upon payment of HK$1 by each of the grantees. The options may be exercised at any time after twelve months from the date of grant of the share options to the tenth anniversary of the date of grant.

35. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

Equity-settled share option schemes *(Continued)*

On 3rd April, 2008, the Company granted 48,400,000 share options to its directors and employees. Options granted must be taken up within 21 days of the date of grant, upon payment of HK$1 by each of the grantees. The options of 13,120,000, 15,120,000 and 20,160,000 may be exercised after the second, third and fourth anniversary after the date of grant respectively.

The following table discloses movements of the Company's share options granted under the Share Option Scheme and movements in such holdings:

Category of grantee	Exercise price per share HK$	Date of grant	Exercisable period	Number of share options At 1st January, 2009	Exercised during year (note b)	At 31st December, 2009
Directors	0.31	13th June, 2005	13th June, 2006 to 12th June, 2015	**28,014,000**	–	**28,014,000**
	0.56	29th March, 2007	29th March, 2007 to 28th March, 2017	**66,000,000**	–	**66,000,000**
	0.80	3rd April, 2008	3rd April, 2010 to 2nd April, 2011	**3,000,000**	–	**3,000,000**
	0.80	3rd April, 2008	3rd April, 2011 to 2nd April, 2012	**3,000,000**	–	**3,000,000**
	0.80	3rd April, 2008	3rd April, 2012 to 2nd April, 2018	**4,000,000**	–	**4,000,000**
Employees	0.31	13th June, 2005	13th June, 2006 to 12th June, 2015	**9,954,000**	(8,058,000)	**1,896,000**
	0.56	29th March, 2007	29th March, 2007 to 28th March, 2017	**5,100,000**	(5,100,000)	**–**
	0.80	3rd April, 2008	3rd April, 2010 to 2nd April, 2011	**11,520,000**	–	**11,520,000**
	0.80	3rd April, 2008	3rd April, 2011 to 2nd April, 2012	**11,520,000**	–	**11,520,000**
	0.80	3rd April, 2008	3rd April, 2012 to 2nd April, 2018	**15,360,000**	–	**15,360,000**
Others (note a)	0.31	13th June, 2005	13th June, 2006 to 12th June, 2015	**15,024,000**	(2,800,000)	**12,224,000**
				172,492,000	(15,958,000)	**156,534,000**
Exercisable at the end of the year						**108,134,000**
Weighted average exercise price				**0.55**	0.39	**0.57**

35. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

Equity-settled share option schemes (Continued)

Category of grantee	Exercise price per share HK$	Date of grant	Exercisable period	Number of share options At 1st January, 2008	Granted during year	Exercised during year (note b)	At 31st December, 2008
Directors	0.31	13th June, 2005	13th June, 2006 to 12th June, 2015	28,014,000	–	–	28,014,000
	0.56	29th March, 2007	29th March, 2007 to 28th March, 2017	66,000,000	–	–	66,000,000
	0.80	3rd April, 2008	3rd April, 2010 to 2nd April, 2011	–	3,000,000	–	3,000,000
	0.80	3rd April, 2008	3rd April, 2011 to 2nd April, 2012	–	3,000,000	–	3,000,000
	0.80	3rd April, 2008	3rd April, 2012 to 2nd April, 2018	–	4,000,000	–	4,000,000
Employees	0.31	13th June, 2005	13th June, 2006 to 12th June, 2015	12,504,000	–	(2,550,000)	9,954,000
	0.56	29th March, 2007	29th March, 2007 to 28th March, 2017	5,100,000	–	–	5,100,000
	0.80	3rd April, 2008	3rd April, 2010 to 2nd April, 2011	–	11,520,000	–	11,520,000
	0.80	3rd April, 2008	3rd April, 2011 to 2nd April, 2012	–	11,520,000	–	11,520,000
	0.80	3rd April, 2008	3rd April, 2012 to 2nd April, 2018	–	15,360,000	–	15,360,000
Others (note a)	0.31	13th June, 2005	13th June, 2006 to 12th June, 2015	15,024,000	–	–	15,024,000
				126,642,000	48,400,000	(2,550,000)	172,492,000
Exercisable at the end of the year							124,092,000
Weighted average exercise price				0.45	0.80	0.31	0.55

35. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

Equity-settled share option schemes *(Continued)*

Notes:

a. These are individuals who rendered consultancy services in respect of management of natural gas projects to the Group without receiving any compensation. The Group granted share options to them for recognising their services similar to those rendered by other employees. Services rendered to the Group were measured at fair value of share options granted as the fair value of services cannot be measured reliably.

b. In respect of the share options exercised during the year, the weighted average share price at the date of exercise is HK$0.46 (2008: HK$0.95).

