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)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31ST DECEMBER, 2010

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

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

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 2010 amounted to approximately HK$1,169,469,000, representing an increase of 38.5% as compared with that of approximately HK$844,150,000 in 2009.

- The Group's gross profit in 2010 was approximately HK$314,915,000, representing an increase of 22.7% as compared with that of approximately HK$256,748,000 in 2009.

- The Group's Adjusted EBITDA was approximately HK$205,513,000 in 2010, representing an increase of 42.0% as compared with that of approximately HK$144,736,000 in 2009.

- The Group's profit attributable to owners of the Company in 2010 was approximately HK$22,811,000, representing an increase of 13.7% as compared with that of approximately HK$20,060,000 in 2009.

- The Board does not recommend the payment of any dividend for the year ended 31st December, 2010.

CHAIRMAN'S STATEMENT

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

Business Review

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

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

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

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

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

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

Prospects

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

In addition to its vertical integration strategies, the Group is cautiously seeking for suitable investment opportunities. With our healthy financial position, together with the constant cash inflow generated by our downstream projects, we believe that we would be able to strategically increase our market penetration. We believe that Zhongyu Gas is well-positioned to capture the opportunities arising from the global economic recovery and maximize our shareholders' returns.

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

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For year ended 31st December, 2010

	NOTES	**2010** **HK$'000**	2009 HK$'000
Turnover	*3*	**1,169,469**	844,150
Cost of sales		**(854,554)**	(587,402)
Gross profit		**314,915**	256,748
Other income and gains	*5*	**11,775**	9,669
Selling and distribution costs		**(29,641)**	(28,728)
Administrative expenses		**(131,118)**	(109,706)
Other expenses		**(17,891)**	(21,087)
Finance costs	*6*	**(43,466)**	(44,338)
Reversal of impairment loss (impairment loss) recognised on amounts due from customers for contract work		**6,367**	(318)
Impairment loss recognised on other intangible assets	*12*	**(30,751)**	–
Change in fair value of derivative financial instruments	*17*	**12,360**	17,672
Profit before tax		**92,550**	79,912
Income tax expenses	*7*	**(35,425)**	(34,772)
Profit for the year	*8*	**57,125**	45,140
Other comprehensive income			
Exchange differences arising on translation		**35,371**	7,728
Total comprehensive income for the year		**92,496**	52,868
Profit for the year attributable to:			
Owners of the Company		**22,811**	20,060
Non-controlling interests		**34,314**	25,080
		57,125	45,140
Total comprehensive income attributable to:			
Owners of the Company		**53,637**	26,808
Non-controlling interests		**38,859**	26,060
		92,496	52,868
Earnings per share	*10*		
Basic		**1.16 cent**	1.04 cent
Diluted		**1.14 cent**	1.03 cent

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December, 2010

	NOTES	**2010** **HK$'000**	2009 *HK$'000*
Non-current assets			
Investment properties		**6,245**	5,574
Property, plant and equipment	*11*	**1,130,829**	696,702
Goodwill		**104,568**	100,793
Other intangible assets	*12*	**150,598**	183,999
Deposits paid for acquisition of property, plant and equipment	*13*	**227,203**	46,097
Prepaid lease payments		**115,196**	57,973
Available-for-sale investment		**2,954**	2,847
		1,737,593	1,093,985
Current assets			
Inventories	*14*	**45,304**	36,217
Trade receivables	*15*	**53,340**	29,527
Deposits, prepayments and other receivables	*15*	**67,346**	36,173
Prepaid lease payments		**3,676**	1,617
Amounts due from customers for contract work	*16*	**2,334**	6,081
Pledged bank deposit		**13,978**	13,474
Bank balances and cash		**351,963**	413,779
		537,941	536,868
Current liabilities			
Deferred income and advance received	*18*	**129,581**	92,021
Derivative financial instruments	*17*	**–**	2,986
Trade payables	*18*	**161,551**	101,887
Other payables and accrued charges	*18*	**126,887**	63,666
Amounts due to customers for contract work	*16*	**14,066**	12,022
Bank borrowings		**390,447**	243,146
Convertible bonds	*20*	**–**	14,265
Tax payables		**22,456**	17,143
		844,988	547,136
Net current liabilities		**(307,047)**	(10,268)
Total assets less current liabilities		**1,430,546**	1,083,717

	Notes	2010 HK$'000	2009 HK$'000
Capital and reserves			
Share capital	*19*	**19,740**	19,490
Reserves		**749,571**	674,307
Equity attributable to owners of the Company		**769,311**	693,797
Non-controlling interests		**133,096**	119,964
Total equity		**902,407**	813,761
Non-current liabilities			
Deferred income and advance received	*18*	**24,220**	16,400
Bank borrowings		**343,384**	62,610
Convertible bonds	*20*	**–**	128,382
Derivative financial instruments	*17*	**–**	42,639
Shareholder loan	*21*	**144,355**	–
Deferred taxation		**16,180**	19,925
		528,139	269,956
		1,430,546	1,083,717

