ZHENGZHOU GAS COMPANY LIMITED*
鄭州燃氣股份有限公司
(a joint stock limited company incorporated in the People's Republic of China)
(Stock Code: 3928)

ANNUAL REPORT 2010

* for identification purpose only

Contents

CORPORATE INFORMATION

(As at 16 March 2011)

DIRECTORS

Executive Directors

Mr. Yan Guoqi (閆國起)
(Chairman of the Board)
Mr. Li Jinlu (李金陸)
Mr. Li Hongwei (李紅衛)

Non-executive Directors

Mr. Zhang Wushan (張武山)
Mr Li Yantong (李燕同)
Mr. Ding Ping (丁平)
Mr. Liu Jianwen (劉劍文)

Independent Non-executive Directors

Mr. Yu Jingsong (余勁松)
Mr. Zhang Jianqing (張建清)
Ms. Wang Xiuli (王秀麗)
Mr. Wong Ping (王平)

SUPERVISORS

Ms. Bao Hongwei (鮑紅偉)
Mr. Chen Kun (陳鯤)
Ms. Li Ying (李穎)
Ms. Wang Xiaohua (王曉華)
Mr. Zhu Chaofeng (朱朝鋒)
Mr. Zhang Lixing (張立興)
Mr. Xie Songwang (謝松旺)

AUDIT COMMITTEE

Ms. Wang Xiuli *(Chairlady)*
Mr. Zhang Jianqing
Mr. Zhang Wushan

COMPANY SECRETARY

Mr. Wong Cheuk Lam (黃焯琳)
CPA, CPA Australia

COMPLIANCE OFFICER

Mr. Yan Guoqi

AUTHORISED REPRESENTATIVES

Mr. Yan Guoqi
Mr. Wong Cheuk Lam,
CPA, CPA Australia

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS IN PRC

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Zhengzhou City
Henan Province
PRC 450006

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 908, 9th Floor
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10 Harcourt Road, Central
Hong Kong

LEGAL ADVISER

As to Hong Kong law:
King & Wood
9th Floor, Hutchison House
10 Harcourt Road, Central
Hong Kong

AUDITOR

Deloitte Touche Tohmatsu
35th Floor
One Pacific Place
88 Queensway
Hong Kong

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong
Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Zhengzhou Commercial Bank
Zhongyuen Branch
Zhongyuen Hotel
No. 200, Tongbo Road
Zhengzhou City
Henan Province
PRC

Industrial and Commercial Bank of China
Funiu Road Branch, Zhengzhou City
26 Funiu Road South
Zhengzhou City
Henan Province
PRC

STOCK CODE

3928

WEBSITE

www.hnzzgas.com

FINANCIAL HIGHLIGHTS

FINANCIAL INFORMATION

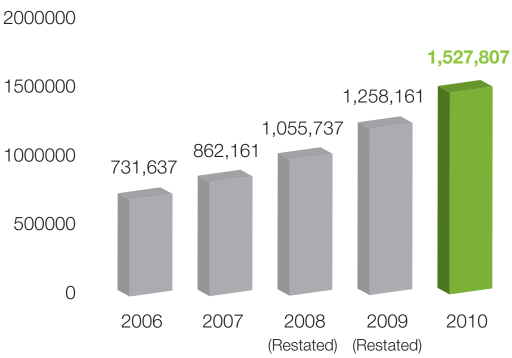
For the year ended 31 December

	2010 (RMB'000)	2009 (RMB'000) (Restated)	2008 (RMB'000) (Restated)	2007 (RMB'000)	2006 (RMB'000)	2005 (RMB'000)
Turnover	**1,527,807**	1,258,161	1,055,737	862,161	731,637	620,478
Profit before tax	**269,837**	244,231	221,444	196,405	135,170	126,310
Profit attributable to the owners of the Company	**204,450**	178,710	164,527	128,462	111,485	93,400
Earnings per share (RMB Yuan) (Basic)	**1.634**	1.428	1.315	1.026	0.891	0.746

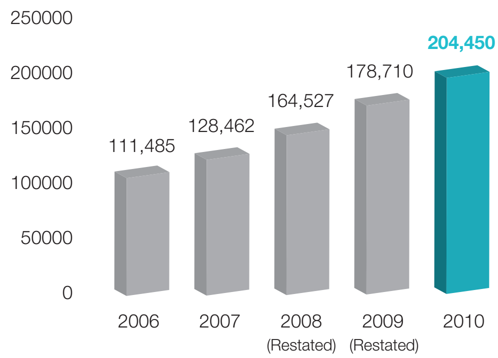
TURNOVER AND PROFIT

RMB'000

TURNOVER

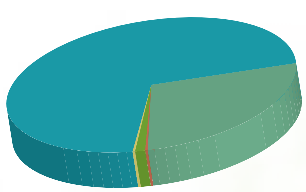


PROFIT



DISTRIBUTION

(For the year ended 31 December 2010)



72.38% Sales of natural gas
26.22% Construction of gas pipelines
0.15% Service of gas pipelines renovation
1.03% Sales of gas appliances
0.16% Sales of pressure control equipments
0.06% Others

CHAIRMAN'S STATEMENT

Mr. Yan Guoqi
Chairman

DEAR SHAREHOLDERS,

THE YEAR ENDED 31 DECEMBER 2010 (THE "RELEVANT PERIOD" OR THE "YEAR") WAS THE FIRST YEAR THAT ZHENGZHOU GAS COMPANY LIMITED (THE "COMPANY") AND ITS SUBSIDIARIES (COLLECTIVELY THE "GROUP") JOINED CHINA RESOURCES GAS GROUP LIMITED ("CR GAS GROUP") AND BECAME A MEMBER OF THE LARGE FAMILY OF CR GAS GROUP. DURING THE YEAR, THE GROUP COMMITTED ITSELF TO MARKET EXPANSION, GAS SOURCES DEVELOPMENT AND ENHANCEMENT OF SAFETY LEVEL ETC., RESULTING IN OUTSTANDING PERFORMANCE IN TERMS OF BUSINESS OPERATION AND FINANCIAL RESULTS, WITH REMARKABLE INCREASE IN GAS SUPPLY CAPACITY AND IMPROVEMENT IN QUALITY OF OUR SAFETY LEVEL, DEMONSTRATING OUR SUSTAINABILITY IN RESPECT OF OUR FINANCIAL RESOURCES AND POLICIES.

BUSINESS REVIEW

As at 31 December 2010, total assets and net assets of the Group amounted to approximately RMB1,876 million and RMB1,006 million respectively, representing respective increases of approximately 19.97% and 13.94% as compared with the corresponding period of last year. Turnover was approximately RMB1,528 million and profit attributable to shareholders exceeded RMB200 million for the first time to reach RMB204 million, representing respective increases of approximately 21.43% and 14.40% as compared with the corresponding period of last year. Earnings per share amounted to RMB1.634. Accumulated sales of natural gas was approximately 494 million m^3, representing an increase of 10.45% as compared with the corresponding period of last year. Total number of managing users reached 1,013,969, representing an increase of 14.27% as compared with the corresponding period of last year. These results are remarkable. I would like to review some of the achievements concerning our management and business development during the Year.

BUSINESS REVIEW (CONTINUED)

1. A BOOST OF COMPETITIVENESS AND MARKET SHARE

During the Year, the Group made certain breakthroughs in terms of customer base expansion, total number of residential users, growth of industrial and commercial users, external markets and service areas: In respect of customer base expansion, the residential users of the Group increased by 124,663 households during the Year, representing an increase of 14.24% as compared with the corresponding period of last year, and marking a new record in terms of our annual growth. In respect of the total number of residential users, as at 31 December 2010, the total number of residential users of the Group exceeded one million for the first time to reach a historical high of 1,000,277 users. In respect of growth of industrial and commercial users, placing its emphasis of market expansion on quality industrial and commercial users, the number of the Group's industrial and commercial users increased by 410 during the Year, representing an increase of 17.30% as compared with the corresponding period of last year. Meanwhile, the Group also entered into letters of intent with some large industrial companies in respect of gas supply. These industrial users are quality users with large volume of gas consumption who bring improvements to the Group's insufficient growth of industrial gas consumption. In respect of external markets, the natural gas distributive energy project will be the focus of the Group's market expansion in the coming years. Distributive energy project is the installation of small power units near the premises of users. It is an energy system that utilises the heat generated by natural gas to supply electricity, heat and air-conditioning to users in certain areas at the same time. The project can supply gas to users directly, reducing the loss resulted in the process of long-distance transmission and maximising the utilisation of resources. During the Year, the Group induced some of our users to adopt the project as their gas supply solution. In respect of service areas, the coverage of the Group's gas pipelines has been doubled as compared with the beginning of the implementation of the 11th Five-Year Plan.

2. SAFE AND STABLE GAS SUPPLY THROUGHOUT THE YEAR

During the Year, the Group marked a new record for its successive years of stable gas supply in Zhengzhou. Total purchase of natural gas for the Year exceeded 500 million m^3 and amounted to 522 million m^3, representing an increase of 9.74% as compared with the corresponding period of last year. Sales volume reached 494 million m^3, representing an increase of 10.45% as compared with the corresponding period of last year. Among the three major gas suppliers in Zhengzhou, gas supply of the first phase of the "Project of Transmitting Natural Gas through the West to the East Pipelines" by China National Petroleum Corporation reached 419 million m^3, representing 80.20% of the total purchase of natural gas. Gas supply of Ordos Gasfield of Sinopec and Zhongyuan Oilfield reached 86 million m^3 and 5.74 million m^3 respectively, representing 16.5% and 1.1% of the total purchase of natural gas respectively. The Group will receive gas from the second phase of the "Project of Transmitting Natural Gas through the West to the East Pipelines" in 2011 and it is expected that the gas supply capacity of the Group will accumulate to 700 million m^3 per year in 2015 to satisfy the demand arising from market development.

3. SIGNIFICANT IMPROVEMENT IN POLICY ENVIRONMENT

During the Year, the Group achieved "two improvements" in respect of its policy environment. Firstly, the procedures of receiving connection fees were further regulated. Secondly, sales prices of industrial, commercial and vehicular gas consumption were adjusted, and a linked system between upstream and downstream operations for natural gas prices as well as a tier pricing policy were confirmed on a hearing organized by the Henan provincial government. Both improvements will ensure policy support to the long term development of the Group.

BUSINESS REVIEW (CONTINUED)

4. ENHANCEMENT OF SAFETY LEVEL AND SERVICE QUALITY

Since 2009, the Group has facilitated the establishment of an international occupational health and safety management system. During the Year, the Group obtained a certificate issued by an international consulting organisation and passed the certification of OHSAS18001 occupational health and safety management system. The Group also comply with the requirements set out in the new guidelines for safety management and has conducted a systematic and comprehensive assessment, and rectified the hidden risks of the existing supply chain to plug the loopholes of our safety management.

During the Year, the Group set up the Customer Service Committee to realise our vision of customer-oriented service. The Group also announced 8 service commitments through the media, showing its willingness to be monitored by the media and the general public.

5. STRENGTHENING INTERNAL MANAGEMENT AND TECHNOLOGICAL INNOVATION

During the Year, the Group rearranged the organisational structure, job positions and risk control points of the Company, and participated in the "Standardised Good Behaviour" assessment of the state. The Company has established a standard system based on the business model of the Company with emphasis on customer base expansion and gas transmission. In 2011, the Company will be assessed according to the standards laid down by the state.

During the Year, the Group developed an electronic billing system, which is a data integration system integrating various data such as amount of charges, information of customer repair orders, etc. The Group also cooperated with a research and technology institute to develop an automatic recharge system for IC card users, making self-help gas purchase possible, which is particularly useful for taxi drivers.

BUSINESS REVIEW (CONTINUED)

6. FORMULATION OF THE 12TH FIVE-YEAR PLAN TO SPECIFY THE DIRECTION OF THE COMPANY

In 2010, the Group formulated the 12th Five-Year Plan in respect of our future development with a vision to become "the most respected urban gas enterprise of the nation". We have persisted in our strategy of both external expansion and internal growth, and strengthened our organizing capabilities so that we can achieve long-term development in terms of market share, operation, efficiency, etc. and the level of our management and technology will rank the top in the industry.

7. INITIATIVES TO FULFILL CORPORATE SOCIAL RESPONSIBILITY

The Group has always offered unfailing support to special customers, including retired soldiers, the handicapped, orphans and widows, the elderly, etc. We have set up an "Aid Fund for Users with Difficulties" as a measure to help the public. At the beginning of the Year, the Group made an appeal to its employees to donate clothes, daily commodities, stationery, etc. to poor families, and we also installed pipe hoops for users with difficulties free of charge, and offered them an extra safety inspection, an extra safe gas consumption promotion and an extra copy of safety manual. During the Year, the Group provided 1,660 instances of free service to 1,127 households. Starting from 2011, the Group will change pipelines and install pipe hoops regularly for families receiving government allowance free of charge to ensure these households also enjoy safe gas consumption.

FUTURE OUTLOOK

The pricing mechanism of natural gas will be stabilised gradually in 2011. As the state begins to develop the Central China Economic Zone, urban areas of Zhengzhou will be the first to be benefited, and the Group will also enjoy better economic environment of the peripheral regions. Nevertheless, we are also facing the challenges brought by inflation, regulated prices of daily commodities such as water, electricity and gas, and intensified market competition.

In 2011, the Group will strengthen our overall competitiveness by improving our management, talents, operation, services and market share. We will take initiatives to adjust our pricing model and continue to expand our market share to increase profitability. We anticipate our overall operation results and per capita contributions will reach a new high.

On behalf of the board of directors of the Company (the "Board"), I would like to express my sincere gratitude to the management and more than 1,000 diligent employees of the Group, whose joint efforts are indispensable to the growth of the Group. I wish the Group would enjoy better growth in the coming year, and I will work together with all directors and employees to create a more prosperous future.

Zhengzhou Gas Company Limited
Yan Guoqi
Chairman

16 March 2011

MANAGEMENT DISCUSSION AND ANALYSIS

Mr. Li Jinlu
Vice Chairman and General Manager

PERFORMANCE REVIEW

THE FOLLOWING ANALYSIS SHOULD BE READ IN CONJUNCTION WITH THE AUDITED FINANCIAL STATEMENTS AND RELEVANT SECTIONS IN THIS ANNUAL REPORT.

THE GROUP IS PRINCIPALLY ENGAGED IN THE SALES OF PIPED NATURAL GAS AND GAS APPLIANCES TO RESIDENTIAL, COMMERCIAL, INDUSTRIAL, VEHICULAR AND COMPRESSED NATURAL GAS ("CNG") USERS, SALES OF PRESSURE CONTROL EQUIPMENTS AND PROVISION OF GAS PIPELINE CONSTRUCTION SERVICES. ANALYSIS OF THE TURNOVER OF PRODUCTS AND SERVICES (SEE TABLE 1), THE NUMBER OF USERS OF NATURAL GAS (SEE TABLE 2) AND GAS CONSUMPTION (SEE TABLE 3) AS AT 31 DECEMBER 2010 AND 2009 ARE SET OUT BELOW:

PERFORMANCE REVIEW (CONTINUED)

TABLE 1 TURNOVER

	As at 31 December				
	2010		2009		
	Turnover (RMB'000)	**As % of income**	Turnover (RMB'000) (Restated)	As % of income	Growth %
Natural gas	**1,117,684**	**72.38%**	930,359	73.27%	20.13%
Gas appliances	**15,836**	**1.03%**	13,685	1.08%	15.72%
Pressure control equipments	**2,438**	**0.16%**	259	0.02%	841.31%
Gas pipelines					
– Connection and construction	**404,785**	**26.22%**	316,305	24.91%	27.97%
– Provision of renovation work	**2,274**	**0.15%**	8,949	0.70%	-74.59%
Others	**939**	**0.06%**	194	0.02%	384.02%
	1,543,957	**100.00%**	1,269,751	100.00%	21.60%
Less: Business tax and government surcharges	**(16,150)**		(11,590)		
Total	**1,527,807**		1,258,161		21.43%

PERFORMANCE REVIEW (CONTINUED)

TABLE 2 NUMBER OF USERS OF NATURAL GAS

	As at 31 December		
	2010	2009	Growth %
Number of residential users	**1,000,277**	875,614	14.24%
Number of commercial users	**2,692**	2,297	17.20%
Number of industrial users	**88**	73	20.55%
Number of vehicular users	**10,910**	9,344	16.76%
Number of CNG users	**2**	–	N/A
Total	**1,013,969**	887,328	14.27%

TABLE 3 GAS CONSUMPTION

	As at 31 December				
	2010		2009		
	Gas consumption	**As % of total gas consumption**	Gas consumption	As % of total gas consumption	Growth %
Natural gas					
Total gas consumption					
(in approximate ’000 m^3)	**493,981**		447,226		10.45%
of which					
Residential users	**166,282**	**33.66%**	148,699	33.26%	11.82%
Commercial users	**165,339**	**33.47%**	155,030	34.66%	6.65%
Industrial users	**80,469**	**16.29%**	72,516	16.21%	10.97%
Vehicular users	**76,269**	**15.44%**	70,981	15.87%	7.45%
CNG users	**5,621**	**1.14%**	–	0.00%	N/A

PERFORMANCE REVIEW (CONTINUED)

GENERAL

For the year ended 31 December 2010, the Group recorded a turnover of approximately RMB1,527,807,000 and a gross profit of approximately RMB428,293,000. The turnover increased by 21.43% as compared with the corresponding period of last year mainly due to the satisfactory increase in the number of customers of natural gas, which resulted in the increase of revenue from sale of natural gas and gas pipelines construction.

During the Relevant Period, the overall gross profit margin of the Group was approximately 28.03%, representing a decrease of approximately 2.08% as compared with approximately 30.11% of the corresponding period of last year. The decrease of gross profit margin was primarily due to the continuous rise in purchase costs of natural gas, thus the gross profit margin of the sales of natural gas decreased to approximately 9.47% in the Relevant Period from approximately 13.55% of the corresponding period of last year. Although the Group increased the price of natural gas for industrial, commercial and vehicular users in the Relevant Period, such increase could not offset entirely the effect of the rise of purchase costs of natural gas as the price of natural gas for residential users whose gas consumption volume accounted for approximately 33.66% of the total gas consumption volume of the Group in the Relevant Period was not adjusted upward.

During the Relevant Period, other income of the Group, comprising mostly of interest income, amounted to approximately RMB5,372,000, representing a decrease of approximately 16.66% as compared with approximately RMB6,446,000 of the corresponding period of last year. The decrease in other income was mainly due to a decrease in income from installation of equipments.

During the Relevant Period, the selling and distribution costs of the Group amounted to approximately RMB66,238,000, representing an increase of approximately 35.79% from approximately RMB48,779,000 of the corresponding period of last year, mainly due to the increase in depreciation and employees' salary. During the Relevant Period, the administrative cost of the Group was approximately RMB92,787,000, representing an increase of approximately 17.75% as compared with approximately RMB78,799,000 of the corresponding period of last year, mainly due to the increase in employees' salary, repairs expenses, and labour insurance.

Other expenses and losses of the Group amounted to approximately RMB1,259,000, representing a decrease of approximately 92.41% as compared with approximately RMB16,597,000 of the corresponding period of last year, which was chiefly ascribable to the one-off costs resulting from the termination of a natural gas pipeline construction project in last year and impairment of assets, leading to a relatively larger amount of other expenses and losses in last year.

During the Relevant Period, the Group's share of loss of an associate was approximately RMB3,544,000, as compared with a profit of approximately RMB4,764,000 of the corresponding period of last year, mainly attributed to the foreign exchange profits and losses arising from a Yen loan granted to Pingdingshan Gas Co., Ltd., an associate of the Group.

PERFORMANCE REVIEW (CONTINUED)

GENERAL (CONTINUED)

Income tax expenses of the Group for the Relevant Period were approximately RMB62,938,000, representing a decrease of approximately 0.91% from approximately RMB63,513,000 in the corresponding period of last year. Decrease in income tax expenses was mainly due to the recognition of increased intra-group unrealised profits as deferred assets during the Relevant Period.

During the Relevant Period, the profit attributable to shareholders of the Company was approximately RMB204,450,000, representing an increase of 14.40% from approximately RMB178,710,000 for the corresponding period of last year.

