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

(Stock Code 股份代號 : 8070)

ANNUAL REPORT 2010 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.

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTORS

Mr. Xu Yongxuan *(Vice Chairman)*
Mr. Xu Chao Ping

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Li Chunyan
Dr. Luo Yongtai
Mr. Hung, Randy King Kuen

QUALIFIED ACCOUNTANT

Mr. Lui Siu Keung

COMPANY SECRETARY

Mr. Lui Siu Keung

COMPLIANCE OFFICER

Mr. Lui Siu Keung

AUTHORISED REPRESENTATIVES

Mr. Wang Wenliang
Mr. Lui Siu Keung

AUDIT COMMITTEE

Mr. Li Chunyan *(Chairman)*
Dr. Luo Yongtai
Mr. Hung, Randy King Kuen

REMUNERATION COMMITTEE

Mr. Li Chunyan *(Chairman)*
Dr. Luo Yongtai
Mr. Hung, Randy King Kuen

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AUDITOR

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BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

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STOCK CODE

8070

CHAIRMAN'S STATEMENT

To all shareholders:

On behalf of the Board of Directors of Zhongyu Gas Holdings Limited, I am pleased to announce that overall encouraging annual results have been recorded for the year ended 31st December, 2010 (the "Year"). The Group's natural gas operations continued to develop steadily during the Year. Turnover amounted to approximately HK$1,169,469,000 in 2010, representing a growth of 38.5% as compared to HK$844,150,000 in 2009. The outstanding revenue growth was mainly attributable to the continuous expansion of the Group's downstream gas distribution in the People's Republic of China (the "PRC"), comprising of sales of piped gas, connection revenue from gas pipeline construction and operation of compressed natural gas ("CNG") filling stations.

BUSINESS REVIEW

The past year was a challenging but fruitful period for the Group. As China's economy continues her rapid pace of development in 2010, the significant growth of domestic consumption has correspondingly boosted the sales of piped gas. Against this backdrop, the Group's downstream gas sales volume reached 294,687,000 m^3 in 2010.

The Chinese automobile market has been the world's largest since 2009. We expect the growth of disposal income and the rate of urbanization will continue to boost automobile consumption in China and generate demand for natural gas and CNG filling stations in the future. During the Year, the Group had five CNG filling stations in Nanjing city and Henan and Shandong Provinces respectively. The Group believes that the construction of CNG filling stations will provide a solid foundation for further development of its vertically integrated value chain, and expects additional investment in this area in the coming years. Against this backdrop, the Group plans to further implement its downstream expansion plan by building an additional CNG filling station in Luohe City, Henan Province in the first half of 2011, which is scheduled to commence its full operation in the second half of 2011.

Meanwhile, due to continued urbanization and rapid economic growth in China, demand of natural gas from residential households as well as commercial customers also realized steady growth during the Year. In Henan and Shandong Provinces, the Group achieved record penetration rates.

In addition, the Group entered into a framework agreement with the State-owned Assets Supervision and Administration Commission of Jiaozuo City of the PRC in September 2010, and pursuant to that the Group acquired certain assets and liabilities, including gas pipeline networks in the area of Jiaozuo City. We believe the aforesaid acquisition further supports the Group's downstream business development in Jiaozuo City.

In order to ease shortage of the natural gas supply and to meet robust demand for clean energy in the future, the Central Government has implemented the construction works for building of the second pipeline network of the West-East natural gas transmission project in 2008. The second pipeline network is planned to commence gas supply in early 2011. As the Group's downstream natural gas distribution business in Henan Province is located adjacent to a branch network of the second pipeline, the Group believes that the secure future gas supply will further boost its downstream business by capturing opportunities from surging demand of natural gas for commercial use and public transportation.

Regarding its upstream business, the exploration of coalbed methane in Henan Province operated smoothly. The dewatering and releasing process of the operating wells are under monitoring and evaluation by professionals. The Group will continue to update investors on the latest exploration progress.

CHAIRMAN'S STATEMENT

PROSPECTS

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

In addition to its vertical integration 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 strategically increase our market penetration. We believe that Zhongyu Gas is well-positioned to capture the opportunities arising from the global economic recovery and maximize our shareholders' returns.

In August 2010, China Gas Holdings Limited (Stock Code: 384.HK), a leading natural gas operator and service provider in China, has become the controlling shareholder of the Group. We believe that this will generate synergistic effects for business development that are expected to enhance our market position and boost the Group's future development potential.

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
23rd March, 2011

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").

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), to acquire the entire issued share capital 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.

According to the announcement dated 23rd July, 2010 and 6th August, 2010, as all conditions as set out under the section headed "Conditions of the Offers" in the "Letter from MCSL" of the offer document have been satisfied or waived by the Rich Legend International Limited, a wholly owned subsidiary of China Gas (the "Offeror"), the Offeror announces that the Offers have become unconditional in all respects as at 23rd July, 2010. As at 6th August, 2010, the Offeror has received 56.33% and 98.60% form of acceptance for share offer and option offer respectively. No acceptance for convertible bond offer has been received. The Offeror has not extended or revised the Offer. Any Share Options outstanding thereafter lapsed automatically on 6th August, 2010.

Following completion of the transfer of the 1,111,934,142 shares tendered for acceptance by the respective shareholders of the Company in respect the Share Offer to the Offeror, 292,454,000 shares of the Company will be held by the public who are independent of the directors, chief executive or substantial shareholders of the Company or its subsidiaries or any of their respective associates, representing approximately 14.82% of the issued share capital and voting rights of the Company, as at 6th August, 2010. Accordingly, the Company does not fulfill the minimum public float requirement as set out under Rule 11.23 of the Listing Rules. The Company has applied to the Stock Exchange for a temporary waiver from strict compliance with the public float requirement under Rule 11.23 of the Listing Rules from 6th August, 2010 to 5th May, 2011. The Company will continue its endeavor to restore the public float and will maintain discussions with China Gas in this respect.

On 25th June, 2010, according to the amendment agreement of the convertible bonds dated 25th March, 2009, the Group made a mandatory redemption of 22% of the outstanding bonds in an aggregate principal amount of US$4,400,000 ("the Redeemed Bonds") at redemption amount representing 110% of the principal amount of the Redeemed Bonds, together with all accrued and unpaid interest on the Redeemed Bonds.

In the event of a change of control as the completion of Offer (whereby, amongst other things, any person or persons acting together, other than Hezhong Investment Holding Company Limited, acquires more than 50% voting rights in the issued share capital of the Company), the holders of the convertible bonds ("Convertible Bonds") due 2012 issued by the Company on 25th June, 2007 (to which the terms of which were amended pursuant to an amendment agreement dated 25th March, 2009) will have the right to require the Company to redeem in whole or in part such outstanding Convertible Bonds pursuant to the terms of thereof.

Pursuant to the terms of the Convertible Bonds, the Company had issued a notice of the change of control in the Company to the holders of the Convertible Bonds and the holders of the Convertible Bonds had exercised their right to require the Company to redeem the Convertible Bonds. Accordingly, on 13th September, 2010, the Company completed the redemption ("Redemption") of an aggregate principle amount of US$18,507,044.40, being the early redemption amount payable on the outstanding principal amount of all the Convertible Bonds together with all accrued and unpaid interest, in accordance with the terms and conditions of the Convertible Bonds. The Redemption Amount of the Convertible Bonds is funded by a shareholder's loan granted by China Gas to the Company. The detail of shareholder's loan was disclosed in the Section Headed "Connected Transaction" in this report.

Upon the Redemption, all of the outstanding Convertible Bonds will be forthwith cancelled and the holders of the Convertible Bonds shall cease to hold any Convertible Bonds issued by the Company.

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, 2010, 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, 2010, 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, 2010, the Group secured eleven exclusive gas projects, three in Shandong Province, the PRC and eight in Henan Province, the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

On 6th September, 2010, 焦作中燃城市燃氣發展有限公司 ("Zhongyu JVC", a sinoforeign joint-venture subsidiary of the Company) entered into a framework agreement ("Framework Agreement") with the State-owned Assets Supervision and Administration Commission of Jiaozuo City of the People's Republic of China ("Commission") in respect of, among other things, the sale and purchase of certain assets and liabilities, which mainly comprise of gas pipeline networks in the area of Jiaozuo City.

The Framework Agreement was entered into to secure the approval from the Commission for Zhongyu JVC to acquire the Assets together with the Liabilities from the PRC state-owned government enterprise operating the Assets prior to the establishment of Zhongyu JVC ("Government Enterprise") through 焦作市建設投資(控股)有限公司 ("JV Partner", a wholly-owned subsidiary of the Government Enterprise). As part of the legal formalities to affect the Framework Agreement, separate agreements have been simultaneously entered into between the JV Partner and Zhongyu JVC in relation to the matters set out in the Framework Agreement on the same date as the Framework Agreement. The details of the acquisition are disclosed in the Company's announcement dated 7th September, 2010.

The Board believes that it is in the interest of the Group to acquire the Assets instead of paying leasing expenses to use the Assets. The Board also considers that the terms of the Framework Agreement are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

The cities in which the Group's gas projects operate currently have a total connectable urban population of approximately 3,525,000. It is estimated that there are an aggregate of approximately 992,000 connectable residential households in such cities.

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. As at 31st December, 2010, the Group had five CNG filling stations in Nanjing city and Henan and Shandong Provinces respectively. In future, the Group plans to erect one new CNG filling stations in Luohe City by 2011 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 2010. Nearly 90% of total sales of piped gas for the year ended 31st December, 2010 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 271,707,000 m^3 (2009: 220,928,000 m^3) among which, sales volume to its residential customers was approximately 38,258,000 m^3 (2009: 27,498,000 m^3); to its industrial customers was approximately 185,320,000 m^3 (2009: 129,493,000 m^3); to its commercial customer was approximately 32,713,00 (2009: 26,871,000 m^3); to its wholesale customers was approximately 15,416,000 m^3 (2009: 37,066,000 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 RMB2,500. 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 a result, the Group successfully minimized the impairment loss recognised amounts due from customers for contract work in 2010. 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 2010.

During the year under review, the Group made new gas pipeline connection for 87,672 residential households (2009: 77,612 residential households), 61 industrial customers (2009: 33 industrial customers) and 312 commercial customers (2009: 236 commercial customers). As at 31st December, 2010, the Group have the accumulated number of residential households of 431,442 (2009: 343,770 residential households), industrial customers of 277 (2009: 162 industrial customers) and commercial customers of 1,416 (2009: 1,158 commercial customers). As at 31st December, 2010, the Group's penetration rate reached 43% (2009: 37%) (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 22,980,000 m^3 (2009: 16,665,000 m^3).

FINANCIAL REVIEW

Turnover

	2010		2009		
		% of total		% of total	Changes
	HK$'000	%	HK$'000	%	%
Sales of piped gas	**721,374**	**61.7**	494,208	58.6	46.0
Connection revenue from gas pipeline construction	**305,205**	**26.1**	253,438	30.0	20.4
Operation of CNG filling stations	**88,765**	**7.6**	50,103	5.9	77.2
Sales of liquefied petroleum gas	**38,379**	**3.3**	33,908	4.0	13.2
Sales of stoves and related equipment	**15,746**	**1.3**	12,493	1.5	26.0
Total	**1,169,469**	**100.0**	844,150	100.0	38.5

Turnover increased by 38.5% to approximately HK$1,169,469,000 in 2010 from approximately HK$844,150,000 in 2009. The tremendous growth in turnover was mainly attributable to the robust growth in sales of piped gas, connection revenue from gas pipeline construction 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 Xinmi 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 Jiyuan City and Sanmenxia City, Henan Province. Moreover. The acquisition of Nanjing Yulian NG Filling has pushed the Group's revenue from operation of CNG filing stations.

Gross profit margin

The overall gross profit margin in 2010 amounted to approximately 26.9% (2009: 30.4%). 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 61.7% for the year ended 31st December, 2010 from approximately 58.5% in 2009 and the decrease in the gross profit margin of revenue from sales of piped gas resulted from the increase in gas purchase price in June 2010.

Other income

Other income increased to approximately HK$11,775,000 in 2010 from approximately HK$9,669,000 in 2009. The 2010 balance mainly represented the bank interest income of approximately HK$1,455,000, the gain on redemption/repurchase of convertible bonds of approximately HK$2,365,000, government subsidies of approximately HK$1,278,000 and Sundry income (including proceeds from disposal of certain fixed assets and increase in fair value of investment properties) of approximately HK$6,677,000.

