中裕燃氣控股有限公司

ZHONGYU GAS HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8070)

RESULT ANNOUNCEMENT
FOR THE YEAR ENDED 31ST DECEMBER, 2009

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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This announcement, 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 announcement 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 announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

FINANCIAL HIGHLIGHTS

– The Group's audited turnover in 2009 amounted to approximately HK$844,150,000, representing an increase of 20.1% as compared with that of approximately HK$703,020,000 in 2008.

– The Group's gross profit in 2009 was approximately HK$256,748,000, representing an increase of 13.4% as compared with that of approximately HK$226,497,000 in 2008.

– The Group's Adjusted EBITDA was approximately HK$145,045,000 in 2009, representing an increase of 38.1% as compared with that of approximately HK$105,037,000 in 2008.

– The Group's profit attributable to owners of the Company in 2009 was approximately HK$20,060,000 (2008: HK$92,797,000 (loss)).

– The Board does not recommend the payment of any dividend for the year ended 31st December, 2009.

CHAIRMAN'S STATEMENT

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

Business Review

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

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

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

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

Prospects

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

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

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

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

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

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

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For year ended 31st December, 2009

	Notes	2009 HK$'000	2008 HK$'000
Turnover	4	**844,150**	703,020
Cost of sales		**(587,402)**	(476,523)
Gross profit		**256,748**	226,497
Other income and gains	6	**9,669**	14,094
Selling and distribution costs		**(28,728)**	(23,237)
Administrative expenses		**(109,706)**	(102,001)
Other expenses		**(21,087)**	(48,507)
Finance costs	7	**(44,338)**	(52,740)
Impairment loss recognised on amounts due from customers for contract work		**(318)**	(12,938)
Impairment loss recognised on other intangible assets	13	**–**	(107,485)
Change in fair value of derivative financial instruments	20	**17,672**	28,075
Profit (loss) before tax		**79,912**	(78,242)
Income tax expenses	8	**(34,772)**	(13,323)
Profit (loss) for the year	9	**45,140**	(91,565)
Other comprehensive income			
Exchange differences arising on translation		**7,728**	55,044
Total comprehensive income (loss) for the year		**52,868**	(36,521)
Profit (loss) for the year attributable to:			
Owners of the Company		**20,060**	(92,797)
Minority interests		**25,080**	1,232
		45,140	(91,565)
Total comprehensive income (loss) attributable to:			
Owners of the Company		**26,808**	(41,067)
Minority interests		**26,060**	4,546
		52,868	(36,521)
Earnings (loss) per share	11		
Basic		**1.04 cent**	(4.79 cent)
Diluted		**1.03 cent**	(4.79 cent)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December, 2009

	Notes	2009 HK$'000	2008 HK$'000
Non-current assets			
Investment properties		**5,574**	4,617
Property, plant and equipment	*12*	**696,702**	564,478
Goodwill		**100,793**	99,312
Other intangible assets	*13*	**183,999**	120,161
Deposits paid for acquisition of property, plant and equipment		**46,097**	42,494
Prepaid lease payments		**57,973**	59,069
Available-for-sale investment		**2,847**	–
		1,093,985	890,131
Current assets			
Inventories	*14*	**36,217**	38,960
Trade receivables	*15*	**29,527**	57,417
Deposits, prepayments and other receivables	*15*	**36,173**	29,751
Prepaid lease payments		**1,617**	1,527
Amounts due from customers for contract work	*16*	**6,081**	15,737
Pledged bank deposit		**13,474**	13,826
Bank balances and cash		**413,779**	474,333
		536,868	631,551
Current liabilities			
Deferred income and advance received	*18*	**108,421**	46,670
Derivative financial instruments	*17*	**2,986**	101,961
Trade payables	*18*	**101,887**	68,725
Other payables and accrued charges	*18*	**63,666**	55,634
Amounts due to customers for contract work	*16*	**12,022**	10,872
Bank borrowings		**243,146**	114,675
Convertible bonds	*20*	**14,265**	233,141
Tax payables		**17,143**	11,586
		563,536	643,264
Net current liabilities		**(26,668)**	(11,713)
Total assets less current liabilities		**1,067,317**	878,418