SALES OF PIPED NATURAL GAS

The income attributed to the sales of piped natural gas for the Relevant Period amounted to approximately RMB1,117,684,000, representing an increase of 20.13% as compared with approximately RMB930,359,000 for the corresponding period of last year.

During the Relevant Period, the total gas consumption by natural gas users of the Group was approximately 493,981,000 m^3, representing an increase of approximately 10.45% as compared with approximately 447,226,000 m^3 for the corresponding period of last year.

During the Relevant Period, the gas consumption by residential and industrial users of the Group recorded a relatively satisfactory growth, and had increased 11.82% and 10.97% respectively as compared with the corresponding period of last year. The increase in the gas consumption by residential users was mainly due to the increase in the number of residential users. The increase in the gas consumption by industrial users was mainly a result of the global economic stabilization and the Group's proactive strategy of developing a customer base with larger-sized industrial users. During the Relevant Period, growth in the gas consumption by commercial and vehicular users of the Group decelerated, and had only increased 6.65% and 7.45% respectively as compared with the corresponding period of last year. Only single-digit growth was recorded by the gas consumption of commercial users, which was attributed to the small-sized new commercial users who made limited contribution to the gas consumption of commercial users. The growth of gas consumption by vehicular users slowed down significantly from 18.33% for the corresponding period of last year to 7.45% during the Relevant Period. The major reasons were that the Group lost certain customers to other vehicular gas operators due to severe competition, and was forced to close a gas station due to the changes in the city planning, which affected the income from relevant business. During the Relevant Period, the Group obtained a new type of users, CNG users, who primarily purchase compressed natural gas from the Group and then redistribute it to other users.

As at 31 December 2010, the number of the Group's residential users exceeded one million to 1,000,277 users, representing an increase of 124,663 users as compared with 875,614 residential users as at 31 December 2009. On the other hand, the Group has 2,692 commercial users, representing an increase of 395 users as compared with 2,297 commercial users as at 31 December 2009; 88 industrial users, representing an increase of 15 users as compared with 73 industrial users as at 31 December 2009; 10,910 vehicular users, representing an increase of 1,566 users as compared with 9,344 vehicular users as at 31 December 2009; and 2 CNG users, a new type of users obtained during the Year.

PERFORMANCE REVIEW (CONTINUED)

SALES OF PIPED NATURAL GAS (CONTINUED)

During the Relevant Period, the Group purchased approximately 418,749,000 m^3 and 86,106,000 m^3 of natural gas from the first phase of "Project of Transmitting Natural Gas through the West to the East Pipelines" and Ordos Gasfield respectively, representing approximately 80.20% and 16.49% of the total purchase of natural gas respectively. During the Relevant Period, the Group's costs for gas purchase kept climbing, and the average cost for gas purchases rose from approximately RMB1.4443/m^3 for 2009 to approximately RMB1.6641/m^3 during the Year.

In order to solve the problem of ever-increasing costs of natural gas, the Company proactively coordinated with the relevant authorities to call for a rise in the selling prices of natural gas. On 30 June 2010, pursuant to the Notice on Adjustments of Natural Gas Selling Prices in Zhengzhou issued by the Zhengzhou City Commodity Pricing Bureau, the Company's selling prices of natural gas to commercial, industrial and vehicular users were adjusted upwards. Consequently, the selling prices of natural gas to commercial, industrial and vehicular users in Zhengzhou increased from RMB2.80/m^3 to RMB3.16/m^3, RMB2.50/m^3 to RMB2.86/m^3 and RMB3.32/m^3 to RMB3.60/m^3 respectively. The said adjustments were applicable to the natural gas consumption volumes of commercial and industrial users metered on or after 1 June 2010. The adjustment to the selling price of natural gas to vehicular users became effective from 1 July 2010.

SALES OF GAS APPLIANCES AND PRESSURE CONTROL EQUIPMENTS

The Group is also engaged in the sales of gas appliances and pressure control equipments. The gas appliances available for sale mainly include gas stoves, water heaters, gas alarms, etc.. These gas appliances were purchased from several gas appliance producers and sold through the Group's sales outlets in Zhengzhou. In relation to pressure control equipments, the main target clients are natural gas users and other natural gas suppliers. For the Relevant Period, income from sales of gas appliances and pressure control equipments amounted to approximately RMB15,836,000 and approximately RMB2,438,000, representing an increase of approximately 15.72% and approximately 841.31% as compared with approximately RMB13,685,000 and approximately RMB259,000 for the corresponding period of last year, respectively. Increase in income from sales of gas appliances was chiefly due to better performance in sales of water heaters, gas stoves and gas alarms as compared with last year. The significant increase in income from sales of pressure control equipments was primarily a result of an increasing demand from regions other than Zhengzhou.

NATURAL GAS PIPELINE CONSTRUCTION SERVICES

During the Relevant Period, the Group adopted the percentage of completion method to recognise its income from natural gas pipeline construction services. As a result, income from natural gas pipeline construction services for the corresponding period of last year of approximately RMB302,012,000 was restated as RMB316,305,000. Under the new method of recognition, income from natural gas pipeline construction services of the Group for the Year amounted to approximately RMB404,785,000, representing an increase of approximately 27.97% over the corresponding period of last year, among which connection fees from residential users and commercial users were approximately RMB357,241,000 and approximately RMB33,105,000 respectively. The increase in the income from natural gas pipeline construction services was mainly attributable to the satisfactory growth in natural gas pipeline construction projects for residential users. Furthermore, the Group obtained revenue from other construction projects amounting to approximately RMB14,439,000.

PERFORMANCE REVIEW (CONTINUED)

NATURAL GAS PIPELINE CONSTRUCTION SERVICES (CONTINUED)

In addition, the Group also charges its users for provision of gas pipeline renovation services. During the Relevant Period, such income amounted to approximately RMB2,274,000, representing a decrease of approximately 74.59% as compared with approximately RMB8,949,000 for the corresponding period of last year. The decrease was mainly attributable to the decrease in the number of outdoor gas pipeline renovation projects.

NET PROFIT AND RETURN TO SHAREHOLDERS

During the Relevant Period, net profit margin of the Group was 13.38%, which was lower than the 14.20% recorded for last year. The decrease was mainly due to a significant decrease in gross profit margin of the sales of natural gas, a turnaround of share of results of associates from profit to loss, the excess of the growth rate of selling and distribution expenses over that of turnover.

In addition, average return to shareholders for the Relevant Period, based on the profit attributable to shareholders of the Company divided by the average of equity attributable to shareholders of the Company at the beginning and at the end of the period, was 22.20% which was higher than that of 21.78% of the corresponding period of last year. This was primarily because of the distribution of a special dividend during the Year, resulting in a decrease of average equity attributable to shareholders.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

BORROWING AND BANKING FACILITIES

The Group currently finances its capital expenditure and operations mainly by internally generated funds and its bank deposits or cash on hand. The Group is of the view that, in the long run, the Group will generate its liquidity from business operations and will consider making use of further equity finances or bank loans when necessary.

As at 31 December 2010, the Group had no bank borrowings.

NET CURRENT LIABILITIES

As at 31 December 2010, the Group had net current liabilities of approximately RMB196,557,000 (31 December 2009: net current liabilities of approximately RMB113,376,000). There were advance payments received of approximately RMB434,384,000 in the current liabilities, which was deferred revenue, not an amount payable as a liability by nature. The Group had net current assets of approximately RMB237,827,000 after deducting such advance payments received.

WORKING CAPITAL

As at 31 December 2010, the Group had cash and bank balances of approximately RMB357,342,000.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE (CONTINUED)

EQUITY TO LIABILITIES RATIO

As at 31 December 2010, equity to liabilities ratio (being total equity over total liabilities and expressed in percentage) of the Group was approximately 115.58%, which was lower than that of approximately 129.62% as at 31 December 2009, mainly due to the payment of a special dividend during the Year which caused a decrease in equity attributable to shareholders and a decrease of the equity to liabilities ratio.

COMMITMENTS

In order to keep pace with the urbanization and environmental protection policies of Zhengzhou City, the Group is required to further expand its urban natural gas pipeline network and related gas supply equipments. As at 31 December 2010, the Group had commitments of approximately RMB18,717,000, mainly pertinent to contracts of pipeline network construction and equipment purchases. The management believes that such expenditure can be defrayed by revenue generated from operations or bank loans.

FOREIGN EXCHANGE RISK

All of the Group's businesses are operated in the PRC and all of its transactions are settled in Renminbi. Therefore, the Group's exposure to foreign currency risk is minimal.

CONTINGENT LIABILITIES

As at 31 December 2010, the Group had no significant contingent liabilities.

EMPLOYEES AND REMUNERATION POLICY

HUMAN RESOURCES

An analysis of the Group's employees by functions as at 31 December 2009 and 2010 is as follows:

	As at 31 December	
	2010	2009
Management and administration	**408**	409
Finance	**40**	40
Sales and marketing	**211**	210
Safety maintenance and technical upgrading	**206**	204
Purchases and supplies	**17**	17
Engineering and installation	**114**	116
Repairs, maintenance and testing	**309**	308
Others	**351**	350
Total	**1,656**	1,654

As at 31 December 2010, the Group had 1,656 employees, an addition of 2 employees as compared with 1,654 employees in the corresponding period of last year.

The salaries of the Group's employees are determined by reference to the performance, qualifications and experience of the individual staff. A discretionary incentive bonus based on individual performance during the year would be paid by the Group to reward their contributions to the Group. Other employee benefits include retirement benefits, medical insurance and housing fund contributions. In the Relevant Period, the total staff costs of the Group amounted to approximately RMB151,914,000, representing an increase of approximately 28.31% as compared with that of approximately RMB118,400,000 for the corresponding period of last year.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

In 2010 and the corresponding period of last year, the Group had no material acquisitions and disposals of subsidiaries and associated companies.

MATERIAL INVESTMENT

As at 31 December 2010, the Group had no material investment, and likewise as at 31 December 2009.

CHARGE ON ASSETS

As at 31 December 2010 and 2009, the assets of the Group were not under any charge.

COOPERATION WITH CHINA RESOURCES GAS INVESTMENT

The State-owned Assets Supervision and Administration Commission of Zhengzhou Municipality ("Zhengzhou SASAC") and China Resources Gas (China) Investment Limited ("CRGI"), a wholly owned subsidiary of CR Gas Group signed several agreements to explore the potential cooperation opportunities in Zhengzhou ("Potential Cooperation") on 25 November 2009. The Potential Cooperation involves an acquisition of 54,041,510 domestic shares of the Company (representing approximately 43.18% of the total issued share capital of the Company) (the "Sale Shares") by a joint venture (the "JV"), in the equity interest of which CRGI and Zhengzhou SASAC hold 80% and 20% respectively (the "Share Acquisition"). The detailed information about the Potential Cooperation can be found in the joint announcements made by the Company and CR Gas Group dated 25 November 2009 and 11 December 2009 (the "Announcements"). On 27 August 2010, CR Gas Group announced in the joint announcement issued by CR Gas Group and the Company (the "Joint Announcement") that all the approvals and registrations in the PRC in connection with the acquisition of the Sale Shares by the JV from Zhengzhou SASAC at a total consideration of RMB421,750,560 have been obtained and the registration of the Sale Shares under the name of the JV in China Securities Depository and Clearing Corporation Limited (中國證券登記結算有限責任公司) has been updated on 30 June 2010. At this point, Zhengzhou SASAC did not regard that the registration of the Sale Shares under the name of the JV as the completion of the acquisition by the JV of the Sale Shares from Zhengzhou SASAC (the "Completion") because it has the right to finalise the distribution of the profit attributable to it given that it is an obligation to be fulfilled by CRGI pursuant to the cooperation agreements, details of which are set out below.

Pursuant to the Announcements, the Completion shall take place within 10 business days, or such later date as CRGI and Zhengzhou SASAC may agree in writing, after fulfillment of all the pre-conditions contained in the Announcements. According to the agreements entered into between CRGI and Zhengzhou SASAC for the Potential Cooperation, the attributable profit and loss incurred by Zhengzhou Gas Group Company Limited ("Zhengzhou Gas Group") and its subsidiaries during the period from 1 July 2009 up to the date of incorporation of the JV which was 25 November 2009, should be borne by Zhengzhou SASAC. CRGI and Zhengzhou SASAC, by entering into an addendum on 27 August 2010, have confirmed and agreed that (i) the audited profits of the Company, Zhengzhou City Zhengran Gas Design Development Co., Ltd. ("Zhengzhou Gas Design") and Nanyang Zhengran Natural Gas Co., Ltd. ("Nanyang Zhengran"), being entities transferred to the JV by Zhengzhou SASAC, during the period from 1 July 2009 to 30 November 2009 attributable to Zhengzhou SASAC were RMB26,586,900 based on its 43.18% beneficial interest in the Company, 17.37% beneficial interest in Zhengzhou Gas Design and 100% beneficial interest in Nanyang Zhengran; and CRGI has agreed that Zhengzhou SASAC will be entitled to such profit; (ii) CRGI and Zhengzhou SASAC have agreed through the JV to procure the Company to distribute such profit by way of special dividend; and (iii) as a condition precedent to Completion, either the Board shall resolve to propose declaration of a special dividend and to submit the proposal to the shareholders for approval, or the parties shall procure the JV to request the Company to convene an extraordinary general meeting for the shareholders of the Company to approve the payment of special dividend.

The Board has received a request from the JV and another shareholder of the Company on 27 August 2010 for convening an extraordinary general meeting of the Company to approve the payment of special dividend. CR Gas Group announced in the Joint Announcement that the condition precedent to Completion was therefore fulfilled on 27 August 2010. The proposed payment of special dividend will be RMB0.492 per share of the Company. A resolution on payment of the dividend was formally approved at the extraordinary general meeting held on 23 November 2010.

COOPERATION WITH CHINA RESOURCES GAS INVESTMENT (CONTINUED)

The board of directors of CR Gas Group announced on 27 August 2010 in the Joint Announcement that Completion has therefore duly taken place and the pre-conditions for the mandatory cash offers by CRGI, or its representative, for all the domestic shares and H shares of the Company other than those owned or agreed to be acquired by it and parties acting concert with it (the "Offers") have been fulfilled on 27 August 2010. Upon Completion, the JV was interested in 54,041,510 domestic shares of the Company which represented approximately 43.18% of the total issued share capital of the Company. Accordingly, the board of directors of CR Gas Group is of the view that there is a change in controlling shareholder of the Company whereby CRGI and the parties acting in concert with it are now required to make the Offers to acquire all the domestic shares and H shares of the Company (other than those already owned or agreed to be acquired by CRGI and parties acting in concert with it) in compliance with Rules 14 and 26.1 of the Hong Kong Code on Takeovers and Mergers. Details of the above information including the special dividend arrangement of the Company can be found in the Joint Announcement.

On 3 September 2010, CRGI and the Company issued a composite document, pursuant to which CRGI would make an offer to all holders of domestic shares and H shares of the Company at an offer price of RMB12.96 per domestic share, or equivalent to a cash consideration of HK$14.73 per H share. The offer was closed on 8 October 2010. CRGI received valid acceptances in respect of 17,128,490 shares (including 12,202,490 domestic shares and 4,926,000 H shares).

WITHDRAWAL OF THE ISSUE AND LISTING OF A SHARES

Since the successful completion of the Share Acquisition resulted in the changes in control of the Company, the sponsor of the listing application of A Shares of the Company suggested that the Company should consider to withdraw the listing application. On 19 March 2010, the Board resolved to withdraw the A Shares issue and listing application from the China Securities Regulatory Commission after taking the possibility of successful listing and ongoing costs of listing application into consideration.

The Directors believe that the withdrawal of the A Shares issue and listing application will not adversely affect the development of the Company as most projects such as Zhengzhou high pressure circular gas pipelines construction project, construction of natural gas stations, acquisition of coal gas assets proposed to be financed by the proceeds from the proposed A Shares issue have already been financed partially or entirely by the internal resources of the Group or bank borrowing. In the meantime, the Company determined to terminate the construction of Boai-Zhengzhou natural gas pipeline project, one of the projects in the proposed A Shares issue, because the upper stream pipeline construction has not been processed as well as expected. However, the Company has anticipated that it will be able to procure sufficient natural gas for future development in the second phase of the "Project of Transmitting Natural Gas through the West to the East Pipeline".

PROSPECT

PROSPECT OF EXPANDING CUSTOMER BASE

On 26 January 2011, Henan Development and Reform Commission announced the inclusion of Central China Economic Zone into the National Principle Functional Districts Program, making Central China Economic Zone a core area of development on the national level. Central China Economic Zone covers Henan province as its core region, as well as part of the areas of Shanxi, Hebei, Anhui and Shandong provinces to form a composite economic zone, which is positioned to be the base of all major high-technology industries of the state, a base of advanced manufacturing and modern service industries, a base of energy raw materials, an integrated transportation and logistics hub, a regional centre of technology and innovation, and a region with concentrated population and economic activities. Being the provincial capital of Henan province, Zhengzhou will become the focus of development of the Central China Economic Zone. Zhengzhou will strengthen its development of advanced manufacturing, technology education, commercial logistics, and financial services, with emphasis on developing the Zhengbian (Zhengzhou-Kaifeng) industrial area so as to facilitate the integration of Zhengbian, and establishing a regional economic centre and an important national transportation hub.

As a result of the said policies and the transformation of regional industrial structure in the PRC, the municipal government of Zhengzhou has intensified its efforts to attract businesses and investments, resulting in the removal of some large-scale manufacturing enterprises on the coastal regions to Zhengzhou. Natural gas industry, which is indispensable for daily life and production, will be benefited from the inflow of people and goods that accelerates economic development. Therefore, the Group believes that the market for residential, industrial and commercial gas consumption still has much room for further development.

In respect of vehicular gas business, facing the competition from new gas station operators and the challenges brought by the national policy of promoting electric vehicles, the Group on one hand solidified its existing user base, and on the other hand adopted a strategy that turned competition into cooperation by providing those gas stations with CNG or supplying gas to them through gas pipelines, so that a win-win situation can be achieved.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(On 16 March 2011)

DIRECTORS (Note)

EXECUTIVE DIRECTORS

Mr. Yan Guoqi (閆國起), aged 56, Chairman, an executive Director and compliance officer. He is a representative of the 11th Session of the National People's Congress of Henan Province, head of the Urban Gas Association of Henan Province and a senior engineer. He was the deputy head of a water plant, head of water supply management and deputy general manager of Zhengzhou Municipal Water Company (鄭州市自來水公司) from 1987 to 1997, deputy general manager of Zhengzhou Municipal Natural Gas Corporation (鄭州市天然氣總公司) from 1997 to 1998, vice chairman and deputy general manager of Zhengzhou Municipal Gas Company Limited (鄭州市燃氣有限公司) from 1998 to 2000, and was the vice chairman and general manager of Zhengzhou Gas Group in 2000. Mr. Yan has been the Chairman of the Company since 2001. In October 2007, he was appointed as the chairman, party secretary and general manager of Zhengzhou Gas Group. He has been the chairman, party secretary and general manager of Zhengzhou China Resources Gas Company Limited ("ZCRG"), which is interested in approximately 43.18% of the issued share capital of the Company and hence a substantial shareholder of the Company under the Securities and Futures Ordinance (Cap. 571) (the "SFO") since December 2009, and the deputy general manager of China Resources Gas (Holdings) Limited since November 2010. Mr. Yan has been the deputy party secretary of China Resources Gas (Holdings) Limited since February 2011.

Mr. Li Jinlu (李金陸), aged 44, vice chairman, an executive Director and a senior engineer. He was a representative of the 13th Session of the National People's Congress of Zhengzhou City, the head of pipeline network of Zhengzhou Municipal Natural Gas Corporation, head of gas supply management office and chief economist of Zhengzhou Municipal Gas Company Limited from 1988 to 2000. Mr. Li was the chief economist of Zhengzhou Gas Group from December 2000 to August 2002 and a director of Zhengzhou Gas Group from 2002 to January 2007. Mr. Li had been the deputy general manager and executive deputy general manager of the Company from December 2000 to 2007. Mr. Li was the chairman of Zhengzhou Gas Engineering and Construction Co., Ltd. (鄭州燃氣工程建設有限公司) and Dengfeng Zhengran Gas Company Limited (登封鄭燃燃氣有限公司), both being subsidiaries of the Company. In October 2005, he was appointed as an executive director of the Company and in October 2007, he was appointed as general manager of the Company and the deputy party secretary of Zhengzhou Gas Group. Mr. Li has been the vice chairman of the Company since 26 March 2008. He has been the deputy party secretary of ZCRG since December 2009.