Selling and distribution costs

Selling and distribution costs increased by 3.2% to approximately HK$29,641,000 in 2010 from approximately HK$28,728,000 in 2009. The increase was mainly attributable to the increase in (i) staff costs and related expenses increased by 27.6% to approximately HK$18,316,000 from approximately HK$14,354,000 as a result of the increase in headcount as well as increased salary for PRC subsidiaries.

Administrative expenses

Administrative expenses increased by 19.5% to approximately HK$131,118,000 in 2010 from approximately HK$109,706,000 in 2009. The increase was mainly attributable to (i) staff costs and related expenses increased by 23.9% to approximately HK$56,817,000 in 2010 from approximately HK$45,874,000 in 2009 resulting from the increase in headcount as well as the salary and bonus increment; (ii) depreciation cost increased by 19.8% to approximately HK$13,910,000 in 2010 from approximately HK$11,608,000 in 2009 resulting from the additional equipment for the development of the gas refill station and pipelines additions; (iii) printing charge and professional fee increased by 73.6% to approximately HK$4,785,000 in 2010 from approximately HK$2,757,000 in 2009 resulting from the Offer.

Other expenses

Other expenses decreased by 15.2% to approximately HK$17,891,000 in 2010 from approximately HK$21,087,000 in 2009. Other expense for the year under review includes: (i) one-off recognition of equity-settled share based payments approximately HK$6,038,000 resulting from the issuance of share options by the Company on 29th March, 2007 and on 3rd April, 2008 (2009: HK$5,174,000), all share options outstanding lapsed as the Offers closed on 6th August, 2010; (ii) allowance for doubtful debt approximately HK$2,547,000 (2009: HK$2,075,000); (iii) impairment loss recognised on loan receivable approximately HK$nil (2009: HK$4,722,000); (iv) development costs incurred for exploration of CBM in the PRC of approximately HK$9,306,000 (2009: HK$9,116,000). 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 2.0% to approximately HK$43,466,000 in 2010 from approximately HK$44,338,000 in 2009. The decrease was mainly attributable to the decrease in non-cash effective interest expense charged on convertible bonds issued on 25th June, 2007 decreased by 22.9% to approximately HK$22,350,000 in 2010 from approximately HK$28,997,000 in 2009, which set off by the interest on bank borrowings increased by 37.6% to approximately HK$21,116,000 in 2010 from approximately HK$15,341,000 in 2009 resulting from the increase in the average bank borrowings.

Reversal of impairment loss recognised on amounts due from customers for contract work

The Group reversed impairment loss recognised amounts due from customers for contract work of approximately HK$6,367,000 in 2010 resulting from the recognised impairment loss in previous years was recovered in current year. 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. Thus, the group recorded impairment loss recognised amounts due from customers for contract work of approximately Hk$318,000 in 2009.

Impairment loss recognised on other intangible assets

In 2010, due to the uncertainty of sufficient natural gas to be supplied to the CNG filling stations and some of the gas stations are not expected to commerce operations in 2011, the group made an impairment loss on the licences for operating CNG filling stations of approximately HK$30,751,000. In the future, the recognised impairment loss can be subsequently reversed if the carrying amount of the other intangible assets is increased to the revised estimate of its recoverable amount, and the reversal of an impairment loss is recorded as income immediately. No impairment loss recognised on other intangible assets was made in 2009.

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$12,360,000 in 2010 (2009: HK$17,672,000). In the event of a change of control as the completion of Offer, all of the outstanding Convertible Bonds was redeemed during the year. Accordingly, the Group expects no such item will be recorded in the future.

Income tax expenses

Under the Law of the PRC 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 of Hong Kong Profits Tax has been made as the Group had no assessable profits arising in Hong Kong for the year 2010 and 2009.

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 have been/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 are 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, 2010, withholding tax amounted to HK$4,331,000 (2009: 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 2010 amounted to approximately HK$35,425,000 (2009: HK$34,772,000).

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

Excluding impairment loss recognised on other intangible assets and change in fair value of derivative financial instruments, the Group's Adjusted EBITDA was approximately HK$205,513,000 in 2010, representing an increase of 42.0% as compared with that of approximately HK$144,736,000 in 2009.

Profit attributable to owners

As a result of the above, profit attributable to owners was approximately HK$22,811,000 in 2010, representing an increase of 13.7% as compared with that of approximately HK$20,060,000 in 2009.

Earnings per share

The basic and diluted earnings per share attributable to the owners of the Company were HK$1.16 cents and HK$1.14 cents respectively in 2010, as compared with that of HK$1.04 cents and HK$1.03 cents respectively in 2009.

Net assets value per share

The net assets value per share attributable to the owners of the Company was HK$0.39 in 2010, representing an increase of 8.3% as compared with that of HK$0.36 in 2009.

The net assets value represents total assets minus total liabilities.

LIQUIDITY, FINANCIAL RESOURCES AND WORKING CAPITAL

Liquidity

As at 31st December, 2010, the Group's net current liabilities increased by approximately HK$296,779,000 or 2,890.3% to approximately HK$307,047,000 (2009: HK$10,268,000).

The increase was mainly attributable to (i) incline the carrying amount of bank borrowings repayable within one year from approximately HK$243,146,000 in 2009 to HK$390,447,000 in 2010; (ii) the current deferred income and advance received increased by 40.8% to approximately HK$129,581,000 in 2010 from approximately HK$92,021,000 in 2009.

As at 31st December, 2010, the Group's current ratio, represented by a ratio of total current assets to total current liabilities, was approximately 0.6 (2009: 1.0).

As at 31st December, 2010, the total assets increased by approximately HK$644,681,000 or 39.5% to HK$2,275,534,000 (2009: HK$1,630,853,000).

As at 31st December, 2010, the total bank borrowings increased by approximately HK$428,075,000 or 140.0% to HK$733,831,000 (2009: HK$305,756,000).

As at 31st December, 2010, all convertible bonds was redeemed during the year. The convertible bonds amounted to approximately HK$142,647,000 in 2009.

As at 31st December, 2010, the shareholder loan amounted to approximately HK$144,355,000 (2009: HK$nil).

Interest bearing loans and other borrowings represents bank borrowings, convertible bonds and shareholder loan.

As at 31st December, 2010, the Group's gearing ratio, represented by a ratio of total interest-bearing loans and other borrowings to total equity, was 1.0 (2009: 0.6).

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.

CONNECTED TRANSACTION

On 9th September, 2010, the Company entered into a loan agreement (the "Loan Agreement") with China Gas Holdings Limited ("China Gas"), the controlling shareholder of the Company and whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited, pursuant to which China Gas agrees to make available to the Company a loan facility (the "Shareholder's Loan") of up to US$19,000,000 at an interest rate of 5% per annum.

The Shareholder's Loan shall be repaid in full in one lump sum together with all interest accrued thereon on the second anniversary of the drawdown date. The Shareholder's Loan will be for the sole and exclusive purpose of the full redemption of the Convertible Bonds. The aggregate outstanding redeemable amount of the Convertible Bonds as at the date of the Loan Agreement amounted to US$18,507,044.40. The Company made a drawing of US$18,507,044.40 on 10th September, 2010. The Shareholder's Loan must be drawn in full by one lump sum. If the Shareholder's Loan shall then remain undrawn after 10th September, 2010, it shall be forthwith cancelled and thereafter cease to be available to the Company.

Given that China Gas is the controlling shareholder of the Company, the provision of the Shareholder's Loan constitutes a connected transaction of the Company pursuant to Rule 20.13 of the GEM Listing Rules. As the Shareholder's Loan is a form of financial assistance provided by its connected person without security and the terms of the Loan Agreement are in fact more favourable to the Company than those available from independent third parties, the Loan Agreement fell within the exceptions of Rule 20.65(4) of the GEM Rules that such connected transaction is exempt from the reporting, announcement and independent shareholders' approval requirement in as stated chapter 20 of the GEM Listing rules.

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, 2010, the Group had a total of 2,042 employees (2009: 1,937) in Hong Kong and the PRC, and the total remuneration for the year under review was approximately HK$103,438,000 (2009: HK$81,275,000). The increase was mainly due to salary and bonus increment as well as the increase in the number of headcount resulting from the Group's business expansion. More than 99.8% 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.

As the Offers closed on 6th August, 2010, all share options outstanding lapsed automatically.

CHARGE ON THE GROUP'S ASSETS

As at 31st December, 2010, the Group did not have any charges on the Group's assets.

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

As at 31st December, 2010, the Directors did not have any future plans for material investment or capital assets.

CAPITAL COMMITMENTS

As at 31st December, 2010, the capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements is HK$2,883,000.

As at 31st December, 2009, the Group had committed to acquire the original Assets with a total consideration of HK$54,271,000 of which deposits of HK$42,881,000 had been paid in prior year. The transaction has been completed during the year ended 31st December, 2010. Details of the transaction are set out in note 20.

CONTINGENT LIABILITIES

As at 31st December, 2010, the Group did not have any contingent liabilities.

BIOGRAPHICAL INFORMATION OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Wang Wenliang, aged 40, is the Chairman and the chief Executive Officer 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. Lu Zhaoheng, aged 46, 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-three 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 39, 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 fifteen 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).

NON-EXECUTIVE DIRECTORS

Mr. Xu Yongxuan, aged 65, 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.

Mr. Xu Chao Ping, aged 47, was appointed as a Non-executive Director of the Company in September 2010, is currently the Vice President of China Gas. He has extensive experience in administrative and corporate management. He graduated from Zhejiang University.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Li Chunyan, aged 45, is the Chairman of Audit Committee and Remuneration Committee of the Company. He is currently a registered lawyer at He Nan Shi Ji Tong law offices (河南世紀通律師事務所) and is also a registered accountant, registered assets valuer and registered tax adviser in the People's Republic of China ("PRC"). Mr. Li has acted as legal adviser to the Henan province hospital authority, the Henan province television station and other listed companies listed in the PRC and overseas. He joined the Company in October 2010.

Dr. Luo Yongtai, aged 64, 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 45, 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, 2010. 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, 2010, the Board included nine Directors, of which four are executive Directors, two are non-executive Directors and the remaining three are independent non-executive Directors. The composition of the Board is as follows:

Executive Directors:	Mr. Wang Wenliang ("Mr. Wang") *(Chairman and Chief Executive Officer)* Mr. Lu Zhaoheng Mr. Lui Siu Keung *(Chief Financial Officer)* Mr. Huang Yong (removed on 14th March, 2011)
Non-executive Directors:	Mr. Xu Yongxuan *(Vice-Chairman)* Mr. Xu Chao Ping
Independent Non-executive Directors:	Mr. Li Chunyan 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-ninths 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 16 and 17 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, 2010, the Board held 24 board meetings. The attendance records of all board meetings are set out below:

Executive Directors		
Mr. Wang Wenliang *(Chairman and Chief Executive Officer)*	24	100%
Mr. Lu Zhaoheng	24	100%
Mr. Lui Siu Keung *(Chief Financial Officer)*	24	100%
Mr. Huang Yong (appointed on 15th September, 2010 and removed on 14th March, 2011)	2	8.3%
Mr. Hao Yu (resigned on 11th August, 2010)	16	66.7%
Non-executive Directors		
Mr. Xu Yongxuan *(Vice Chairman)*	24	100%
Mr. Xu Chao Ping (appointed on 15th September, 2010)	2	8.3%
Independent Non-executive Directors		
Mr. Li Chunyan (appointed on 5th October, 2010)	1	4.2%
Dr. Luo Yongtai	24	100%
Mr. Hung, Randy King Kuen	24	100%
Mr. Wang Shunlong (resigned on 5th October, 2010)	23	95.8%

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 performed by Mr. Wang. 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 2009 AGM, Mr. Hao Yu, Mr. Lu Zhaoheng and Mr. Lui Siu Keung, three of the nine 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 June, 2010 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, 2011; (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)* (resigned on 5th October, 2010)	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 was 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 2010, 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 (resigned and replaced by Mr. Li Chunyan on 5th October, 2010), Dr. Luo Yongtai and Mr. Hung, Randy King Kuen. Mr. Li Chunyan is the chairman of the Audit Committee. In 2010, the Audit Committee held three 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)* (resigned on 5th October, 2010)	2	66.7%
Mr. Li Chunyan *(Chairman)* (appointed on 5th October, 2010)	1	33.3%
Dr. Luo Yongtai	3	100%
Mr. Hung, Randy King Kuen	3	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 2010 amounted to HK$1,690,000.

The directors present their annual report and the audited consolidated financial statements for the year ended 31st December, 2010.

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 note 43 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2010 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$450,000.

