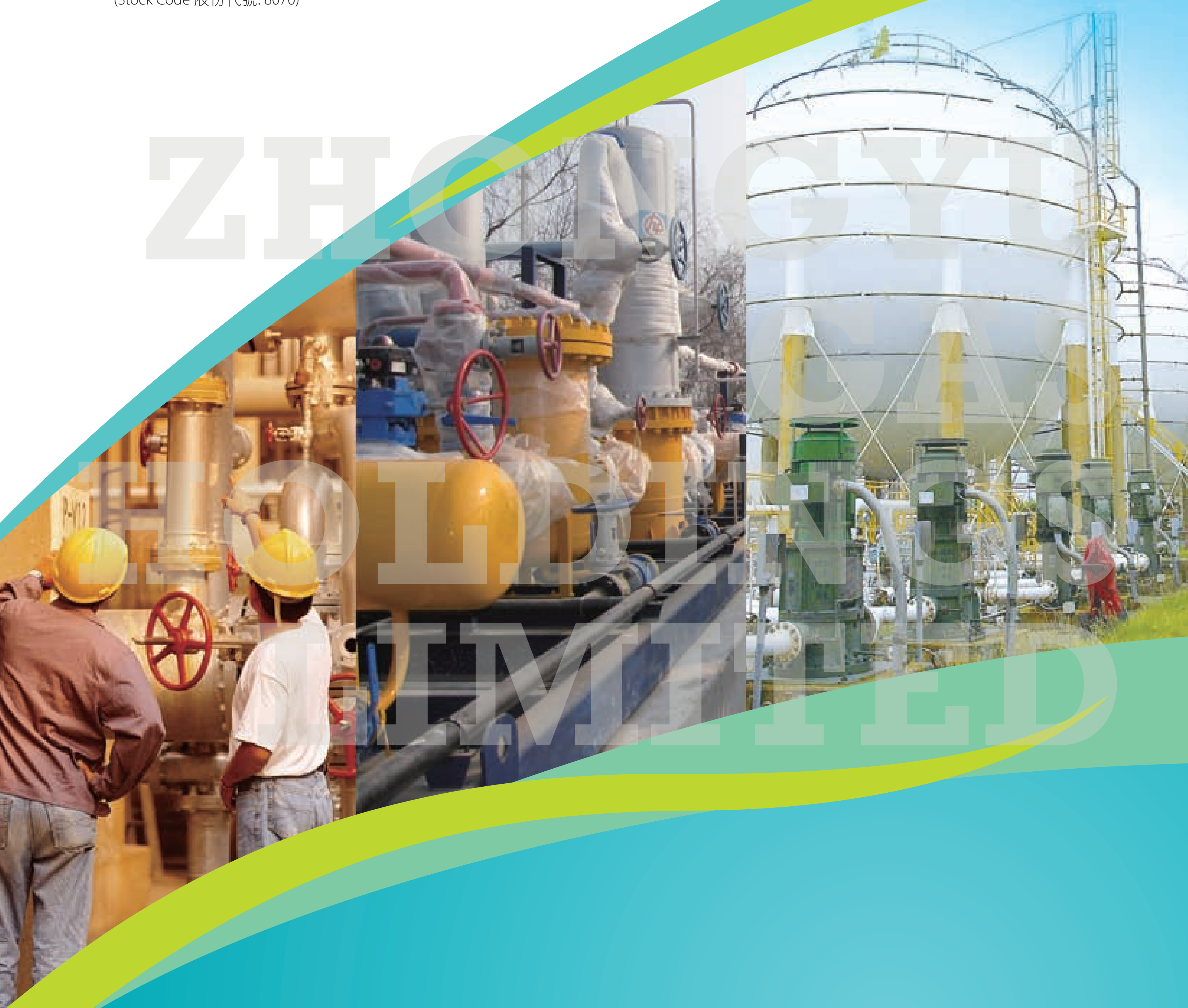
# 中裕燃氣控股有限公司
# ZHONGYU GAS HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability 於開曼群島註冊成立之有限公司)
(Stock Code 股份代號: 8070)