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2010

	Attributable to owners of the Company										
	Share capital HK$'000	Share premium HK$'000	Share option reserve HK$'000	Property revaluation reserve HK$'000	Other reserve HK$'000 (Note a)	Statutory surplus reserve HK$'000 (Note b)	Translation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1st January, 2009	19,341	617,376	20,971	1,128	7,607	–	104,032	(114,668)	655,787	105,588	761,375
Profit for the year	–	–	–	–	–	–	–	20,060	20,060	25,080	45,140
Other comprehensive income for the year	–	–	–	–	–	–	6,748	–	6,748	980	7,728
Total comprehensive income for the year	–	–	–	–	–	–	6,748	20,060	26,808	26,060	52,868
Transfer to statutory surplus reserve	–	–	–	–	–	22,386	–	(22,386)	–	–	–
Recognition of equity-settled share-based payments	–	–	5,174	–	–	–	–	–	5,174	–	5,174
Acquisition of business	–	–	–	–	–	–	–	–	–	5,416	5,416
Capital contribution from non-controlling interests of a subsidiary	–	–	–	–	–	–	–	–	–	3,645	3,645
Exercise of share options	160	8,163	(1,887)	–	–	–	–	–	6,436	–	6,436
Shares repurchased and cancelled	(11)	(397)	–	–	–	–	–	–	(408)	–	(408)
Dividend paid by subsidiaries to non-controlling interests	–	–	–	–	–	–	–	–	–	(20,745)	(20,745)
At 31st December, 2009	19,490	625,142	24,258	1,128	7,607	22,386	110,780	(116,994)	693,797	119,964	813,761
Profit for the year	–	–	–	–	–	–	–	22,811	22,811	34,314	57,125
Other comprehensive income for the year	–	–	–	–	–	–	30,826	–	30,826	4,545	35,371
Total comprehensive income for the year	–	–	–	–	–	–	30,826	22,811	53,637	38,859	92,496

	Attributable to owners of the Company										
	Share capital	**Share premium**	**Share option reserve**	**Property revaluation reserve**	**Other reserve**	**Statutory surplus reserve**	**Translation reserve**	**Accumulated losses**	**Total**	**Non-controlling interests**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Note a)	*(Note b)*					
Transfer to statutory surplus reserve	–	–	–	–	–	10,031	–	(10,031)	–	–	–
Recognition of equity-settled share-based payments	–	–	6,038	–	–	–	–	–	6,038	–	6,038
Shares issued upon conversion of convertible bonds	112	9,893	–	–	–	–	–	–	10,005	–	10,005
Exercise of share options	138	4,428	(496)	–	–	–	–	–	4,070	–	4,070
Cancellation of share options	–	–	(29,800)	–	–	–	–	29,800	–	–	–
Dividend paid by subsidiaries to non-controlling interests	–	–	–	–	–	–	–	–	–	(20,204)	(20,204)
Deemed acquisition of additional interest of a subsidiary *(note 22)*	–	–	–	–	1,764	–	–	–	1,764	(7,934)	(6,170)
Capital contribution from non-controlling interest of a subsidiary	–	–	–	–	–	–	–	–	–	2,411	2,411
At 31st December, 2010	19,740	639,463	–	1,128	9,371	32,417	141,606	(74,414)	769,311	133,096	902,407

Notes:

(a) Prior to 1st January, 2010, other reserve represents the discount on acquisition arising from the acquisition of China City Gas Construction Explore Company Limited and China City Gas Construction Holdings Company Limited from Hezhong Investment Holding Company Limited, the then ultimate holding company which has been accounted for by the Group as a deemed contribution and credited to the other reserve.

During the year ended 31st December, 2010, the difference between the fair value of the consideration and adjustment to non-controlling interest of Luohe Zhongyu Gas Co., Ltd. ("Luohe Zhongyu") was credited to other reserve. Details of deemed acquisition are set out in note 22.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year ended 31st December, 2010