Details of these and other movements during the year in investment properties and property, plant and equipment of the Group are set out in notes 16 and 17 to the consolidated financial statements respectively.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 30 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, 2010, the Company's reserves available for distribution amounted to HK$704,068,000 which consisted of share premium of HK$639,463,000 and accumulated profit of HK$64,605,000.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the shares during the year.

DIRECTORS' REPORT

DIRECTORS

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

Executive Directors

Mr. Wang Wenliang *(Chairman and Chief Executive Officer)*
Mr. Lu Zhaoheng
Mr. Lui Siu Keung *(Chief Financial Officer)*
Mr. Huang Yong (appointed on 15th September, 2010 and removed on 14th March, 2011)
Mr. Hao Yu (resigned on 11th August, 2010)

Non-executive Directors

Mr. Xu Yongxuan *(Vice-Chairman)*
Mr. Xu Chao Ping (appointed on 15th September, 2010)

Independent non-executive Directors

Mr. Li Chunyan (appointed on 5th October, 2010)
Dr. Luo Yongtai
Mr. Hung, Randy King Kuen
Mr. Wang Shunlong (resigned on 5th October, 2010)

Pursuant to Article 86(3) of the Company's Articles of Association, any director appointed by the Company's board of director shall hold office only until the next following annual general meeting and shall then be eligible for re-election. Accordingly, Mr. Huang Yong was appointed by the Company's board on 15th September, 2010 and was removed by special resolution at extraordinary general meeting on 14th March, 2011. Mr. Xu Chao Ping and Mr. Li Chunyan, who were appointed by the Company's board on 15th September and 5th October, 2010 respectively, will hold office until the forthcoming annual general meeting and, being eligible, offers themselves for re-election.

In accordance with the provisions of the Company's Articles of Association, Mr. Xu Yongxuan and Dr. Luo Yongtai 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, 2010, 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	568,619,542	Beneficial and interest in corporation	28.81%

Notes:

1. Among these Shares and/or underlying Shares, 567,453,542 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. The remaining 1,166,000 Shares are directly held by Mr. Wang Wenliang.

Save as disclosed above, as at 31st December, 2010, 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, 2010, 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
China Gas Holdings Limited	Beneficial	1,111,934,142	56.33%
Rich Legend International Limited	Beneficial	1,111,934,142	56.33%
Hezhong	Beneficial	567,453,542	28.75%

Notes:

1. According to the disclosure of interests pages as shown in the website of the Stock Exchange, China Gas Holdings Limited holds as to 100% equity interests of Rich Legend International Limited. Apart from the information ascertained in the disclosure of interest pages as shown in the website of the Stock Exchange, the Company has no further information.

2. Hezhong is beneficially interested in 567,453,542 shares. Mr. Wang Wenliang and Mr. Hao Yu are beneficially interested in 60% and 40% of the issued share capital of Hezhong respectively.

Save as disclosed above, as at 31st December, 2010, 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 34 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, 2010	Exercised during the year	Lapsed during the year	Outstanding at 31st December, 2010
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	(1,000,000)	(4,004,000)	–
	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	(1,000,000)	(103,014,000)	–
Employees and others	13.6.2006 to 12.6.2015	0.31	14,120,000	(12,822,000)	(1,298,000)	–
	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)	–
			156,534,000	(13,822,000)	(142,712,000)	–

Note:

After the offer closed on 6th August, 2010, all share options outstanding lapsed automatically.

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.

DIRECTORS' REPORT

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2010, our five largest supplier comprised 43% of our total purchase for the year. The Group's largest supplier accounted for 12% of the total purchase for the year. The aggregate sales attributable to the Group's five largest customers were less than 20% 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 34 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 does not fulfill the minimum public float requirement as set out under Rule 11.23 of the Listing Rules after the Offer. The Company has applied to the Stock Exchange for a temporary waiver from strict compliance with the public float requirement under Rule 11.23 of the Listing Rules from 6th August, 2010 to 5th May, 2011. The Company will continue its endeavors to restore the public float and will maintain discussions with China Gas in this respect.

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

Hong Kong
23rd March, 2011

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 110, which comprise the consolidated statement of financial position as at 31st December, 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 about 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 of the consolidated financial statements that give a true and fair view 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.

INDEPENDENT AUDITOR'S REPORT

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, 2010 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
23rd March, 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Year ended 31st December, 2010

	NOTES	2010 HK$'000	2009 HK$'000
Turnover	6	**1,169,469**	844,150
Cost of sales		**(854,554)**	(587,402)
Gross profit		**314,915**	256,748
Other income and gains	8	**11,775**	9,669
Selling and distribution costs		**(29,641)**	(28,728)
Administrative expenses		**(131,118)**	(109,706)
Other expenses		**(17,891)**	(21,087)
Finance costs	9	**(43,466)**	(44,338)
Reversal of impairment loss (impairment loss) recognised on amounts due from customers for contract work		**6,367**	(318)
Impairment loss recognised on other intangible assets	19	**(30,751)**	–
Change in fair value of derivative financial instruments	27	**12,360**	17,672
Profit before tax		**92,550**	79,912
Income tax expenses	10	**(35,425)**	(34,772)
Profit for the year	11	**57,125**	45,140
Other comprehensive income			
Exchange differences arising on translation		**35,371**	7,728
Total comprehensive income for the year		**92,496**	52,868
Profit for the year attributable to:			
Owners of the Company		**22,811**	20,060
Non-controlling interests		**34,314**	25,080
		57,125	45,140
Total comprehensive income attributable to:			
Owners of the Company		**53,637**	26,808
Non-controlling interests		**38,859**	26,060
		92,496	52,868
Earnings per share	15		
Basic		**1.16 cent**	1.04 cent
Diluted		**1.14 cent**	1.03 cent

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December, 2010

	NOTES	**2010 HK$'000**	2009 HK$'000
Non-current assets			
Investment properties	16	**6,245**	5,574
Property, plant and equipment	17	**1,130,829**	696,702
Goodwill	18	**104,568**	100,793
Other intangible assets	19	**150,598**	183,999
Deposits paid for acquisition of property, plant and equipment	20	**227,203**	46,097
Prepaid lease payments	21	**115,196**	57,973
Available-for-sale investment	22	**2,954**	2,847
		1,737,593	1,093,985
Current assets			
Inventories	23	**45,304**	36,217
Trade receivables	24	**53,340**	29,527
Deposits, prepayments and other receivables	24	**67,346**	36,173
Prepaid lease payments	21	**3,676**	1,617
Amounts due from customers for contract work	25	**2,334**	6,081
Pledged bank deposits	26	**13,978**	13,474
Bank balances and cash	26	**351,963**	413,779
		537,941	536,868
Current liabilities			
Deferred income and advance received	28	**129,581**	92,021
Derivative financial instruments	27	**–**	2,986
Trade payables	28	**161,551**	101,887
Other payables and accrued charges	28	**126,887**	63,666
Amounts due to customers for contract work	25	**14,066**	12,022
Bank borrowings	29	**390,447**	243,146
Convertible bonds	31	**–**	14,265
Tax payables		**22,456**	17,143
		844,988	547,136
Net current liabilities		**(307,047)**	(10,268)
Total assets less current liabilities		**1,430,546**	1,083,717

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December, 2010

	NOTES	**2010** **HK$'000**	2009 HK$'000
Capital and reserves			
Share capital	30	**19,740**	19,490
Reserves		**749,571**	674,307
Equity attributable to owners of the Company		**769,311**	693,797
Non-controlling interests		**133,096**	119,964
Total equity		**902,407**	813,761
Non-current liabilities			
Deferred income and advance received	28	**24,220**	16,400
Bank borrowings	29	**343,384**	62,610
Convertible bonds	31	**–**	128,382
Derivative financial instruments	27	**–**	42,639
Shareholder loan	32	**144,355**	–
Deferred taxation	33	**16,180**	19,925
		528,139	269,956
		1,430,546	1,083,717

The consolidated financial statements on pages 34 to 110 were approved and authorised for issue by the Board of Directors on 23rd March, 2011 and are signed on its behalf by:

DIRECTOR　　　　DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year ended 31st December, 2010

	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$'000	Non-controlling interests HK$'000	Total HK$'000
At 1st January, 2009	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	–	–	–	–	–	–	6,748	–	6,748	980	7,728
Total comprehensive income for the year	–	–	–	–	–	–	6,748	20,060	26,808	26,060	52,868
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 non-controlling interests 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 non-controlling interests	–	–	–	–	–	–	–	–	–	(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
Profit for the year	–	–	–	–	–	–	–	22,811	22,811	34,314	57,125
Other comprehensive income for the year	–	–	–	–	–	–	30,826	–	30,826	4,545	35,371
Total comprehensive income for the year	–	–	–	–	–	–	30,826	22,811	53,637	38,859	92,496

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year ended 31st December, 2010

	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$'000	Non-controlling interests HK$'000	Total HK$'000
Transfer to statutory surplus reserve	–	–	–	–	–	10,031	–	(10,031)	–	–	–
Recognition of equity-settled share-based payments	–	–	6,038	–	–	–	–	–	6,038	–	6,038
Shares issued upon conversion of convertible bonds	112	9,893	–	–	–	–	–	–	10,005	–	10,005
Exercise of share options	138	4,428	(496)	–	–	–	–	–	4,070	–	4,070
Cancellation of share options	–	–	(29,800)	–	–	–	–	29,800	–	–	–
Dividend paid by subsidiaries to non-controlling interests	–	–	–	–	–	–	–	–	–	(20,204)	(20,204)
Deemed acquisition of additional interest of a subsidiary (note 35)	–	–	–	–	1,764	–	–	–	1,764	(7,934)	(6,170)
Capital contribution from non–controlling interest of a subsidiary	–	–	–	–	–	–	–	–	–	2,411	2,411
At 31st December, 2010	19,740	639,463	–	1,128	9,371	32,417	141,606	(74,414)	769,311	133,096	902,407

Notes:

(a) Prior to 1st January, 2010, 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 Hezhong Investment Holding Company Limited ("Hezhong"), the then ultimate holding company which has been accounted for by the Group as a deemed contribution and credited to the other reserve.

During the year ended 31st December, 2010, the increase in the Group's share of net assets resulted from deemed acquisition of additional interests of Luohe Zhongyu Gas Co., Ltd. ("Luohe Zhongyu") was credited to other reserve. Details of deemed acquisition are set out in note 35.

(b) The article of association of the Company's subsidiaries incorporated in the People's Republic of China (the "PRC") states 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.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year ended 31st December, 2010

	2010 HK$'000	2009 HK$'000
Operating activities		
Profit before tax	**92,550**	79,912
Adjustments for:		
Depreciation of property, plant and equipment	**37,618**	31,819
Share-based payment expense	**6,038**	5,174
Amortisation of other intangible assets	**6,140**	4,721
Amortisation of prepaid lease payments	**2,148**	1,618
Gain on repurchase and redemption of convertible bonds	**(2,365)**	(1,562)
(Gain) loss on disposal of property, plant and equipment	**(652)**	5,887
Allowance (reversal of) for doubtful debts		
– trade receivable	**619**	(276)
– other receivable	**1,928**	2,351
(Reversal of impairment loss) impairment loss recognised on amounts due from customers for contract work	**(6,367)**	318
Impairment loss recognised on loan receivables	**–**	4,722
Impairment loss recognised on other intangible assets	**30,751**	–
Interest income	**(1,455)**	(2,520)
Finance costs	**43,466**	44,338
Change in fair value of derivative financial instruments	**(12,360)**	(17,672)
Change in fair value of investment properties	**(450)**	(911)
Operating cash flows before movements in working capital	**197,609**	157,919
(Increase) decrease in inventories	**(9,087)**	2,747
(Increase) decrease in trade receivables	**(24,432)**	28,166
Increase in deposits, prepayments and other receivables	**(31,302)**	(8,333)
Decrease in amounts due from customers for contract work	**10,114**	9,338
Increase in deferred income and advance received	**45,380**	48,419
Increase in trade payables	**59,664**	27,346
Increase (decrease) in other payables and accrued charges	**4,841**	(8,846)
Increase in amounts due to customers for contract work	**2,044**	1,150
Cash generated from operations	**254,831**	257,906
Interest received	**1,455**	2,520
Income taxes and withholding tax paid	**(34,605)**	(26,850)
Net cash from operating activities	**221,681**	233,576

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year ended 31st December, 2010