	Notes	**2009** HK$'000	2008 HK$'000
Capital and reserves			
Share capital	*19*	**19,490**	19,341
Reserves		**674,307**	636,446
Equity attributable to owners of the Company		**693,797**	655,787
Minority interests		**119,964**	105,588
Total equity		**813,761**	761,375
Non-current liabilities			
Bank borrowings		**62,610**	99,642
Convertible bonds	*20*	**128,382**	–
Derivative financial instruments	*17*	**42,639**	–
Deferred taxation		**19,925**	17,401
		253,556	117,043
		1,067,317	878,418

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year ended 31st December, 2009

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

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

Notes:

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

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year ended 31st December, 2009

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

	Notes	2009 HK$'000	2008 HK$'000
Investing activities			
Purchases of property, plant and equipment		**(135,699)**	(72,023)
(Increase) decrease in loan receivables		**(4,722)**	133,190
Proceeds on disposal of property, plant and equipment		**557**	712
Acquisition of a subsidiary, net of cash and cash equivalents acquired	*21*	**264**	–
Business combination by contract alone without acquiring additional interest, net of cash and cash equivalent acquired		**–**	10,011
Repayments from related companies		**–**	118
Decrease in trust monies placed with a financial institution		**–**	42,964
Decrease (increase) in pledged bank deposits		**352**	(12,655)
Addition of prepaid lease payments		**(67)**	(9,761)
Increase in deposit paid for acquisition of property, plant and equipment		**(3,216)**	–
Purchase of intangible assets		**(67,432)**	–
Increase in available-for-sale investment		**(2,847)**	–
Interest received from loan receivables		**–**	3,904
Government grants received for depreciable assets		**16,400**	–
Net cash (used in) from investing activities		**(196,410)**	96,460
Financing activities			
New loans raised		**256,401**	70,429
Interest paid		**(24,325)**	(25,378)
Repayments of borrowings		**(166,914)**	(155,367)
Repayments to related companies		**–**	(1,105)
Proceed from issue of ordinary shares		**6,436**	791
Dividend paid by subsidiaries to its minority shareholders		**(20,745)**	–
Capital contribution from minority shareholders of a subsidiary		**3,645**	–
Payment on repurchase of shares		**(408)**	(7,638)
Repurchase of convertible bonds		**(153,616)**	–
Net cash used in financing activities		**(99,526)**	(118,268)
Net (decrease) increase in cash and cash equivalents		**(62,360)**	84,943
Cash and cash equivalents at 1st January		**474,333**	365,545
Effect of foreign exchange rate changes		**1,806**	23,845
Cash and cash equivalents at 31st December, represented by bank balances and cash		**413,779**	474,333

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year ended 31st December, 2009

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

HKAS 1 (Revised 2007)	Presentation of financial statements
HKAS 23 (Revised 2007)	Borrowing costs
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate
HKFRS 2 (Amendment)	Vesting conditions and cancellations
HKFRS 7 (Amendment)	Improving disclosures about financial instruments
HKFRS 8	Operating segments
HK(IFRIC) - INT 9 & HKAS 39 (Amendments)	Embedded derivatives
HK(IFRIC) - INT 13	Customer loyalty programmes
HK(IFRIC) - INT 15	Agreements for the construction of real estate
HK(IFRIC) - INT 16	Hedges of a net investment in a foreign operation
HK(IFRIC) - INT 18	Transfers of assets from customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1st July, 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendments to paragraph 69 of HKAS 1 and paragraph 80 of HKAS 39

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

Except as described below, the adoption of the new and revised HKFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

New and revised HKFRSs affecting presentation and disclosure only

HKAS 1 (Revised 2007) Presentation of financial statements

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the consolidated financial statements) and changes in the format and content of the consolidated financial statements.

HKFRS 8 Operating segments

HKFRS 8 is a disclosure standard that has not resulted in a redesignation of the Group's reportable segments (see note 8) and changes in the basis of measurement of segment profit or loss, segment assets and segment liabilities.