During the year ended 31st December, 2008, the estimated fair value of the options granted on 3rd April, 2008 is HK$15,130,000.

The fair value was calculated using the Black-Scholes pricing model (the "Model"). The inputs into the model were as follows:

	2008
Closing share price at the date of grant	HK$0.80
Exercise price	HK$0.80
Date of grant	3rd April, 2008
Expected volatility	52.83% – 62.67%
Expected life	2 – 4 years
Risk-free rate	1.37% – 1.91%

Expected volatility was determined by using the historical volatility of the Company's share price over 260 trading days. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Company has used the Model to value the share options granted during the year ended 31st December, 2008. The Model is one of the commonly used models to estimate the fair value of an option. The value of an option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.

The Group recognised the total expense of HK$5,174,000 for the year ended 31st December, 2009 (2008: HK$7,104,000) in relation to share options granted by the Company.

36. ACQUISITION OF SUBSIDIARY AND ADDITIONAL INTEREST IN A SUBSIDIARY

Acquisition of business

On 25th May, 2009, the Group contributed cash amounting to RMB10,342,000 (approximately HK$11,572,000) to the capital of Linyi Shanlin Gas Company Limited ("Linyi Shalin") which is principally engaged in development, construction and operation of natural gas in the PRC. After the completion of the capital contribution by the Group, the aggregate equity interest of the existing shareholders of Linyi Shalin was diluted from 100% to 33%. Linyi Shalin was then owned as to 67% by the Group. This acquisition has been accounted for using purchase method.

The net assets acquired in the transaction are as follows:

	Acquiree's carrying amount before combination HK$'000	**Capital contributed by the Group** HK$'000	**Acquiree's carrying amount after combination** HK$'000 (Note)
Net assets acquired:			
Property, plant and equipment	23,759	–	23,759
Inventories	4	–	4
Deposits, prepayments and other receivables	440	–	440
Bank balances and cash	264	11,572	11,836
Trade payables	(5,816)	–	(5,816)
Other payables and accrued charges	(478)	–	(478)
Deferred income and advance received	(13,332)	–	(13,332)
	4,841	11,572	16,413
Minority interests			(5,416)
Goodwill			575
Total consideration satisfied by cash			11,572
Net cash inflow arising on acquisition:			
Bank balances and cash acquired			11,836
Cash consideration paid			(11,572)
			264

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

Acquisition of business (Continued)

Note: The carrying amount of net assets acquired in the transaction are approximated to their fair value.

Goodwill on acquisition of Linyi Shanlin amounted to HK$575,000 which is attributable on the anticipated profitability of the gas connection and sales of piped gas business of the Company.

Linyi Shanlin contributed HK$3,239,000 to the Group's profit for the period between the date of acquisition and the end of reporting period.

If the acquisition had been completed on 1st January, 2009, total group revenue for the period would have been HK$851,442,000, and profit for the period would have been HK$45,499,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1st January, 2009, nor is it intended to be a projection of future results.

37. ACQUISITION OF ASSETS THROUGH PURCHASE OF A SUBSIDIARY

On 7th September, 2009, the Group acquired certain assets from an independent third party through purchase of the entire equity interests of NYCS (defined in note 20) at a total consideration of RMB65,000,000 (approximately HK$74,032,000). The subsidiary has not commenced business at the date of acquisition.

The principal assets of NYCS are certain machinery and equipments in the CNG filling station under construction in progress and eight operating rights for operation of CNG filling stations in Nanjing City. The acquisition is accounted for as acquisition of assets and related liabilities.

	Net assets acquired HK$'000
Property, plant and equipment	2,487
Deposits, prepayment and other receivables	3,248
Intangible assets – other operating rights	67,432
Bank balances and cash	1,153
Inventories	53
Other payable	(341)
Total consideration satisfied by cash	74,032
Net cash outflow arising on acquisition:	
Cash consideration paid	74,032
Bank balance and cash acquired	(1,153)
	72,879

38. BUSINESS COMBINATION BY CONTACT ALONE WITHOUT ACQUIRING ADDITIONAL INTEREST

Pursuant to a resolution passed in the board of directors meeting of Linyi Zhong Yu City Gas Construction Development Company Limited ("Linyi Zhong Yu JV") held on 17th November, 2007, all decisions being approved in the directors' meeting must obtain approval from a minimum of any four directors effective from 1st January, 2008. The Group obtained control in Linyi Zhong Yu JV which was changed from a jointly controlled entity to a subsidiary of the Group on the same date. The assets and liabilities of Linyi Zhong Yu JV are measured at carrying values as at the date control is obtained, of which 51% was previously proportionately consolidated by the Group.