Mr. Li Hongwei (李紅衛), aged 40, vice chairman, an executive Director, committee member of the Youth Federation of Zhengzhou. Mr. Li holds a master degree in economics and is a doctorate student in economics. He has been the deputy chief economist of Zhengzhou Municipal Gas Company Limited, head of general office of Zhengzhou Gas Group and secretary to the board of the Company since 1999. From December 2005 to October 2007, Mr. Li was appointed as the assistant president of Launch Tech Company Limited. In October 2007, Mr. Li was appointed as a director of Zhengzhou Gas Group, and also acted as a director of Zhengzhou Gas Engineering and Construction Company Limited, Dengfeng Zhengran Gas Company Limited and Zhengzhou Zhengran Pressure Control Technology Company Limited (all being subsidiaries of the Company). From October 2007 to December 2009, he was appointed as an executive deputy general manager of the Company. Since January 2008, Mr. Li has been a director of the Company. Mr. Li has been the vice chairman of the Company since 26 March 2008 and the vice chairman of Pingdingshan Gas Limited Liabilities Company (平頂山燃氣有限責任公司) since 12 August 2008. He has been a member of the party committee and a director of ZCRG, which is interested in approximately 43.18% of the issued share capital of the Company and hence a substantial shareholder of the Company under the SFO since December 2009.

Note: "Director(s)" mentioned in this annual report refers to the director(s) of the Company.

NON-EXECUTIVE DIRECTORS

Mr. Zhang Wushan (張武山), aged 55, a non-executive Director and a senior engineer. He was the head of storage and distribution station, chief dispatcher and the head of measuring department and chief engineer of Zhengzhou Municipal Natural Gas Corporation from 1987 to 1997. He has been the chief economist and deputy general manager of Zhengzhou Municipal Gas Company Limited and chairman of Zhengzhou Gas Real Estate Development Company Limited (鄭州燃氣房地產開發有限公司) since 1998. He was appointed as a director, a member of party committee and executive deputy general manager of Zhengzhou Gas Group in December 2000. He has been a non-executive Director of the Company since December 2000, and a member of party committee and standing deputy general manager of ZCRG, which is interested in approximately 43.18% of the issued share capital of the Company and hence a substantial shareholder of the Company under the SFO since December 2009.

Mr. Li Yantong (李燕同), aged 53, a non-executive Director and a senior engineer. He was the head of storage and distribution station of Zhengzhou Municipal Gas Corporation, deputy chief engineer and chief engineer of Zhengzhou Municipal Gas Company Limited from 1989 to 2000, chief engineer of Zhengzhou Gas Group from 2000 to 2002, and a director of Zhengzhou Gas Group from 2002 to January 2007. He has been a director of ZCRG since 2009. He was the chairman of Zhengran Gas Design Development Company Limited (鄭州鄭燃燃氣設計開發有限公司) from 2004 to January 2007, and has been the Chairman and general manager of Nanyang Zhengran Company Limited (南陽鄭燃有限公司) since 2007. Mr. Li was a deputy general manager of the Company from 2000 to 2007, and was an executive director of the Company from October 2005 to January 2007. Since December 2009, he has been a member of the party committee and a director of ZCRG, which is interested in approximately 43.18% of the issued share capital of the Company and hence a substantial shareholder of the Company under the SFO, and has been a non-executive Director of the Company since February 2011.

Mr. Ding Ping (丁平), aged 47, chairman of the labour union, a non-executive Director and a political engineer. Mr. Ding was the branch party secretary of iron cylinder testing section and organisation and the head of the promotion office of Zhengzhou Municipal Coal Gas Company, head of the party commission office and manager of the Industrial Company of Zhengzhou Municipal Gas Company Limited. Mr. Ding is also the deputy party secretary of the Company and the head of general office of Zhengzhou Gas Group. He was the chairman of the supervisory committee and a Supervisor of the Company from December 2000 to January 2008. Mr. Ding was appointed as the chairman of the labour union and a director of Zhengzhou Gas Group in October 2007. He has been a non-executive Director of the Company since January 2008, and a member of the party committee and the chairman of the labour union of ZCRG, which is interested in approximately 43.18% of the issued share capital of the Company and hence a substantial shareholder of the Company under the SFO since December 2009.

Mr. Liu Jianwen (劉劍文), aged 51, an independent non-executive Director. Mr. Liu holds a doctorate degree in jurisprudence. He is presently a professor of Beijing University and a supervisor of doctoral candidates, officer of Peking University Fiscal Law Research Center, an arbitrator of China International Economic and Trade Arbitration Commission. He is also the president of the Institute for Fiscal and Tax Law Research under China Law Society and president of International Tax Law Research Association. Mr. Liu also acted as the leader of the drafting team of the Basic Law for Taxation of the People's Republic of China – a project entrusted by the Finance and Economy Working Committee of National People's Congress, the leader of the drafting team of the Law for Fiscal Transfer Payment of the People's Republic of China – a project entrusted by the Budget Working Committee of the Standing Committee of National People's Congress, and a consultant of the drafting team of the Law of the People's Republic of China on the State-Owned Assets of Enterprises of National People's Congress. Mr. Liu is also an independent non-executive director of Zhejiang Hailiang Co., Ltd (浙江海亮股份有限公司) (stock code: 002203), Shandong Jicheng Electronics Co., Ltd. (山東積成電子股份有限公司) (stock code: 002339) and Nantong Fujitsu Microelectronics Co. Ltd. (南通富士通微電子股份有限公司) (stock code: 002156), all being companies listed in the Mainland China. Mr. Liu was appointed as an independent non-executive Director in April 2002 and appointed as a non-executive Director following his retirement as independent non-executive Director in April 2009.

INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr. Yu Jingsong (余勁松), aged 57, an independent non-executive Director, a doctorate degree holder in Law. From December 1984 to July 2002, he was a lecturer in Wuhan University. He was previously the department head of International Law Faculty and the dean of the Law Faculty of Wuhan University, assistant to the Principal and vice chairman of the Academic Committee of Wuhan University. He is currently a professor and supervisor of doctorate students of the Law School and head of the International Law Centre of Renmin University of China. From May 2003 to May 2009, he was appointed as an independent non-executive director of Beijing North Star Company Limited (北京北辰實業股份有限公司), a company listed in Hong Kong and on the Shanghai Stock Exchange. Mr. Yu was appointed as an independent non-executive Director in April 2009.

Mr. Zhang Jianqing (張建清), aged 47, an independent non-executive Director, a professor and supervisor of doctorate students of the School of Economics and Management of Wuhan University, and associate dean of the School of Development and Research of Central China of Wuhan University. In 1988, he obtained a master's degree in world economics from Wuhan University and was retained as a lecturer in the university. In 1994, he obtained a doctorate degree in economics and became a professor in 2000. In June 2001, he was elected as a supervisor for doctorate students. He was appointed as the deputy head of the department of world economics of the faculty of economics in 1995, the department head of world economics of the School of Economics and Management in 2005 and the associate dean of the School of Research and Development of Central China of Wuhan University in 2007. Mr. Zhang was appointed as an independent non-executive Director in April 2009.

Ms. Wang Xiuli (王秀麗), aged 45, an independent non-executive Director, a doctorate degree holder in economics. She has been teaching in the University of International Business and Economics since 1998. She obtained a doctorate degree in economics in 2006. She is currently the head of the financial management department as well as a professor and supervisor of doctorate students of the accounting department of the Business School of the University of International Business and Economics. Ms Wang is a non-practising member of The Chinese Institute of Certified Public Accountants. Ms. Wang was appointed as an independent non-executive Director in April 2009.

Mr. Wong Ping (王平), aged 50, an independent non-executive Director. He graduated from Henan University of Television Broadcast majoring in commercial corporate management. Mr. Wong has extensive experience in corporate management and finance. He was formerly an assistant manager of Henan Zhoukou District Price Bargaining Company (河南省周口地區議價公司), a manager of general business department of Henan Province Foreign Trade of Commodity Development Company (河南省外貿商品開發公司), a deputy general manager of Henan Imports and Exports Company of China National Cereals, Oils and Foodstuffs Corporation (中糧河南進出口公司) and is currently a deputy general manager of Henan Zhengzhou Rongyuan Shopping Plaza Company Limited (河南鄭州融元購物廣場有限公司). Mr. Wong was appointed as an independent non-executive Director in November 2006.

SUPERVISORS (Note)

Ms. Bao Hongwei (鮑紅偉), aged 52, chairperson of the supervisory committee, secretary of the disciplinary committee and deputy party secretary as well as a member of the 12th Session of the National People's Congress Committee of Zhengzhou City and a member of the 7th Session of the National People's Congress Committee of Zhongyuan District, Zhengzhou City. From 1997 to 2000, Ms. Bao was the deputy head and head of the Zhengzhou City Natural Gas Corporation's General Manager's Office, and head of the human resources department of Zhengzhou Municipal Gas Company Limited. Ms. Bao had been the chairperson of the Company's labour union and chairperson of the supervisory committee of Zhengzhou Gas Group since 2000. She was appointed as deputy party secretary and secretary of the disciplinary committee of Zhengzhou Gas Group and chairperson of Zhengzhou Zhengran Property Management Company Limited (鄭州燃氣物業管理有限公司) in October 2007. She has been a Supervisor (on behalf of the staff) and chairperson of the supervisory committee of the Company since January 2008. Since December 2009, she has been the deputy general secretary of the party committee, secretary of the disciplinary committee and a supervisor of ZCRG, which is interested in approximately 43.18% of the issued share capital of the Company and hence a substantial shareholder of the Company under the SFO.

Mr. Chen Kun (陳鯤), aged 46, a Supervisor and a senior engineer with a doctorate degree in engineering. Mr. Chen was previously an engineer of Henan Research Institute of Metallurgical Planning and Design (河南冶金規劃設計研究院) and Institute of Urban Utilities Design of Chung Nan City (中南市政設計院). Mr. Chen was appointed as the deputy general manager of Zhengzhou Gas Group in May 2003. He has been appointed as the chairman of Zhengran Gas Design Development Company Limited (鄭燃燃氣設計開發有限公司) since February 2007. Since December 2009, he has been the deputy general manager of ZCRG, which is interested in approximately 43.18% of the issued capital of the Company and hence a substantial shareholder of the Company under the SFO. Mr. Chen has been a Supervisor of the Company since April 2009.

Li Ying (李穎), aged 37, a Supervisor, graduated from Henan University of Finance and Economics with a bachelor degree in Labor Economics and is an economist. She was the deputy head of the human resources department of Zhengzhou Gas Group from October 2000 to August 2002 and the chief economist of the human resources department of Zhengzhou Gas Group from August 2002 to August 2004. Between August 2004 and October 2007, she was the chief economist of the human resources department of the Company and was appointed as the head of the human resources department of Zhengzhou Gas Group in October 2007. Ms. Li has been a Supervisor of the Company since October 2009. She has been the chief human resources officer of ZCRG, which is interested in approximately 43.18% of the issued share capital of the Company and hence a substantial shareholder of the Company under the SFO since December 2009.

Ms. Wang Xiaohua (王曉華), aged 47, a Supervisor, the manager of the audit and supervision department of the Company and an accountant. From October 2000 to October 2007, Ms. Wang was the deputy head and head of the finance and investment department of Zhengzhou Gas Group, and the head of the financial and securities department of the Company. Since October 2007, she has been the head of the audit and monitoring department of the Company. She is also the chairperson of the supervisory committees of Zhengzhou Gas Engineering and Construction Company Limited, Dengfeng Zhengran Gas Company Limited, Zhengzhou Zhengran Pressure Control Technology Company and a supervisor of Zhengzhou Aerial Port Area Gas Company Limited. Ms. Wang is also a supervisor of Nanyang Zhengran Gas Co., Ltd. (南陽鄭燃燃氣有限公司) and a director of Zhengzhou Gas Design Development Company Limited (鄭燃燃氣設計開發有限公司) (being subsidiaries of ZCRG). She has been a Supervisor of the Company since January 2008.

Note: "Supervisor(s)" mentioned in this annual report refers to the supervisor(s) of the Company.

SUPERVISORS (CONTINUED)

Mr. Zhu Chaofeng (朱朝鋒), aged 29, a Supervisor, who has a master degree in law. He was the secretary of the chairman of Zhengzhou Gas Group from November 2007 to November 2008 and deputy head of general office of Zhengzhou Gas Group from November 2008 to May 2010. He has been assistant manager of general manager's office of ZCRG, which is interested in approximately 43.18% of the issued share capital of the Company and hence a substantial shareholder of the Company under the SFO since May 2010. Mr. Zhu has been a Supervisor of the Company since July 2010.

Zhang Lixing (張立興), aged 68, a Supervisor, attained tertiary education in Physics. He was the deputy secretary-general and secretary-general of Zhengzhou Municipal Government from January 1984 to February 1994. From March 1994 to July 2001, he was appointed as a member of the standing committee, secretary-general of Zhengzhou Municipal Committee as well as the executive vice mayor of Zhengzhou Municipal Government. He was the deputy officer of the National People's Congress of Zhengzhou Municipal from July 2001 to April 2004 and retired in April 2004. Mr. Zhang was appointed as a Supervisor of the Company in October 2009.

Xie Songwang (謝松旺), aged 68, a Supervisor, has a bachelor degree in Law. He was the officer of the office of Zhengzhou Municipal Discipline Inspection Commission, the section chief of Urban Inspection Unit, member of the standing committee of and deputy secretary to the Zhengzhou Municipal Discipline Commission from June 1979 to June 1993. Between June 1993 and December 2001, he was the deputy procurator-general of the People's Procuratorate of Zhengzhou municipal (and a political member of the Inspection Bureau for Corruption and Bribery of Zhengzhou Procuratorate between June 1993 and November 1994). He was a researcher (county-level) of Zhengzhou Procuratorate from December 2001 to May 2003 and retired in May 2003. Mr. Xie was appointed as a Supervisor of the Company in October 2009.

SENIOR MANAGEMENT

Mr. Yang Zhangyi (楊長毅), aged 50, general manager. He was the deputy general manager of Lianyungang Water Company Limited (連雲港市自來水公司) from May 1995 to February 1999, the general manager of Lianyungang Gas Corporation (連雲港市燃氣總公司) from March 1999 to October 2000, the general manager and the secretary of party sub-branch of Lianyungang Gas Corporation (連雲港市燃氣總公司) from November 2000 to July 2003, the financial controller of Suzhou China Resources Gas Company Limited (蘇州華潤燃氣有限公司) from August 2003 to February 2005, the financial controller of Chengdu City Gas Company Limited (成都城市燃氣有限公司) from March 2005 to March 2007, and the general manager of Xiamen China Resources Gas Company Limited (廈門華潤燃氣有限公司) from April 2007 to March 2011. Mr. Yang has been the general manager of the Company since March 2011.

Ms. Bin Qin (賓琴), aged 33, financial controller with a master's degree in business administration. She is a certified public accountant in China. Ms. Bin was the financial head of Chenzhou Pan River Gas Industry Company Limited (郴州百江燃氣實業有限公司) from 2002 to 2003, senior manager of financial audit department of Panva Gas Holdings Limited (百江燃氣控股有限公司) from 2004 to 2005, financial controller of Pan River Gas (China Southwest) Company Limited (百江西南燃氣有限公司) from 2005 to 2007, and was appointed as the department manager of the board's office of Towngas Investments Limited (HK1083) in 2008. She joined China Resources Gas (Holdings) Limited as senior manager of the audit department in 2009. Ms. Bin has been the financial controller of the Company since July 2010.

SENIOR MANAGEMENT (CONTINUED)

Mr. Liu Daoshuan (劉道栓), aged 45, deputy general manager and a senior engineer. He was deputy head of the general office, head of technical equipment, head of design institute of Zhengzhou Municipal Gas Company and deputy manager of LPG Branch of Zhengzhou Municipal Gas Company Limited from 1992 to 2000. In December 2000, Mr. Liu was appointed as the chief engineer of the Company. He was appointed as the Company's deputy general manager in August 2002. From October 2007 to June 2009, he was a director of Zhengzhou Gas Engineering and Construction Company Limited. He was appointed as a director of Zhengzhou Gas Group in October 2007. He is the chairman of Zhengzhou Zhengran Pressure Control Technology Company. He was appointed as a director of Henan Zhengran Jinxiang Automobile Energy Co. Ltd ("Zhengran Jinxiang") from August 2009 to July 2010. He has been a member of the party committee of ZCRG since December 2009.

Ms. Geng Tongmin (耿同敏), aged 44, deputy general manager, chief engineer and a senior engineer. Ms. Geng previously held offices as a deputy director of the Design Scientific Research Institute, a deputy chief engineer and chief engineer of Zhengzhou Gas Group and deputy chairman of Henan Province Zhong Yuan Natural Gas Heat Engineering Supervising Company Limited (河南省中原燃氣熱力工程監理有限公司). Ms. Geng was appointed as a deputy general manager of the Company in August 2004, and has been a deputy general manager and chief engineer of the Company since October 2007. From August 2009 to July 2010, she was a director and the chairperson of Zhengran Jinxiang, and has been a director of Zhengran Jinxiang since July 2010. She has been the chief engineer of ZCRG since December 2009.

Mr. Shi Shufang (司書方), aged 54, deputy general manager. Mr. Shi was the deputy head and head of Factory No. 2 of Xinhua (新華二廠) from 1981 to 1987; the head of gas station and business division of Zhengzhou Municipal Natural Gas Corporation from 1987 to 1998; the head of business division of Zhengzhou Municipal Gas Company Limited from 1998 to 2000; and the manager of second branch of the Company's Natural Gas Company from 2000 to 2007. Mr. Shi was appointed as the assistant to general manager and the manager of the natural gas sales branch of the Company in October 2007. Mr. Shi has been a deputy general manager of the Company and the chairman of Zhengzhou Aerial Port Area Gas Company Limited (鄭州航空港區燃氣有限公司) since March 2009.

Ms. Shang Yuqiu (尚玉秋), aged 43, chief economist, board secretary and senior economist. From September 1997 to October 2003, Ms. Shang held offices as the deputy head of the corporate management office of the Company, and the deputy head of the corporate management department and the deputy chief economist of Zhengzhou Gas Group. From October 2003 to June 2007, she worked as the head of the operation management department of the Company and the secretary of the Second Branch of Natural Gas Company. From June 2007 to October 2007, she was the chief economist of Nanyang Zhengran Gas Co., Ltd. (南陽鄭燃燃氣有限公司). Since October 2007, Ms. Shang has been the chief economist of the Company. She is currently also a supervisor of Dengfeng Zhengran Gas Company Limited, and a director of Zhengzhou Gas Design Development Company Limited and Zhengzhou Aerial Port Area Gas Company Limited. She has been the board secretary of the Company since May 2010.

SENIOR MANAGEMENT (CONTINUED)

Ms. Qiao Hong (喬紅), aged 43, assistant to the general manager and senior accountant. She was the deputy head of the finance office of Coal Gas Project Preparation Division of Zhengzhou Municipal Gas Company Limited from October 1998 to January 1999. Between January 1999 and May 2001, she was the deputy head of the finance office and head of the securities office of Zhengzhou Municipal Gas Company Limited, and head of the securities investment division of the Company. She was the financial controller of the Company from May 2001 to August 2002, the financial controller and chief accountant of the Company from August 2002 to August 2004, the financial controller, chief accountant and the head of finance department of the Company from August 2004 to October 2005, the chief accountant of the Company from October 2005 to October 2007, the financial controller of Zhengzhou Gas Group from October 2007 to October 2009, assistant to the general manager of the Company and the financial controller of Zhengran Jinxiang from October 2009 to July 2010. Ms. Qiao has been the assistant to the general manager of the Company and the chairman of Zhengran Jinxiang since July 2010.