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

	NOTES	2010 HK$'000	2009 HK$'000
Investing activities			
Purchases of property, plant and equipment		**(355,439)**	(135,699)
(Increase) decrease in loan receivables		**–**	(4,722)
Proceeds on disposal of property, plant and equipment		**4,748**	557
Acquisition of a subsidiary, net of cash and cash equivalents acquired		**–**	264
(Increase) decrease in pledged bank deposits		**(504)**	352
Addition of prepaid lease payments		**(2,753)**	(67)
Increase in deposit paid for acquisition of property, plant and equipment		**(227,203)**	(3,216)
Purchase of intangible assets		**–**	(67,432)
Increase in available-for-sale investment		**–**	(2,847)
Settlement of other payables and accrued charges obtained from acquisition of assets and liabilities	*13*	**(32,339)**	–
Government grants received for depreciable assets		**7,820**	16,400
Net cash used in investing activities		**(605,670)**	(196,410)
Financing activities			
New loans raised		**714,121**	256,401
Interest paid		**(38,981)**	(24,325)
Shareholder loan raise		**144,355**	–
Repayments of borrowings		**(304,415)**	(166,914)
Proceed from issue of ordinary shares		**4,070**	6,436
Dividend paid by subsidiaries to its non-controlling interest		**(20,204)**	(20,745)
Capital contribution from non-controlling interest of a subsidiary		**2,411**	3,645
Payment on repurchase of shares		**–**	(408)
Redemption/repurchase of convertible bonds		**(181,579)**	(153,616)
Net cash from (used in) financing activities		**319,778**	(99,526)
Net decrease in cash and cash equivalents		**(64,211)**	(62,360)
Cash and cash equivalents at 1st January		**413,779**	474,333
Effect of foreign exchange rate changes		**2,395**	1,806
Cash and cash equivalents at 31st December, represented by bank balances and cash		**351,963**	413,779

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

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

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

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

Allocation of total comprehensive income to non-controlling interests

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

Changes in the Group's ownership interests in existing subsidiaries

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

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

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

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

3. TURNOVER

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

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

4. SEGMENT INFORMATION

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

(a) sales of piped gas

(b) connection revenue from gas pipeline construction

(c) operation of CNG filling stations

(d) sales of liquefied petroleum gas

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

(f) Sales of stoves and related equipment

Segment revenue and results

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

For the year ended 31st December, 2010

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

For the year ended 31st December, 2009

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

Segment profit (loss) represents the profit earned by/loss from each segment without allocation of central administration costs, directors' salaries, share option expenses, bank interest income, gain on redemption/repurchase of convertible bonds and increase in fair value of investment properties, finance cost, change in fair value of derivatives financial instruments and income tax expenses. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

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

As at 31st December, 2010

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

As at 31st December, 2009

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

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

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

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

Other segment information

2010

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

2009

	Sales of piped gas HK$'000	Connection revenue from gas pipeline construction HK$'000	Operations of CNG filling stations HK$'000	Sales of liquefied petroleum gas HK$'000	Sales of CBM HK$'000	Sales of stoves and related equipment HK$'000	Segment total HK$'000	Unallocated HK$'000	Consolidated HK$'000
Amounts included in the measure of segment profit or loss or segment assets:									
Capital additions	145,260	–	83,363	4,916	–	–	233,539	–	233,539
Loss on disposal of property, plant and equipment	392	–	–	–	5,495	–	5,887	–	5,887
Amortisation of prepaid lease payment	1,377	–	241	–	–	–	1,618	–	1,618
Depreciation of property, plant and equipment	26,157	–	1,128	1,430	1,554	–	30,269	1,550	31,819
Amortisation of other intangible assets	3,762	–	959	–	–	–	4,721	–	4,721
Allowance for doubtful debts	1,153	–	–	–	–	–	1,153	922	2,075
Impairment loss recognised on amounts due from customers for contract work	–	318	–	–	–	–	318	–	318
Research and development cost	–	–	–	–	9,116	–	9,116	–	9,116
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profits or loss:									
Income tax expenses	–	–	–	–	–	–	–	34,772	34,772

Geographical information

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

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

5. OTHER INCOME AND GAINS

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

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

6. FINANCE COSTS

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

7. INCOME TAX EXPENSES

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

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

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

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

Under the EIT Law of the PRC, withholding tax is imposed on the dividend declared to non-PRC tax residents in respect of profits earned by PRC subsidiaries from 1st January, 2008 onwards. During the year ended 31st December, 2010, withholding tax amounted to HK$4,331,000 (2009: HK$6,640,000) was charged by the PRC tax authority which levied on the dividends paid/payable to overseas group entities.

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

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

8. PROFIT FOR THE YEAR

	2010 *HK$'000*	2009 *HK$'000*
Profit for the year has been arrived at after charging (crediting):		
Auditor's remuneration	**1,690**	1,750
Amortisation of other intangible assets (included in cost of sales)	**6,140**	4,721
Amortisation of prepaid lease payments	**2,148**	1,618
Depreciation of property, plant and equipment	**37,618**	31,819
(Gain) loss on disposal of property, plant and equipment	**(652)**	5,887
Research and development cost (included in other expenses)	**9,306**	9,116
Allowance (reversal) for doubtful debts		
– trade receivables	**619**	(276)
– other receivables	**1,928**	2,351
Impairment loss recognised on loan receivables (included in other expenses)	**–**	4,722
Employee benefits expenses, other than directors (including contributions to retirement benefits schemes of HK$9,823,000 (2009: HK$8,564,000))	**97,400**	76,104
Share based payment expenses	**6,038**	5,174
Exchange gain	**(120)**	(321)
Operating lease rentals in respect of rented premises	**2,850**	3,483
Cost of inventories recognised as expenses in respect of:		
Contract cost for gas pipeline construction	**80,513**	43,778
Cost of inventories recognised as expenses in respect of sales of piped gas, liquefied petroleum gas and stoves equipment	**612,570**	444,698
	693,083	488,476
Gross rental income from investment properties with minimal outgoings	**(905)**	(789)