ANNUAL REPORT 2011 年報

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# CORPORATE INFORMATION

## EXECUTIVE DIRECTORS

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

## NON-EXECUTIVE DIRECTORS

Mr. Xu Yongxuan *(Vice Chairman)*

## INDEPENDENT NON-EXECUTIVE DIRECTORS

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

## QUALIFIED ACCOUNTANT

Mr. Lui Siu Keung

## COMPANY SECRETARY

Mr. Lui Siu Keung

## COMPLIANCE OFFICER

Mr. Lui Siu Keung

## AUTHORISED REPRESENTATIVES

Mr. Wang Wenliang
Mr. Lui Siu Keung

## AUDIT COMMITTEE

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

## REMUNERATION COMMITTEE

Mr. Li Chunyan *(Chairman)*
Dr. Luo Yongtai
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## AUDITOR

Deloitte Touche Tohmatsu

## PRINCIPAL BANKER

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Industrial and Commercial Bank of China
Guangdong Development Bank
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## STOCK CODE

8070

# CHAIRMAN'S STATEMENT

On behalf of the Board of Directors of Zhongyu Gas Holdings Limited, I am pleased to announce that overall encouraging annual results have been recorded for the year ended 31st December, 2011 (the "Year"). The Group's natural gas operations continued to develop steadily during the Year. Turnover amounted to approximately HK$1,794,319,000 in 2011, representing a growth of 53.4% as compared to HK$1,169,469,000 in 2010. The outstanding revenue growth was mainly attributable to the continuous expansion of the Group's downstream gas distribution in the People's Republic of China (the "PRC"), comprising of sales of piped gas and connection revenue from gas pipeline construction. Profit attributable to owners of the Company reached approximately HK$86,114,000, with basic earnings per share of HK$3.82 cents.

## BUSINESS REVIEW

The past year was a challenging but fruitful period for the Group. The Chinese government announced an increase of natural gas wellhead prices in June 2010. As the Group did not obtain an approval from local authorities to raise its selling prices charged to residential customers until 9th December, 2011, the Group's residential selling prices remained unchanged until late December 2011. The delay of the price increase brought much pressure to our operating performance during the Year.

However, as China's economy continues its rapid pace of development in 2011, the significant growth of domestic consumption and household disposal income have correspondingly boosted the sales of piped gas. Against this backdrop, the Group's downstream gas sales volume reached 574,468,000 $m^3$ in 2011, significantly increased by 47.0% over 390,926,000 $m^3$ in 2010.

The Chinese automobile market has been the world's largest since 2009. The growth of disposal income and the rate of urbanization continued to boost automobile consumption in the PRC and generate demand for natural gas and compressed natural gas ("CNG") filling stations. During the Year, four new CNG filling stations of the Group have come into operation, bringing the total number of the Group's CNG refilling stations to nine. The Group believes that the construction of CNG filling stations will provide a solid foundation for further development of its vertically integrated value chain, and expects additional investment in this area in the coming years. Against this backdrop, the Group has commenced construction of six additional CNG refilling stations in the PRC in order to increase the Group's market share, among which three CNG refilling stations will commence operation in the second half of 2012.

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

In addition, Zhongyu (Henan) Energy Holdings Limited ("Zhongyu Henan"), a wholly-owned subsidiary of the Company, entered into an agreement (the "Capital Injection Agreement") on 4th November, 2011 with 鄭州大田投資有限公司 (Zhengzhou Datian Investment Company Limited) ("Zhengzhou Datian"), 葉建斌 ("Ye Jianbin") and 卓雲震 ("Zhuo Yunzhen"), in respect of the proposed injection in registered capital of 武夷山市中閩天然氣有限公司 (Wuyishan City Zhong Min Natural Gas Company Limited) ("Wuyishan Zhong Min") by Zhongyu Henan. Immediately after completion of the Capital Injection Agreement, Wuyishan Zhong Min is an indirect non wholly-owned subsidiary of the Company. Wuyishan Zhong Min will tender a bid to obtain an exclusive right granted by the Peoples' Government of Wuyishan City to engage in the construction and operation of piped natural gas projects in Wuyishan City.