	NOTES	**2010** **HK$'000**	2009 HK$'000
Investing activities			
Purchases of property, plant and equipment		**(355,439)**	(135,699)
(Increase) decrease in loan receivables		**–**	(4,722)
Proceeds on disposal of property, plant and equipment		**4,748**	557
Acquisition of a subsidiary, net of cash and cash equivalents acquired	36	**–**	264
(Increase) decrease in pledged bank deposits		**(504)**	352
Addition of prepaid lease payments		**(2,753)**	(67)
Increase in deposit paid for acquisition of property, plant and equipment		**(227,203)**	(3,216)
Purchase of intangible assets		**–**	(67,432)
Increase in available-for-sale investment		**–**	(2,847)
Settlement of other payables and accrued charges obtained from acquisition of assets and liabilities	20	**(32,339)**	–
Government grants received for depreciable assets		**7,820**	16,400
Net cash used in investing activities		**(605,670)**	(196,410)
Financing activities			
New loans raised		**714,121**	256,401
Interest paid		**(38,981)**	(24,325)
Shareholder loan raised		**144,355**	–
Repayments of borrowings		**(304,415)**	(166,914)
Proceed from issue of ordinary shares		**4,070**	6,436
Dividend paid by subsidiaries to its non-controlling interest		**(20,204)**	(20,745)
Capital contribution from non-controlling interest of a subsidiary		**2,411**	3,645
Payment on repurchase of shares		**–**	(408)
Redemption/repurchase of convertible bonds		**(181,579)**	(153,616)
Net cash from (used in) financing activities		**319,778**	(99,526)
Net decrease in cash and cash equivalents		**(64,211)**	(62,360)
Cash and cash equivalents at 1st January		**413,779**	474,333
Effect of foreign exchange rate changes		**2,395**	1,806
Cash and cash equivalents at 31st December, represented by bank balances and cash		**351,963**	413,779

1. GENERAL

The Company is a public limited company incorporated in the Cayman Islands and its shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

On 17th January, 2010, Rich Legend International Limited ("Rich Legend"), a wholly owned subsidiary of China Gas Holdings Limited ("China Gas"), a listed company in the Stock Exchange, proposed to the board of directors of the Company that it intends to make a voluntary conditional cash and securities exchange offer (the "Offer") (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 options of the Company. The Offer was closed on 6th August, 2010.

After the completion of the Offer, Rich Legend acquired approximately 56.33% of the issued share capital of the Company, and thereafter, the Company's immediate holding company and ultimate holding company changed from Hezhong to Rich Legend and China Gas, respectively. Rich Legend is a company incorporated in the British Virgin Islands ("BVI"), while China Gas is a company incorporated in Bermuda. Details of the redemption of convertible bonds and the cancellation of the outstanding share option of the Company are set out in notes 31 and 34 respectively.

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 PRC.

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

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

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

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

Except as described below, the application of the new and revised Standards and Interpretations in the current year has had no material effect on the consolidated financial statements.

HKAS 27 (as revised in 2008) Consolidated and Separate Financial Statements

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

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

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

The application of the revised Standard has affected the accounting for the Group's deemed acquisition of additional interest in a subsidiary in the current year. The deemed acquisition has resulted in an increase in the Group's share of net assets of HK$1,764,000, which was recognised directly in equity instead of as discount on acquisition of additional interest in subsidiary in profit or loss. As a result, profit for the year was decreased by HK$1,764,000 and the earnings per share, both basic and diluted was decreased, by HK0.09 cents.

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

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

Hong Kong Interpretation 5 "Presentation of financial statements – Classification by the borrower of a term loan that contains a repayment on demand clause" ("HK – INT 5") clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time ('repayment on demand clause') should be classified by the borrower as current liabilities. The Group has applied HK – INT 5 for the first time in the current year. Hong Kong Interpretation 5 requires retrospective application.

In order to comply with the requirements set out in HK – INT 5, the Group has changed its accounting policy on classification of term loans with a repayment on demand clause. In the past, the classification of such term loans were determined based on the agreed scheduled repayment dates set out in the loan agreements. Under HK – INT 5, term loans with a repayment on demand clause are classified as current liabilities. As at 31 December 2010, bank loan of HK$59,081,000 (1st January, and 31st December, 2009: nil) was classified as current liabilities as the term loans with a repayment on demand clause.

The application of HK – INT 5 has had no impact on the reported profit or loss for the current and prior years. Such term loans have been presented in the earliest time band in the maturity analysis for financial liabilities (see note 5 for details).

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

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010[1]
HKFRS 7 (Amendments)	Disclosures – Transfers of financial assets[3]
HKFRS 9	Financial instruments[4]
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets[5]
HKAS 24 (as revised in 2009)	Related party disclosures[6]
HKAS 32 (Amendments)	Classification of rights issues[7]
HK(IFRIC) – INT 14 (Amendments)	Prepayments of a minimum funding requirement[6]
HK(IFRIC) – INT 19	Extinguishing financial liabilities with equity instruments[2]

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

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

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

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

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

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

The directors anticipate that HKFRS 9 will be adopted in the Group's consolidated financial statements for financial year ending 31st December, 2013 and will mainly affect the classification and measurement of the Group's available-for-sale investments.

The amendments to HKAS 12 titled Deferred Tax: Recovery of Underlying Assets mainly deal with the measurement of deferred tax for investment properties that are measured using the fair value model in accordance with HKAS 40 Investment Property. Based on the amendments, for the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties measured using the fair value model, the carrying amounts of the investment properties are presumed to be recovered through sale, unless the presumption is rebutted in certain circumstances. If the presumption is rebutted, the directors anticipate that the application of the amendments to HKAS 12 will not have significant impact on deferred tax recognised for investment properties that are measured using the fair value model.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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.

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

Allocation of total comprehensive income to non-controlling interests

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

Changes in the Group's ownership interests in existing subsidiaries

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

Changes in the Group's ownership interests in existing subsidiaries *(Continued)*

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

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

Business combinations

Business combinations that took place on or after 1st January, 2010

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

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

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

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current assets held for sale and discontinued operations" are measured in accordance with that Standard.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations (Continued)

***Business combinations that took place on or after 1st January, 2010** (Continued)*

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

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

Business combinations that took place prior to 1st January, 2010

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

Goodwill arising on acquisition was recognised as an asset and initially measured at cost, being the excess of the cost of the 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 minority interest in the acquiree was initially measured at the minority interest's proportionate share of the recognised amounts of the assets, liabilities and contingent liabilities of the acquiree.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 combination. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. 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 in the consolidated statement of comprehensive income. 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.

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

Deposits received by the Group prior to meeting the above for revenue recognition criteria 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.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 as described below are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

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

Construction in progress represents buildings, machinery and pipelines under construction for Group's own use purposes is carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Completed items are classified to the appropriate categories of property, plant and equipment when ready for their intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

Investment properties

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

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment 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.

3. 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.

3. 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 lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and building

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

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. 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.

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 loss 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets (Continued)

Research and development expenditure

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

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

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

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. 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 (if any), on the same basis as intangible assets acquired separately.

Intangible assets acquired in a business combination

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

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 loss 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated 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 for all deductible temporary differences 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 are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

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

Financial assets

The Group's financial assets are classified into one of the 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.

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.

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, 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).

3. 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 loans and receivables, objective evidence of impairment could include:

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

For 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 loans and receivables, 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 loan and receivable is reduced by the impairment loss directly with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade or 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment of financial assets *(Continued)*

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

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

Financial liabilities and equity instruments

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

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss ("FVTPL") and other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments *(Continued)*

Effective interest method (Continued)

Convertible bonds with liability and derivative components

Convertible bonds issued by the Company contain liability, conversion option and early redemption options (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 component) 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 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 components in proportion to their relative fair values. Transaction costs relating to the derivative 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, bank borrowings and shareholder loan 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.

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

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

Where the Group 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/redemption, 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.

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.

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 losses.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Share options granted to consultants *(Continued)*

If the share options are cancelled during the vesting period, the cancellation is accounted for as an acceleration of vesting and the amount that otherwise would have been recognised for services received over the reminder of the vesting period will be recognised as expenses immediately. Any payment made to the employees or consultants on the cancellation of the grant shall be accounted for as the repurchase of an equity interest, except to the extent that the payment exceeds the fair value of the equity instruments granted, measured at the repurchase date. Any such excess shall be recognised as an expense.

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 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. HKD) 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) and will be transferred to accumulated losses on disposal of the group entities.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies (Continued)

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.

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. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

4. 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.

4. 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 unit in respect of connection of pipeline construction are set out in note 18, 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 19.

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.

5. 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 bank borrowings and shareholder loan disclosed in notes 29 and 32 respectively and equity attributable to owners of the Company, comprising issued capital, accumulated losses and other reserves. As at 31st December, 2009, the Group's capital structure also included convertible bonds, as disclosed in note 31.

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.

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

Categories of financial instruments

	2010 HK$'000	2009 HK$'000
Financial assets		
Available-for-sale investment	**2,954**	2,847
Loans and receivables (including cash and cash equivalents)	**433,927**	477,781
Financial liabilities		
Amortised cost	**1,156,007**	606,984
FVTPL – Derivative financial instruments	**–**	45,625
	1,156,007	652,609

Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, refundable deposits, other receivables, pledged bank deposit and bank balances, trade payables, other payables and accrued charges, bank borrowings, shareholder loan and convertible bonds (including derivative financial instruments). 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 to fixed-rate bank borrowings and shareholder loan (2009: fixed-rate bank borrowings and convertible bonds). The Group has not used any derivative contracts to hedge these exposure to interest rate risk.

The Group's cash flow interest rate risk primarily relates to variable-rate bank balances and bank 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 interest rate fixed by People's Bank of China plus a premium.

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

Financial risk management objectives and policies *(Continued)*

Market risks *(Continued)*

Interest rate risk (Continued)

The sensitivity analysis has been determined based on the exposure to the variable-rate bank balances and bank borrowings at the end of the reporting period and management's assessment of the reasonably possible change in 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 (2009: 50 basis points for bank loans and 20 basis points for bank balances) higher/lower and all other variables were held constant, the Group's post-tax profit for the year would decrease/increase by HK$677,000 (2009: increase/decrease by HK$262,000).

Interest rate risk on derivative component

The Group is required to estimate the fair values of the derivative component embedded in the convertible notes as at 31st December, 2009 with changes in fair value to be recognised in the consolidated statement of comprehensive income as long as the convertible notes were outstanding. The fair value adjustment will be affected either positively or negatively by the changes in market interest rate. As at 31st December, 2010, the Group is no longer exposed to the interest rate risk on derivative component, as the Company has no outstanding convertible bonds.

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 increase/decrease by HK$912,000.

In management's opinion, the sensitivity analysis was 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 were interdependent.

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

Financial risk management objectives and policies *(Continued)*

Market risks *(Continued)*

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. The directors consider that the Group's exposure to foreign currency exchange risk is insignificant, except for shareholder loan, and bank balances (2009: convertible bonds and bank balances) which were denominated in United States Dollar ("USD") or HKD, as the majority of the Group's transactions are denominated in the functional currency of the respective group entities. The equivalent amount of HKD are set out below:

	2010	2009
	HK$'000	HK$'000
Shareholder loan – USD	**144,355**	–
Convertible bonds – USD	**–**	142,647
Bank balances		
– USD	**1,940**	14,360
– HKD	**6,159**	10,568
	8,099	24,928

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.

The following table details the Group's sensitivity to a 5% (2009: 5%) increase and decrease in RMB against USD and 5% (2009: 5%) increase and decrease in RMB against HKD.5% (2009: 5%) represents management's assessment of the reasonable possible change in foreign exchange rates. The sensitivity analysis includes only USD and HKD bank balances, convertible bonds and shareholder loan, and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates decrease in post-tax profit 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.

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

Financial risk management objectives and policies *(Continued)*

Market risks *(Continued)*

Foreign currency risk (Continued)

Sensitivity analysis *(Continued)*

	2010	2009
	HK$'000	HK$'000
USD shareholder loan	**(6,027)**	–
USD convertible bonds	**–**	(5,956)
USD bank balances	**81**	600
HKD bank balances	**257**	441

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.

Price risk on derivative component

The Group was required to estimate the fair value of the conversion option embedded in the convertible notes as at 31st December, 2009 with changes in fair value to be recognised in the consolidated statement of comprehensive income as long as the convertible bonds were 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. As at 31st December, 2010, the Group is no longer exposed to the price risk on derivative component as the Company has no outstanding convertible bonds.

Sensitivity analysis

The sensitivity analysis below had been determined based on the exposure to the Company's share price risk at the reporting date only. For the year ended 31st December, 2009, if the Company's share price had been 10% higher/lower and all other variables were held constant, the Group's post-tax profit for the year would decrease/increase by HK$11,945,000.