Mr. Huo Wencai (霍文才), aged 47, assistant to the general manager. He was transferred from the Chinese People's Armed Police Forces to the enterprise administration department of the former Zhengzhou Municipal Gas Company Limited in August 1998. From October 2000 to August 2002, Mr. Huo was the head of the secretary office of the Company. Mr. Huo was the manager of first branch of Zhengzhou Gas Company Limited's Natural Gas Company from August 2002 to October 2007. Mr. Huo was appointed as the assistant to general manager of the Company and the chairman of Zhengzhou Gas Engineering and Construction Company Limited in October 2007. He has been the assistant to the general manager of the Company and the chairman of Dengfeng Zhengran Gas Company Limited since December 2009.

Ms. Niu Minghua (牛鳴華), aged 53, assistant to the general manager. She was previously the general party secretary and the office deputy head of Zhengzhou Municipal Gas Company Limited, the chairperson of the labour union of the Company, the secretary of the disciplinary committee, as well as the general party secretary, head of party affairs division and deputy secretary of the disciplinary committee of Zhengzhou Gas Group. She was a non-executive director of the Company from August 2002 to October 2005. She has been the assistant to the general manager of the Company since July 2009.

COMPANY SECRETARY

Mr. Wong Cheuk Lam, Raymond (黃焯琳), aged 43, is the company secretary and chief financial officer of the Company. Mr. Wong holds a master degree in accountancy. Prior to joining the Company in February 2003, he worked in accounting and finance positions for the merchant bank of Sakura Bank of Japan (Sakura Asia Finance Limited) and BOCI Securities Company Limited. Mr. Wong has over fourteen years of experience in accounting and finance. He is a member of the Hong Kong Institute of Certified Public Accountants and the CPA Australia. Mr. Wong was appointed as the chief financial officer of the Company in July 2005, and was the financial controller of the Company from October 2007 to July 2010. Mr. Wong is also an independent non-executive director and the chairman of the audit committee of Kingworld Medicines Group Limited (stock code: 1110), a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

REPORT OF THE DIRECTORS

The Board is pleased to present its report together with the audited financial statements of the Group for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The principal activities of the Company and its subsidiaries are the sales of natural gas, pressure control equipments and gas appliances to customers and the construction of gas pipelines and the provision of repair and maintenance services of gas pipelines to local customers.

There were no significant changes in the nature of the Group's principal activities during the Year.

SEGMENT INFORMATION

The segment information of the Group during the Year is set out in note 9 to the financial statements. No geographical segment analysis is shown as the Group's operating business is mainly carried out in Zhengzhou, Henan Province, the PRC.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2010 and its financial position at that date are set out in the financial statements on pages 51 to 101.

The Directors do not recommend the payment of any final dividend for the year ended 31 December 2010.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years are set out on page 102 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Year are set out in note 16 to the financial statements.

SHARE CAPITAL

There were no movements in either the Company's registered or issued share capital during the year ended 31 December 2010; however, for the year ended 31 December 2009, every ten issued shares were consolidated into one consolidated share, whose details are set out in note 27 to the financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the Year, neither the Company nor its subsidiaries have purchased, sold or redeemed any of the Company's listed securities.

RESERVES

Details of movements of the reserves of the Group during the Year are set out in the consolidated statement of changes in equity on page 53.

DISTRIBUTABLE RESERVES

As at 31 December 2010, the Company's reserves available for distribution, calculated in accordance with relevant rules and regulations and the Company's articles of association, amounted to approximately RMB438,064,000. In addition, RMB101,026,000 in the Company's share premium account may be distributed as bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

The Group's aggregate revenue attributable to its five largest customers did not exceed 30% of the Group's total revenue during the year ended 31 December 2010. Accordingly, a corresponding analysis of major customers is not presented.

The Group's aggregate purchases from its five largest suppliers accounted for approximately 85% (2009: 92%) of the Group's total purchases during the Year, and the purchases from the largest supplier included therein amounted to 62% (2009: 67%).

None of the Directors and Supervisors or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interests in any of the Group's five largest suppliers and customers.

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group during the year ended 31 December 2010, disclosed according to International Accounting Standards, are set out in note 31 to the financial statements. These transactions fall under either the definition of "connected transaction" or "continuing connected transaction" under Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

CONTINUING CONNECTED TRANSACTIONS

Details of the continuing connected transactions of the Group during the year ended 31 December 2010 are set out in the Report of the Independent Board Committee.

Pursuant to Rule 14A.38 of the Listing Rules, the Directors engaged the auditor of the Company to perform certain work on continuing connected transactions of the Group in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has provided a letter to the Directors and confirmed that, for the year ended 31 December 2010, the above continuing connected transactions were:

(1) approved by the Independent Board Committee;

(2) entered into in accordance with the relevant agreements governing the transactions; and

(3) within the relevant caps applicable to such transactions as disclosed in the previous announcements.

DIRECTORS AND SUPERVISORS

The Directors and Supervisors during the Year were:

Executive Directors:

Mr. Yan Guoqi *(Chairman of the board of directors)*
Mr. Li Jinlu
Mr. Li Hongwei

Non-executive Directors:

Mr. Song Jinhui (resigned on 21 February 2011)
Mr. Zhang Wushan
Mr. Li Yantong (appointed on 21 February 2011)
Mr. Ding Ping
Mr. Liu Jianwen

Independent Non-executive Directors:

Mr. Yu Jinsong
Mr. Zhang Jianqing
Ms. Wang Xiuli
Mr. Wong Ping

DIRECTORS AND SUPERVISORS (CONTINUED)

Supervisors:

Ms. Bao Hongwei
Mr. Chen Kun
Mr. Zhao Ruibao (resigned on 9 July 2010)
Ms. Li Ying
Ms. Wang Xiaohua
Mr. Zhu Chaofeng (appointed on 9 July 2010)

Independent Supervisors:

Mr. Zhang Lixing
Mr. Xie Songwang

In accordance with articles 99 and 123 of the Company's articles of association, the Directors and Supervisors are appointed for a period of three years and are subject to re-election on the expiry of their appointment.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Profiles of Directors, Supervisors and senior management of the Company are set out under the "Profiles of Directors, Supervisors and senior management" section of the annual report.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company confirmed that it has received from each of the independent non-executive Directors an annual confirmation of her or his independence and considers, based on the confirmations received, the independent non-executive Directors remain independent.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the Directors and Supervisors has entered into a service contract with the Company with effect from the date of appointment or re-election of the respective Directors and Supervisors for a term of three years. None of the Directors and Supervisors has entered into any service contract with the Company which is not determinable within one year without payment of compensation (other than statutory compensation).

DIRECTORS' AND SUPERVISORS' REMUNERATION

Directors' and Supervisors' fees shall be fixed by the Board with reference to the Directors' and Supervisors' duties, responsibilities and performance and the results of the Group under the authorization of the shareholders of the Company at general meetings.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

As at 31 December 2010 and during the year ended 31 December 2010, there was no contract of significance as defined in Appendix 16 to the Listing Rules subsisting in which a Director or Supervisor is or was materially interested, whether directly or indirectly.

As at 31 December 2010 and during the year ended 31 December 2010, none of the Directors or Supervisors had a material interest in any contract of significance in relation to the business of the Group subsisting to which the Company, its subsidiary, its holding company, or a subsidiary of its holding company was a party and in which a Director or Supervisor has or had, or at any time during that period, in any way, whether directly or indirectly, a material interest.

As at 31 December 2010 and during the year ended 31 December 2010, none of the Directors or Supervisors was in any way, directly or indirectly, materially interested in any contract of significance in relation to the Company's business entered into or proposed to be entered into with the Company.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year ended 31 December 2010 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or Supervisor or their respective spouses or minor children, or were such rights exercised by them, or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors or Supervisors to acquire such rights in any other entities.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES OR DEBENTURES

As at 31 December 2010, none of the Directors, Supervisors or chief executive of the Company or their respective associates had interests and short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which are required (a) 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 are taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange.

DISCLOSURE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 31 December 2010, so far as the Directors are aware, the person (not being a Director or Supervisor or chief executive of the Company) or companies who had interests or short positions in the shares or underlying shares which would fall to be disclosed under Division 2 and 3 of Part XV of the SFO, or which will be required pursuant to section 336 of the SFO to be recorded in the register of the Company or who was/were directly or indirectly interested in 10% or more of the nominal value of any classes of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group were as follows:

LONG POSITIONS IN ORDINARY SHARES OF THE COMPANY:

Name	Capacity/ Nature of Interest	Number of H Shares held	Approximate % of beneficial interests in H Shares	Number of Domestic Shares held	Approximate % of beneficial interest in Domestic Shares	Approximate % of the total registered share capital of the Company
ZCRG (鄭州華潤燃氣) (note 1)	Beneficial owner	–	–	54,041,510	77.11%	43.18%
China Resources Gas (China) Investment Limited (華潤燃氣(中國)投資有限公司) ("CRGI") (notes 2, 3 and 4)	Beneficial owner and corporate interest	4,923,000	8.94%	66,244,000	94.52%	56.87%
China Resources Gas Limited (華潤燃氣有限公司) ("CRGL") (notes 3 and 4)	Corporate interest	4,923,000	8.94%	66,244,000	94.52%	56.87%

DISCLOSURE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS (CONTINUED)

LONG POSITIONS IN ORDINARY SHARES OF THE COMPANY: (CONTINUED)

Name	Capacity/ Nature of Interest	Number of H Shares held	Approximate % of beneficial interests in H Shares	Number of Domestic Shares held	Approximate % of beneficial interest in Domestic Shares	Approximate % of the total registered share capital of the Company
China Resources Gas Group Limited (華潤燃氣控股有限公司) ("CR Gas Group") (notes 3 and 4)	Corporate interest	4,923,000	8.94%	66,244,000	94.52%	56.87%
Splendid Time Investments Inc. ("Splendid Time") (notes 3 and 4)	Corporate interest	4,923,000	8.94%	66,244,000	94.52%	56.87%
China Resources (Holdings) Company Limited (華潤(集團)有限公司) ("CRH") (notes 3 and 4)	Corporate interest	4,923,000	8.94%	66,244,000	94.52%	56.87%
CRC Bluesky Limited ("CRC Bluesky") (notes 3 and 4)	Corporate interest	4,923,000	8.94%	66,244,000	94.52%	56.87%
China Resources Co., Limited (華潤股份有限公司) ("CRCL") (notes 3 and 4)	Corporate interest	4,923,000	8.94%	66,244,000	94.52%	56.87%
China Resources National Corporation (中國華潤總公司) ("CRNC") (notes 3 and 4)	Corporate interest	4,923,000	8.94%	66,244,000	94.52%	56.87%
Beijing Jinqiiyuan Investment Co., Ltd. (formerly known as Zhengzhou Qiyuan Investment Consultancy Co., Ltd) (北京金啟元投資管理有限公司(前稱:鄭州啟元投資諮詢有限公司)) ("Beijing Jinqiyuan") (note 5)	Beneficial owner	–	–	11,550,000	16.48%	9.23%
Beijing Crystal Stone Investment Company Limited (北京水晶岩投資管理有限公司) ("Beijing Crystal Stone") (note 5)	Corporate interest	–	–	11,550,000	16.48%	9.23%
Liu Liangkun (劉良昆) (note 5)	Corporate interest	–	–	11,550,000	16.48%	9.23%

DISCLOSURE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS (CONTINUED)

LONG POSITIONS IN ORDINARY SHARES OF THE COMPANY: (CONTINUED)

Notes:

1. ZCRG holds directly 54,041,510 domestic shares of the Company ("Domestic Shares"), representing approximately 77.11% of the registered share capital in Domestic Shares.

2. CRGI holds directly 12,202,490 Domestic Shares and indirectly 54,041,510 Domestic Shares through ZCRG.

3. CRGI holds 72.06% of interest in the share capital of ZCRG. CR Gas Group is the sole shareholder of CRGL which owns 100% in CRGI. CR Gas Group is owned as to 68.08% jointly by Splendid Time and Commotra Company Limited ("Commotra"). Splendid Time and Commotra are owned as to 100% by CRH which is a wholly-owned subsidiary of CRC Bluesky. CRC Bluesky is a wholly-owned subsidiary of CRCL which in turn is 100% owned by CRNC.

4. According to the joint announcement dated 8 October 2010 jointly issued by CRGI, CR Gas Group and the Company, CRGI holds 4,926,000 H Shares, representing approximately 8.95% of beneficial interests in H Shares. Therefore, CRGL, CR Gas Group, Splendid Time, CRH, CRC Bluesky, CRCL and CRNC are deemed to hold such 4,926,000 H Shares pursuant to the SFO.

5. Beijing Jinqiyuan holds directly 11,550,000 Domestic Shares, representing approximately 16.48% of the beneficial interests in Domestic Shares. Beijing Jinqiyuan is owned as to 37.39% registered share capital by Beijing Crystal Stone which is owned as to 33.75% registered share capital by Mr. Liu Liangkun, therefore Beijing Crystal Stone and Mr. Liu Liangkun are deemed to be interested in 11,550,000 Domestic Shares. Beijing Jinqiyuan has agreed to sell 9,250,000 Domestic Shares by accepting the Offer. Beijing Jinqiyuan will cease to have an interest in the said 9,250,000 Domestic Shares when transfer of the said Domestic Shares is settled.

As at 31 December 2010, so far as the Directors are aware, the person (not being a Director or Supervisor or chief executive of the Company) or companies who was/were directly or indirectly interested in 10% or more of the nominal value of any classes of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group (excluding the Company) were as follows:

Name of subsidiary of the Company	Name of shareholder of the subsidiary of the Company	Nominal value of registered and fully paid-up share capital held by the subsidiary of the Company	Approximate % of shareholding of the subsidiary of the Company
Dengfeng Zhengran Gas Co., Ltd (登封鄭燃燃氣有限公司)	Zhengzhou Gas Engineering and Construction Co,. Ltd (鄭州燃氣工程建設有限公司)	RMB23,500,000	78%
Henan Zhengran Jinxiang Vehicular Energy Co., Ltd (河南鄭燃金象車用能源有限公司)	Zhengzhou Traffic and Transportation (Group) Co., Ltd (鄭州交通運輸（集團）有限責任公司)	RMB18,000,000	45%

Save as disclosed above, the Directors were not aware of any other person (not being a Director or Supervisor or chief executive of the Company) or companies who had interests or short positions in the shares or underlying shares which would fall to be disclosed under Division 2 and 3 of Part XV of the SFO, or who was/were interested in 10% or more of the nominal value of any classes of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of any members of the Group (excluding the Company).

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the Year, the interests of the Directors in business which competes or is likely to compete, either directly or indirectly, with the business of the Group as required to be disclosed pursuant to the Listing Rules were as follows:

Name of Director	Name of Company in which the relevant Director has interest	Principal activities of the competing company	Interest of the relevant Director in competing company
Mr. Yan Guoqi	ZCRG	Management of urban gas project	Mr. Yan is the chairman of the board of directors of ZCRG
Mr. Li Hongwei	ZCRG	Management of urban gas project	Mr. Li is a director of ZCRG
Mr. Li Yantong	ZCRG	Management of urban gas projects	Mr. Li is a director of ZCRG
	Nanyang Zhengran	Sales of gas and construction of pipelines	Mr. Li is the chairman of the board of directors of Nanyang Zhengran

Although the above three Directors, namely Mr. Yan Guoqi, Mr. Li Hongwei and Mr. Li Yantong are also directors of ZCRG which is the immediate holding company of the Company and Mr. Li Yantong is the chairman of the board of directors of Nanyang Zhengran, a fellow subsidiary of the Company, the Company has established a mechanism to avoid conflicts of interest in which an independent board committee which is formed by all independent Directors is responsible for reviewing and making final decisions on behalf of the Board on transactions where conflicts of interest may arise between the Group and its connected persons. As a result, the Directors hold the view that the Group is capable of carrying on its business independently of, and at arm's length from ZCRG and Nanyang Zhengran.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE H SHARES

Save as disclosed above, during the year ended 31 December 2010, none of the Directors, Supervisors or chief executive of the Company was granted options to subscribe for the H Shares of the Company. During the year ended 31 December 2010, none of the Directors, Supervisors or chief executive of the Company, or their respective spouses or minor children had any rights to acquire H Shares of the Company or exercised any such rights.

BOARD PRACTICE AND PROCEDURES

The Board held the opinion that, the Company has complied with the requirements of board practice and procedures as set out in the code provisions of the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules throughout the Year.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

During this Year, the Company has adopted a code of conduct regarding securities transactions by Directors and Supervisors on terms no less exacting than the required standard of dealings by Directors and Supervisors set out in Appendix 10 to the Listing Rules. The Company, having made specific enquiries with all Directors and Supervisors, is not aware of any non-compliance by any Director or Supervisor with the required standard of dealings and code of conduct regarding securities transactions by the Directors and Supervisors.

SUFFICIENCY OF PUBLIC FLOAT

According to the public information available to the Company and within the knowledge of the Directors, the Company has maintained the public float required by the Listing Rules as at the date of this report.

AUDIT COMMITTEE

The Company established an audit committee ("Audit Committee") on 30 September 2002 in compliance with Rules 3.21 and 3.22 of the Listing Rules. The primary duty of the Audit Committee is to review the financial reporting procedures and internal control system of the Group.

The Audit Committee currently comprises of three members, namely Ms. Wang Xiuli and Mr. Zhang Jianqing, both being the independent non-executive Directors, and Mr. Zhang Wushan, a non-executive Director. Ms. Wang Xiuli is the chairperson of the Audit Committee.

The Audit Committee has reviewed the audited consolidated results of the Group for the year ended 31 December 2010.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules during the year ended 31 December 2010.

CHANGE OF AUDITOR

The Board confirmed that there was no change of auditors of the Company in 2008 and 2009.

On 30 March 2010, the Board has resolved to propose the appointment of Deloitte Touche Tohmatsu as new auditor of the Company to fill the vacancy following the retirement of Ernst & Young due to the change of holding company of the Company. A resolution for appointing Deloitte Touche Tohmatsu as auditor of the Company was duly passed at the annual general meeting of the Company held on 3 June 2010.

AUDITOR

Deloitte Touche Tohmatsu will retire and a resolution for their re-appointment as auditor of the Company will be proposed at the forthcoming annual general meeting of the Company.

BY THE ORDER OF THE BOARD
Zhengzhou Gas Company Limited
Yan Guoqi
Chairman

Zhengzhou, Henan Province, the PRC
16 March 2011

REPORT OF THE INDEPENDENT BOARD COMMITTEE

In order to improve the management of conflicts of interests of the Group, the Board of the Company established this committee which comprises of all independent non-executive Directors. The committee is responsible for reviewing the transactions where conflicts of interests may arise between the Group and its connected persons (including the controlling shareholder of the Company and its associates), and making decisions collectively on behalf of the Board in respect of the transactions contemplated.

CONNECTED TRANSACTIONS

The Committee held three meetings during the Year and reviewed the connected transaction and the continuing connected transactions between the Company and its subsidiaries and the immediate controlling shareholder, ZCRG and its associate concerning the procurement of pipeline transmission service and properties and land leases. The procurement of pipeline transmission service was a connected transaction exempted from the reporting, announcement and approval of independent shareholders requirements under Chapter 14A of the Listing Rules. Details of the continuing connected transactions subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules are set out below:

CONTINUING CONNECTED TRANSACTIONS

CONTINUING CONNECTED TRANSACTIONS WITH EXISTING CONTROLLING SHAREHOLDER

1. **Property lease**

   On 5 November 2007, the Company and some of its subsidiaries (the "Relevant Subsidiaries"), i.e. Zhengzhou Gas Engineering and Construction Company Limited and Zhengzhou Zhengran Pressure Control Technology Company Limited, have entered into several renewed property lease agreements with Zhengzhou Gas Group (a former controlling shareholder of the Company) to lease the occupation rights with total gross floor areas of approximately 22,981.96 sq.m. for office and operational uses for a term of three years commencing from 1 November 2007 to 31 October 2010 at a total annual rental of approximately RMB8,552,621.52 (the "Old Property Lease Agreements"). Later, the ownership of the properties leased by the Company and the Relevant Subsidiaries from Zhengzhou Gas Group was transferred step by step from Zhengzhou Gas Group to ZCRG, the existing controlling shareholder of the Company, partly treated as capital injected into ZCRG by the State-owned Assets Supervision and Administration Commission of Zhengzhou Municipal People's Government and partly treated as assets acquired by ZCRG. As the Old Property Lease Agreements were expired on 31 October 2010, the Company and the Relevant Subsidiaries entered into the following property lease agreements with ZCRG in order to continue its occupation of certain old leased properties as offices or for operational uses.