# CHAIRMAN'S STATEMENT

On 6th May, 2011, Yongcheng China-Gas Heating Explore Company Limited, a non-wholly owned subsidiary of the Company, entered into an agreement with 永城市產業集聚區管委會 (Council of Yongcheng City Industry Cluster) to obtain rights for constructing and operating of piped natural gas projects on an exclusive basis in the new industrial development district located in Yongcheng. The Directors are of the view that the entering into of the above agreements could provide an opportunity for the Group to further invest in the natural gas business in the PRC in order to enlarge the geographical coverage of its operations.

The second pipeline network of the West-East natural gas transmission project has commenced gas supply on 30 June 2011. It is believed that this project will ensure a secure future gas supply in Henan Province, where the Group operates, and further boost its downstream business by capturing opportunities from the surging demand of natural gas for commercial use and public transportation.

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

## PROSPECTS

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

The stable supply of piped natural gas to Sanmenxia City, Henan Province, the PRC from the second West-East Gas Pipeline has been commenced in July 2011. As a result, piped gas supply for the Group's project located in the Sanmenxia City will increase significantly, which will facilitate the Group to connect with more end users, increase the Group's turnover and in turn, enhance its earning base in the near future.

In addition, the Group obtained the Notice on Problems Relating to the Piped Natural Gas Prices in Henan Province（關於河南省管道天然氣價格有關問題的通知）(the "Notice") issued by Henan Province Development and Reform Commission (the "Henan DRC") on 9 December 2011. Pursuant to the Notice, a price link mechanism between the upstream and selling prices of natural gas for residential users (the "Price Link Mechanism") was established. Currently the Group has fifteen exclusive downstream projects, among which, twelve are located in Henan province. The Directors are of the view that the Price Link Mechanism could benefit the Group to pass the upward gas procurement cost to residential users and maintain its profit margins.

Under the 12th Five-year Plan (2011-2015) of the PRC, it is expected that the annual domestic gas consumption will reach 260 billion cubic meters (cu m), representing an 8.3 percent share in the primary energy mix in 2015. Currently, gas demand in the PRC just reached approximately 100 billion cubic metres a year. The implementation of beneficial policies by the State and strong economic growth will continuously boost the domestic gas demand and support the steady expansion of the Group's overall business.

# CHAIRMAN'S STATEMENT

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

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

**Wang Wenliang**
*Chairman*
Hong Kong
14th March, 2012

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

### *Overall*

During the year under review, we are principally engaged in (i) the investment, operation and management of city gas pipeline infrastructure, distribution of piped gas to residential, industrial and commercial users; (ii) the construction and operation of compressed natural gas ("CNG") filling stations for vehicle; and (iii) the exploration, exploitation and development of coalbed methane ("CBM") in the PRC.

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

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

Following completion of the transfer of the 1,111,934,142 shares tendered for acceptance by the respective shareholders of the Company in respect the Share Offer to the Offeror, 292,454,000 shares of the Company will be held by the public who are independent of the directors, chief executive or substantial shareholders of the Company or its subsidiaries or any of their respective associates, representing approximately 14.82% of the issued share capital and voting rights of the Company, as at 6th August, 2010. Accordingly, the Company does not fulfill the minimum public float requirement as set out under Rule 11.23 of the GEM Listing Rules. The Company has applied to the Stock Exchange for a temporary waiver from strict compliance with the public float requirement under Rule 11.23 of the GEM Listing Rules from 6th August, 2010 to 5th May, 2011. On 8th April, 2011, the Company entered into the placing agreement (the "Placing Agreement") relation to the placing of a maximum of 394,000,000 new Shares to be placed by the Company (the "Placing Share"), through Kingsway Financial Services Group Limited (the "Placing Agent") pursuant to the Placing Agreement (the "Placing").

# MANAGEMENT DISCUSSION AND ANALYSIS

The Board is pleased to announce that all conditions of the Placing have been fulfilled and the completion of the Placing took place on 18th April, 2011.

394,000,000 Placing Shares representing approximately 16.64% of the Company's entire issued share capital as enlarged by the Placing have been successfully placed by the Placing Agent to not less than six independent institutional, professional and/or other private investor procured by the Placing Agent to purchase any of the Placing Shares (the "Placees") pursuant to the terms and conditions of the Placing Agreement, at the placing price of HK$0.41 per Placing Share.