9. DIVIDENDS

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

10. EARNINGS PER SHARE

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

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

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

Notes:

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

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

11. PROPERTY, PLANT AND EQUIPMENT

	Buildings *HK$'000*	Construction in progress *HK$'000*	Leasehold improvements *HK$'000*	Pipelines *HK$'000*	Machinery and equipment *HK$'000*	Furniture and fixtures *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
COST								
At 1st January, 2009	86,305	42,468	9,575	381,255	59,321	4,606	28,993	612,523
Acquired on acquisition of a subsidiary	683	–	–	21,466	1,186	20	404	23,759
Acquisition of assets through acquisition of a subsidiary	–	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, 2010	97,508	49,854	14,131	494,803	78,347	5,112	36,181	775,936
Exchange adjustments	3,955	5,790	444	22,833	2,819	151	1,214	37,206
Additions	8,755	335,308	664	40,706	36,998	737	19,636	442,804
Disposals	(1,513)	(2,555)	–	–	(668)	(32)	(4,897)	(9,665)
Transfer	3,881	(124,237)	–	112,176	8,180	–	–	–
At 31st December, 2010	112,586	264,160	15,239	670,518	125,676	5,968	52,134	1,246,281
DEPRECIATION								
At 1st January, 2009	5,203	–	1,632	21,599	10,268	1,037	8,306	48,045
Exchange adjustments	65	–	14	193	130	12	128	542
Provided for the year	3,835	–	470	13,226	8,502	703	5,083	31,819
Eliminated on disposals	(8)	–	–	(315)	(214)	(10)	(625)	(1,172)
At 31st December, 2009	9,095	–	2,116	34,703	18,686	1,742	12,892	79,234
Exchange adjustments	457	–	30	1,360	816	28	662	3,353
Provided for the year	4,887	–	130	16,914	8,376	740	6,571	37,618
Eliminated on disposals	(562)	–	–	–	(304)	(3)	(3,884)	(4,753)
At 31st December, 2010	13,877	–	2,276	52,977	27,574	2,507	16,241	115,452
CARRYING VALUES								
At 31st December, 2010	98,709	264,160	12,963	617,541	98,102	3,461	35,893	1,130,829
At 31st December, 2009	88,413	49,854	12,015	460,100	59,661	3,370	23,289	696,702

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

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

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

At 31st December, 2010, the Group is in process of obtaining title deeds from relevant government authority for its buildings in the PRC amounting to HK$24,702,000 (2009: HK$23,802,000). In the opinion of the directors, the Group is not required to incur additional cost in obtaining the title deeds for its buildings in the PRC.

The Group has pledged certain buildings in the PRC having a carrying value of approximately HK$24,655,000 (2009: HK$24,696,000) to secure certain bank borrowings granted to the Group.

12. OTHER INTANGIBLE ASSETS

	Development costs *HK$'000*	**Exclusive rights of operation** *HK$'000*	**Other operating rights** *HK$'000*	**Total** *HK$'000*
COST				
At 1st January, 2009	42,100	100,319	97,246	239,665
Exchange adjustments	384	925	886	2,195
Acquired on acquisition of assets through purchase of a subsidiary	–	–	67,432	67,432
At 31st December, 2009	42,484	101,244	165,564	309,292
Exchange adjustments	1,248	2,974	4,862	9,084
At 31st December, 2010	43,732	104,218	170,426	318,376

	Development costs HK$'000	Exclusive rights of operation HK$'000	Other operating rights HK$'000	Total HK$'000
AMORTISATION AND IMPAIRMENT				
At 1st January, 2009	42,100	6,427	70,977	119,504
Exchange adjustments	384	38	646	1,068
Charge for the year	–	3,762	959	4,721
At 31st December, 2009	42,484	10,227	72,582	125,293
Exchange adjustments	1,248	543	3,803	5,594
Charge for the year	–	3,776	2,364	6,140
Impairment loss recognised	–	–	30,751	30,751
At 31st December, 2010	43,732	14,546	109,500	167,778
CARRYING VALUES				
At 31st December, 2010	–	89,672	60,926	150,598
At 31st December, 2009	–	91,017	92,982	183,999

Development costs represent costs incurred for extraction of CBM in the PRC.

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

Other operating rights represent the licences possessed by the Group's subsidiaries, Jiyuan Yulian Compressed Gas Co. Ltd ("JYCG"), Luohe Yulian Compressed Gas Co. Ltd ("LYCG"), Sanmenxia Yulian Compressed Gas Co. Ltd. ("SYCG") and Nanjing Yulian Compressed Gas Co. Ltd. ("NYCS") to operate sixteen CNG filling stations in Jiyuan City, Luohe City, Sanmenxia City and Nanjing City and is amortised on a straight-line method over a period of 30 years, which is the period of the licenses being granted for operating CNG filling stations.