   The Company and the Relevant Subsidiaries (as the lessees) and ZCRG (as the lessor) entered into the property lease agreements on 30 November 2010 ("ZCR Gas Property Lease Agreements"), pursuant to which the parties thereto agreed to the leasing of the occupation rights in certain properties with total gross floor areas of approximately 22,902.35 sq. meters at a total annual rental payable of RMB9,151,438.20 (payable quarterly in cash financed by internal resources), for a term of three years commencing from 1 November 2010 and ending on 31 October 2013. The annual rental under the ZCR Gas Property Lease Agreements has been determined after arm's length negotiations between the parties with reference to the fair market rental of RMB9,151,438.20 per annum as at 15 October 2010 as appraised by CB Richard Ellis Limited, an independent third party.

CONTINUING CONNECTED TRANSACTIONS (CONTINUED)

CONTINUING CONNECTED TRANSACTIONS WITH EXISTING CONTROLLING SHAREHOLDER (CONTINUED)

2. **Land use right lease**

On 30 November 2010, the Company entered into a land use rights lease agreement ("ZCR Gas Land Use Rights Lease Agreement") with ZCRG, pursuant to which the Company as the lessee and ZCRG as the lessor agreed to the sub-leasing of the land use rights of three parcels of land with a total area of 178,135.21 sq.m at a total annual rental of RMB1,434,000 (payable quarterly in cash financed by internal resources). The annual rental under the ZCR Gas Land Use Rights Lease Agreement has been determined after arm's length negotiations between the Company and ZCRG with reference to the fair market rental of RMB1,434,000 per annum as at 15 October 2010 as appraised by CB Richard Ellis Limited, an independent third party.

ZCRG is the controlling shareholder of the Company, holding approximately 43.18% of the equity interest in the Company's registered share capital. By virtue of ZCRG's equity interest in the Company, ZCRG is therefore considered as a connected person of the Company under the Listing Rules. As a result, the transactions under the ZCR Gas Property Lease Agreements and the ZCR Gas Land Use Rights Lease Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.25 of the Listing Rules, the transactions under the ZCR Gas Property Lease Agreements and the ZCR Gas Land Use Rights Lease Agreement constitute a series of transactions and accordingly the annual rentals under these agreements shall be aggregated.

Given that each of the applicable percentage ratios (other than the profits ratio) calculated under Rule 14.07 of the Listing Rules with reference to the aggregate rentals under the ZCR Gas Property Lease Agreements and the ZCR Gas Land Use Rights Lease Agreement is greater than 0.1% but less than 5% on an annual basis, the transactions under the ZCR Gas Property Lease Agreements and the ZCR Gas Land Use Rights Lease Agreement fall within Rule 14A.34 of the Listing Rules and are therefore exempted from the independent shareholders' approval requirement. The transactions under the ZCR Gas Property Lease Agreements and the ZCR Gas Land Use Rights Lease Agreement are only subject to the reporting and announcement requirements as set out in Rules 14A.45 to 14A.47 of the Listing Rules and the annual review requirements as set out in Rules 14A.37 to 14A.40 of the Listing Rules.

Pursuant to Rule 14A.35(2) of the Listing Rules, the annual caps for the transactions under the ZCR Gas Property Lease Agreements and the ZCR Gas Land Use Rights Lease Agreement for each of the four years ending 31 December 2013 would be RMB10,585,438.20 which are determined with reference to the maximum aggregate sum of rentals payable by the Group under the ZCR Gas Property Lease Agreements and the ZCR Gas Land Use Rights Lease Agreements, of which the rentals are determined pursuant to the market rental appraised by CB Richard Ellis Limited, an independent third party.

CONTINUING CONNECTED TRANSACTIONS (CONTINUED)

CONTINUING CONNECTED TRANSACTIONS WITH THE FORMER CONTROLLING SHAREHOLDER

1. **Property lease**

The Group entered into the Old Property Lease Agreements with Zhengzhou Gas Group for leasing the occupation rights in certain properties. The agreements were expired on 31 October 2010. Please refer to item 1 under the paragraph headed "CONTINUING CONNECTED TRANSACTIONS WITH EXISTING CONTROLLING SHAREHOLDER" for details of the Old Property Lease Agreements.

2. **Land use right lease**

The land use rights lease agreements between the Company and Zhengzhou Gas Group that are disclosed in the announcement of the Company dated 11 June 2008 remains effective. Details of the agreements are set out below:

In 2008, the Company leased several plots of land from Zhengzhou Gas Group under the land use rights lease agreements dated 16 January 2002 as supplemented by the First and the Second Supplemental Agreements dated 30 September 2002 and 4 January 2007 respectively ("Land Use Rights Lease Agreements"). On 6 June 2008, the Company entered into the Third Supplemental Agreement with Zhengzhou Gas Group, pursuant to which the parties thereto agreed to adjust the annual rentals of the land use rights leased to the Company under the Land Use Rights Lease Agreements. The annual rental under the Land Use Rights Lease Agreements as supplemented by the Third Supplemental Agreement is RMB1,355,226.5 (payable quarterly in cash financed by internal resources) which has been determined after arm's length negotiations between the Company and Zhengzhou Gas Group with reference to the fair market rental of RMB1,355,226.5 as at 31 May 2008 as appraised by CB Richard Ellis Limited, an independent third party.

Further, the Company and Zhengzhou Gas Group also entered into the New Land Use Rights Lease Agreement (Renewal) on 6 June 2008, pursuant to which Zhengzhou Gas Group agreed to continue to lease to the Company the land use right in relation to the land located at No. 108, Jingguang Road South, Er Qi District, Zhengzhou City, Henan Province for a period commencing from 1 June 2008 to 31 May 2011. The annual rental under the New Land Use Rights Lease Agreement (Renewal) is RMB92,738.4 (payable quarterly in cash financed by internal resources) which has been determined after arm's length negotiation between the Company and Zhengzhou Gas Group with reference to fair market rental of RMB92,738.4 as at 31 May 2008 as appraised by CB Richard Ellis Limited, an independent third party.

Pursuant to Rule 14A.25 of the Listing Rules, the transactions under the Old Property Lease Agreements as disclosed in the announcement of the Company dated 5 November 2007, the Land Use Rights Lease Agreements as supplemented by the Third Supplemental Agreement and the New Land Use Rights Lease Agreement (Renewal) constitute a series of transactions and accordingly the annual rentals under the Old Property Lease Agreements, the Land Use Rights Lease Agreements as supplemented by the Third Supplemental Agreement and the New Land Use Rights Lease Agreement (Renewal) shall be aggregated.

CONTINUING CONNECTED TRANSACTIONS (CONTINUED)

CONTINUING CONNECTED TRANSACTIONS WITH THE FORMER CONTROLLING SHAREHOLDER (CONTINUED)

2. **Land use right lease** (continued)

The annual cap for the transactions under the Land Use Rights Lease Agreements as supplemented by the Third Supplemental Agreement and the New Land Use Rights Lease Agreement (Renewal) for each of the years ended 31 December 2008, 2009 and 2010 is RMB1,447,965, and that for the five months ending 31 May 2011 is RMB603,319 which are based on the valuation of the fair market rentals of the land use rights conducted by CB Richard Ellis Limited, an independent valuer.

The Committee confirmed that during the Year all the continuing connected transactions of the Group, including the above mentioned continuing connected transactions were entered into:

1. in the ordinary and usual course of business of the Group;

2. either on normal commercial terms or, where there are no sufficient comparables, on terms no less favourable than the terms the Company could have obtained from an independent third party; and

3. in accordance with the terms of the agreements governing the relevant transactions and on the terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

NON-COMPETITION UNDERTAKING AND INVESTMENT OPTION

During the period commencing from 1 January 2010 to 27 August 2010 (being the latest date on which Zhengzhou Gas Group remained as the controlling shareholder of the Company), the Committee was not aware of the existence of any transactions in relation to the agreement of non-competition undertaking and investment option dated 16 April 2006 between the Company and Zhengzhou Gas Group.

As at the date of this annual report, the Committee consists of independent non-executive Directors, namely:

Mr. Yu Jinsong *(Chairman)*
Mr. Zhang Jianqing
Ms. Wang Xiuli
Mr. Wong Ping

16 March 2011

CORPORATE GOVERNANCE REPORT

The Company has always endeavoured to strengthen its corporate governance. Through strengthening the functions of committees under the Board and promoting the formation of internal control systems, the Company has incorporated the core value of corporate governance, such as adopting an open, reasonable and restrictive decision-making process and taking into account the Company's and the shareholders' interests as a whole in the process of decision-making etc., into the Company's daily operation, with an aim of providing its shareholders with a transparent, open and accountable framework of corporate governance.

CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules during 2010.

SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules so that securities transactions by the Directors and Supervisors have to be carried out according to the Model Code. Having made specific enquiries of all Directors and Supervisors, all the Directors and Supervisors confirmed that they had complied with the relevant provisions of the Model Code during 2010.

The interests in the Company's securities held by the Directors and Supervisors as at 31 December 2010 and the extent of compliance with the Model Code have been disclosed in the Report of the Directors of this annual report.

THE BOARD

COMPOSITION OF THE BOARD

As at the date of this annual report, the board of the Company comprises the following Directors, including (i) executive Directors: Mr. Yan Guoqi (Chairman), Mr. Li Jinlu and Mr. Li Hongwei; (ii) non-executive Directors: Mr. Song Jinhui, Mr. Zhang Wushan, Mr. Ding Ping and Mr. Liu Jianwen; and (iii) independent non-executive Directors: Mr. Yu Jinsong, Mr. Zhang Jianqing, Ms. Wang Xiuli and Mr. Wong Ping. Mr. Song Jinhui tendered resignation to the Board as a non-executive Director during the Year. The resignation took effect upon the approval of the appointment of Mr. Li Yantong as a new non-executive director at the extraordinary general meeting of the Company held on 21 February 2011.

Biographical details of the Directors are set out in the section "Profiles of Directors, Supervisors and Senior Management" of this annual report. All of the executive Directors of the Company have sufficient requisite experience essential for them to perform their duties efficiently.

The Company has appointed four independent non-executive Directors, at least one of them has appropriate accounting expertise, who can help the management to formulate the Group's development strategies, ensure the Board preparing its financial and other mandatory reports in strict compliance with required standards, and ensure the Company maintaining appropriate systems to protect the interests of shareholders and the Company. The Board has received the annual written confirmation in respect of their independence from each of the independent non-executive Directors, and believes that their independence is in compliance with the Listing Rules as at the date of this annual report.

THE BOARD (CONTINUED)

OPERATION OF THE BOARD

Before each Board meeting, the Directors are provided with a detailed agenda, sufficient relevant information and a reasonable notice period by the Company, so as to enable the Directors to attend the meeting and make appropriate decisions in relation to the matters to be discussed therein. All Directors are given an opportunity to include matters of their concern in the agenda of the Board meeting. If the material interest of any Director or any of his/her associate is involved in any resolution of the Board meeting, such Director must abstain from voting and should not be counted in the quorum of the meeting.

All Directors are free to access all the corporate information for the purpose of discharging their duties and responsibilities as Directors. The Directors may seek independent professional advice, if it is deemed necessary, at the Company's expenses. In addition, all Directors may have unrestricted access to the senior management of the Company.

Matters that need to be determined or considered by the Board include overall group strategies, substantial acquisitions and disposals, annual budget, annual and interim results, recommendations on the appointment or re-election of Directors, distribution of dividends and other substantial operating and financial matters. General daily and routine operating decision-makings are handled by the management.

In 2010, the Board held a total of 9 meetings. The attendance record of each Director is set out below:

Name of Directors	Attendance	Number of meetings held during the term of the individual Directors in 2010	Attendance rate	Notes
Executive Directors				
Yan Guoqi	9	9	100%	
Li Jinlu	9	9	100%	
Li Hongwei	9	9	100%	
Non-executive Directors				
Song Jinhui	8	9	89%	Resigned on 21 February 2011
Zhang Wushan	9	9	100%	
Ding Ping	9	9	100%	
Liu Jianwen	9	9	100%	
Independent Non-executive Directors				
Yu Jinsong	8	9	89%	
Zhang Jianqing	9	9	100%	
Wang Xiuli	9	9	100%	
Wong Ping	9	9	100%	

THE BOARD (CONTINUED)

The Board has established subordinate committees in relation to corporate governance, namely, the Audit Committee, the Remuneration and Appraisal Committee, the Nomination Committee and the Independent Board Committee, which are responsible for supervising and controlling respective aspects of the Company. Each committee has its own written terms of reference which clearly defines its authorities and duties.

AUDIT COMMITTEE

The Company established its Audit Committee on 30 September 2002 with terms of reference in compliance with Rules 3.21 and 3.22 of the Listing Rules. The primary duties of the Audit Committee include review and supervision of the financial reporting process and internal control system of the Company and providing recommendations to the Board.

The Audit Committee comprises three members, namely, Mr. Zhang Wushan, Mr. Zhang Jianqing and Ms. Wang Xiuli. Mr. Zhang Wushan is a non-executive Director while Mr. Zhang Jianqing and Ms. Wang Xiuli are independent non-executive Directors. Ms. Wang Xiuli is the chairperson of this Committee.

As at the date of this report, the Audit Committee held a total of five meetings, at which it reviewed, together with the senior management and the internal and external auditors of the Company, the internal and independent audit results, the accounting principles and practices adopted by the Group, the listing and other relevant regulations, and discussed the audit and internal control system, and financial reporting matters (such as recommending the Board to approve the interim and annual results for 2010).

The Audit Committee reports to the Board after each meeting and suggests matters which need close attention of the Board, and reports any matters which it considers an action or improvement is necessary and makes relevant recommendations.

The attendance record of each Audit Committee member is set out below:

Committee member	Attendance	Number of meetings held during the term of the individual committee member in 2010	Attendance rate	Notes
Zhang Wushan	5	5	100%	
Zhang Jianqing	5	5	100%	
Wang Xiuli	5	5	100%	

REMUNERATION AND APPRAISAL COMMITTEE

The Company established its Remuneration and Appraisal Committee in 2002, which is mainly responsible for providing recommendations to the Board in relation to the remuneration policies and structure of the Directors and the senior management.

The Remuneration and Appraisal Committee comprises five members, including Mr. Yan Guoqi, Mr. Li Jinlu, Ms. Wang Xiuli, Mr. Yu Jinsong, and Mr. Zhang Jianqing. Most of them are independent non-executive Directors. The Chairman of the Committee is Mr. Zhang Jianqing.

As at the date of this report, the Remuneration and Appraisal Committee held one meeting. At the meeting, the Committee reviewed the incentive bonus given to the Directors and senior management in 2010. The Committee concluded that the amount of the incentive bonus given to each Director and senior management was reasonable after taking into account the overall financial performance of the Company and individual performance of each Director and member of the senior management.

The attendance record of each member of the Remuneration and Appraisal Committee is set out below:

Committee member	Attendance	Number of meetings held during the term of the individual committee member in 2010	Attendance rate	Notes
Yan Guoqi	1	1	100%	
Li Jinlu	1	1	100%	
Yu Jinsong	1	1	100%	
Zhang Jianqing	1	1	100%	
Wang Xiuli	1	1	100%	

NOMINATION COMMITTEE

The Nomination Committee of the Company is mainly responsible for making recommendations to the Board in relation to appointment of Directors and senior management.

The Nomination Committee comprises three members, including Mr. Yan Guoqi, Mr. Yu Jinsong and Mr. Zhang Jianqing. Most of them are independent non-executive Directors and the Chairman of the Committee is Mr. Yu Jinsong.

As at the date of this report, the Nomination Committee held four meetings, for the purpose of nominating new Directors and senior management members of the Company mainly based on criteria such as educational background, working experience and the talent needed by the Company. The Committee had assessed a candidate for non-executive Director and four candidates for senior management members during the Year and formed an opinion on such nomination.

The attendance record of each Nomination Committee member is set out below:

Committee member	Attendance	Number of meetings held during the term of the individual committee member in 2010	Attendance rate	Notes
Yan Guoqi	4	4	100%	
Yu Jinsong	3	4	75%	
Zhang Jianqing	4	4	100%	

INDEPENDENT BOARD COMMITTEE

The Company established the Independent Board Committee in 2007, which is responsible for reviewing the transactions where conflicts of interests may arise between the Group and its connected persons (including but not limited to the controlling shareholder of the Company and its associates) and making collective decisions on behalf of the Board in respect of the contemplated transactions among the Group, its connected persons and their associates where conflicts of interests may arise.

The Independent Board Committee comprises four members. The Chairman of the Committee is Mr. Yu Jinsong, an independent non-executive Director; other members are Mr. Zhang Jianqing, Ms. Wang Xiuli and Mr. Wong Ping, all of whom are independent non-executive Directors.

The Independent Board Committee held three meetings in 2010. It reviewed and approved connected transaction and continuing connected transactions between the Group and its immediate controlling shareholder, ZCRG, and its associate.

INDEPENDENT BOARD COMMITTEE (CONTINUED)

The attendance record of each Independent Board Committee member is set out below:

Committee member	Attendance	Number of meetings held during the term of the individual committee member in 2010	Attendance rate	Notes
Yu Jinsong	2	3	67%	
Zhang Jianqing	3	3	100%	
Wang Xiuli	3	3	100%	
Wong Ping	3	3	100%	

CHAIRMAN AND GENERAL MANAGER

During the year ended 31 December 2010, the posts of Chairman and General Manager have been held by different persons. The separation of the roles and functions of the Chairman and the General Manager ensures a clear distinction in the Chairman's responsibility to manage the Board and the General Manager's responsibility to manage the Company's business activities.

TERM OF THE DIRECTORS

The Directors (including independent non-executive Directors) have an appointment term of three years, and are subject to re-election according to the articles of association of the Company.

REMUNERATION OF THE AUDITOR

For the year ended 31 December 2010, the Audit Committee of the Company had reviewed the performance of Deloitte Touche Tohmatsu ("Deloitte") as the auditor of the Company. For the year ended 31 December 2010, the audit fee paid or payable to Deloitte is approximately RMB1,400,000 (2009: approximately RMB2,468,000, the auditor being Messrs. Ernst & Young).

Moreover, the Company also sets up the "Management System for Outsourcing Non-Audit Services", which further ensures the independence of external auditors who are engaged to audit the Company's accounts.

RESPONSIBILITY OF PREPARATION OF THE ACCOUNTS

The Directors acknowledge their responsibility of preparing the accounts of the Company. As at 31 December 2010, the Directors are not aware of any material uncertain events or circumstances which may have a significant impact on the Company's ability to operate as an on-going concern. Accordingly, the Directors have prepared the accounts of the Company on an on-going concern basis. The responsibility of the auditors with respect to financial reporting are set out in the Independent Auditor's Report in this annual report.

INTERNAL CONTROL SYSTEM

The Board conducts a review of the internal control systems of the Company and its subsidiaries every year in order to ensure their effectiveness and review its efficiency. The Board assesses the effectiveness of the internal control systems based on five criteria, including environment monitoring, risk assessment, activity supervision, information and communication, and continuous assessment of the procedures of the internal control systems. The directors consider that the Company has implemented a series of procedures to safeguard the Company's assets against unauthorised use or misappropriation, maintain accounting records properly and ensure the reliability of financial information.

In addition, the Company has also established an internal audit division to assist the management to conduct regular and ongoing supervision and inspection on the establishment and implementation of internal control process, so as to identify and solve any problems in a timely manner. Other than the audits carried out in the normal course of our business, the internal audit division also conducted a thorough operational audit during the Year, covering five important areas of management, namely environment control, financial management, project management, procurement and warehouse management, and sales management, which is critical to the Company in terms of risk avoidance and further enhancement of the management of the Company.

INVESTOR RELATIONS

The Company will meet with its shareholders and respond to their enquiries at the annual general meeting. In addition, the Company communicates with media reporters, securities analysts, fund managers and investors on a regular basis and responds to their enquiries, so as to give them a clear picture of the Company's achievements in its business, management and other aspects.