In management's opinion, the sensitivity analysis was unrepresentative of the inherent market risk as the pricing model used in the fair value valuation of the derivative component of convertible bonds involves multiple variables. The variables used to estimate the fair value of the multiple embedded derivative features were interdependent.

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

Financial risk management objectives and policies *(Continued)*

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, 2010 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.

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 31st December, 2010 the Group had net current liabilities of approximately HK$307,047,000 (2009: HK$10,268,000). Subsequent to 31st December, 2010, the Group has renewed bank borrowings of approximately HK$173,697,000 which were originally required to be repaid within 3 months after the end of reporting period and extended the repayment date to 2012. Besides, the directors of the Company expect bank borrowings of approximately HK$83,895,000, which are due within one year after the end of the reporting period, could also be renewed upon the relevant maturity dates, based on their experience. The directors of the Company also believe the Group will only be demanded to repay a bank borrowing of approximately HK$59,081,000 with repayment on demand clause, based on the repayment schedule in 2 to 3 years. In addition, included in the Group's current liabilities are deferred income and advance received amounting to HK$129,581,000 which the directors of the Company considered will have no significant cash outflow in view of their nature. The directors of the Company believe that the Group has sufficient funds to finance its current working capital requirements taking into account of these factors and future cash inflows from operations and accordingly, have prepared the consolidated financial statements on a going concern basis.

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

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

Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

The following table details the Group's remaining contractual maturity based on the agreed repayment terms 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.

Liquidity tables

	Weighted average effective interest rate %	On demand or less than 3 months HK$'000	3 months to 1 year HK$'000	1 – 5 years HK$'000	More than 5 years HK$'000	Total undiscounted cash flow HK$'000	Carrying amount at 31.12.2010 HK$'000
2010							
Non-derivative financial liabilities							
Trade payables	–	73,262	88,289	–	–	161,551	161,551
Other payables and accrued charges	–	116,270	–	–	–	116,270	116,270
Bank borrowings							
– fixed rate	5.75%	153,322	51,210	142,453	154,806	501,791	412,383
– variable rate	6.71%	130,112	75,631	76,911	86,538	369,192	321,448
Shareholder loan	5%	–	–	158,791	–	158,791	144,355
		472,966	215,130	378,155	241,344	1,307,595	1,156,007

	Weighted average effective interest rate %	On demand or less than 3 months HK$'000	3 months to 1 year HK$'000	1 – 5 years HK$'000	More than 5 years HK$'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 and accrued charges	–	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 31) (note a)	20.42%	–	21,130	192,465	–	213,595	188,272
		263,271	173,376	266,218	–	702,865	652,609

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

Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

Liquidity tables (Continued)

Notes:

(a) As at 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 31 on the assumption that no early conversion would take place before its maturity. The carrying amount represents the liability component 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 31).

(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.

Bank loans with a repayment on demand clause are included in the "less than 3 months" time band in the above maturity analysis. As at 31st December, 2010, the aggregate undiscounted principal amounts of these bank loans amounted to HK$59,081,000. Taking into account the Group's financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that such bank loans will be repaid under category 1-5 years in the liquidity table after the reporting date in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows will amount to HK$70,586,000.

Fair value

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

- the fair value of derivative instruments was 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 that as at 31st December 2009, the liability component of the convertible bonds with the carrying amount of HK$142,647,000 had fair value of HK$152,901,000.

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

Fair value *(Continued)*

Fair value measurements recognised in the consolidated statement of financial position

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

Reconciliation of Level 3 fair value measurements of derivative financial instruments

	2010	2009
	HK$,000	HK$,000
At 1st January	**45,625**	101,961
Changes in fair value		
– profit or loss	**(12,360)**	(17,672)
Conversion during the year	**(3,140)**	–
Repurchase and redemption during the year (Note)	**(30,125)**	(38,664)
At 31st December	**–**	45,625

Note: During the year, the Company has repurchased and redeemed a total principal amount of US$20,000,000, approximately HK$156,000,000 (2009: US$19,000,000, approximately HK$148,200,000) of convertible bond from certain bondholders. The relevant derivative financial instruments related to the repurchase and redemption portion has been derecognised and included in the calculation of gain/loss on repurchase and redemption of convertible bonds.

The fair value gain of approximately HK$12,360,000 (2009: HK$17,672,000) is reported separately on the consolidated statement of comprehensive income as change in fair value of derivative financial instruments.

The significant assumptions used in determining the fair value of derivative financial instruments were set out in note 27.

6. 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:

	2010	2009
	HK$'000	HK$'000
Sales of piped gas	**721,374**	494,208
Connection revenue from gas pipeline construction	**305,205**	253,438
Operation of compressed natural gas ("CNG") filling stations	**88,765**	50,103
Sales of liquefied petroleum gas	**38,379**	33,908
Sales of stoves and related equipment	**15,746**	12,493
	1,169,469	844,150

7. SEGMENT INFORMATION

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 and reportable segments are therefore as follows:

(a) sales of piped gas

(b) connection revenue from gas pipeline construction

(c) operation of CNG filling stations

(d) sales of liquefied petroleum gas

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

(f) Sales of stoves and related equipment

7. SEGMENT INFORMATION *(Continued)*

Segment revenue and results

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

For the year ended 31st December, 2010

	Sales of piped gas HK$'000	Connection revenue from gas pipeline construction HK$'000	Operation of CNG filling stations HK$'000	Sales of liquefied petroleum gas HK$'000	Sales of CBM HK$'000	Sales of stoves and related equipment HK$'000	Consolidated HK$'000
Segment revenue	**721,374**	**305,205**	**88,765**	**38,379**	**–**	**15,746**	**1,169,469**
Segment profit (loss)	**38,912**	**139,131**	**(23,260)**	**217**	**(12,596)**	**9,044**	**151,448**
Interest income and other gain							**4,270**
Central corporate expenses							**(32,062)**
Finance costs							**(43,466)**
Change in fair value of derivative financial instruments							**12,360**
Profit before tax							**92,550**

For the year ended 31st December, 2009

	Sales of piped gas HK$'000	Connection revenue from gas pipeline construction HK$'000	Operation of CNG filling stations HK$'000	Sales of liquefied petroleum gas HK$'000	Sales of CBM HK$'000	Sales of stoves and related equipment HK$'000	Consolidated HK$'000
Segment revenue	494,208	253,438	50,103	33,908	–	12,493	844,150
Segment profit (loss)	36,179	112,440	7,508	(4,246)	(18,873)	5,410	138,418
Interest income and other gain							4,993
Central corporate expenses							(36,833)
Finance costs							(44,338)
Change in fair value of derivative financial instruments							17,672
Profit before tax							79,912

7. SEGMENT INFORMATION *(Continued)*

Segment revenue and results (Continued)

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit (loss) represents the profit earned by/loss from each segment without allocation of central administration costs, directors' salaries, share option expenses, bank interest income, gain on redemption/ repurchase of convertible bonds and increase in fair value of investment properties, finance cost, 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.

Segment assets and liabilities

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

As at 31st December, 2010

	Sales of piped gas HK$'000	Connection revenue from gas pipeline construction HK$'000	Operation of CNG filling stations HK$'000	Sales of liquefied petroleum gas HK$'000	Sales of CBM HK$'000	Sales of stoves and related equipment HK$'000	Consolidated HK$'000
ASSETS							
Segment assets	1,671,704	42,348	104,661	25,548	7,044	1,400	1,852,705
Investment properties							6,245
Available-for-sales investment							2,954
Buildings for corporate use							38,250
Prepaid lease payments for corporate use							3,318
Pledged bank deposit							13,978
Bank balances							351,963
Other assets							6,121
Consolidated assets							2,275,534
LIABILITIES							
Segment liabilities	292,562	132,750	6,157	12,554	–	4,416	448,439
Tax payables							22,456
Bank borrowings							733,831
Deferred tax liabilities							16,180
Shareholder loan							144,355
Other liabilities							7,866
Consolidated liabilities							1,373,127

7. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities *(Continued)*

As at 31st December, 2009

	Sales of piped gas HK$'000	Connection revenue from gas pipeline construction HK$'000	Operation of CNG filling stations HK$'000	Sales of liquefied petroleum gas HK$'000	Sales of CBM HK$'000	Sales of stoves and related equipment HK$'000	Consolidated HK$'000
ASSETS							
Segment assets	957,037	40,958	132,460	14,516	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	1,629	20,894	–	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

7. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities (Continued)

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

- all assets are allocated to operating 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, shareholder loan, deferred tax liabilities and convertible bonds.

Other segment information

2010

	Sales of piped gas HK$'000	Connection revenue from gas pipeline construction HK$'000	Operations of CNG filling stations HK$'000	Sales of liquefied petroleum gas HK$'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	493,960	–	1,517	10,380	–	–	505,857	–	505,857
Gain on disposal of property, plant and equipment	652	–	–	–	–	–	652	–	652
Amortisation of prepaid lease payment	1,903	–	245	–	–	–	2,148	–	2,148
Depreciation of property, plant and equipment	29,272	–	2,170	1,646	1,808	–	34,896	2,722	37,618
Amortisation of other intangible assets	3,776	–	2,364	–	–	–	6,140	–	6,140
Reversal of impairment loss recognised on amounts due from customers for contract work	–	6,367	–	–	–	–	6,367	–	6,367
Allowance for doubtful debts	619	–	–	–	–	–	619	1,928	2,547
Research and development cost	–	–	–	–	9,306	–	9,306	–	9,306
Impairment loss recognised on other intangible assets	–	–	30,751	–	–	–	30,751	–	30,751
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profits or loss:									
Income tax expenses	–	–	–	–	–	–	–	35,425	35,425

7. SEGMENT INFORMATION *(Continued)*

Other segment information *(Continued)*

2009

	Sales of piped gas HK$'000	Connection revenue from gas pipeline construction HK$'000	Operations of CNG filling stations HK$'000	Sales of liquefied petroleum gas HK$'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	–	83,363	4,916	–	–	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	–	1,128	1,430	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
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profits or loss:									
Income tax expenses	–	–	–	–	–	–	–	34,772	34,772

7. SEGMENT INFORMATION *(Continued)*

Geographical information

All the turnover of the Group for both years are derived from the PRC. None of the customers 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.

8. OTHER INCOME AND GAINS

	2010	2009
	HK$'000	HK$'000
Bank interest income	**1,455**	2,520
Gain on repurchase and redemption of convertible bonds	**2,365**	1,562
Gain on disposal of property, plant and equipment	**652**	–
Government subsidies (note)	**1,278**	578
Increase in fair value of investment properties	**450**	911
Sundry income	**5,575**	4,098
	11,775	9,669

Note: During the year ended 31st December, 2010, the Group has received subsidies of HK$1,278,000 (2009: HK$578,000) from the relevant PRC governments for promoting the use of natural gas. There are no conditions attached to the subsidies granted to the Group.

9. FINANCE COSTS

	2010	2009
	HK$'000	HK$'000
Interest on bank borrowings:		
– wholly repayable within five years	**26,738**	21,348
– over five years	**7,931**	–
Effective interest expense on convertible bonds (note 31)	**20,124**	28,997
Interest on shareholder loan	**2,225**	–
Total borrowing costs	**57,018**	50,345
Less: Amounts capitalised in construction in progress	**(13,552)**	(6,007)
	43,466	44,338

10. INCOME TAX EXPENSES

	2010	2009
	HK$'000	HK$'000
PRC Enterprise Income Tax:		
Current tax	**34,757**	25,505
Underprovision in prior years	**830**	262
PRC withholding tax	**4,331**	6,640
	39,918	32,407
Deferred tax (note 33):		
Current year	**(4,493)**	2,365
	35,425	34,772

Under the Law of the PRC 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 have been/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 are 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, 2010, withholding tax amounted to HK$4,331,000 (2009: HK$6,640,000) was charged by the PRC tax authority which levied on the dividends paid/payable to overseas group entities.