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

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

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

Amendments to HKAS 1 Presentation of financial statements

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

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

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

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

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of improvements to HKFRSs 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 20092, except for the amendment to paragraph 69 of HKAS 1[2]
HKFRSs (Amendments)	Improvements to HKFRSs 2010[3]
HKAS 24 (Revised)	Related party disclosures[7]
HKAS 27 (Revised)	Consolidated and separate financial statements[1]
HKAS 32 (Amendment)	Classification of rights issues[5]
HKAS 39 (Amendment)	Eligible hedged items[1]
HKFRS 1 (Amendment)	Additional exemptions for first-time adopters[4]
HKFRS 1 (Amendment)	Limited exemption from comparative HKFRS 7 disclosures for first-time adopers[6]
HKFRS 2 (Amendment)	Group cash-settled share-based payment transactions[4]
HKFRS 3 (Revised)	Business combinations[1]
HKFRS 9	Financial instruments[8]
HK (IFRIC) – INT 14 (Amendment)	Prepayments of a minimum funding requirement[7]
HK (IFRIC) – INT 17	Distributions of non-cash assets to owners[1]
HK (IFRIC) – INT 19	Extinguishing financial liabilities with equity instruments[6]

[1] Effective for annual periods beginning on or after 1st July, 2009.

[2] Amendments that are effective for annual periods beginning on or after 1st July, 2009 and 1st January, 2010, as appropriate.

[3] Effective for annual periods beginning on or after 1st July, 2010 an 1st January, 2011 as appropriate.

[4] Effective for annual periods beginning on or after 1st January, 2010.

[5] Effective for annual periods beginning on or after 1st February, 2010.

[6] Effective for annual periods beginning on or after 1st July, 2010.

[7] Effective for annual periods beginning on or after 1st January, 2011.

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

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1st January, 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in a Group's ownership interest in a subsidiary.

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1st January, 2013, with earlier application permitted. The standard requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

In addition, as part of Improvements to HKFRSs issued in 2009, HKAS 17 Leases has been amended in relation to the classification of leasehold land. The amendments will be effective from 1st January, 2010, with earlier application permitted. Before the amendments to HKAS 17, lessees were required to classify leasehold land as operating leases and presented as prepaid lease payments in the consolidated statement of financial position. The amendments have removed such a requirement. Instead, the amendments require the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The application of the amendments to HKAS 17 might affect the classification and measurement of the Group's leasehold land.

The directors of the Company anticipate that the application of the other new and revised Standards, Amendments or Interpretations will have no material impact on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

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

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

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

4. TURNOVER

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

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

5. SEGMENT INFORMATION

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

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

(a) sales of piped gas

(b) connection revenue from gas pipeline construction

(c) sales of liquefied petroleum gas

(d) operation of CNG filling stations

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

(f) Sales of stoves and related equipment

Segment revenue and results

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

For the year ended 31st December, 2009

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

For the year ended 31st December, 2008

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

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

Segment assets and liabilities

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

As at 31st December, 2009

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

As at 31st December, 2008

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

For the purpose of monitoring segment performances and allocating resources between operating 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, deferred tax liabilities and convertible bonds.

Other segment information

2009

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

2008

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

Geographical information

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

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

6. OTHER INCOME AND GAINS

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

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

7. FINANCE COSTS

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

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

8. INCOME TAX EXPENSES

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

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

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1st January, 2008 onwards.

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

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

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

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

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

9. PROFIT (LOSS) FOR THE YEAR

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

10. DIVIDENDS

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

11. EARNINGS (LOSS) PER SHARE

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

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

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

Notes:

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

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

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

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

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

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

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

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

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

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

13. OTHER INTANGIBLE ASSETS

	Development costs *HK$'000*	**Exclusive rights of operation** *HK$'000*	**Other operating rights** *HK$'000*	**Total** *HK$'000*
COST				
At 1st January, 2008	40,065	83,823	92,546	216,434
Exchange adjustments	2,035	4,912	4,700	11,647
Acquired on business combination by contract alone without acquiring additional interest *(note 38)*	–	11,584	–	11,584
At 31st December, 2008	42,100	100,319	97,246	239,665
Exchange adjustments	384	925	886	2,195
Acquired on acquisition of assets through purchase of a subsidiary *(note 37)*	–	–	67,432	67,432
At 31st December, 2009	42,484	101,244	165,564	309,292