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

TO THE MEMBERS OF ZHENGZHOU GAS COMPANY LIMITED
(established in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Zhengzhou Gas Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 51 to 101, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

16 March 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	Notes	**2010** **RMB'000**	2009 RMB'000 (Restated)
Turnover	9	**1,527,807**	1,258,161
Cost of sales		**(1,099,514)**	(879,303)
Gross profit		**428,293**	378,858
Other income		**5,372**	6,446
Selling and distribution expenses		**(66,238)**	(48,779)
Administrative expenses		**(92,787)**	(78,799)
Other expenses and losses		**(1,259)**	(16,597)
Finance costs	10	**–**	(1,662)
Share of (losses) profits of an associate		**(3,544)**	4,764
Profit before taxation		**269,837**	244,231
Taxation	11	**(62,938)**	(63,513)
Profit and total comprehensive income for the year	12	**206,899**	180,718
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		**204,450**	178,710
Non-controlling interests		**2,449**	2,008
		206,899	180,718
		RMB	RMB (Restated)
Earnings per share	15		
Basic		**1.634**	1.428

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	Notes	**31.12.2010 RMB'000**	31.12.2009 RMB'000 (Restated)	1.1.2009 RMB'000 (Restated)
Non-current assets				
Property, plant and equipment	16	**1,041,962**	841,526	666,115
Prepaid lease payments	17	**109,868**	112,584	113,949
Interest in an associate	18	**26,194**	32,863	32,025
Deferred tax assets	26	**24,497**	9,327	7,398
		1,202,521	996,300	819,487
Current assets				
Inventories	19	**21,520**	18,367	15,460
Trade and other receivables	20	**240,245**	196,921	126,249
Prepaid lease payments	17	**2,852**	2,950	1,749
Amounts due from customers for contract work	21	**2,964**	933	954
Amount due from immediate holding company	22	**3,200**	–	–
Amounts due from fellow subsidiaries	22	**712**	414	143
Pledged bank deposits	23	**–**	26,450	25,250
Fixed deposits held at banks with maturity over three months	23	**45,000**	30,000	–
Bank balances and cash	23	**357,342**	291,732	368,169
		673,835	567,767	537,974
Current liabilities				
Trade and other payables	24	**763,628**	535,469	466,556
Amounts due to customers for contract work	21	**81,015**	115,414	34,468
Amount due to immediate holding company	22	**110**	–	–
Amounts due to fellow subsidiaries	22	**2,173**	444	–
Bank borrowings	25	**–**	–	40,000
Taxation payable		**23,466**	29,816	18,263
		870,392	681,143	559,287
Net current liabilities		**(196,557)**	(113,376)	(21,313)
Net assets		**1,005,964**	882,924	798,174
Capital and reserves				
Share capital	27	**125,150**	125,150	125,150
Reserves		**857,212**	734,685	669,111
Equity attributable to owners of the Company		**982,362**	859,835	794,261
Non-controlling interests		**23,602**	23,089	3,913
		1,005,964	882,924	798,174

The consolidated financial statements on pages 51 to 101 were approved and authorised for issue by the Board of Directors on 16 March 2011 and are signed on its behalf by:

Yan Guoqi	**Li Jinlu**
Director	*Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Attributable to owners of the Company						Non-	
	Share capital	**Share premium**	**Other reserves**	**Capital reserve**	**Retained profits**	**Total**	**controlling interests**	**Total equity**
	RMB'000	RMB'000	RMB'000 (Note a)	RMB'000 (Note b)	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2009, as previously stated	125,150	101,026	185,875	28,150	340,749	780,950	3,913	784,863
Effect of change in accounting policies (Note 2)	–	–	–	–	13,311	13,311	–	13,311
At 1 January 2009, as restated	125,150	101,026	185,875	28,150	354,060	794,261	3,913	798,174
Profit and total comprehensive income for the year	–	–	–	–	178,710	178,710	2,008	180,718
Contribution from non-controlling interests of a subsidiary	–	–	–	–	–	–	18,000	18,000
Transfers between categories	–	–	33,442	–	(33,442)	–	–	–
Dividends paid (Note 14)	–	–	–	–	(113,136)	(113,136)	–	(113,136)
Dividends paid to non-controlling interests	–	–	–	–	–	–	(832)	(832)
At 31 December 2009, as restated	125,150	101,026	219,317	28,150	386,192	859,835	23,089	882,924
Profit and total comprehensive income for the year	–	–	–	–	204,450	204,450	2,449	206,899
Transfers between categories	–	–	39,569	–	(39,569)	–	–	–
Dividends paid (Note 14)	–	–	–	–	(81,923)	(81,923)	–	(81,923)
Dividends paid to non-controlling interests	–	–	–	–	–	–	(1,936)	(1,936)
At 31 December 2010	**125,150**	**101,026**	**258,886**	**28,150**	**469,150**	**982,362**	**23,602**	**1,005,964**

Notes:

(a) Other reserves comprise of statutory surplus reserve and general surplus reserve.

In accordance with the Company Law of the People's Republic of China (the "PRC") and the respective articles of association of the Company and its subsidiaries, each of the Company and its subsidiaries is required to allocate 10% of its profits after tax, as determined in accordance with relevant accounting principles and financial regulations applicable to entities established in the PRC, to the statutory surplus reserve until such reserve reaches 50% of its registered capital. In addition, appropriations to general surplus reserve are made out of profit after taxation of the Company and subsidiaries while the amount and allocation basis are decided by its board of directors annually. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserve and general surplus reserve may be converted to increase paid-up capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

(b) Capital reserve arises from the acquisition of non-controlling interests in a subsidiary.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	2010 RMB'000	2009 RMB'000 (Restated)
OPERATING ACTIVITIES		
Profit before taxation	**269,837**	244,231
Adjustments for:		
Interest expense	**–**	1,662
Interest income	**(3,977)**	(4,013)
Share of losses (profits) of an associate	**3,544**	(4,764)
Release from prepaid lease payments	**2,814**	2,288
Depreciation of property, plant and equipment	**55,914**	43,322
Impairment loss on property, plant and equipment	**–**	3,725
Net reversal of impairment loss on trade receivables	**(431)**	(45)
Write down of inventories to net realisable value	**525**	925
Loss on property, plant and equipment written off	**426**	6,183
Operating cash flows before movements in working capital	**328,652**	293,514
Increase in inventories	**(3,678)**	(3,832)
Increase in trade and other receivables	**(43,319)**	(70,201)
(Increase) decrease in amounts due from customers for contract work	**(2,031)**	21
Increase in trade and other payables	**228,159**	68,913
(Decrease) increase in amounts due to customers for contract work	**(34,399)**	80,946
Cash generated from operations	**473,384**	369,361
PRC Enterprise Income Tax paid	**(84,458)**	(53,889)
NET CASH FROM OPERATING ACTIVITIES	**388,926**	315,472
INVESTING ACTIVITIES		
Withdrawal of fixed deposits held at banks with maturity over three months	**30,000**	–
Withdrawal of pledged bank deposits	**26,450**	25,250
Interest received	**4,403**	3,587
Dividend received from an associate	**3,125**	3,926
Payments for acquisition of property, plant and equipment	**(256,776)**	(228,641)
Placement of fixed deposits held at banks with maturity over three months	**(45,000)**	(30,000)
Advances to immediate holding company	**(3,200)**	–
Advances to fellow subsidiaries	**(298)**	(271)
Placement of pledged bank deposits	**–**	(26,450)
Payment for acquisition of prepaid lease payments	**–**	(2,124)
NET CASH USED IN INVESTING ACTIVITIES	**(241,296)**	(254,723)

For the year ended 31 December 2010

	2010 RMB'000	2009 RMB'000 (Restated)
FINANCING ACTIVITIES		
Advances from fellow subsidiaries	**1,729**	444
Advances from immediate holding company	**110**	–
Dividends paid	**(81,923)**	(113,136)
Dividends paid to non-controlling interests	**(1,936)**	(832)
Repayments of bank borrowings	**–**	(40,000)
Interest paid on bank borrowings	**–**	(1,662)
Contribution from non-controlling interests of a subsidiary	**–**	18,000
NET CASH USED IN FINANCING ACTIVITIES	**(82,020)**	(137,186)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**65,610**	(76,437)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**291,732**	368,169
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTING BANK BALANCES AND CASH	**357,342**	291,732

1. GENERAL

The Company was established in the People's Republic of China (the "PRC") on 18 December 2000 as a joint stock limited company under the Company Law of the PRC. The Company's H shares are listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company's former parent was Zhengzhou Gas Group Co., Ltd. ("Zhengzhou Gas Group"), which was established in the PRC, and the former ultimate controlling shareholder was Zhengzhou Municipal People's Government. During the year ended 31 December 2010, China Resources Gas Group Limited ("CR Gas Group"), a company incorporated in Bermuda with its shares listed on the Stock Exchange, acquired a substantial equity interest in the Company through its subsidiaries and became the parent of the Company, and China Resources National Corporation ("CRNC") became the ultimate holding company of the Company.

The consolidated financial statements are presented in Renminbi which is the functional currency of the Company.

The Company and its subsidiaries are principally engaged in the sales of natural gas, pressure control equipment and gas appliances, the construction of gas pipelines and the provision of renovation services of gas pipelines. The registered office and principal place of business of the Company is located at 352 Longhai Road West, Zhengzhou, Henan Province, the PRC 450006.

In preparing the consolidated financial statements, the directors of the Company have given consideration to the future liquidity of the Group in light of the fact that its current liabilities exceeded its current assets by approximately RMB196,557,000 as at 31 December 2010. There was a receipt in advance of RMB434,384,000 in the current liabilities which was deferred revenue but not amount payable as a liability in nature. The Group had net current assets of RMB237,827,000 after deducting such receipt in advance. At the date of this report, the Group also has un-drawn but committed unsecured facilities amounting to RMB120,000,000.

Taking into account of the internally generated funds and the availability of credit facilities, the directors of the Company are confident that the Group will be able to meet its financial obligations when they fall due in the foreseeable future and be able to operate on a going concern basis. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

2. PRIOR PERIOD ADJUSTMENTS

In the prior year, the Group recognised income from construction contracts for gas connection upon the completion of construction of pipelines for users and connection of such pipelines to the Group's existing gas pipeline network, which is concurrent with the "fire ignition ceremony". Upon the acquisition of an equity interest in the Company by CR Gas Group, the management reassessed the accounting policies of revenue recognition in respect of gas connection and adopted percentage of completion method (details are set out in Note 5) in order to be consistent with the accounting policies adopted by CR Gas Group.

Apart from the change in accounting polices in respect of construction contracts for gas connection, there are reclassifications regarding offsetting deposits paid to suppliers (included in trade and other receivables) with trade payables as at 31 December 2009 and 1 January 2009. The Group has a current legally enforceable right to set off the trade payables with the deposits paid to suppliers and settles the amounts on net basis, accordingly, the trade payables are presented on net basis after offsetting the deposits paid to suppliers by the Group.

2. PRIOR PERIOD ADJUSTMENTS (CONTINUED)

(a) The effect of change in accounting policies on the consolidated statement of comprehensive income during the year ended 31 December 2009 is as follows:

	2009 RMB'000 (Originally stated)	Effect of change in accounting policies RMB'000	2009 RMB'000 (Restated)
Turnover	1,244,420	13,741	1,258,161
Cost of sales	(866,065)	(13,238)	(879,303)
Gross profit	378,355	503	378,858
Other income	6,446	–	6,446
Selling and distribution expenses	(48,779)	–	(48,779)
Administrative expenses	(78,799)	–	(78,799)
Other expenses and losses	(16,597)	–	(16,597)
Finance costs	(1,662)	–	(1,662)
Share of profits of an associate	4,764	–	4,764
Profit before taxation	243,728	503	244,231
Taxation	(63,269)	(244)	(63,513)
Profit and total comprehensive income for the year	180,459	259	180,718
Profit and total comprehensive income for the year attributable to:			
Owners of the Company	178,451	259	178,710
Non-controlling interests	2,008	–	2,008
	180,459	259	180,718

(b) The effect of change in accounting policies on the result for the year ended 31 December 2010 by line items is as follows:

	RMB'000
Decrease in turnover	(8,693)
Decrease in cost of sales	4,554
Decrease in taxation	1,035
Decrease in profit and total comprehensive income for the year	(3,104)

2. PRIOR PERIOD ADJUSTMENTS (CONTINUED)

(c) The effect of change in accounting policies and the reclassifications on the consolidated statement of financial position as at 1 January 2009 is as follows:

	1.1.2009 RMB'000 (Originally stated)	Effect of change in accounting policies RMB'000	Reclassifications RMB'000	1.1.2009 RMB'000 (Restated)
Non-current assets				
Property, plant and equipment	666,115	–	–	666,115
Prepaid lease payments	113,949	–	–	113,949
Interest in an associate	32,025	–	–	32,025
Deferred tax assets	7,398	–	–	7,398
	819,487	–	–	819,487
Current assets				
Inventories	16,414	(954)	–	15,460
Trade and other receivables	143,713	(807)	(16,657)	126,249
Prepaid lease payments	1,749	–	–	1,749
Amounts due from customers for contract work	–	954	–	954
Amounts due from fellow subsidiaries	143	–	–	143
Pledged bank deposits	25,250	–	–	25,250
Bank balances and cash	368,169	–	–	368,169
	555,438	(807)	(16,657)	537,974
Current liabilities				
Trade and other payables	536,236	(53,023)	(16,657)	466,556
Amounts due to customers for contract work	–	34,468	–	34,468
Bank borrowings	40,000	–	–	40,000
Taxation payable	13,826	4,437	–	18,263
	590,062	(14,118)	(16,657)	559,287
Net current liabilities	(34,624)	13,311	–	(21,313)
Net assets	784,863	13,311	–	798,174
Capital and reserves				
Share capital	125,150	–	–	125,150
Reserves	655,800	13,311	–	669,111
Equity attributable to owners of the Company	780,950	13,311	–	794,261
Non-controlling interests	3,913	–	–	3,913
	784,863	13,311	–	798,174

2. PRIOR PERIOD ADJUSTMENTS (CONTINUED)

(d) The effect of change in accounting policies and the reclassifications on the consolidated statement of financial position as at 31 December 2009 is as follows:

	31.12.2009 RMB'000 (Originally stated)	Effect of change in accounting policies RMB'000	Reclassifications RMB'000	31.12.2009 RMB'000 (Restated)
Non-current assets				
Property, plant and equipment	841,526	–	–	841,526
Prepaid lease payments	112,584	–	–	112,584
Interest in an associate	32,863	–	–	32,863
Deferred tax assets	9,327	–	–	9,327
	996,300	–	–	996,300
Current assets				
Inventories	19,300	(933)	–	18,367
Trade and other receivables	222,163	(1,358)	(23,884)	196,921
Prepaid lease payments	2,950	–	–	2,950
Amounts due from customers for contract work	–	933	–	933
Amounts due from fellow subsidiaries	414	–	–	414
Pledged bank deposits	26,450	–	–	26,450
Fixed deposits held at banks with maturity over three months	30,000	–	–	30,000
Bank balances and cash	291,732	–	–	291,732
	593,009	(1,358)	(23,884)	567,767
Current liabilities				
Trade and other payables	694,376	(135,023)	(23,884)	535,469
Amounts due to customers for contract work	–	115,414	–	115,414
Amounts due to fellow subsidiaries	444	–	–	444
Taxation payable	25,135	4,681	–	29,816
	719,955	(14,928)	(23,884)	681,143
Net current liabilities	(126,946)	13,570	–	(113,376)
Net assets	869,354	13,570	–	882,924
Capital and reserves				
Share capital	125,150	–	–	125,150
Reserves	721,115	13,570	–	734,685
Equity attributable to owners of the Company	846,265	13,570	–	859,835
Non-controlling interests	23,089	–	–	23,089
	869,354	13,570	–	882,924

2. PRIOR PERIOD ADJUSTMENTS (CONTINUED)

(e) The effect of change in accounting policies described above on the Group's basic earnings per share for the years ended 31 December 2009 and 2010 is as follows:

	2010	2009
	RMB	RMB
Figures before adjustment	**1.659**	1.426
Adjustment arising from change in accounting policies	**(0.025)**	0.002
Figures after adjustment	**1.634**	1.428

3. CHANGE OF DEPRECIATION RATE IN THE YEAR

In previous years, plant, machinery and equipment was depreciated over 12 years to 30 years, after taking into account the residual value. Upon the acquisition of an equity interest in the Company by CR Gas Group, the management reassessed the estimated useful life and residual value of the Group's property, plant and equipment and adopted the same depreciation rate as that of CR Gas Group. As a result, the plant, machinery and equipment are now depreciated over 5 to 20 years, after taking into account the residual value, and the change in depreciation rate has increased the depreciation charge for the year by approximately RMB4,681,000.

4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied the following new and revised standards, amendments and interpretation ("new and revised IFRSs").

IFRS 2 (Amendments)	Group cash-settled share-based payment transactions
IFRS 3 (as revised in 2008)	Business combinations
IAS 24 (revised)	Related party disclosures in revaluation to the partial exemption in paragraphs 25 to 27 for government-related entities
IAS 27 (as revised in 2008)	Consolidated and separate financial statements
IAS 39 (Amendments)	Eligible hedged items
IFRSs (Amendments)	Improvements to IFRSs issued in 2009
IFRSs (Amendments)	Amendments to IFRS 5 as part of Improvements to IFRSs issued in 2008
IFRIC 17	Distributions of non-cash assets to owners

Except as described below, the adoption of the new and revised IFRSs in the current year had no material effect on the consolidated financial statements.

4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

IAS 24 (REVISED) "RELATED PARTY DISCLOSURES"

The amendments to IAS 24 (Revised) "Related party disclosures" modify the definition of a related party and simplify related party disclosures for government-related entities. IAS 24 (Revised) provides a partial exemption from the disclosure requirements for government-related entities. The Group has early partially adopted the paragraphs 25 to 27 of IAS 24 (Revised) in the current year in advance of its effective date (annual periods beginning on or after 1 January 2011).

AMENDMENTS TO IAS 17 "LEASES"

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

In accordance with the transitional provisions set out in the amendments to IAS 17, the Group reassessed the classification of unexpired leasehold land as at 1 January 2010 based on information that existed at the inception of the leases. After reassessment, the directors of the Company concluded that no reclassification was necessary.

The Group has not early applied the following new and revised standards, amendments or interpretation that have been issued but are not yet effective, except for the partial exemption from disclosure requirement for government-related entity in accordance with IAS 24 (Revised).

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

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

The directors of the Company anticipate that the application of the new and revised standards, amendments or interpretation will have no material impact on the consolidated financial statements.

5. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis and in accordance with International Financial Reporting Standards. In addition, the consolidated financial statements include applicable disclosures required by The Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

BASIS OF CONSOLIDATION

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

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by 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 1 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 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.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVESTMENTS IN ASSOCIATES

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

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

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

Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

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

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

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from a construction contract for gas connection is recognised when the outcome of a construction contract for gas connection can be estimated reliably and the stage of completion at the end of reporting period can be measured reliably. Revenue from and expenses on construction contracts for gas connection are recognised using the percentage of completion method, measured by reference to the costs incurred during the year relative to the estimated total costs of the contract. When the outcome of a construction contract for gas connection cannot be estimated reliably, revenue is recognised only to the extent of contract cost incurred that is probable to be recoverable.

Connection fee income is recognised upon the connection of pipelines of customers to the Group's existing gas pipelines.

Revenue from gas supply is recognised when gas is used by customers.

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

Service income is recognised when services are provided.

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

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

CONSTRUCTION CONTRACTS

When the outcome of a construction contract for gas connection can be estimated reliably and the stage of contract completion at the end of the reporting period can be measured reliably, contract costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period on the same basis as contract revenue is recognised.

When the outcome of a construction contract for gas connection cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred. When it is probable that total contract costs will exceed contract revenue, the expected loss is recognised as an expense immediately.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CONSTRUCTION CONTRACTS (CONTINUED)

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

PROPERTY, PLANT AND EQUIPMENT

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

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account their estimated residual values, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets commences when the assets are ready for their intended use.

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

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL INSTRUMENTS

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

A financial asset and a financial liability shall be offset and the net amount presented in the consolidated statement of financial position when, and only when, an entity: (i) currently has a legally enforceable right to set off the recognised amounts; and (ii) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Financial assets

The Group's financial assets are classified into loans and receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amount due from immediate holding company, amounts due from fellow subsidiaries, pledged bank deposits, fixed deposits held at banks with maturity over three months and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policies on impairment loss on financial assets below).