10. INCOME TAX EXPENSES *(Continued)*

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

	Hong Kong		PRC		Total	
	2010	2009	**2010**	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
(Loss) profit before tax	**(32,124)**	(28,339)	**124,674**	108,251	**92,550**	79,912
Taxation at the domestic income tax rate	**(5,300)**	(4,676)	**31,169**	27,062	**25,869**	22,386
Tax effect of expenses not deductible for tax purpose	**7,344**	7,274	**4,569**	1,239	**11,913**	8,513
Tax effect of income not taxable for tax purpose	**(2,651)**	(2,955)	**(1,306)**	–	**(3,957)**	(2,955)
Underprovision in respect of prior years	**–**	–	**830**	262	**830**	262
Tax effect of estimated tax losses not recognised	**607**	357	**5,834**	7,016	**6,441**	7,373
Utilisation of estimated tax losses previously not recognised	**–**	–	**(3,755)**	(503)	**(3,755)**	(503)
Income tax on concessionary rate	**–**	–	**(8,818)**	(8,600)	**(8,818)**	(8,600)
Withholding tax levied on dividend paid	**4,331**	6,640	**–**	–	**4,331**	6,640
Withholding tax levied on undistributed earnings of subsidiaries (note 33)	**2,571**	1,656	**–**	–	**2,571**	1,656
Tax charge for the year	**6,902**	8,296	**28,523**	26,476	**35,425**	34,772

11. PROFIT FOR THE YEAR

	2010 HK$'000	2009 HK$'000
Profit for the year has been arrived at after charging (crediting):		
Auditor's remuneration	**1,690**	1,750
Amortisation of other intangible assets (included in cost of sales)	**6,140**	4,721
Amortisation of prepaid lease payments	**2,148**	1,618
Depreciation of property, plant and equipment	**37,618**	31,819
(Gain) loss on disposal of property, plant and equipment	**(652)**	5,887
Research and development cost (included in other expenses)	**9,306**	9,116
Allowance (reversal) for doubtful debts		
– trade receivables	**619**	(276)
– other receivables	**1,928**	2,351
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$9,823,000 (2009: HK$8,564,000))	**97,400**	76,104
Share based payment expenses	**6,038**	5,174
Exchange gain	**(120)**	(321)
Operating lease rentals in respect of rented premises	**2,850**	3,483
Cost of inventories recognised as expenses in respect of:		
Contract cost for gas pipeline construction	**80,513**	43,778
Cost of inventories recognised as expenses in respect of sales of piped gas, liquefied petroleum gas and stoves equipment	**612,570**	444,698
	693,083	488,476
Gross rental income from investment properties with minimal outgoings	**(905)**	(789)

12. DIRECTORS' EMOLUMENTS

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

	2010	2009
	HK$'000	HK$'000
Fees	**2,440**	2,440
Other emoluments:		
– Salaries and other benefits	**2,163**	1,723
– Bonus	**1,500**	–
– Contributions to retirement benefits scheme	**12**	12
– Employee share option benefits	**484**	3,386
Total emoluments	**6,599**	7,561

The emoluments of directors are analysed as follows:

	2010						2009				
	Employee share option benefits HK$'000	**Salaries and other benefits HK$'000**	**Bonus HK$'000 (Note vi)**	**Fees HK$'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	**–**	**–**	**–**	**1,500**	**–**	**1,500**	–	–	1,200	–	1,200
Hao Yu (note i)	**–**	**–**	**–**	**420**	**–**	**420**	2,584	–	720	–	3,304
Huang Yong (note ii)	**–**	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–
Xu Chao Ping (note iii)	**–**	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–
Li Chun Yan (note v)	**–**	**–**	**–**	**24**	**–**	**24**	–	–	–	–	–
Lu Zhaoheng	**145**	**502**	**–**	**–**	**–**	**647**	241	366	–	–	607
Lui Siu Keung	**145**	**1,661**	**1,500**	**–**	**12**	**3,318**	241	1,357	–	12	1,610
Xu Yongxuan	**–**	**–**	**–**	**240**	**–**	**240**	–	–	240	–	240
Wang Lei	**–**	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–
Nicholas John Ashley Rigg	**–**	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–
Wang Shunlong (note iv)	**–**	**–**	**–**	**76**	**–**	**76**	–	–	100	–	100
Luo Yongtai	**97**	**–**	**–**	**100**	**–**	**197**	160	–	100	–	260
Hung, Randy King Kuen	**97**	**–**	**–**	**80**	**–**	**177**	160	–	80	–	240
	484	**2,163**	**1,500**	**2,440**	**12**	**6,599**	3,386	1,723	2,440	12	7,561

12. DIRECTORS' EMOLUMENTS *(Continued)*

Notes:

(i) Resigned on 11th August, 2010.

(ii) Appointed on 15th September, 2010 and removed on 14th March, 2011.

(iii) Appointed on 15th September, 2010

(iv) Resigned on 5th October, 2010.

(v) Appointed on 5th October, 2010.

(vi) Incentive performance bonus for the year was determined by the remuneration committee having regard to the performance of directors and the Groups' operating results.

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 both years.

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

13. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2009: three) were directors of the Company whose emoluments are included in the disclosures in note 12 above. The emolument of the remaining two (2009: two) individuals was as follows:

	2010	2009
	HK$'000	HK$'000
Salaries and other benefits	**991**	832
Contributions to retirement benefits scheme	**24**	20
	1,015	852

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

14. DIVIDENDS

No dividend was paid or proposed during 2010, nor has any dividend been proposed since the end of the reporting period (2009: nil).

15. EARNINGS PER SHARE

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

	2010	2009
	HK$'000	HK$'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share, being profit for the year attributable to owners of the Company	**22,811**	20,060

	2010	2009
	'000	'000
Number of shares		
Weighted average number of shares for the purpose of basic earnings per share	**1,972,359**	1,935,952
Effect of dilutive potential ordinary shares:		
Share options issued by the Company (note a)	**22,227**	19,562
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,994,586**	1,955,514

Notes:

(a) Weighted average number of ordinary shares for the purpose of the computation of diluted earnings per share has taken into account the effect of the options with dilutive effect.

(b) The conversion of the Company's outstanding convertible bonds would increase the earnings per share, after taking into account of the effect of effective interest, change in fair value of conversion/redemption option derivative components and gain on repurchase/repurchase of the convertible bonds net of related tax expenses, if any. As at 31st December, 2010, the Company has no outstanding convertible bonds.

16. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1st January, 2009	4,617
Exchange adjustments	46
Increase in fair value recognised in profit or loss	911
At 31st December, 2009	5,574
Exchange adjustments	221
Increase in fair value recognised in profit or loss	450
At 31st December, 2010	6,245

The fair value of the Group's investment properties at 31st December, 2010 and 2009 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 recent market evidence of transaction prices 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.

The above investment properties are located in the PRC, held under medium lease term.

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Construction in progress	Leasehold improvements	Pipelines	Machinery and equipment	Furniture and fixtures	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
COST								
At 1st January, 2009	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
Exchange adjustments	3,955	5,790	444	22,833	2,819	151	1,214	37,206
Additions	8,755	335,308	664	40,706	36,998	737	19,636	442,804
Disposals	(1,513)	(2,555)	–	–	(668)	(32)	(4,897)	(9,665)
Transfer	3,881	(124,237)	–	112,176	8,180	–	–	–
At 31st December, 2010	112,586	264,160	15,239	670,518	125,676	5,968	52,134	1,246,281
DEPRECIATION								
At 1st January, 2009	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
Exchange adjustments	457	–	30	1,360	816	28	662	3,353
Provided for the year	4,887	–	130	16,914	8,376	740	6,571	37,618
Eliminated on disposals	(562)	–	–	–	(304)	(3)	(3,884)	(4,753)
At 31st December, 2010	13,877	–	2,276	52,977	27,574	2,507	16,241	115,452
CARRYING VALUES								
At 31st December, 2010	98,709	264,160	12,963	617,541	98,102	3,461	35,893	1,130,829
At 31st December, 2009	88,413	49,854	12,015	460,100	59,661	3,370	23,289	696,702

17. 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, 2010, the Group is in process of obtaining title deeds from relevant government authority for its buildings in the PRC amounting to HK$24,702,000 (2009: HK$23,802,000). 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$24,655,000 (2009: HK$24,696,000) to secure certain bank borrowings granted to the Group.

18. GOODWILL

	2010	2009
	HK$'000	HK$'000
Cost and carrying amount		
At 1st January	**100,793**	99,312
Exchange adjustments	**3,775**	906
Arising on acquisition of business (note 36)	**–**	575
At 31st December	**104,568**	100,793

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 an individual cash-generating units ("CGUs") relating to sales of piped gas ("Unit A") amounting to HK$51,543,000 in aggregate (2009: HK$49,682,000) and connection of pipeline constructions ("Unit B") amounting to HK$53,025,000 in aggregate (2009: HK$51,111,000).

18. GOODWILL *(Continued)*

The basis of the recoverable amount and its major underlying assumptions of CGU engaged in Unit B are summarised below:

The recoverable amount of the CGU engaged in Unit B has been determined 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 (2009: 15-year period) at a discount rate of 13% (2009: 13%) was used. The cash flows of the CGU engaged in Unit B beyond the 5-year period (2009: 5-year period) of the financial budgets are extrapolated using a steady 2% (2009: 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 past performance of the CGU engaged in Unit B and management's expectations for the market development. At the end of the reporting period, the recoverable amount of the CGU engaged in Unit B exceeded the carrying amount, therefore, no impairment loss is considered necessary.

Impairment assessment of Unit A is set out in note 19.

19. 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, 2009	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
Exchange adjustments	1,248	2,974	4,862	9,084
At 31st December, 2010	43,732	104,218	170,426	318,376
AMORTISATION AND IMPAIRMENT				
At 1st January, 2009	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
Exchange adjustments	1,248	543	3,803	5,594
Charge for the year	–	3,776	2,364	6,140
Impairment loss recognised	–	–	30,751	30,751
At 31st December, 2010	43,732	14,546	109,500	167,778
CARRYING VALUES				
At 31st December, 2010	–	89,672	60,926	150,598
At 31st December, 2009	–	91,017	92,982	183,999

19. OTHER INTANGIBLE ASSETS *(Continued)*

Development costs represent costs incurred for extraction of 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 the Group's subsidiaries, Jiyuan Yulian Compressed Gas Co. Ltd ("JYCG"), Luohe Yulian Compressed Gas Co. Ltd ("LYCG"), Sanmenxia Yulian Compressed Gas Co. Ltd. ("SYCG") 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 in 2009 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 unit as follow:

	2010	2009
	HK$'000	HK$'000
Subsidiaries engaged in sales of piped gas ("Unit A")	**89,672**	91,017
Operation of CNG filling stations ("Unit C")	**60,926**	92,982
Sales of CBM ("Unit D")	**Nil**	Nil

Impairment testing on Unit A

Unit A consisted of several CGUs. The recoverable amount of these CGUs (comprising intangible assets of HK$89,672,000 (2009: HK$91,017,000), goodwill of approximately HK$51,543,000 (2009: HK$49,682,000), property, plant and equipment of HK$618,223,000 (2009: HK$428,591,000) and prepaid lease payment of HK$89,914,000 (2009: HK$33,731,000) have been determined individually based on a value in use calculation using the following assumptions for 2010 and 2009:

Period of cash flow projections	13 years (2009: 14 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 unit's past performance and management's expectations for the market development. At the end of reporting period, the recoverable amount of individual CGU of Unit A exceeded the relevant carrying amount, no impairment is considered necessary.

19. 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 amount of Unit C (comprising intangible assets of HK$60,926,000 (2009: HK$92,982,000) and property, plant and equipment of HK$28,300,000 (2009: HK$28,141,000) and prepaid lease payment of HK$11,473,000 (2009: HK$9,338,000) have been determined individually based on a value in use calculation using the following assumptions for 2010 and 2009:

Period of cash flow projections	27 years (2009: 28 years)
Growth rate beyond 5-year period extrapolated in the financial budgets approved by the management	0%
Discount rate	16%

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 unit's past performance and management's expectations for the market development. Due to the insufficient quantities of natural gas to be supplied to the CNG filling stations in the PRC, some of the gas stations that were originally expected to commence operation in the near future need to postpone its operation plan and are not expected to commence operations in the near future and hence the expected future cash flows for these gas stations could not be realised. Based on the revised estimates of the expected cash inflows, at the end of the reporting period, the carrying amount of certain CGUs of Unit C exceeds its relevant recoverable amount based on the cash flow projections. An impairment of HK$30,751,000 (2009: nil) was recognised.

Impairment testing on Unit D

Due to the anticipated delay in de-watering and releasing process of the commercial production of CBM, the expected future economic benefits associated with Unit D is considered as less than probable. Accordingly, the management recognised full impairment on the carrying amount of the development costs in prior years.

During the year ended 31st December 2010, 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$9,306,000 (2009: HK$9,116,000) was charged to the profit and loss as research and development cost.