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

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

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

Impairment testing on Unit A

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

Period of cash flow projections	13 years (2009: 14 years)
Growth rate beyond 5-year period extrapolated in the financial budgets approved by the management	2%
Discount rate	13%

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

Impairment testing on Unit C

Unit C consisted of several CGUs which represent individual subsidiaries engaging in the operation of CNG filling stations. The recoverable amount of Unit C (comprising intangible assets of HK$60,926,000 (2009: HK$92,982,000) and property, plant and equipment of HK$28,300,000 (2009: HK$28,141,000) and prepaid lease payment of HK$11,473,000 (2009: HK$9,338,000) have been determined based on a value in use calculation using the following assumptions for 2010 and 2009:

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

This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Another key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the unit's past performance and management's expectations for the market development. Due to the insufficient quantities of natural gas to be supplied to the CNG filling stations in the PRC, some of the gas stations that were originally expected to commence operation in the near future need to postpone its operation plan and are not expected to commence operations in the near future and hence the expected future cash flows for these gas stations could not be realised. Based on the revised estimates of the expected cash inflows, at the end of the reporting period, the carrying amount of certain CGU of Unit C exceeds its relevant recoverable amount based on the cash flow projections. An impairment of HK$30,751,000 (2009: nil) was recognised.

Impairment testing on Unit D

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

During the year ended 31st December 2010, the Group continues the de-watering process. The management is unable to demonstrate the technical feasibility of completing the extraction process for the purpose of commercial production in the near future. As a result, the additional cost incurred for Unit D amounting to HK$9,306,000 (2009: HK$9,116,000) was charged to the profit and loss as research and development cost.

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

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

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

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

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

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

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

14. INVENTORIES

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

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:

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

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

The trade receivables of HK$52,224,000 (2009: HK$26,925,000) were neither past due nor impaired. These customers are local reputable real estate developers and corporate entities in Henan Province and no significant counterparty default was noted in the past.

As at 31st December, 2010, trade receivables of HK$1,116,000 (2009: HK$2,602,000) were past due but not provided for as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these trade receivables is 90 days (2009: 90 days).

Ageing of trade receivables which are past due but not impaired

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

Movement in the allowance for doubtful debts

Trade receivables

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

Other receivables

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

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

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

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

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

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

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

17. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

	Date of conversion of principal amount of US$1,000,000 *(note 20)*	**Date of repurchase of principal amount of US$4,400,000** *(note 20)*	**Date of redemption of principal amount of US$15,600,000** *(note 20)*	**31.12.2009**
Conversion price	HK$0.7	HK$0.7	HK$0.7	HK$0.7
Expected volatility *(note a)*	59.71%	55.58%	52.53%	52.20% to 59.06%
Expected life *(note b)*	2.44 years	2 years	1.78 years	2.48 years
Risk free rate *(note c)*	0.51% per annum	0.72% per annum	0.38% per annum	0.15% to 0.83% per annum
Maket price	HK$0.90	HK$0.66	HK$0.70	HK$0.78

Notes:

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

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

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

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

As at 31st December, 2009, the current portion of derivative financial instruments represents the fair value of the derivatives in relation to the 10% of the Remaining Bond (as defined in note 20) that is due for repayment on 25th June, 2010. Details are explained in note 20. During the year ended 31st December, 2010, the Remaining Bond were either repurchased by the Group or early redeemed by the Group or converted by the bond holders.

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

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:

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

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

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

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

As at 31st December, 2010, the unsettled consideration for the acquisition of assets and liabilities from the Seller (as defined in note 13) of HK$44,830,000 was include in other payables and accrued charges.

19. SHARE CAPITAL

	Number of shares		Amount	
	2010	2009	**2010**	2009
	'000	*'000*	***HK$'000***	*HK$'000*
Ordinary shares of HK$0.01 each				
Authorised	**10,000,000**	10,000,000	**100,000**	100,000
Issued and fully paid				
At beginning of year	**1,949,010**	1,934,102	**19,490**	19,341
Exercise of share options	**13,822**	15,958	**138**	160
Conversion of convertible bonds *(note 20)*	**11,176**	–	**112**	–
Share repurchased and cancelled *(note)*	**–**	(1,050)	**–**	(11)
At end of year	**1,974,008**	1,949,010	**19,740**	19,490

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

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

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

The Bond can be converted at any time after 40 days from the Issue Date up to 5 business days prior to Maturity Date or 7 business days prior to the date of repurchase. Unless previously redeemed, converted or purchased and cancelled, the Bond can be repurchased at 130 per cent of their principal amount on Maturity Date. The Bond may be repurchased at the option of the relevant holder on 24 months after the Issue Date but before the Maturity Date, at 110 per cent of their principal amount, but this early repurchase option of bondholders was cancelled on 18th May, 2009.