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

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL INSTRUMENTS (CONTINUED)

Financial assets (continued)

Impairment of financial assets

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

Objective evidence of impairment could include:

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

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

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

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

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL INSTRUMENTS (CONTINUED)

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into other financial liabilities.

Financial liabilities

Financial liabilities, including trade and other payables, bank borrowings, amount due to immediate holding company and amounts due to fellow subsidiaries are measured at amortised cost, using the effective interest method subsequent to initial recognition.

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

Equity instruments

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

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in other comprehensive income is recognised in profit or loss.

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

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LEASING

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

As lessee

Operating lease payments are recognised as an expense on a straight-line basis over the relevant lease term. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a liability and release as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and building

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

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is released over the lease term on a straight-line basis.

BORROWING COSTS

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

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

RETIREMENT BENEFIT COSTS

Payments to state-managed retirement benefit schemes with defined contribution are charged as an expense when employees have rendered service entitling them to the contributions.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

TAXATION

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associate, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

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

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FOREIGN CURRENCIES

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which it operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

IMPAIRMENT

At the end of the reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

6. KEY SOURCES OF ESTIMATION UNCERTAINTY

The Group makes estimates and assumptions concerning the future in preparing accounting estimates. The resulting accounting estimates may not be equal to the actual results. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both the current and future periods. The key estimates and assumptions that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

CONSTRUCTION CONTRACTS

Revenue from construction contract is recognised under the percentage of completion method which requires estimation made by management. Anticipated losses are fully provided on contracts when identified. The Group's management estimates the contract revenue, contract costs and foreseeable losses of construction based on the budgets prepared for the contracts. Because of the nature of the activities undertaken in construction businesses, management reviews and revises the estimates of contract costs in the budget prepared for each contract as the contract progresses. Where the actual contract costs are more than expected, additional losses may need to be recognised.

6. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

ESTIMATION OF USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT

Management estimates the useful lives of property, plant and equipment based on the expected lifespan of those property, plant and equipment. The useful lives of property, plant and equipment could change significantly as a result of technical obsolescence. When the actual useful lives of property, plant and equipment due to the change of commercial and technological environment are different from their estimated useful lives, such difference will impact the depreciation charges and the amounts of assets written down for future periods.

The carrying amount of property, plant and equipment at 31 December 2010 is RMB1,041,962,000 (31 December 2009: RMB841,526,000 and 1 January 2009: RMB666,115,000).

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

The Group assesses annually whether property, plant and equipment have any indication of impairment, in accordance with the relevant accounting policies. If such indication exists, the recoverable amounts of property, plant and equipment are determined based on value in use calculations. These calculations and valuations require the use of judgement and estimates on future operating cash flows and discount rates adopted. In case where the recoverable amounts of property, plant and equipment assessed are less than expected, a material recognition of impairment of property, plant and equipment may arise, which would be recognised in profit or loss in the period in which such recognition takes place.

Impairment loss on property, plant and equipment nil (2009: RMB3,725,000) was charged to profit or loss for the year.

ALLOWANCE FOR DOUBTFUL DEBTS

The Group makes allowance for doubtful debts based on an assessment of the recoverability of debtors. Allowances are made on trade debtors whenever there is any objective evidence that the balances may not be collectible. The Group makes judgement in assessing the collectability based on observable data including creditworthiness and payment history of the customers (details are set out in Note 20). When objective evidence for allowance exists, the amount of allowance is the difference between the carrying amounts of the debts and the present value of estimated future cash flows, discounted at the effective interest rate. Where the expectation on the recoverability of the debts is different from the original estimate, such difference will impact the carrying amounts of debtors and doubtful debt expenses in the periods in which such estimate has been changed.

The carrying amount of trade debtors, net of allowance, at 31 December 2010 is RMB168,738,000 (31 December 2009: RMB161,379,000 and 1 January 2009: RMB104,926,000).

6. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

ALLOWANCE FOR INVENTORIES

The Group makes allowance for inventories based on an assessment of the net realisable value of inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than the cost of inventories. The identification of obsolete inventories requires the use of judgement and estimates on the conditions and usefulness of the inventories. In cases where the net realisable value of inventories assessed are less than expected, a material recognition of allowance for inventories may arise, which would be recognised in profit or loss in the period in which such recognition takes place.

At 31 December 2010, the carrying amount of inventories is RMB21,520,000 (31 December 2009: RMB18,367,000 and 1 January 2009: RMB15,460,000).

INCOME TAXES

As at 31 December 2010, a deferred tax asset of RMB24,497,000 (31 December 2009: RMB9,327,000 and 1 January 2009: RMB7,398,000) in relation to deductible temporary differences has been recognised in the Group's consolidated statement of financial position. No deferred tax asset has been recognised on the tax losses of RMB4,058,000 (31 December 2009: RMB1,221,000 and 1 January 2009: nil) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated or actual taxable temporary differences are more or less than expected, a material recognition or reversal of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such recognition or reversal takes place.

7. CAPITAL RISK MANAGEMENT

The Group manages its capital to maintain a balance between continuity of cash flows from operating activities and the flexibility through the use of bank borrowings. The Group also monitors the current and expected liquidity requirements and its compliance with lending covenants regularly to ensure that sufficient working capital and adequate committed lines of funding are maintained to meet its liquidity requirements.

The capital structure of the Group consists of debts, net of bank balances and cash and equity attributable to owners of the Company, comprising issued capital, retained profits and other reserves.

The management of the Group reviews the capital structure on a regular basis. As part of this review, management considers the cost of capital and the associated risk, and take appropriate actions to adjust the Group's capital structure through the payment of dividends, new share issues as well as the issue of new debts or the redemption of existing debts.

8. FINANCIAL INSTRUMENTS

CATEGORIES OF FINANCIAL INSTRUMENTS

	31.12.2010	31.12.2009	1.1.2009
	RMB'000	RMB'000	RMB'000
		(Restated)	(Restated)
Financial assets			
Loans and receivables			
(including cash and cash equivalents)	**619,219**	522,578	525,631
Financial liabilities			
At amortised cost	**277,300**	163,918	125,118

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's financial instruments include trade and other receivables, amount due from/to immediate holding company, amounts due from/to fellow subsidiaries, pledged bank deposits, bank balances and cash, fixed deposits held at banks with maturity over three months, trade and other payables and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. In order to minimise the credit risk, the Group has policies in place for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

Before accepting any new customer, the Group carries out searches on the creditability of the new customer and assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed once a year.

In addition, the Group reviews the recoverability of each individual trade debt on a regular basis to ensure that adequate impairment losses are made for irrecoverable amounts. For deposits paid to suppliers, the Group assesses the credit quality of the suppliers before payments and reviews the recoverability on a regular basis. In this regard, the Group considers that the credit risk is significantly reduced.

The credit risk on bank deposits is limited because the counterparties are financial institutions with high credit standing.

8. FINANCIAL INSTRUMENTS (CONTINUED)

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (continued)

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers.

At 31 December 2010, the Group has concentration of credit risk in relation to the receivables from immediate holding company and fellow subsidiaries amounting to RMB3,200,000 and RMB712,000 (31 December 2009: nil and RMB414,000 and 1 January 2009: nil and RMB143,000), respectively. In order to minimise the credit risk, the management has regularly reviewed the recoverable amount of each receivable from its immediate holding company and fellow subsidiaries to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on deposits paid to suppliers in the PRC gas industry is concentrated on certain well-known suppliers. The management have considered the strong financial background and good creditability of those suppliers and believe there is no significant credit risk.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest (if any) and principal cash flows.

	Weighted average interest rate	On demand	Less than 1 year	Total undiscounted cash flows	Carrying amounts
	%	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2010					
Trade and other payables	**–**	**116,285**	**158,732**	**275,017**	**275,017**
Amount due to immediate holding company	**–**	**110**	**–**	**110**	**110**
Amounts due to fellow subsidiaries	**–**	**2,173**	**–**	**2,173**	**2,173**
		118,568	**158,732**	**277,300**	**277,300**
At 31 December 2009 (restated)					
Trade and other payables	–	103,368	60,106	163,474	163,474
Amounts due to fellow subsidiaries	–	444	–	444	444
		103,812	60,106	163,918	163,918

8. FINANCIAL INSTRUMENTS (CONTINUED)

FAIR VALUE

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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

9. TURNOVER AND SEGMENT INFORMATION

Turnover represents revenue arising from sale of goods, connection fee income and income from construction contracts for gas connection for the year. An analysis of the Group's turnover for the year is as follows:

	2010	2009
	RMB'000	RMB'000
Sales of goods	**1,139,172**	948,358
Connection fee income	**231,014**	153,802
Income from construction contracts for gas connection	**157,621**	156,001
	1,527,807	1,258,161

Information reported to the executive directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 5.

The Group's operating and reportable segments under IFRS 8 "Operating segments" are as follows:

Sale and distribution of gas fuel and related products – sale of natural gas and other related products, including pressure control equipment and gas appliances

Gas connection – connection fee income and construction contracts for gas connection to the Group's pipelines

Segment results represent profit before taxation earned by each segment, excluding share of result of an associate, sundry income, central administration costs and directors' salaries. Segment assets represent all assets allocated to each segment, excluding interest in an associate and amounts due from immediate holding company and fellow subsidiaries. Segment liabilities represent all liabilities allocated to each segment, excluding amount due to immediate holding company and amounts due to fellow subsidiaries. This is the measure reported to the executive directors for the purpose of resource allocation and assessment of segment performance.

9. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

The information of segment revenue, segment results, segment assets and segment liabilities is as follows:

FOR THE YEAR ENDED 31 DECEMBER 2010

Segment revenue and results

	Sale and distribution of gas fuel and related products RMB'000	Gas connection RMB'000	Subtotal RMB'000	Inter-segment elimination RMB'000	Total RMB'000
Turnover					
External sales	1,139,172	388,635	1,527,807	–	1,527,807
Inter-segment sales*	11,190	90,316	101,506	(101,506)	–
Total	1,150,362	478,951	1,629,313	(101,506)	1,527,807
Result					
Segment results	45,241	325,058	370,299	(9,716)	360,583
Share of losses of an associate					(3,544)
Unallocated income					794
Unallocated expenses					(87,996)
Profit before taxation					269,837

* Inter-segment transactions are conducted based on market prices.

9. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2010 (CONTINUED)

Segment assets and liabilities

	Sale and distribution of gas fuel and related products RMB'000	Gas connection RMB'000	Consolidated RMB'000
ASSETS			
Segment assets	**1,619,583**	**226,667**	**1,846,250**
Interest in an associate			**26,194**
Unallocated assets			**3,912**
			1,876,356
LIABILITIES			
Segment liabilities	**375,767**	**492,342**	**868,109**
Unallocated liabilities			**2,283**
			870,392

9. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2010 (CONTINUED)

Other information

	Sale and distribution of gas fuel and related products RMB'000	Gas connection RMB'000	Unallocated RMB'000	Total RMB'000
Amounts included in the measure of segment results or segment assets:				
Additions to non-current assets	**251,864**	**4,912**	**–**	**256,776**
Depreciation	**53,083**	**2,831**	**–**	**55,914**
Write down of inventories to net realisable value	**525**	**–**	**–**	**525**
Loss on property, plant and equipment written off	**426**	**–**	**–**	**426**
Net reversal of impairment loss on trade receivables	**431**	**–**	**–**	**431**
Release from prepaid lease payments	**2,814**	**–**	**–**	**2,814**
Interest income	**2,836**	**1,141**	**–**	**3,977**
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment results or segment assets:				
Interest in an associate	**–**	**–**	**26,194**	**26,194**
Share of losses of an associate	**–**	**–**	**(3,544)**	**(3,544)**

9. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2009

Segment revenue and results (restated)

	Sale and distribution of gas fuel and related products RMB'000	Gas connection RMB'000	Subtotal RMB'000	Inter-segment elimination RMB'000	Total RMB'000
Turnover					
External sales	948,358	309,803	1,258,161	–	1,258,161
Inter-segment sales*	11,077	29,462	40,539	(40,539)	–
Total	959,435	339,265	1,298,700	(40,539)	1,258,161
Result					
Segment results	74,715	248,089	322,804	(4,347)	318,457
Share of profits of an associate					4,764
Unallocated income					1,099
Unallocated expenses					(80,089)
Profit before taxation					244,231

* Inter-segment transactions are conducted based on market prices.

9. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2009 (CONTINUED)

Segment assets and liabilities (restated)

	Sale and distribution of gas fuel and related products RMB'000	Gas connection RMB'000	Consolidated RMB'000
ASSETS			
Segment assets	1,355,769	175,021	1,530,790
Interest in an associate			32,863
Unallocated assets			414
			1,564,067
LIABILITIES			
Segment liabilities	210,729	469,970	680,699
Unallocated liabilities			444
			681,143

9. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2009 (CONTINUED)

Other information (restated)

	Sale and distribution of gas fuel and related products RMB'000	Gas connection RMB'000	Unallocated RMB'000	Total RMB'000
Amount included in the measure of segment results or segment assets:				
Additions to non-current assets	228,699	2,066	–	230,765
Depreciation	41,012	2,310	–	43,322
Impairment loss on property, plant and equipment	3,725	–	–	3,725
Write down of inventories to net realisable value	925	–	–	925
Loss on property, plant and equipment written off	6,183	–	–	6,183
Net reversal of impairment loss on trade receivables	45	–	–	45
Release from prepaid lease payments	2,288	–	–	2,288
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment results or segment assets:				
Interest in an associate	–	–	32,863	32,863
Share of profits of an associate	–	–	4,764	4,764

9. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

AT 1 JANUARY 2009

Segment assets and liabilities (restated)

	Sale and distribution of gas fuel and related products RMB'000	Gas connection RMB'000	Total RMB'000
ASSETS			
Segment assets	1,151,985	173,308	1,325,293
Interest in an associate			32,025
Unallocated assets			143
			1,357,461
LIABILITIES			
Segment liabilities	184,557	374,730	559,287

GEOGRAPHICAL INFORMATION

The Group's turnover and non-current assets (excluded deferred tax assets), based on location of customers and assets respectively, are all arisen in and located in PRC during both years.

INFORMATION ABOUT MAJOR CUSTOMERS

No single external customer contributed revenue from transactions amounting to 10% or more of the revenue of the Group during both years.

10. FINANCE COSTS

	2010 RMB'000	2009 RMB'000
Interests on bank borrowings wholly repayable within five years	–	1,662

11. TAXATION

	2010 RMB'000	2009 RMB'000 (Restated)
The tax charge (credit) comprises:		
Current taxation		
PRC Enterprise Income Tax	**78,108**	65,202
Underprovision in prior year	**–**	240
	78,108	65,442
Deferred taxation (Note 26)		
Credit for the year	**(15,170)**	(1,929)
	62,938	63,513

Profits tax arising in the PRC is calculated based on the applicable tax rates on assessable profits.

The tax charge for the year can be reconciled to the profit before taxation as follows:

	2010 RMB'000	2009 RMB'000 (Restated)
Profit before taxation	**269,837**	244,231
Tax at the applicable income tax rate of 25% (2009: 25%) (Note)	**67,459**	61,058
Tax effect of expenses not deductible for tax purposes	**550**	2,216
Tax effect of share of losses (profits) of an associate	**886**	(1,191)
Tax effect of deductible temporary differences previously not recognised	**(6,666)**	–
Tax effect of tax losses not recognised	**709**	1,190
Underprovision in prior year	**–**	240
Tax charge for the year	**62,938**	63,513

Note: The applicable income tax rate represents PRC Enterprise Income Tax rate of 25% for the two years ended 31 December 2010 and 2009, of which the Group's operations are based.

12. PROFIT FOR THE YEAR

	2010 RMB'000	2009 RMB'000
Profit for the year has been arrived at after charging:		
Staff costs		
Directors' emoluments (Note 13)	**3,197**	1,400
Other staff		
– Salaries and other benefits	**129,084**	105,564
– Retirement benefits schemes contributions	**19,633**	11,436
Total staff costs	**151,914**	118,400
Auditor's remuneration		
– Annual audit	**1,400**	1,450
– Special audit	**–**	1,018
	1,400	2,468
Depreciation of property, plant and equipment	**55,914**	43,322
Release from prepaid lease payments	**2,814**	2,288
Impairment loss on property, plant and equipment (included in other expenses and losses)	**–**	3,725
Write down of inventories to net realisable value	**525**	925
Loss on property, plant and equipment written off (included in other expenses and losses)	**426**	6,183
Operating lease rentals in respect of		
– rented premises	**11,507**	9,941
– equipment	**2,384**	2,901
and after crediting:		
Interest income	**3,977**	4,013
Net reversal of impairment loss on trade receivables	**431**	45

13. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES

DIRECTORS

The emoluments paid or payable to the directors are as follows:

		2010				
Name of director	Notes	Fees RMB'000	Salaries and other benefits RMB'000	Performance related incentive payments RMB'000	Retirement benefit schemes contributions RMB'000	Total RMB'000
Yan Guoqi		–	381	258	17	656
Li Jinlu		–	300	149	17	466
Li Hongwei		–	300	142	17	459
Song Jinhui	(a)	–	300	114	17	431
Zhang Wushan		–	303	117	17	437
Ding Ping		–	300	121	17	438
Liu Jianwen		60	–	–	–	60
Zhang Jianqing	(b)	60	–	–	–	60
Wang Xiuli	(b)	60	–	–	–	60
Wong Ping	(b)	70	–	–	–	70
Yu Jingsong	(b)	60	–	–	–	60
Yu Shulian	(c)	–	–	–	–	–
Zhang Yichun	(c)	–	–	–	–	–
		310	1,884	901	102	3,197

13. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES (CONTINUED)

DIRECTORS (CONTINUED)

		2009				
Name of director	Notes	Fees RMB'000	Salaries and other benefits RMB'000	Performance related incentive payments RMB'000	Retirement benefit schemes contributions RMB'000	Total RMB'000
Yan Guoqi		–	179	255	6	440
Li Jinlu		–	198	146	5	349
Li Hongwei		–	179	139	4	322
Liu Jianwen		–	58	–	–	58
Zhang Jiangqing	(b)	45	–	–	–	45
Wang Xiuli	(b)	45	–	–	–	45
Wong Ping	(b)	70	–	–	–	70
Yu Jingsong	(b)	45	–	–	–	45
Yu Shulian	(c)	13	–	–	–	13
Zhang Yichun	(c)	13	–	–	–	13
		231	614	540	15	1,400

Notes:

(a) Mr. Song has tendered resignation to the board of directors of the Company as non-executive director of the Company. The resignation has taken effect upon the election of a new director of the Company, Mr. Li Yantong, at the general meeting of the Company held on 21 February 2011.

(b) Being independent non-executive directors of the Company.

(c) Mr. Zhang and Ms. Yu did not stand for re-election as independent non-executive directors in 2009 in order to comply with the requirements of the "Guiding Opinion on the Establishment of the System of Independent Directors for Listing Companies" issued by the China Securities Regulatory Commission of the PRC that the term of consecutive service of an independent non-executive director shall not be more than 6 years.

Performance related incentive payments were determined with reference to the Group's operating results, individual performances and comparable market statistics.

13. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES (CONTINUED)

EMPLOYEES

The five highest paid individuals of the Group included two (2009: three) executive directors, details of whose emoluments are set out above. The emoluments of the remaining three (2009: two) highest paid employees of the Group are as follows:

	2010 RMB'000	2009 RMB'000 (Restated)
Salaries and other benefits	**1,069**	758
Performance related incentive payments	**375**	227
Retirement benefits schemes contributions	**46**	17
	1,490	1,002

The emoluments of the above employees are within the following band:

	2010 Number of employees	2009 Number of employees (Restated)
Nil to RMB1,000,000	**3**	2

14. DIVIDENDS

	2010 RMB'000	2009 RMB'000
Dividends recognised as distribution during the year:		
Final dividend paid for 2009 of RMB0.1626 per ordinary share (2009: paid for 2008 of RMB0.104 per ordinary share)	**20,349**	13,016
Special dividend	**61,574**	100,120
	81,923	113,136

The directors do not recommend the payment of a final dividend for the year ended 31 December 2010 (2009: RMB0.1626 per share, RMB20,349,000 in aggregate).