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

On 5th March, 2009, the Group entered into a sales and purchase agreement with the 焦作市建設投資(控股)有限公司 ("Seller") for the acquisition of certain assets and liabilities ("Original Assets"), which is mainly comprised of gas pipeline network in the area of Jiaozuo City, with a total consideration of HK$54,271,000 (equivalent to RMB47,649,000). Deposits of HK$42,881,000 (equivalent to RMB37,649,000) were already paid to Finance Bureau of Jiaozuo City and included in deposits paid for acquisition of property, plant and equipment as at 31st December, 2009. The Original 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"), such approval was not yet obtained as at 31st December, 2009.

20. DEPOSITS PAID FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT *(Continued)*

On 6th September, 2010, the Group entered into a framework agreement ("Framework Agreement") with Jiaozuo SASAC. The Framework Agreement was entered into to secure the approval from the Jiaozuo SASAC to acquire the Original Assets and agreed to further acquire certain assets from the Seller for an aggregate consideration (included the consideration for the acquisition of Original Assets) of HK$87,711,000 (equivalent to approximately RMB76,270,000). The acquisition was completed and the remaining consideration of HK$44,830,000 after offsetting against, the deposits made in prior year, will be settled upon the proper transfer of legal title of the assets acquired.

The assets and liabilities acquired at the date of the completion are as follow:

	HK$'000
Property, plant and equipment	70,597
Prepaid lease payments	60,300
Deposits, prepayments and other receivables	1,799
Other payables and accrued charges (Note)	(38,069)
Bank borrowings	(6,916)
	87,711

Note: After the acquisition, HK$32,339,000 of these other payables and accrued charges were settled by the Group and the cash outflow was considered as investing activities.

As at 31st December, 2010, deposit of RMB191,582,000 (equivalent to approximately HK$226,376,000) was paid to a supplier for acquisition of construction materials mainly for construction of the Group's pipeline in Jiyuan, Jiaozuo, Luohe, Xinmi Cities.

21. 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, 2010, the Group is in process of obtaining land use right certificate from relevant government authority for its land in the PRC amounting to HK$71,221,000 (2009: HK$8,842,000). 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 carrying value of approximately HK$24,816,000 (2009: HK$23,920,000) to secure certain bank borrowings granted to the Group.

22. AVAILABLE-FOR-SALE INVESTMENT

	2010	2009
	HK$'000	HK$'000
Available-for-sale investment comprise:		
Unlisted equity security at cost less impairment	**2,954**	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.

23. INVENTORIES

	2010	2009
	HK$'000	HK$'000
Construction materials	**40,015**	31,605
Finished goods	**5,289**	4,612
	45,304	36,217

24. 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:

	2010	2009
	HK$'000	HK$'000
0 – 30 days	**52,224**	26,925
Over 30 days	**1,116**	2,602
Trade receivables	**53,340**	29,527

Included in deposits, prepayments and other receivables is advance to suppliers of natural gas and construction materials for customer's gas pipeline construction amounting to HK$39,899,000 (2009: HK$17,062,000).

The trade receivables of HK$52,224,000 (2009: HK$26,925,000) were neither past due nor impaired. These customers are 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, 2010, trade receivables of HK$1,116,000 (2009: HK$2,602,000) 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 (2009: 90 days).

24. TRADE RECEIVABLES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES *(Continued)*

Ageing of trade receivables which are past due but not impaired

	2010 HK$'000	2009 HK$'000
31 – 90 days	**1,116**	2,594
91 – 180 days	**–**	8
	1,116	2,602

Movement in the allowance for doubtful debts

Trade receivables

	2010 HK$'000	2009 HK$'000
Balance at beginning of year	**1,930**	2,206
Increase (decrease) in allowance recognised in profit or loss	**619**	(276)
Balance at the end of year	**2,549**	1,930

Other receivables

	2010 HK$'000	2009 HK$'000
Balance at beginning of year	**2,351**	6,690
Increase in allowance recognised in profit or loss	**1,928**	2,351
Amounts written off as uncollectible	**–**	(6,690)
Balance at the end of year	**4,279**	2,351

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 statements were authorised for issuance or no historical default of payments by the respective customers. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

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

	2010	2009
	HK$'000	HK$'000
Contracts in progress at the end of the reporting period:		
Contract costs incurred plus recognised profits	**174,492**	149,589
Less: Progress billings	**(157,784)**	(120,723)
Less: Impairment losses recognised (Note)	**(28,440)**	(34,807)
	(11,732)	(5,941)
Analysed for reporting purposes as:		
Amounts due from customers for contract work	**2,334**	6,081
Amounts due to customers for contract work	**(14,066)**	(12,022)
	(11,732)	(5,941)

At 31st December, 2010, advances received from customers before the contract work is performed amounted to HK$88,831,000 (2009: HK$55,539,000) and were included in deferred income and advance received.

Note: The directors of the Company reviewed the recoverable amounts of the amounts due from customers for contract work and identified that certain projects are under slow construction progress. In the opinion of the directors, for such amounts that the recoverability are uncertain, impairment losses were recognised in full and for those amounts previously impaired but subsequently settled, impairment losses were reversed. Accordingly, the Group recognised a reversal of impairment loss of HK$6,367,000 in 2010.

26. 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, 2010, the bank balances and cash of approximately HK$343,864,000 (2009: HK$388,850,000) were denominated in RMB which are not freely convertible into other currencies.

As at 31st December, 2010, the bank balances and cash consisted of approximately HK$1,940,000 and HK$6,159,000 (2009: HK$14,360,000 and HK$10,568,000) denominated in USD and HKD respectively, which are foreign currency of the respective group entities.

Pursuant to a letter of undertaking, the Group is required to maintain deposits of RMB11,830,000 (equivalent to approximately HK$13,978,000) (2009: RMB11,830,000 (equivalent to approximately HK$13,474,000)) 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% (2009: 1.9%) per annum.

27. DERIVATIVE FINANCIAL INSTRUMENTS

	2010 HK$'000	2009 HK$'000
Derivatives embedded in convertible bonds analysed as:		
Non-current	–	42,639
Current	–	2,986
	–	45,625

The derivatives embedded in convertible bonds comprised (i) conversion option; and (ii) early redemption option held by the Company.

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

	Date of conversion of principal amount of US$1,000,000 (note 31)	Date of repurchase of principal amount of US$4,400,000 (note 31)	Date of redemption of principal amount of US$15,600,000 (note 31)	31.12.2009
Conversion price	HK$0.70	HK$0.70	HK$0.70	HK$0.70
Expected volatility (note a)	59.71%	55.58%	52.53%	52.20% to 59.06%
Expected life (note b)	2.44 years	2 years	1.78 years	2.48 years
Risk free rate (note c)	0.51% per annum	0.72% per annum	0.38% per annum	0.15% to 0.83% per annum
Maket price	HK$0.90	HK$0.66	HK$0.70	HK$0.78

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.

The fair value of the early redemption option as at the respective dates of repurchase, redemption, conversion and 31st December, 2009 are determined by application of Trinomial method, using effective yield at 5.42% per annum and time to maturity equal to the expected remaining life of the option.

As at 31st December, 2009, the current portion of derivative financial instruments represents the fair value of the derivatives in relation to the 10% of the Remaining Bond (as defined in note 31) that is due for repayment on 25th June, 2010. Details are explained in note 31. During the year ended 31st December, 2010, the Remaining Bond were either repurchased by the Group or early redeemed by the Group or converted by the bond holders.

During the year, a gain of HK$12,360,000 (2009: HK$17,672,000) was recognised as a change in fair value of derivative financial instruments.

28. DEFERRED INCOME AND ADVANCE 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:

	2010	2009
	HK$'000	HK$'000
0 – 30 days	**105,200**	71,947
31 – 90 days	**9,013**	7,253
91 – 180 days	**18,664**	2,544
Over 180 days	**28,674**	20,143
Trade payables	**161,551**	101,887

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.

Deferred income and advance received classified as non current liabilities are government grants of HK$24,220,000 (2009: HK$16,400,000). Due to redevelopment of Jiaozuo city, Jiaozuo government subsidised the Group for enhancement and relocation of certain pipelines in Jiaozuo city.

Included in other payables and accrued charges are deposits received from customers in relation to gas supply business of HK$12,087,000 (2009: HK$15,875,000) and accrued expenses of HK$18,203,000 (2009: HK$21,044,000).

As at 31st December, 2010, the unsettled consideration for the acquisition of assets and liabilities from the Seller (as defined in note 20) of HK$44,830,000 was include in other payables and accrued charges.

29. BANK BORROWINGS

	2010	2009
	HK$'000	HK$'000
Bank loans		
Secured	**342,717**	137,055
Unsecured	**391,114**	168,701
	733,831	305,756
Carrying amount repayable*:		
Within one year	**331,366**	243,146
More than one year, but not exceeding two years	**38,528**	39,209
More than two years, but not exceeding five years	**92,165**	23,401
More than five years	**212,691**	–
	674,750	305,756
Add: Carrying amount of bank loans that are not repayable within one year from the end of the reporting period but contain a repayment on demand clause (shown under current liabilities)	**59,081**	–
	733,831	305,756
Less: Amounts due within one year shown under current liabilities	**(390,447)**	(243,146)
	343,384	62,610

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

29. BANK BORROWINGS *(Continued)*

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

	2010	2009
Effective interest rate:		
Fixed-rate borrowings	**3.6% – 7.16%**	3.6% – 7.16%
Variable-rate borrowings	**5.94% – 7.55%**	4.86% – 8.18%

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

As at 31st December, 2010, certain bank loans were secured by the Group's prepaid lease payment and buildings with the carrying amounts of HK$24,816,000 (2009: HK$23,920,000) and HK$24,665,000 (2009: HK$24,696,000) respectively.

30. SHARE CAPITAL

	Number of shares		**Amount**	
	2010	2009	**2010**	2009
	'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	**1,949,010**	1,934,102	**19,490**	19,341
Exercise of share options (note 34)	**13,822**	15,958	**138**	160
Conversion of convertible bonds (note 31)	**11,176**	–	**112**	–
Share repurchased and cancelled (note)	**–**	(1,050)	**–**	(11)
At end of year	**1,974,008**	1,949,010	**19,740**	19,490

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

All the shares issued during the year ended 31st December, 2010 and 2009 rank pari passu with the then existing shares in all respects.

31. 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 (revised to 2% per annum commencing from 18th May, 2009) and will be matured on 25th June, 2012 ("Maturity Date"). The original conversion price of the Bond was HK$1.456, and subsequently adjusted to HK$0.968 on 25th June, 2008 and HK$0.70 on 18th May, 2009.

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 repurchase. Unless previously redeemed, converted or purchased and cancelled, the Bond can be repurchased at 130 per cent of their principal amount on Maturity Date. The Bond may be repurchased at the option of the relevant holder on 24 months after the Issue Date but before the Maturity Date, at 110 per cent of their principal amount, but this early repurchase option of bondholders was cancelled on 18th May, 2009.

On 11th March, 2009, the Group entered into a purchase agreement with one of the holders ("Bond Holder A") of the Bond, pursuant to which the Company agreed to repurchase and the Bond Holder A agreed to sell 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 25th March, 2009, the Group entered into an agreement ("Amendment 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.

According to the Amendment Agreement, the terms and conditions of the remaining principal amount of US$21,000,000 held by Bond Holders B (the "Remaining Bond") were amended, commencing from 18th May, 2009, the coupon rate of the Remaining Bond was revised from 1% per annum to 2% per annum and the conversion price of the Remaining Bond was adjusted from HK$0.968 to HK$0.70.

The Remaining Bond can be repurchased at the option of the Company at either one of the following options:

Option 1

Date	Repurchase 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

31. CONVERTIBLE BONDS *(Continued)*

Option 2

Date	Repurchase 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

On 14th January, 2010, principal amount of US$1,000,000 of the Remaining Bond was converted into 11,176,142 shares of the Company at the conversion price of HK$0.70 per share.

On 17th January, 2010, the Offer (defined in note1) was proposed by Rich Legend to acquire all of the outstanding convertible bonds, share options and issued shares in the share capital of the Company. As stated in the Company's response document to the Offer dated 31st May, 2010, in the event of a change of control (whereby, amongst other things, any person or persons acting together, other than Hezhong, acquires more than 50% voting rights in the issued share capital of the Company), the holders of the Bond will have the right to require the Company to redeem in whole or in part such outstanding Bond pursuant to the terms of thereof. Pursuant to the terms of the Bond, the Company had issued a notice of the change of control in the Company to the Bond Holders B and the Bond Holders B.

On 25th June, 2010, according to the Amendment Agreement, the Group decided to repurchased of an aggregated outstanding principal amount of US$4,400,000 from certain Bond Holders B at 110% of the principal amount.