To the best of the directors of the company's knowledge, none of the Placees becomes a substantial shareholder upon completion of the Placing and the Placees and their ultimate beneficial owners are independent third parties and are treated as public shareholders. Therefore, as a result of the completion of the Placing, there are 687,454,000 Shares (representing approximately 29.03% of the existing issued share capital of the Company) in public hands. Accordingly, the Company has fulfilled the minimum public float requirement under Rule 11.23 of the GEM Listing Rules.

The net proceeds from the Placing are approximately HK$159.52 million and are used to repay the loan of US$18,507,044.4 made by China Gas to the Company pursuant to a loan agreement date 10th September, 2010 (the "Loan") and all interest accrued thereon under the Loan. The remaining proceeds (if any) are used for the general working capital of the Group.

Accordingly, the Company has sent a cashier's cheque dated 28th April, 2011 by registered post to China Gas for the outstanding principal amount of the Loan being US$18,507,044.40 together with interest accrued on such amount (calculated from and including the drawdown date of the loan up to and including 29th April, 2011). China Gas sent a reply letter mentioned that China Gas accepted the cashier's cheque for partial payment of the sum due and owing to China Gas (including for expenses incurred, loss/damaged suffered) under the loan agreement and China Gas reserve all rights for demanding the payment of the outstanding sums due to China Gas.

On 15th February, 2011, Zhongyu (Henan) Energy Holdings Limited ("Zhongyu (Henan)"), a wholly owned subsidiary of the Company, entered into two share transfer agreements with two independent third parties in respected of acquisition of 100% shareholding of 深圳市鵬凱吉星貿易有限公司 (Shenzhen Gity Peng Kai Ji Xing Trading Limited Company) ("Peng Kai Ji Xing"). The consideration of RMB100,000 is contributed by Zhonyu (Henan) in cash, which is the registered capital of Peng Kai Ji Xing. Peng Kai Ji Xing is engaged principally in providing business relationship development services.

## *Downstream Natural Gas Distribution*

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

# MANAGEMENT DISCUSSION AND ANALYSIS

The major operational data of the Group for the year under review together with the comparative figures for 2010 are as follows:

| | **2011** | 2010 | Increase/ (Decrease) |
|---|---|---|---|
| Number of Exclusive Gas Projects *(Note)* | **15** | 14 | 1 |
| – Henan Province | **12** | 11 | 1 |
| – Shandong Province | **3** | 3 | – |
| Connectable urban population ('000) | **3,525** | 3,525 | – |
| Connectable residential households ('000) | **992** | 992 | – |
| New piped gas connections made during the year | | | |
| – Residential households | **100,795** | 87,672 | 15.0% |
| – Industrial customers | **68** | 61 | 11.5% |
| – Commercial customers | **368** | 312 | 18.0% |
| Accumulated number of connected piped gas customers | | | |
| – Residential households | **532,237** | 431,442 | 23.4% |
| – Industrial customers | **345** | 277 | 24.6% |
| – Commercial customers | **1,784** | 1,416 | 26.0% |
| Natural gas penetration rate | **53%** | 43% | 7.0% |
| Unit of piped natural gas sold ('000 $m^3$) | **418,072** | 271,707 | 50.1% |
| – Residential households | **52,568** | 38,258 | 36.8% |
| – Industrial customers | **311,552** | 185,320 | 64.3% |
| – Commercial customers | **40,924** | 32,713 | 20.9% |
| – Wholesale customers | **13,028** | 15,416 | (25.5%) |
| Unit of piped mixed gas sold ('000 $m^3$) | **40,026** | 42,905 | (6.7%) |
| Unit of piped coal gas sold ('000 $m^3$) | **86,313** | 53,334 | 61.8% |
| Number of CNG Filling Stations | | | |
| – Accumulated | **9** | 5 | 4 |
| – Under construction | **6** | 4 | 2 |
| Unit of natural gas sold to vehicles ('000 $m^3$) | **30,057** | 22,980 | 30.8% |
| Unit of bottle LPG sold (ton) | **5,503** | 6,120 | (10.1%) |
| Total length of existing intermediate and main pipelines (km) | **2,052** | 1,613 | 27.2 |

*Note:* The number of Exclusive Gas Projects represents the contracts of exclusive right for sales and distribution of natural gas were signed by relevant local authorities.