	Development costs HK$'000	Exclusive rights of operation HK$'000	Other operating rights HK$'000	Total HK$'000
AMORTISATION				
At 1st January, 2008	–	2,535	–	2,535
Exchange adjustments	–	138	–	138
Charge for the year	2,507	3,754	3,085	9,346
Impairment loss recognised	39,593	–	67,892	107,485
At 31st December, 2008	42,100	6,427	70,977	119,504
Exchange adjustments	384	38	646	1,068
Charge for the year	–	3,762	959	4,721
At 31st December, 2009	42,484	10,227	72,582	125,293
CARRYING VALUES				
At 31st December, 2009	–	91,017	92,982	183,999
At 31st December, 2008	–	93,892	26,269	120,161

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

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

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

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

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

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

Impairment testing on Unit A

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

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

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

Impairment testing on Unit C

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

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

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

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

Impairment testing on Unit D

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

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

14. INVENTORIES

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

15. TRADE RECEIVABLES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

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

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

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

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

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

Ageing of trade receivables which are past due but not impaired

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

Movement in the allowance for doubtful debts

Trade receivables

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

Other receivables

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

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

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date of credit was initially granted up to the report date. The trade receivables past due but not provided for were either subsequently settled as at the date these consolidated financial statement were authorised for issuance or no historical default of payments by the respective customers. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

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

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

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

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

17. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

Notes:

(a) Expected volatility for embedded conversion option was determined by calculating the historical volatility of the Company's share price over 250 trading days.

(b) Expected life was the expected remaining life of the embedded conversion option.

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

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

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

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

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

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

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

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

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

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

19. SHARE CAPITAL

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

Notes:

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

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

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

20. CONVERTIBLE BONDS

On 28th May, 2007, the Company entered into a bond subscription agreement with five institutional subscribers of the Group, whereby they subscribed the USD denominated Bonds ("the Bond") issued at par by the Company in an aggregate principal amount of US$40,000,000. The Bond was issued on 25th June, 2007 ("the Issue Date") and carries interest at 1% per annum and will be matured on 25th June, 2012 ("Maturity Date"). The conversion price of the Bond is HK$1.456 and will be subject to adjustment in the event of further issues of shares or other dilution events.

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

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

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

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

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

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

Option 1

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

Option 2

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

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

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

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

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

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

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

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

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

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

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

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

21. ACQUISITION OF SUBSIDIARY AND ADDITIONAL INTEREST IN A SUBSIDIARY

Acquisition of business

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

The net assets acquired in the transaction are as follows:

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

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

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

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

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

22. ACQUISITION OF ASSETS THROUGH PURCHASE OF A SUBSIDIARY

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

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

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

23. CAPITAL COMMITMENTS

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

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

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

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

24. CONTINGENT LIABILITIES

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

EXTRACT OF THE INDEPENDENT AUDITOR'S REPORT

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

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

LIQUIDITY, FINANCIAL RESOURCES AND WORKING CAPITAL

Liquidity

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

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

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

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

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

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

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

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

Financial resources

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

Working capital

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

EXPOSURE TO EXCHANGE RATE FLUCTUATIONS

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

EMPLOYEE INFORMATION

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

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

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

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

CHARGE ON THE GROUP'S ASSETS

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

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

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

COMPETING INTEREST

During the year under review, 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.

BUSINESS REVIEW

Overall

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

Upstream CBM Exploration

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

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

As at 31st December, 2009, the Group successfully completed drilling of 33 vertical wells in Jiaozuo and all of them have entered into dewatering and releasing process since third quarter 2008 and some are showing positive result until now. In April 2008, the Group has appointed Netherland, Sewell & Associates, Inc. ("NSAI"), a renowned energy research firm, to prepare an independent report confirming the extent of the Group's CBM deposits. The estimated low, medium and high gas volumes in Jiaozuo

CBM block as of 1st April, 2008 were approximately 4,166.9 BCF (approximately 118.0 bln m3), 5,916.3 BCF (approximately 167.5 bln m3) and 9,275.6 BCF (approximately 262.7 bln m3) respectively. The result indicates an enormous CBM reserves located in our Jiaozuo CBM block, and approximates to the preliminary gas volume estimation which was conducted by the related domestic CBM exploration institutions and announced by the Group before. Going onward, the Group will further extend the trial and exploration in Jiaozuo CBM blocks as well as to better master its reserve estimates, with the aim of hastening the commercial production of the CBM.