The net assets attributable to the minority interests are as follows:

	Carrying amount HK$'000
Property, plant and equipment	35,990
Prepaid lease payments	4,324
Intangible assets – exclusive rights of operation	11,584
Inventories	3,419
Trade receivables	182
Deposits, prepayments and other receivables	2,063
Amounts due from customers for contracts work	6,178
Bank balances and cash	10,011
Trade payables	(6,977)
Other payables and accrued charges	(660)
Deferred income and advance received	(4,691)
Amounts due to customers for contract work	(451)
Bank borrowings	(25,179)
	35,793
Minority interests	(35,793)
Total consideration	–
Net cash inflow arising on this transaction	
Bank balances and cash acquired	10,011

39. OPERATING LEASES

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 which fall due as follows:

	2009 **HK$'000**	2008 HK$'000
Within one year	**2,316**	3,761
In the second to fifth year inclusive	**658**	2,193
Over five years	**324**	542
	3,298	6,496

Operating lease payments represent rental payable by the Group in respect of leasehold land and buildings and equipments. Leases for rented premises and equipments are negotiated for a period of one to four 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 and equipment which fall due as follows:

	2009 **HK$'000**	2008 HK$'000
Within one year	**498**	762
In the second to fifth year inclusive	**1,855**	2,760
After five years	**1,674**	877
	4,027	4,399

Leases are negotiated for an average term of three years.

Certain of the Group's properties with a carrying amount of HK$5,574,000 (2008: HK$4,617,000) are held for rental purposes. The properties are expected to generate rental yield of 7.53% (2008: 9.54%) on an ongoing basis. All of the properties held have committed tenants for the next four to nine years.

40. RETIREMENT BENEFITS PLANS

The Group had joined the Mandatory Provident Fund Scheme under the rules and regulations of the Hong Kong Mandatory Provident Fund Schemes Authority. The Group's employees in Hong Kong are required to join the scheme. The Group and each employee employed in Hong Kong are required to make a contribution of 5% on the employees' monthly relevant income with a maximum monthly contribution of HK$1,000 per person.

The Company's subsidiaries in the PRC, in compliance with the applicable regulations of the PRC, participated in various central pension schemes operated by the relevant municipal and provincial governments. These subsidiaries are required to make defined contributions to these schemes at rates ranging from 15% to 30% of their covered payroll. The Group has no other material obligation for the payment of its staff's retirement and other post-retirement benefits other than the contributions described above.

41. RELATED PARTY TRANSACTIONS

The directors of the Company considered that they are the only key management personnel of the Group. Their emoluments are set out in note 13.

42. CAPITAL COMMITMENTS

(a) On 5th March, 2009, the Group entered into a sales and purchase agreement with the Seller for the acquisition of certain assets and liabilities ("Acquired Assets"), which is mainly comprised of gas pipeline network in the area of Jiaozuo City, with a total consideration of HK$54,271,000 (2008: HK$53,781,000) (equivalent to RMB47,649,000) of which HK$29,936,000 (2008: HK$29,666,000) (equivalent to RMB26,284,000) was used to repay certain bank borrowings of the Acquired Assets.

	Acquired assets	**Repayment of bank borrowings**	**Total assets and liabilities to be acquired by the Group**
	HK$000	HK$000	HK$000
Property, plant and equipment	32,459	–	32,459
Prepaid lease payment	51,781	–	51,781
Cash and bank balances	9	–	9
Account payables	(22,367)	–	(22,367)
Other payables	(1,699)	–	(1,699)
Bank borrowings	(35,848)	29,936	(5,912)
	24,335		54,271

42. CAPITAL COMMITMENTS *(Continued)*

Note: Finance Bureau of Jiaozuo City and Seller are both under the control of municipal government of Jiaozuo City. Deposits were already paid to Finance Bureau of Jiaozuo City of HK$42,881,000 (2008: HK$42,494,000) (equivalent to RMB37,649,000) as shown in note 21. The remaining consideration payable to the Seller of HK$11,390,000 (2008: HK$11,287,000) (equivalent to RMB10,000,000) will be settled in cash.