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

On 25th March, 2009, the Group entered into an agreement ("Amendment Agreement") with the remaining four bondholders ("Bond Holders B") of the Bond pursuant to which the Company agreed to repurchase an aggregate outstanding principal amount of the Bond amounting to US$14,000,000 at 110% of the principal amount. In addition, the Company repaid all the accrued interest to Bond Holders B.

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

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

Option 1

Date	**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

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

On 17th January, 2010, a voluntary conditional cash and securities exchange offer (the "Offer") was proposed by Rich Legend International Limited ("Rich Legend"), a wholly owned subsidiary of China Gas Holdings Limited ("China Gas"), a listed company in the Stock Exchange, to acquire all of the outstanding convertible bonds, share options and issued shares in the share capital of the Company. As stated in the Company's response document to the Offer dated 31st May, 2010, in the event of a change of control (whereby, amongst other things, any person or persons acting together, other than Hezhong Investment Holding Company Limited ("Hezhong"), acquires more than 50% voting rights in the issued share capital of the Company), the holders of the Bond will have the right to require the Company to redeem in whole or in part such outstanding Bond pursuant to the terms of thereof. Pursuant to the terms of the Bond, the Company had issued a notice of the change of control in the Company to the Bond Holders B.

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

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

The Bond contains the following components that are required to be separately accounted for in accordance with HKAS 39 "Financial instruments: Recognition and measurement":

(a) Liability component of the Bond represents the present value of the contractually determined stream of future cash flows discounted at the rate of interest at that time by the market to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the conversion and redemption option. The effective interest rate of the liability component is 20.42%.

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

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

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

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

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

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

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

21. SHAREHOLDER LOAN

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

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

22. DEEMED ACQUISITION OF ADDITIONAL INTERESTS OF A SUBSIDIARY

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

23. CAPITAL COMMITMENTS

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

As at 31st December, 2009, the Group had committed to acquire the Original Assets with a total consideration of HK$54,271,000 of which deposits of HK$42,881,000 had been paid in prior year. The transaction has been completed during the year ended 31st December, 2010. Details of the transaction are set out in note 13.

24. CONTINGENT LIABILITIES

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

25. MAJOR NON-CASH TRANSACTIONS

During the year, the non-controlling shareholder of Luohe Zhongyu withdrew registered capital of HK$7,934,000 from Loche Zhongyu resulting in deemed acquisition of additional interest in Luohe Zhongyu. The return of capital was satisfied by disposal of property, plant and equipment and prepaid lease payment held by Luohe Zhongyu with carrying amount of HK$816,000 and HK$5,354,000 respectively. During the year, the Group acquired certain assets and liabilities from the Seller (defined in note 13) at a total consideration of HK$87,711,000, of which deposit of HK$42,881,000 was paid in prior year and the remaining HK$44,830,000 was remain unsettled and included in other payables and accrued charges.

LIQUIDITY, FINANCIAL RESOURCES AND WORKING CAPITAL

Liquidity

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

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

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

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

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

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

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

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

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

Financial resources

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

Working capital

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

CONNECTED TRANSACTION

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

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

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

EXPOSURE TO EXCHANGE RATE FLUCTUATIONS

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

EMPLOYEE INFORMATION

As at 31st December, 2010, the Group had a total of 2,042 employees (2009: 1,937) in Hong Kong and the PRC, and the total remuneration for the year under review was approximately HK$103,438,000 (2009: HK$81,275,000). The increase was mainly due to salary and bonus increment as well as the increase in the number of headcount resulting from the Group's business expansion. More than 99.8% of the Group's employees are located in the PRC.

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

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

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

CHARGE ON THE GROUP'S ASSETS

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

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

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

COMPETING BUSINESS

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

BUSINESS REVIEW

Overall

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

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

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

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

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

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

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

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

Upstream CBM Exploration

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

As at 31st December, 2010, the Group secured eight coal blocks, situated at Jiaozuo, Zhengzhou, Pingdingshan (including Yuzhou and Ruzhou), Hebi, Yima, Yongxia, Henan Province, the PRC to explore, exploit, develop and produce CBM.

As at 31st December, 2010, the Group successfully completed drilling of 33 vertical wells in Jiaozuo and all of them have entered into dewatering and releasing process since third quarter 2008 and some are showing positive result until now. In April 2008, the Group has appointed Netherland, Sewell & Associates, Inc. ("NSAI"), a renowned energy research firm, to prepare an independent report confirming the extent of the Group's CBM deposits. The estimated low, medium and high gas volumes in Jiaozuo CBM block as of 1st April, 2008 were approximately 4,166.9 BCF (approximately 118.0 bln m^3), 5,916.3 BCF (approximately 167.5 bln m^3) and 9,275.6 BCF (approximately 262.7 bln m^3) respectively. The result indicates an enormous CBM reserves located in our Jiaozuo CBM block, and approximates to the preliminary gas volume estimation which was conducted by the related domestic CBM exploration institutions and announced by the Group before. Going onward, the Group will further extend the trial and exploration in Jiaozuo CBM blocks as well as to better master its reserve estimates, with the aim of hastening the commercial production of the CBM.