14. DIVIDENDS (CONTINUED)

Pursuant to the annual general meeting and class meeting of holders of H shares and domestic shares of the Company held on 21 May 2009, the board of directors declared the special dividend from the audited accumulated undistributed profits of the Company as at 31 December 2007 to all shareholders prior to the Company for allotment, issue and dealing with the A shares ("A Share Issue"). The special dividend was RMB0.8 per share (after Share Consolidation as defined in Note 27) of the Company, amounting to RMB100,120,000 in aggregate. The Company's accumulated undistributed profits, after the distribution of the special dividend and the proposed final dividend for the year ended 31 December 2008, from 1 January 2009 to the day prior to completion of the A Share Issue shall be shared by all new and existing shareholders of the Company after the A Share Issue.

Pursuant to the extraordinary general meeting held on 23 November 2010, the board of directors declared a special dividend of RMB0.492 per share of the Company, amounting to RMB61,574,000 in aggregate.

15. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the following data:

	2010 **RMB'000**	2009 RMB'000 (Restated)
Earnings:		
Earnings for the purpose of basic earnings per share (profit for the year attributable to owners of the Company)	**204,450**	178,710

	2010	2009
Number of shares:		
Number of shares for the purpose of basic earnings per share	**125,150,000**	125,150,000

For the year ended 31 December 2009, the number of ordinary shares for the purpose of basic earnings per share had been adjusted retrospectively for the Share Consolidation as stated in Note 27.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant, machinery and equipment	Gas pipelines	Furniture and fixtures	Motor vehicles	Leasehold improvements	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST								
At 1 January 2009	51,116	260,924	428,953	24,734	36,813	982	72,779	876,301
Additions	345	3,699	113,657	1,713	7,621	436	101,170	228,641
Write-off	(358)	(5,125)	–	(1,010)	–	–	(6,183)	(12,676)
Transfers between categories	830	13,671	43,784	215	–	1,500	(60,000)	–
At 31 December 2009	51,933	273,169	586,394	25,652	44,434	2,918	107,766	1,092,266
Additions	–	1,808	–	6,315	4,812	2,738	241,103	256,776
Write-off	–	(473)	–	–	(1,649)	–	–	(2,122)
Transfers between categories	–	3,420	42,128	37	–	–	(45,585)	–
At 31 December 2010	**51,933**	**277,924**	**628,522**	**32,004**	**47,597**	**5,656**	**303,284**	**1,346,920**
DEPRECIATION AND IMPAIRMENT								
At 1 January 2009	5,742	70,218	106,287	11,545	16,177	217	–	210,186
Provided for the year	1,990	12,780	20,796	2,999	4,225	532	–	43,322
Impairment losses provided for the year	–	3,591	–	134	–	–	–	3,725
Write-off	(358)	(5,125)	–	(1,010)	–	–	–	(6,493)
At 31 December 2009	7,374	81,464	127,083	13,668	20,402	749	–	250,740
Provided for the year	1,881	19,911	23,926	4,411	4,778	1,007	–	55,914
Write-off	–	(155)	–	–	(1,541)	–	–	(1,696)
At 31 December 2010	**9,255**	**101,220**	**151,009**	**18,079**	**23,639**	**1,756**	**–**	**304,958**
CARRYING VALUES								
At 31 December 2010	**42,678**	**176,704**	**477,513**	**13,925**	**23,958**	**3,900**	**303,284**	**1,041,962**
At 31 December 2009	44,559	191,705	459,311	11,984	24,032	2,169	107,766	841,526
At 1 January 2009	45,374	190,706	322,666	13,189	20,636	765	72,779	666,115

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The above items of property, plant and equipment, other than construction in progress, are depreciated over their estimated useful lives and after taking into account their estimated residual values, using the straight-line method, as follows:

Buildings	25 to 40 years or over the relevant lease terms, if shorter
Plant, machinery and equipment	5 to 20 years
Gas pipelines	20 to 30 years
Furniture and fixtures	3 to 12 years
Motor vehicles	$3^1/_3$ to 10 years
Leasehold improvements	3 to 10 years or over the relevant lease terms, if shorter

The Group's buildings are situated outside Hong Kong on medium-term leases.

17. PREPAID LEASE PAYMENTS

The prepaid lease payments comprise of leasehold interest in land situated outside Hong Kong on medium-term leases.

	31.12.2010	31.12.2009	1.1.2009
	RMB'000	RMB'000	RMB'000
Analysed for reporting purposes as:			
Non-current assets	**109,868**	112,584	113,949
Current assets	**2,852**	2,950	1,749
	112,720	115,534	115,698

At 31 December 2010, the Group was in process of applying for the land certificates with an aggregate carrying value of RMB2,639,000 (31 December 2009: RMB2,778,000 and 1 January 2009: RMB44,981,000).

18. INTEREST IN AN ASSOCIATE

	31.12.2010	31.12.2009	1.1.2009
	RMB'000	RMB'000	RMB'000
Unlisted shares, at cost	**32,025**	32,025	32,025
Share of post-acquisition profits, net of dividend received	**(5,831)**	838	–
	26,194	32,863	32,025

Included in the cost of investment in an associate is goodwill of RMB2,963,000 (31 December 2009: RMB2,963,000 and 1 January 2009: RMB2,963,000) arising on acquisition.

Details of the Group's associate at the end of the reporting period are set out in Note 33.

The summarised financial information in respect of the Group's associate is set out below:

	31.12.2010	31.12.2009	1.1.2009
	RMB'000	RMB'000	RMB'000
Total assets	**462,148**	457,948	446,562
Total liabilities	**365,428**	336,528	339,348
Net assets	**96,720**	121,420	107,214
The Group's share of net assets of an associate	**23,231**	29,900	29,062
Income	**292,212**	206,995	
Expenses	**305,339**	189,352	
(Loss) profit for the year	**(13,127)**	17,643	
The Group's share of (losses) profits of an associate	**(3,544)**	4,764	

19. INVENTORIES

	31.12.2010 RMB'000	31.12.2009 RMB'000 (Restated)	1.1.2009 RMB'000 (Restated)
Raw materials	**5,125**	4,220	2,918
Construction materials	**12,347**	10,926	7,564
Finished goods	**4,048**	3,221	4,978
	21,520	18,367	15,460

20. TRADE AND OTHER RECEIVABLES

	31.12.2010 RMB'000	31.12.2009 RMB'000 (Restated)	1.1.2009 RMB'000 (Restated)
Trade receivables	**170,000**	163,147	107,235
Less: Allowance for doubtful debts	**(1,262)**	(1,768)	(2,309)
	168,738	161,379	104,926
Deposits and prepayments	**57,567**	31,696	17,620
Other receivables	**13,940**	3,846	3,703
	240,245	196,921	126,249

The Group generally allows credit periods ranging from 30 to 60 days to its trade customers, which may be extended for selected customers depending on their trade volume and settlement terms. The aged analysis of trade receivables, including notes receivables, net of allowance for doubtful debts, is presented based on the invoice date at the end of the reporting period as follows:

	31.12.2010 RMB'000	31.12.2009 RMB'000	1.1.2009 RMB'000
0 – 90 days	**154,028**	149,598	101,517
91 – 180 days	**11,302**	11,121	2,398
Over 180 days	**3,408**	660	1,011
	168,738	161,379	104,926

20. TRADE AND OTHER RECEIVABLES (CONTINUED)

Included in the Group's trade receivables as at 31 December 2010 are receivables of RMB4,096,000 (31 December 2009: RMB4,003,000 and 1 January 2009: RMB2,954,000) which are past due at the end of the reporting period but are regarded as not impaired as there has not been a significant change in the credit standing of the debtors. The Group does not hold any collateral over these receivables.

AGING OF TRADE RECEIVABLES WHICH ARE PAST DUE BUT NOT IMPAIRED

	31.12.2010	31.12.2009	1.1.2009
	RMB'000	RMB'000	RMB'000
0 – 90 days	**371**	3,457	2,017
91 – 180 days	**317**	139	207
Over 180 days	**3,408**	407	730
	4,096	4,003	2,954

In determining the recoverability of a receivable, the Group considers whether there has been adverse change in the credit standing of the debtor from the date credit was initially granted. The concentration of credit risk is limited as the Group's customer base comprises of a large number of customers. Accordingly, the directors of the Company believe that there is no further provision required in excess of the allowance for doubtful debts already provided for in the consolidated financial statements.

Receivables that are neither past due nor impaired relate to a large number of diversified customers for whom there is no recent history of default.

Included in the allowance for doubtful debts are individually impaired receivables due from certain debtors with an aggregate amount of RMB1,262,000 (31 December 2009: RMB1,768,000) which have either been placed under liquidation or are in financial difficulties. The Group does not hold any collateral over these receivables.

MOVEMENTS IN THE ALLOWANCE FOR DOUBTFUL DEBTS

	2010	2009
	RMB'000	RMB'000
At 1 January	**1,768**	2,309
Amounts written off as uncollectible	**(75)**	(496)
Net reversal of impairment loss	**(431)**	(45)
At 31 December	**1,262**	1,768

21. AMOUNTS DUE FROM/(TO) CUSTOMERS FOR CONTRACT WORK

	31.12.2010 RMB'000	31.12.2009 RMB'000 (Restated)	1.1.2009 RMB'000 (Restated)
Contract costs incurred plus profits recognised	**38,790**	47,589	30,186
Less: Progress billings	**(116,841)**	(162,070)	(63,700)
	(78,051)	(114,481)	(33,514)
Analysis for reporting purposes as:			
Amounts due from customers for contract work	**2,964**	933	954
Amounts due to customers for contract work	**(81,015)**	(115,414)	(34,468)
	(78,051)	(114,481)	(33,514)

22. AMOUNTS DUE FROM/TO IMMEDIATE HOLDING COMPANY AND FELLOW SUBSIDIARIES

The amounts are unsecured, interest-free and repayable on demand.

23. PLEDGED BANK DEPOSITS/FIXED DEPOSITS HELD AT BANKS WITH MATURITY OVER THREE MONTHS/BANK BALANCES

The fixed deposits and bank balances carry interest rate at fixed rate ranging from 2.5% – 2.75% (2009: 2.25%) per annum and market saving rate ranging from 0.36% – 2.25% (2009: 0.36% – 1.17%) per annum, respectively.

At 31 December 2010, bank deposits of nil (31 December 2009: RMB26,450,000 and 1 January 2009: 25,250,000) were pledged as a security for natural gas supplies from a supplier.

24. TRADE AND OTHER PAYABLES

	31.12.2010	31.12.2009	1.1.2009
	RMB'000	RMB'000	RMB'000
		(Restated)	(Restated)
Trade payables	**158,732**	60,106	39,517
Receipt in advance	**434,384**	343,643	359,039
Other payables	**116,285**	103,368	45,601
Accruals	**1,402**	1,055	1,470
Payroll payables	**52,825**	27,297	20,929
	763,628	535,469	466,556

Other payables mainly include deposits received from customers for purchases of gas and payable for construction work.

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

	31.12.2010	31.12.2009	1.1.2009
	RMB'000	RMB'000	RMB'000
		(Restated)	(Restated)
0 – 90 days	**127,133**	50,554	32,109
91 – 180 days	**21,954**	4,380	2,498
Over 180 days	**9,645**	5,172	4,910
	158,732	60,106	39,517

The average credit period on purchases of goods ranges from 7 to 365 days. The Group has financial risk management policies in place to ensure that all payables are within the credit timeframe.

25. BANK BORROWINGS

At 1 January 2009, the bank borrowings were unsecured, interest bearing at 4.8% – 5% per annum and repayable within one year.

26. DEFERRED ASSETS

The followings are the major deferred tax assets recognised and movements thereon during the current and prior years:

	Accrued expenses	Unrealised intra-group profits	Impairment of assets	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2009	4,040	1,737	1,125	496	7,398
Credit (charge) for the year	1,655	320	(310)	264	1,929
At 31 December 2009	5,695	2,057	815	760	9,327
Credit (charge) for the year	6,312	9,645	(271)	(516)	15,170
At 31 December 2010	**12,007**	**11,702**	**544**	**244**	**24,497**

At 31 December 2010, the Group had unused tax losses of RMB4,058,000 (31 December 2009: RMB1,221,000 and 1 January 2009: nil) available to offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. The tax losses will expire within 5 years from the year of origination.

27. SHARE CAPITAL

	Number of shares		Nominal value	
	2010	2009	**2010**	2009
			RMB'000	RMB'000
Shares of RMB0.1 each at 1 January 2009 and RMB1 each at 31 December 2009 and 2010				
Registered:				
At 1 January	**125,150,000**	1,251,500,000	**125,150**	125,150
Share Consolidation (Note)	**–**	(1,126,350,000)	**–**	–
At 31 December	**125,150,000**	125,150,000	**125,150**	125,150
Issued and fully paid:				
At 1 January	**125,150,000**	1,251,500,000	**125,150**	125,150
Share Consolidation (Note)	**–**	(1,126,350,000)	**–**	–
At 31 December	**125,150,000**	125,150,000	**125,150**	125,150
Represented by:				
Domestic shares	**70,084,000**	70,084,000	**70,084**	70,084
H shares	**55,066,000**	55,066,000	**55,066**	55,066
	125,150,000	125,150,000	**125,150**	125,150

Note: Pursuant to the approval by the shareholders of the Company at the annual general meeting and class meeting of the holders of H shares and domestic shares of the Company dated 21 May 2009, the board of directors is authorised to effect the following terms: every ten issued ordinary shares of RMB0.10 each in the share capital of the Company be consolidated into one share of RMB1.00 each (the "Consolidated Share"), such Consolidated Shares shall rank pari passu in all respects with each other (the "Share Consolidation").

The domestic shares and H shares are both ordinary shares in the issued capital of the Company. The domestic shares are not currently listed on any stock exchange. All dividends in respect of H shares are to be paid by the Company in Hong Kong dollars whereas all dividends in respect of the domestic shares are to be paid by the Company in RMB.

Save for the foregoing and in relation to the despatch of notices and financial reports to shareholders, dispute resolution, registration of shares on different parts of the register of shareholders, the method of share transfer and the appointment of dividend receiving agents, the domestic shares and the H shares rank pari passu with each other in all aspects.

28. RETIREMENT BENEFITS SCHEMES

As stipulated by PRC State regulations, the Company and its subsidiaries participate in a defined contribution retirement plan. As the Company and its subsidiaries are operating in Zhengzhou, they are required to make contributions to the Labour and Social Security Bureau of the Zhengzhou Municipal Government at 20% (2009: 20%) of the previous year's average basic salaries of the employees that are under employment with the Company and its subsidiaries. The Company and its subsidiaries have no obligation for the payment of pension benefits beyond the annual contributions to the Labour and Social Security Bureau of the Zhengzhou Municipal Government as set out above.

29. OPERATING LEASES

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings and pipeline equipment which fall due as follows:

	31.12.2010	31.12.2009
	RMB'000	RMB'000
Within one year	**14,749**	9,371
In the second to fifth year inclusive	**24,828**	5,460
After five years	**5,421**	6,776
	44,998	21,607

Leases are negotiated and rentals are fixed for term ranging from one to thirteen years (2009: three to thirteen years).

30. CAPITAL COMMITMENTS

	31.12.2010	31.12.2009
	RMB'000	RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted but not provided for	**2,960**	10,675
Capital expenditure in respect of acquisition of property, plant and equipment authorised but not contracted for	**15,757**	123,141
	18,717	133,816

31. RELATED PARTY TRANSACTIONS

The Group has early adopted the partial exemptions set out in paragraphs 25 to 27 of IAS 24 (Revised) "Related Party Disclosures" in advance of its effective date, with effect from 1 January 2010. The Group itself is part of a larger group of companies under Zhengzhou Gas Group until 27 August 2010 (date of acquisition of equity interest in the Company by CR Gas Group) and under CRNC since 27 August 2010. Both Zhengzhou Gas Group and CR Gas Group are controlled by the government of the PRC and the Group operates in an economic environment currently predominated by entities controlled by the PRC government.

TRANSACTIONS WITH RELATED PARTIES

In addition to the related party balances set out in the respective notes to the consolidated financial statements, the Group entered into the following transactions with related parties during the year:

	2010	2009
	RMB'000	RMB'000
Reimbursement of expenses to fellow subsidiary	**114**	–
Pipeline transmission fee paid to a fellow subsidiary	**272**	–
Rental expenses paid to immediate holding company (Note)	**3,888**	–
Rental expenses paid to former immediate holding company	**–**	10,274
Property management fee paid to a former fellow subsidiary	**–**	238
Trademark fee paid to former immediate holding company	**–**	195
Sales to a former fellow subsidiary	**–**	278

Note: During the year ended 31 December 2010, total rental expenses paid to immediate holding company is RMB10,478,000, in which RMB3,888,000 is paid for the period from 27 August 2010 to 31 December 2010.

TRANSACTIONS/BALANCES WITH OTHER STATE-CONTROLLED ENTITIES

Apart from the transactions with the parent company and its subsidiaries which have been disclosed in other notes to the consolidated financial statements, the Group also conducts businesses with entities directly or indirectly owned or controlled by the PRC government in the ordinary course of business, including purchase and sales of gas. A large portion of purchase of gas is from government-related entities.

COMPENSATION OF KEY MANAGEMENT PERSONNEL OF THE GROUP

	2010	2009
	RMB'000	RMB'000
Short-term benefits	**8,258**	5,349
Post-employment benefits	**330**	99
	8,588	5,448

32. PARTICULARS OF SUBSIDIARIES

Name of company	Place of establishment	Nominal value of registered and paid-up capital	Attributable equity interest of the Group 2010 %	2009 %	Principal activities
Zhengzhou Gas Engineering and Construction Co., Ltd.	PRC	RMB40,000,000	**100**	100	Construction of gas pipelines
Zhengzhou Zhengran Pressure Control Technology Co., Ltd.	PRC	RMB5,000,000	**51**	51	Manufacture and sale of gas appliances and heating systems
Dengfeng Zhengran Gas Co., Ltd.	PRC	RMB30,000,000	**100**	100	Sale of natural gas and gas appliances and construction of gas pipelines
Zhengzhou Airport District Gas Co., Ltd.	PRC	RMB10,000,000	**100**	100	Sale of natural gas and gas appliances and construction of gas pipelines
Henan Zhengran Jinxiang Vehicular Energy Co., Ltd.	PRC	RMB40,000,000	**55**	55	Development and application of vehicular energy, and the conversion and repair of gas powered cars

All the subsidiaries were established in the PRC in the form of domestic company and none of them had issued any debt securities at the end of the year.

33. PARTICULARS OF ASSOCIATE

Name of company	Place of establishment	Registered capital	Attributable equity interest of the Group 2010 %	2009 %	Principal activities
Pingdingshan Gas Co., Ltd.	PRC	RMB95,590,600	**27**	27	Sale of natural gas, LPG and gas appliances and construction of gas pipelines

FINANCIAL SUMMARY

RESULTS

	Year ended 31 December				
	2006	2007	2008	2009	**2010**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
			(Restated)	(Restated)	
TURNOVER	731,637	862,161	1,055,737	1,258,161	**1,527,807**
PROFIT FOR THE YEAR	125,657	129,683	165,479	180,718	**206,899**
ATTRIBUTABLE TO:					
OWNERS OF THE COMPANY	111,485	128,462	164,527	178,710	**204,450**
NON-CONTROLLING INTERESTS	14,172	1,221	952	2,008	**2,449**
	125,657	129,683	165,479	180,718	**206,899**

ASSETS AND LIABILITIES

	31 December				
	2006	2007	2008	2009	**2010**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
			(Restated)	(Restated)	
TOTAL ASSETS	945,660	1,105,482	1,357,461	1,564,067	**1,876,356**
TOTAL LIABILITIES	374,832	441,374	559,287	681,143	**870,392**
TOTAL EQUITY	570,828	664,108	798,174	882,924	**1,005,964**
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY	567,226	660,020	794,261	859,835	**982,362**
NON-CONTROLLING INTERESTS	3,602	4,088	3,913	23,089	**23,602**
TOTAL EQUITY	570,828	664,108	798,174	882,924	**1,005,964**

The financial information for the two years ended 31 December 2008 and 2009 has been restated to reflect the effect of change in accounting policies as stated in Note 2. The financial information for the two years ended 31 December 2006 and 2007 has not been adjusted.