Subsequently, the Bond Holders B with principal amount of US$15,600,000 exercised their right to require the Company to redeem the outstanding principal of the Remaining Bond. On 13th September, 2010, the Company completed the redemption ("Redemption") of an aggregate principal amount of US$15,600,000 at a consideration of US$18,507,000 equivalent to (approximately HK$146,580,000), being the early redemption amount payable on the outstanding principal amount of the Remaining Bond together with all accrued and unpaid interest of HK$144,215,000, in accordance with the terms and conditions of the Bond. Thereafter, the Company has no outstanding convertible bonds.

The Bond contains 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 20.42%.

(b) Embedded derivatives comprise of two 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 represents the Company's option to early redeem all or part of the Bond.

31. CONVERTIBLE BONDS *(Continued)*

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

	Liability	**Embedded derivatives**	**Total**
	HK$'000	HK$'000 (Note 27)	HK$'000
At 1st January, 2009	233,141	101,961	335,102
Interest charged (note 9)	28,997	–	28,997
Interest paid	(2,977)	–	(2,977)
Gain arising on change in fair value	–	(17,672)	(17,672)
Repurchase during the year	(116,514)	(38,664)	(155,178)
At 31st December, 2009	142,647	45,625	188,272
Interest charged (note 9)	20,124	–	20,124
Interest paid	(2,087)	–	(2,087)
Conversion during the year	(6,865)	(3,140)	(10,005)
Gain arising on change in fair value	–	(12,360)	(12,360)
Repurchase during the year	(32,819)	(5,484)	(38,303)
Redemption during the year	(121,000)	(24,641)	(145,641)
At 31st December, 2010	–	–	–

The gain on redemption/repurchase of the convertible bonds of HK$2,365,000 (2009: HK$1,562,000) was recognised and included in other income.

As at 31st December, 2009, the directors of the Company considered that the Group will follow Option 1 and repurchase 10% if the Remaining Bond ("First Tranche") on 25th June, 2010. The liability component of HK$14,265,000 under current liabilities represented 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 was classified as non-current liabilities.

32. SHAREHOLDER LOAN

On 9th September, 2010, the Company entered into a loan agreement with China Gas, the ultimate holding company of the Company after the completion of the Offer. Pursuant to which China Gas agreed to make available to the Company a loan facility of up to US$19,000,000 and the Company made a drawing of approximately US$18,507,000 (equivalent to HK$144,355,000) on 10th September, 2010. The shareholder loan is drawn for the sole and exclusive purpose of the Redemption and the remaining undrawn facility was cancelled and ceased to be available to the Company.

The shareholder loan is unsecured, bear interest at 5% per annum and shall be repaid in full in one lump sum together with all interest accrued thereon on the second anniversary of the drawdown date (i.e. 10th September, 2012).

33. 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, 2009	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
Exchange adjustments	29	655	64	748
Charge (credit) to profit or loss	144	(7,208)	2,571	(4,493)
At 31st December, 2010	950	10,939	4,291	16,180

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 taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to undistributed profits of certain PRC subsidiaries amounting to HK$111,384,000 (2009: HK$89,695,000). as the Group is able to control the timing of the reversal of the temporary differences for these subsidiaries and it is probable that the temporary differences will not reverse in the foreseeable future.

At 31st December, 2010, the Group had unused estimated tax losses of HK$194,760,000 (2009: HK$182,762,000) 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$183,512,000 (2009: HK$175,195,000) that will expire in various dates up to 2018. Other losses may be carried forward indefinitely.

34. 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 contribute to the Group.

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

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

Equity-settled share option schemes *(Continued)*

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, 2010	Exercised during the year (note b)	Cancelled during the year (note c)	At 31st December, 2010
Directors	0.31	13th June, 2005	13th June, 2006 to 12th June, 2015	**28,014,000**	(1,000,000)	(27,014,000)	**–**
	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	**1,896,000**	(1,002,000)	(894,000)	**–**
	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	**12,224,000**	(11,820,000)	(404,000)	**–**
				156,534,000	(13,822,000)	(142,712,000)	**–**
Exercisable at the end of the year							**–**
Weighted average exercise price				**0.57**	0.33	0.59	**–**

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

Equity-settled share option schemes (Continued)

				Number of share options		
Category of grantee	Exercise price per share HK$	Date of grant	Exercisable period	At 1st January, 2009	Exercised during the 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

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$0.87 (2009: HK$0.46).

c. After the Offer closed on 6th August, 2010, all share options outstanding were cancelled automatically.

The Group recognised the total expense of HK$6,038,000 for the year ended 31st December, 2010 (2009: HK$5,174,000) in relation to share options granted by the Company.

35. DEEMED ACQUISITION OF ADDITIONAL INTERESTS OF A SUBSIDIARY

During the year ended 31st December, 2010, the Group and the non-controlling interest of Luohe Zhongyu entered into an agreement, pursuant to which, the non-controlling shareholder withdrew its portion of registered capital and the return of registered capital was satisfied by property, plant and equipment and prepaid lease payment with carrying amount of HK$816,000 and HK$5,354,000, respectively held by Luohe Zhongyu, which were approximately to their fair value. Thereafter, the Group's effective interest in Luohe Zhongyu increased from 71.9% to 77.3%. The transaction was accounted for as an equity transaction and the increase in the Group's share of net assets of HK$1,764,000 was credited to other reserve.

36. ACQUISITION OF A SUBSIDIARY

For the year ended 31st December, 2009

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.

	HK$'000
Consideration transferred	
Cash	11,572

Assets acquired and liabilities recognised at the date of acquisition 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
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

36. ACQUISITION OF A SUBSIDIARY *(Continued)*

For the year ended 31st December, 2009 (Continued)

	HK$'000
Goodwill arising on acquisition	
Consideration transferred	11,572
Plus: Non-controlling interests (33% in Linyi Shanlin)	5,416
Less: Net assets acquired	(16,413)
Goodwill arising on acquisition	575

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.

	HK$'000
Net cash inflow arising on acquisition	
Cash consideration paid	11,572
Less: Bank balances and cash acquired	(11,836)
	264

Included in profit for the year 2009 was HK$3,239,000 attributable to the additional business generated by Linyi Shanlin. Revenue for year 2009 included HK$50,347,000 generated from Linyi Shanlin.

Had the acquisition been completed on 1st January, 2009, total group revenue for the period would have been approximately HK$851,442,000, and profit for the year would have been approximately 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

For the year ended 31st December, 2009

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 19) 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
Less: Bank balance and cash acquired	(1,153)
	72,879

38. 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:

	2010	2009
	HK$'000	HK$'000
Within one year	**2,181**	2,316
In the second to fifth year inclusive	**2,934**	658
Over five years	**5,827**	324
	10,942	3,298

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 five 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:

	2010	2009
	HK$'000	HK$'000
Within one year	**594**	498
In the second to fifth year inclusive	**2,470**	1,855
After five years	**1,454**	1,674
	4,518	4,027

Leases are negotiated for an average term of three years.

Certain of the Group's properties with a carrying amount of HK$6,245,000 (2009: HK$5,574,000) are held for rental purposes. All of the properties held have committed tenants for the next four to nine years.

39. 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.

40. RELATED PARTY TRANSACTIONS

The Company obtained a shareholder loan of US$18,507,000 (equivalent to approximately HK$144,355,000) from its ultimate holding company and accrued interest thereon of HK$2,225,000 regarding the shareholder loan during the year ended 31st December, 2010.

The directors of the Company considered that they are the only key management personnel of the Group. Their emoluments are set out in note 12.

41. CAPITAL COMMITMENTS

As at 31st December, 2010, the capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements is HK$2,883,000.

As at 31st December, 2009, the Group had committed to acquire the Original Assets with a total consideration of HK$54,271,000 of which deposits of HK$42,881,000 had been paid in prior year. The transaction has been completed during the year ended 31st December, 2010. Details of the transaction are set out in note 20.

42. MAJOR NON-CASH TRANSACTIONS

During the year, the non-controlling shareholder of Luohe Zhongyu withdrew registered capital of HK$7,934,000 from Loche Zhongyu resulting in deemed acquisition of additional interest in Luohe Zhongyu. The return of capital was satisfied by property, plant and equipment and prepaid lease payment held by Luohe Zhongyu with carrying amount of HK$816,000 and HK$5,354,000 respectively. Details are set out in note 35.

During the year, the Group acquired certain assets and liabilities from the Seller (defined in note 20) at a total consideration of HK$87,711,000 of which deposit of HK$42,881,000 was paid in prior year and the remaining HK$44,830,000 was remain unsettled and included in other payables and accrued charges.

43. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

As at 31st December, 2010 and 2009

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 2010 %	2009 %	Principal activities
China City Gas Construction Explore Company Limited	BVI	Incorporated	100 ordinary shares of US$1 each	**100##**	100##	Investment holding
China City Gas Construction Holdings Company Limited	BVI	Incorporated	100 ordinary shares of US$1 each	**100##**	100##	Investment holding
China Gas Construction Expansion Company Limited	BVI	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 Gas Co. Ltd.	PRC	Limited liability company	Registered capital HK$15,160,000	**66.9##**	66.9##	Trading of natural gas and gas pipeline construction
Linyi Zhongyu Gas Co. Ltd.	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

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

As at 31st December, 2010 and 2009 (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 2010 %	2009 %	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	BVI	Incorporated	1 ordinary share of US$1	**100#**	100#	Investment holding
China City Gas Construction Development Limited	BVI	Incorporated	100 ordinary shares of US$1 each	**100##**	100##	Investment holding
China City Gas Construction Investment Co. Ltd.	BVI	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 RMB95,468,511 (2009: RMB102,611,000)	**77.3##**	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

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

As at 31st December, 2010 and 2009 (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 2010 %	2009 %	Principal activities
Jiaozuo CG Project	PRC	Sino-foreign joint venture	Registered capital RMB25,000,000	**88.54##**	88.54##	Gas pipeline construction
Xiuwu Zhongyu Gas Development Co., Ltd.	PRC	Other limited liability company	Registered capital RMB8,000,000	**55.9##**	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 (defined in note 19)	PRC	Sino-foreign joint venture	Registered capital RMB5,000,000	**100##**	100##	Not yet commenced business
LYCG (defined in note 19)	PRC	Sino-foreign joint venture	Registered capital RMB1,000,000	**100##**	100##	Operation of CNG filling stations
SYCG (defined in note 19)	PRC	Sino-foreign joint venture	Registered capital RMB1,000,000	**100##**	100##	Not yet commenced business
NYCS (defined in note 19)	PRC	Limited liability company	Registered capital RMB10,000,000	**100##**	100##	Operation of CNG filling stations
Nanjing Yulian Natural Gas Filling Co., Ltd.	PRC	Limited liability company	Registered capital RMB7,000,000	**70##**	100##	Operation of natural gas filling stations

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

\#\# The provision of nominal value of issued share 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

	1.1.2010 to 31.12.2010 HK$'000	1.1.2009 to 31.12.2009 HK$'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
Results					
Turnover	**1,169,469**	844,150	703,020	294,518	78,159
Profit (loss) for the year attributable to the owners of the Company	**22,811**	20,060	(92,797)	(26,183)	6,856

	31.12.2010 HK$'000	31.12.2009 HK$'000	31.12.2008 HK$'000	31.12.2007 HK$'000	31.12.2006 HK$'000
Assets and liabilities					
Total assets	**2,275,534**	1,630,853	1,521,682	1,516,045	280,479
Total liabilities	**(1,373,127)**	(817,092)	(760,307)	(754,199)	(88,983)
	902,407	813,761	761,375	761,846	191,496
Equity attributable to the owners of the Company	**769,311**	693,797	655,787	696,597	183,324
Non-controlling interests	**133,096**	119,964	105,588	65,249	8,172
	902,407	813,761	761,375	761,846	191,496

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, 28th Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong on Thursday, 28th April, 2011 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, 2010;

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."

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."

7. "**THAT**

subject to and conditional upon the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Shares which may be issued pursuant to the exercise of the share option scheme and any other share option scheme(s) of the Company of up to 10 per cent. Of the issued share capital of the Company as at the date of passing this resolution (the "Refreshed Mandate Limit") be and is hereby approved and the Directors be and are hereby authorized to do such act and execute such document as they deem necessary and fit to give effect to the Refreshed Mandate Limit."

By Order of the Board
Wang Wenliang
Chairman

Hong Kong
31st March, 2011

Registered Office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head Office and Principal Place of Business:
Unit 04, 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

(Stock Code 股份代號 : 8070)