Downstream Natural Gas Distribution

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

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

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

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

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

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

Sales of Piped Gas

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

Gas Pipeline Construction

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

During the year under review, the Group made new gas pipeline connection for 77,612 residential households (2008: 50,291 residential households) and 269 industrial/commercial customers (2008: 333 industrial/commercial customers). As at 31st December, 2009, the Group have the accumulated number of residential households of 343,770 (2008: 266,158 residential households) and industrial/commercial customers of 1,320 (2008: 1051 industrial/commercial customers). As at 31st December, 2009, the Group's penetration rate reached 37% (2008: 30%) (represented by the percentage of accumulated number of residential households to estimated an aggregate of connectable residential households).

Sales of Natural Gas From CNG Filling Stations

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

Event After The Reporting Period

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

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

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

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

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

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

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

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

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

Reference is made to the announcements dated 31 March 2010 (the "Announcement"), 23 April 2010 and 14 May 2010 issued by the Company in relation to its inability 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. As set out in the Announcement in relation to its inability to announce its annual results and publish its annual report for the year ended 31 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 31 December 2009 and the quarterly results for the three months ended 31 March 2010 had not been issued by 31 March 2010 and 15 May 2010, respectively, as required by the GEM Listing Rules.

After continuous efforts made by the Directors, on 18 May 2010, the Directors of the Company 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 31 December 2009. On 24 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 Directors expect to publish the annual results and the annual report for the year ended 31 December 2009 and its quarterly results for the three months ended 31 March 2010 on 24 June 2010.

FINANCIAL REVIEW

Turnover

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

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

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

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

Gross profit margin

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

Other income

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

Selling and distribution costs

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

Administrative expenses

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

Other expenses

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

Finance costs

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

Impairment loss recognised on amounts due from customers for contract work

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

Change in fair value of derivative financial instruments

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

Impairment loss recognized on other intangible assets

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

Income tax expenses

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

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

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

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

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

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

Profit attributable to oweners

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

DISCLOSURE OF INTERESTS

(a) Interests of Directors

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

Long positions in the Shares of the Company:

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

(b) Interests of substantial shareholders of the Company

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

Long positions in the shares

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

Notes:

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

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

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

CODE OF CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules with deviation as mentioned below.

Code provision A.4.1 provides that non-executive directors should be appointed for specific term, subject to re-election. The Company has deviated from this provision in that all non-executive Directors are not appointed for specific term. They are, however, subject to retirement by rotation at each annual general meeting of the Company and eligible for re-election according to the Company's articles of association.

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 31 March 2010 (the "Announcement A"), 23 April 2010 and 14 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 31 December 2009 and its quarterly results for the three months ended 31 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 31 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 31 December 2009 and the quarterly results for the three months ended 31 March 2010 had not been issued by 31 March 2010 and 15 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 18 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 31 December 2009. On 24 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 31 December 2009 and its quarterly results for the three months ended 31 March 2010 were published on 24 June 2010. The Company's annual report for the year ended 31 December 2009 and its quarterly report for the three months ended 31 March 2010 will be published on 30 June 2010.

AUDIT COMMITTEE

The Company's Audit Committee, comprising Mr. Wang Shunlong, Dr. Luo Yongtai and Mr. Hung, Randy King Kuen, as the independent non-executive Directors, has reviewed with the Company's management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the audited results of the Group for the year ended 31st December, 2008.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year, the Company repurchased a total of 1,050,000 shares through the Stock Exchange of which all shares were cancelled as at 31st December, 2009. Details of the repurchase of shares are set out in note 19 to the consolidated financial statements.

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

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows and the related notes thereto for the year ended 31st December, 2009 as set out in this Preliminary Announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement."

BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises Mr. Wang Wenliang (Chairman), Mr. Hao Yu (Chief Executive Officer), Mr. Lu Zhaoheng and Mr. Lui Siu Keung (Chief Financial Officer), as the executive Directors, Mr. Xu Yongxuan (Vice-Chairman) as the non-executive Directors and Mr. Wang Shunlong, Dr. Luo Yongtai and Mr. Hung, Randy King Kuen, as the independent non-executive Directors.

By Order of the Board
Wang Wenliang
Chairman

Hong Kong, 24th June, 2010

This announcement will remain on the GEM website at www.hkgem.com on the "Latest Company Announcements" page for at least 7 days from the date of its posting and on the Company's website at www.zygas.com.cn.