### *Sales of Piped Gas*

Sales of piped gas to customers provide the Group with a recurring stream of revenue. Because of the huge usage of piped gas by our industrial/commercial customers and the increase in the accumulated number of residential customers, sales of piped gas has become the largest component of the Group's total turnover since 2007 and still the largest one in 2011. During the year under review, the Group's downstream piped gas sales volume reached 544,411,000 $m^3$ (2010: 367,946,000 $m^3$). Nearly 78% of total sales of piped gas for the year ended 31st December, 2011 were derived from provision of natural gas. Fees charged by the Group for provision of piped natural gas are required to obtain approval from local pricing bureaus.

On 6th May, 2011, Yongcheng China-Gas Heating Explore Company Limited, a non-wholly owned subsidiary of the Company, entered into the agreement with 永城市產業集聚區管委會 to obtain a right for constructing and operating of piped natural gas projects on an exclusive basis in the new industrial development district located in Yongcheng. The Directors are of the view that the entering into of the agreement could provide an opportunity for the Group to further invest in the natural gas business in the PRC in order to enlarge the geographical coverage of its operations.

On 22nd June, 2011, 泰安市旭升電子科技有限公司 (Taian City Xusheng Electronics Technology Company Limited) ("Xusheng") as transferor and 臨沂中燃城市燃氣建設發展有限公司 (Linyi China Gas City Gas Construction Company Limited) ("Linyi China Gas"), a non-wholly owned subsidiary of the Company, as transferee entered into the equity transfer agreement (the "Equity Transfer Agreement") pursuant to which Xusheng has agreed to transfer to Linyi China Gas 33% of the equity interest in 臨沂山林燃氣有限公司 (Linyi Shanlin Gas Company Limited) ("Linyi Shanlin") held by it in accordance with the terms of the Equity Transfer Agreement (the "Transaction"). The Directors are of the view that the transaction enhances the earning base of the Group. The detail of the transaction was disclosed in the Section Headed "Connected Transaction" in this report.

On 4th November, 2011, Zhongyu (Henan) Energy Holdings Limited ("Zhongyu Henan"), a wholly-owned subsidiary of the Company, entered into an agreement (the "Capital Injection Agreement") with 鄭州大田投資有限公司 (Zhengzhou Datian Investment Company Limited) ("Zhengzhou Datian"), 葉建斌 ("Ye Jianbin") and 卓雲震 ("Zhuo Yunzhen"), of which all of them are third parties independent of the Company and its connected persons and are not connected persons of the Company, in respect of the proposed injection in registered capital of 武夷山市中閩天然氣有限公司 (Wuyishan City Zhong Min Natural Gas Company Limted) ("Wuyishan Zhong Min") by Zhongyu Henan. Pursuant to the Capital Injection Agreement, the registered capital of Wuyishan Zhong Min is increased by RMB29,000,000 from RMB1,000,000 to RMB30,000,000. Among the total increase in the registered capital of Wuyishan Zhong Min, as to RMB15,300,000 is contributed by Zhongyu Henan in cash and as to the remaining RMB13,700,000 will be contributed by Zhengzhou Datian in cash. Zhongyu Henan finances its part of capital contribution from its internal funds. The Directors consider that the capital injection in Wuyishan Zhong Min would not have any material adverse impact on the Group's net assets. Apart from the contribution towards the increase in registered capital as set out above, there are no further capital commitments that are required to be contributed by the Group to Wuyishan Zhong Min at this stage. Should there is any further material capital commitments to be contributed by the relevant parties to Wuyishan Zhong Min, further announcement will be made if and when appropriate to comply with the requirements under the GEM Listing Rules.

Wuyishan Zhong Min is a limited liability company established in Wuyishan City, Fujian Province, the PRC on 19th January, 2011 by the aforesaid three independent third parties. The original registered capital of Wuyishan Zhong Min is RMB1,000,000, as to RMB950,000 contributed by Zhengzhou Datian and as to the remaining RMB50,000 contributed by Ye Jianbin and Zhuo Yunzhen.