The Acquired Assets are stated-owned which require approval by State-owned Assets Supervision and Administration Commission of Jiaozuo City 焦作市國有資產委員會 ("Jiaozuo SASAC"). In January, 2010, the newly appointed mayor and certain government officers of municipal government of Jiaozuo City put the transaction on hold as they considered approval from Jiaozuo SASAC is not sufficient. The Company was informed by Jiaozuo SASAC that the transaction was brought forward to the municipal government of Jiaozuo City, who has the ultimate authority to approve the transaction. The transaction has not been completed as at the date these consolidated financial statements were authorised for issuance.

43. EVENT AFTER THE REPORTING PERIOD

On 17th January, 2010, the board of directors of the Company received voluntary conditional cash and securities exchange offer ("Offer") proposed by a wholly owned subsidiary of China Gas Holdings Limited ("China Gas"), a listed company in the Stock Exchange, (i) to acquire the entire issued share capital of the Company, (ii) for the acquisition of all outstanding convertible bonds and (iii) for the cancellation of all the outstanding share option of the Company. The consideration will be satisfied by the cash and ordinary shares of China Gas. According to the joint announcement of the Company and China Gas dated 26th January, 2010, after being takeover by China Gas, the Company will still maintain the public float not less than 25% in compliance with the Listing Rules. Details of the proposed takeover are set out in the joint announcement of the Company and China Gas dated 26th January, 2010.

According to the announcement dated 15th June, 2010, over 50% shareholders of the Company have voted for the (i) and (ii) of the Offer stated above. However, the Offeror has been informed by the legal advisers of Hezhong (as defined in note 1), that the acceptance of the share offer purportedly made by Hezhong may not have been duly authorised and therefore may be invalid. The Offeror and China Gas are seeking further clarification and confirmation of the status of the acceptance of the share offer by Hezhong. The Offer will remain open for acceptance until 28th June, 2010. The conclusion of the Offer has not been made as at the date these consolidated financial statements were authorised for issuance.

44. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

As at 31st December, 2009 and 2008

Name of subsidiary	Place/Country of incorporation/ registration	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company 2009 %	2008 %	Principal activities
China City Gas Construction Explore Company Limited	British Virgin Islands	Incorporated	100 ordinary shares of US$1 each	**100##**	100##	Investment holding
China City Gas Construction Holdings Company Limited	British Virgin Islands	Incorporated	100 ordinary shares of US$1 each	**100##**	100##	Investment holding
China Gas Construction Expansion Company Limited	British Virgin Islands	Incorporated	1,330,000 ordinary shares of US$1 each	**99.89##**	99.89##	Investment holding
Linyi China Gas City Gas Construction Company Limited	PRC	Sino-foreign joint venture	Registered capital HK$29,080,000	**99.89##**	99.89##	Trading of natural gas and gas pipeline construction
Linyi Shanlin	PRC	Limited liability company	Registered capital RMB15,160,000	**66.9##**	–	Trading of natural gas and gas pipeline construction
Linyi Zhong Yu JV	PRC	Sino-foreign joint venture	Registered capital HK$42,000,000	**51#**	51#	Trading of natural gas and gas pipeline construction
Sanmenxia China-Gas City Gas Development Co. Ltd.	PRC	Sino-foreign joint venture	Registered capital HK$50,000,000	**90##**	90##	Trading of natural gas and liquefied petroleum gas and gas pipeline construction
Xinmi City Zhongyu Gas Co., Ltd.	PRC	Sino-foreign joint venture	Registered capital HK$15,000,000	**97##**	97##	Trading of natural gas and gas pipeline construction
Yanshi Zhongyu Gas Co., Ltd.	PRC	Sino-foreign joint venture	Registered capital HK$25,000,000	**95##**	95##	Trading of natural gas and liquefied petroleum gas and gas pipeline construction

44. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(Continued)*

Name of subsidiary	Place/Country of incorporation/ registration	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company 2009 %	2008 %	Principal activities
Yongcheng China-Gas Heating Explore Co., Ltd.	PRC	Sino-foreign joint venture	Registered capital HK$30,000,000	**99##**	99##	Trading of natural gas and gas pipeline construction
Zhongyu Gas Investment Limited	Hong Kong	Incorporated	1 ordinary share of HK$1	**100#**	100#	Investment holding
Zhongyu Gas Investment Limited	British Virgin Islands	Incorporated	1 ordinary share of US$1	**100#**	100#	Investment holding
China City Gas Construction Development Limited	British Virgin Islands	Incorporated	100 ordinary shares of US$1 each	**100##**	100##	Investment holding
China City Gas Construction Investment Co. Ltd.	British Virgin Islands	Incorporated	100 ordinary shares of US$1 each	**100##**	100##	Investment holding
Jiyuan Zhongyu Gas Co. Ltd.	PRC	Sino-foreign joint venture	Registered capital HK$40,280,000	**92.9##**	92.9##	Trading of natural gas and gas pipeline construction
Luohe Zhongyu Gas Co. Ltd.	PRC	Sino-foreign joint venture	Registered capital RMB102,611,000	**71.9##**	71.9##	Trading of natural gas and gas pipeline construction
Luohe Zhongyu Gas Project Install Co. Ltd.	PRC	Sino-foreign joint venture	Registered capital RMB5,000,000	**68.3##**	68.3##	Gas pipeline construction
Jiaozuo CGCG Development	PRC	Sino-foreign joint venture	Registered capital HK$80,000,000	**93.2##**	93.2##	Trading of natural gas, coal gas and liquefied petroleum gas and gas pipeline construction
Jiaozuo CG Project	PRC	Sino-foreign joint venture	Registered capital RMB25,000,000	**88.54##**	88.54##	Gas pipeline construction

44. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(Continued)*

Name of subsidiary	Place/Country of incorporation/ registration	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company 2009 %	2008 %	Principal activities
Xiuwu Zhongyu Gas Development Co., Ltd.	PRC	Other limited liability company	Registered capital RMB8,000,000	**55.9##**	–	Trading of natural gas and gas pipeline construction
Zhongyu (Henan) Energy Holdings Ltd.	PRC	Incorporated	Registered capital HK$400,000,000	**100#**	100#	Investment holding
Henan Zhongyu Coalbed Methane Development and Utilization Co. Ltd.	PRC	Sino-foreign joint venture	Registered capital RMB200,000,000	**75##**	75##	Exploration, development and production of coalbed methane
Zhongyu Jiaozuo CMB Development and Utilization Co. Ltd.	PRC	Sino-foreign joint venture	Registered capital RMB150,000,000	**71.25##**	71.25##	Exploration, development and production of coalbed methane
JYCG	PRC	Sino-foreign joint venture	Registered capital RMB5,000,000	**100##**	100##	Not yet commenced business
LYCG	PRC	Sino-foreign joint venture	Registered capital RMB1,000,000	**100##**	100##	Operation of CNG filling stations
SYCG	PRC	Sino-foreign joint venture	Registered capital RMB1,000,000	**100##**	100##	Not yet commenced business
NYCS	PRC	Limited liability company	Registered capital RMB10,000,000	**100##**	–	Operation of CNG filling stations
Nanjing Yulian Natural Gas Filling Co., Ltd.	PRC	Limited liability company	Registered capital RMB7,000,000	**70##**	–	Operation of natural gas filling stations

\# The proportion of nominal value of issued share capital/registered capital/registered capital directly held by the Company.

\## The provision of nominal value of issued share capital/registered capital/registered capital indirectly held by the Company.

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

Financial Summary

	1.1.2009 to 31.12.2009 HK$'000	1.1.2008 to 31.12.2008 HK$'000	1.1.2007 to 31.12.2007 HK$'000	1.1.2006 to 31.12.2006 HK$'000 (restated)	1.1.2005 to 31.12.2005 HK$'000
Results					
Turnover	**844,150**	703,020	294,518	78,159	43,161
Profit (loss) for the year attributable to the owners of the Company	**20,060**	(92,797)	(26,183)	6,856	3,436

	31.12.2009 HK$'000	31.12.2008 HK$'000	31.12.2007 HK$'000	31.12.2006 HK$'000	31.12.2005 HK$'000
Assets and liabilities					
Total assets	**1,630,853**	1,521,682	1,516,045	280,479	262,911
Total liabilities	**(817,092)**	(760,307)	(754,199)	(88,983)	(87,758)
	813,761	761,375	761,846	191,496	175,153
Equity attributable to the owners of the Company	**693,797**	655,787	696,597	183,324	167,231
Minority interests	**119,964**	105,588	65,249	8,172	7,922
	813,761	761,375	761,846	191,496	175,153

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the annual general meeting of Zhongyu Gas Holdings Limited (the "Company") will be held at Unit 04-06, 28th Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong on Friday, 23rd July, 2010 at 11:00 a.m. for the following purposes:

1. To receive and consider the audited consolidated financial statements, the report of the directors and independent auditor's report of the Company for the year ended 31st December, 2009;