Downstream Natural Gas Distribution

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

As at 31st December, 2010, the Group secured eleven exclusive gas projects, three in Shandong Province, the PRC and eight in Henan Province, the PRC.

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

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

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

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

With the aim to enhance the Group's turnover and results, the Group has commenced to develop CNG vehicle gas filling business in the PRC since September 2007. As at 31st December, 2010, the Group had five CNG filling stations in Nanjing city and Henan and Shandong Provinces respectively. In future, the Group plans to erect one new CNG filling stations in Luohe City by 2011 in order to increase the Group's market share.

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

Sales of Piped Gas

Sales of piped gas to customers provide the Group with a recurring stream of revenue. Because of the huge usage of piped gas by our industrial/commercial customers and the increase in the accumulated number of residential customers, sales of piped gas has become the largest component of the Group's total turnover since 2007 and still the largest one in 2010. Nearly 90% of total sales of piped gas for the year ended 31st December, 2010 were derived from provision of natural gas. Fees charged by the Group for provision of piped natural gas are required to obtain approval from local pricing bureaus. During the year under review, the total unit of natural gas provided by the Group to its customers was approximately 271,707,000 m^3 (2009: 220,928,000 m^3) among which, sales volume to its residential customers was approximately 38,258,000 m^3 (2009: 27,498,000 m^3); to its industrial customers was approximately 185,320,000 m^3 (2009: 129,493,000 m^3); to its commercial customers was approximately 32,713,000 (2009: 26,871,000 m^3); to its wholesale customers was approximately 15,416,000 m^3 (2009: 37,066,000 m^3).

Gas Pipeline Construction

Connection revenue from gas pipeline construction is one-off connection fees paid by residential households and industrial/commercial customers for the connection of their premises to the piped gas networks operated by the Group. Connection fees charged by the Group are required to obtain approval from local pricing bureaus. During the year under review, the average connection fees charged to residential households by the Group was approximately RMB2,500. The connection fees charged to industrial/commercial customers by the Group was significantly higher amounts than that charged to residential households and was determined on a case basis. With the aim to minimize our risk on the recoverability of amounts due from customers of contract work, commencing from the year 2007, 20-40% of the contract sum is required to be paid in advance by our customers before the commencement of their premises to our piped gas networks. As a result, the Group successfully minimized the impairment loss recognised amounts due from customers for contract work in 2010. As the Group's downstream gas distribution business is still at the development stage, connection revenue from gas pipeline construction remained a significant component of the Group's turnover in 2010.

During the year under review, the Group made new gas pipeline connection for 87,672 residential households (2009: 77,612 residential households), 61 industrial customers (2007: 33 industrial customers) and 312 commercial customers (2009: 236 commercial customers). As at 31st December, 2010, the Group have the accumulated number of residential households of 431,442 (2009: 343,770 residential households), industrial customers of 277 (2009: 162 industrial customers) and commercial customers of 1,416 (2009: 1,158 commercial customers). As at 31st December, 2010, the Group's penetration rate reached 43% (2009: 37%) (represented by the percentage of accumulated number of residential households to estimated an aggregate of connectable residential households).

Sales of Natural Gas From CNG Filling Stations

During the year under review, the total unit of CNG provided by the Group to its customers was approximately 22,980,000 m^3 (2009: 16,665,000 m^3).

FINANCIAL REVIEW

Turnover

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

Turnover increased by 38.5% to approximately HK$1,169,469,000 in 2010 from approximately HK$844,150,000 in 2009. The tremendous growth in turnover was mainly attributable to the robust growth in sales of piped gas, connection revenue from gas pipeline construction and operation of CNG filing stations.

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

The substantial increase in revenue from operation of CNG filing stations was mainly attributable to the increase in number of CNG vehicle gas refueling stations in Jiyuan City and Sanmenxia City, Henan Province. Moreover. The acquisition of Nanjing Yulian NG Filling has pushed the Group's revenue from operation of CNG filing stations.

Gross profit margin

The overall gross profit margin in 2010 amounted to approximately 26.9% (2009: 30.4%). The decrease was mainly due to the increase in the proportion of turnover derived from sales of piped gas, which in general has a relatively low profit margin, in the Group's total turnover to approximately 61.7% for the year ended 31st December, 2010 from approximately 58.5% in 2009 and the decrease in the gross profit margin of revenue from sales of piped gas resulted from the increase in gas purchase price in June 2010.