2. To re-elect retiring directors of the Company (the "Directors") and authorise the board of Directors (the "Board") or the Remuneration Committee of the Company to fix the remuneration of the Directors;

3. To re-appoint Messrs. Deloitte Touche Tohmatsu as the Company's auditors and authorise the Board to fix their remuneration; and, as special business, to consider and, if thought fit, to pass the following resolutions as ordinary resolutions of the Company:

4. "**THAT**

   (i) subject to paragraph (iii) of this resolution, pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM Listing Rules"), the exercise by the Directors during the Relevant Period (as defined hereinafter) of all the powers of the Company to allot, issue and deal with additional shares of nominal value of HK$0.01 each in the share capital of the Company ("Shares") and to make or grant offers, agreements and options (including bonds, warrants and debentures convertible into shares) which might require the exercise of such powers be and is hereby generally and unconditionally approved;

   (ii) the approval in paragraph (i) of this resolution shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;

   (iii) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to the approval in paragraph (i) of this resolution, otherwise than pursuant to:

      (a) a Rights Issue (as defined hereinafter);

      (b) the exercise of warrants to subscribe for Shares or the exercise of options granted under any ordinary share option scheme adopted by the Company; or

      (c) an issue of Shares in lieu of whole or part of a dividend on Shares in accordance with the articles of association of the Company,

      shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution and this approval shall be limited accordingly; and

   (iv) for the purpose of this resolution:

      "Relevant Period" means the period from the date of this resolution until whichever is the earliest of:

      (a) the conclusion of the next annual general meeting of the Company;

(b) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company ("Articles") or any applicable laws of the Cayman Islands to be held; and

(c) the date on which the revocation, variation or renewal of the issue mandate by an ordinary resolution of the shareholders of the Company in general meeting.

"Rights Issue" means offer of Shares open for a period fixed by the Directors to holders of Shares on the register of members of the Company on a fixed record date in proportion to their then holdings of such Shares as at that date (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to overseas shareholders or fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in any territory outside Hong Kong)."

5. "**THAT**

(i) subject to paragraph (ii) of this resolution, the exercise by the Directors during the Relevant Period (as defined hereinafter) of all powers of the Company to repurchase issued Shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM") or any other stock exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission of Hong Kong and The Stock Exchange of Hong Kong Limited such purpose, subject to and in connection with all applicable laws and/or the requirements of the GEM Listing Rules or of any other stock exchange as amended from time to time, be and the same is hereby generally and unconditionally approved;

(ii) the aggregate nominal amount of Shares which the Company is authorised to repurchase pursuant to the approval in paragraph (i) of this resolution shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution, and this approval shall be limited accordingly; and

(iii) for the purpose of this resolution:

"Relevant Period" means the period from the passing of this resolution until whichever is the earliest of:

(a) the conclusion of the next annual general meeting of the Company;

(b) the expiration of the period within which the next annual general meeting of the Company is required by the Articles or any applicable laws to be held; and

(c) the date on which the revocation, variation or renewal of the repurchase mandate by an ordinary resolution of the shareholders of the Company in general meeting."

Notice of Annual General Meeting

6. “THAT conditional upon ordinary resolutions numbered 4 and 5 set out above being passed, the aggregate nominal amount of Shares which are repurchased by the Company under the authority granted to the Directors as mentioned in ordinary resolution numbered 5 above shall be added to the aggregate nominal amount of share capital that may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to ordinary resolution numbered 4 set out above.”

By Order of the Board
Wang Wenliang
Chairman

Zhengzhou, People’s Republic of China
30th June, 2010

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P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head Office and Principal Place of Business:
Unit 04-06, 28th Floor
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

Notes:

(i) A member of the Company entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxy to attend and, on a poll, vote instead of such member. A proxy need not be a member of the Company.

(ii) In order to be valid, the proxy form together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority, must be deposited at the Company’s branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited, at 26/F, Tesbury Centre, 28 Queen’s Road East, Hong Kong not less than 48 hours before the time appointed for the meeting or any adjourned meeting.

(iii) Where there are joint holders of any share of the Company, any one of such holders may vote at the meeting either personally or by proxy in respect of such share as if he were solely entitled thereto, but if more than one of such holders be present at the meeting personally or by proxy, then the one of such holders whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof. Several executors or administrators of a deceased member in whose name any share stands shall for this purpose be deemed joint holders thereof.

中裕燃氣控股有限公司
ZHONGYU GAS HOLDINGS LIMITED