Other income

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

Selling and distribution costs

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

Administrative expenses

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

Other expenses

Other expenses decreased by 15.2% to approximately HK$17,891,000 in 2010 from approximately HK$21,087,000 in 2009. Other expense for the year under review includes: (i) one-off recognition of equity-settled share based payments approximately HK$6,038,000 resulting from the issuance of share options by the Company on 29th March, 2007 and on 3rd April, 2008 (2009: HK$5,174,000), all share options outstanding lapsed as the Offers closed on 6th August, 2010; (ii) allowance for doubtful debt approximately HK$2,547,000 (2009: HK$2,075,000); (iii) impairment loss recognised on loan receivable approximately HK$nil (2009: HK$4,722,000); (iv) development costs incurred for exploration of CBM in the PRC of approximately HK$9,306,000 (2009: HK$9,116,000). Such development costs mainly include cost of technical services and studies, exploration drilling, fracturing and dewatering. Pursuant to the Group's accounting policy, development cost shall be treated as expenses if the discovery of commercial reserve is not confirmed within one year.

Finance costs

Finance costs decreased by 2.0% to approximately HK$43,466,000 in 2010 from approximately HK$44,338,000 in 2009. The decrease was mainly attributable to the decrease in non-cash effective interest expense charged on convertible bonds issued on 25th June, 2007 decreased by 22.9% to approximately HK$22,350,000 in 2010 from approximately HK$28,997,000 in 2009, which set off by the interest on bank borrowings increased by 37.6% to approximately HK$21,116,000 in 2010 from approximately HK$15,341,000 in 2009 resulting from the increase in the average bank borrowings.

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

The Group reversed impairment loss recognised amounts due from customers for contract work of approximately HK$6,367,000 in 2010 resulting from the recognised impairment loss in previous years was recovered in current year. Pursuant to the Group's accounting policy, amounts due from customers for contract work would be made impairment if those respective contract works are not completed within one year. Thus, the group recorded impairment loss recognised amounts due from customers for contract work of approximately Hk$318,000 in 2009.

Impairment loss recognized on other intangible assets

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

Change in fair value of derivative financial instruments

The Group recorded a non-cash gain arising on change in fair value of derivative financial instruments which was issued by the Company in 2007 of HK$12,360,000 in 2010 (2009: HK$17,672,000). In the event of a change of control as the completion of Offer, all of the outstanding Convertible Bonds was redeemed during the year. Accordingly, the Group expects no such item will be recorded in the future.

Income tax expenses

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

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

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

Under the EIT Law of the PRC, withholding tax is imposed on the dividend declared to non-PRC tax residents in respect of profits earned by PRC subsidiaries from 1st January, 2008 onwards. During the year ended 31st December, 2010, withholding tax amounted to HK$4,331,000 (2009: HK$6,640,000) was charged by the PRC tax authority which levied on the dividends paid to overseas group entities.

Accordingly, the income tax expenses in 2010 amounted to approximately HK$35,425,000 (2009: HK$34,772,000).

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

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

Profit attributable to owners

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

Earnings per share

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

Net assets value per share

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

The net assets value represents total assets minus total liabilities.

DISCLOSURE OF INTERESTS

(a) Interests of Directors

As at 31st December, 2010, the interests and short positions of the Directors and the Chief Executive of the Company and their associates in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO")) which (a) are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) are required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, were as follows:

Long positions in the Shares of the Company:

Name of directors	*Notes*	**Nature of shares and/or underlying shares**	**Type of interests**	**Approximate percentage of issued share capital**
Mr. Wang Wenliang	*1*	568,619,542	Beneficial and interest in corporation	28.81%

Notes:

1. Among these Shares and/or underlying Shares, 567,453,542 Shares are held by Hezhong Investment Holding Company Limited ("Hezhong"). Mr. Wang Wenliang is beneficially interested in 60% of the issued share capital of Hezhong. The remaining 1,166,000 Shares are directly held by Mr. Wang Wenliang.

Save as disclosed above, as at 31st December, 2010, none of the Directors nor the chief executive of the Company had or was deemed to have any interests and short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) are required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

(b) Interests of substantial shareholders of the Company

So far as is known to the Directors, as at 31st December, 2010, the following entities (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group, or substantial Shareholder which were recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Long positions in the shares

Name of shareholder	Type of interest	Number of shares	Approximate percentage of interests
China Gas Holdings Limited	Beneficial	1,111,934,142	56.33%
Rich Legend International Limited	Beneficial	1,111,934,142	56.33%
Hezhong	Beneficial	567,453,542	28.75%

Notes:

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

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

Save as disclosed above, as at 31st December, 2010, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group, or substantial Shareholder which were recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

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. Li Chunyan, 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, 2010.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

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, 2010 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 and Chief Executive Officer), Mr. Lu Zhaoheng and Mr. Lui Siu Keung (Chief Financial Officer), as the executive Directors, Mr. Xu Yongxuan (Vice-Chairman) and Mr. Xu Chao Ping, as the non-executive Directors and Mr. Li Chunyan, 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, 23rd March, 2011

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.