Immediately after completion of the Capital Injection Agreement, Wuyishan Zhong Min is owned as to 51% by Zhongyu Henan, as to 48.83% by Zhengzhou Datian and as to the remaining 0.17% by Ye Jianbin and Zhuo Yunzhen. Wuyishan Zhong Min is an indirect non wholly-owned subsidiary of the Company. Wuyishan Zhong Min will tender a bid to obtain an exclusive right granted by Peoples' Government of Wuyishan City to engage in the construction and operation of piped natural gas projects in Wuyishan City.

The Directors are of the view that the entering into of the Capital Injection Agreement could provide an opportunity for the Group to further invest in the natural gas business in the PRC in order to enlarge the geographical coverage of its operations. The Directors, including the independent non-executive Directors, consider that the Capital Injection Agreement is entered into upon normal commercial terms after arm's length negotiations among the parties and the terms of the Capital Injection Agreement are fair and reasonable and are in the interests of the Company and the Shareholders of the Company as a whole.

As none of the applicable percentage ratios in respect of the transaction contemplated under the Capital Injection Agreement exceeds 5%, such transaction does not constitute a notifiable transaction of the Company under the GEM Listing Rules.

The construction of natural gas pipeline connecting between the second West-East Gas Pipeline and Sanmenxia City, Henan Province, the PRC was completed and the supply of piped natural gas to Sanmenxia City from the second West-East Gas Pipeline has been commenced in July 2011. As a result, piped gas supply for the Group's project located in the Sanmenxia City will increase greatly, which will facilitate the Group to connect more end users, including both residential households, industrial and commercial customers in near future in order to increase the Group's turnover and in turn, enhance its earning base.

In addition, the Group obtained the Notice on Problems Relating to the Piped Natural Gas Prices in Henan Province（關於河南省管道天然氣價格有關問題的通知）(the "Notice") issued by Henan Province Development and Reform Commission on 9 December 2011. Pursuant to the Notice, a price link mechanism between the upstream and selling prices of natural gas for residential users (the "Price Link Mechanism") was established. The Directors are of the view that the Price Link Mechanism could benefit the Group to pass the upward gas procurement cost to residential users and maintain its profit margins.

### *Gas Pipeline Construction*

Connection revenue from gas pipeline construction is one-off connection fees paid by residential households and industrial/commercial customers for the connection of their premises to the piped gas networks operated by the Group. Connection fees charged by the Group are required to obtain approval from local pricing bureaus. During the year under review, the average connection fees charged to residential households by the Group was approximately RMB2,680 (2010: RMB2,500). The connection fees charged to industrial/commercial customers by the Group was significantly higher amounts than that charged to residential households and was determined on a case basis. With the aim to minimize our risk on the recoverability of amounts due from customers of contract work, commencing from the year 2007, 20-40% of the contract sum is required to be paid in advance by our customers before the commencement of their premises to our piped gas networks. As a result, the Group successfully minimized the impairment loss recognised amounts due from customers for contract work in 2011. As the Group's downstream gas distribution business is still at the development stage, connection revenue from gas pipeline construction remained a significant component of the Group's turnover in 2011.

### *Sales of Natural Gas From CNG Filling Stations*

With the aim to enhance the Group's turnover and results, the Group has commenced to develop CNG vehicle gas filling business in the PRC since September 2007. During the year ended 31st December 2011, the Group has built four CNG filling stations and they have come into operation. As a result, the number of the Group's CNG refilling stations increased to nine from five as compared with last year, which are located in Nanjing city and Henan and Shandong Provinces respectively.

In addition, the Group has commenced to built additional six CNG refilling stations in the PRC. It is expected that three new CNG refilling stations will commence their operation by the second half of 2012. The remaining three new CNG refilling stations are expected to commence their operation in the early of 2013.

### *Upstream CBM Exploration*

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

As at 31st December, 2011, the Group secured eight coal blocks, situated at Jiaozuo, Zhengzhou, Pingdingshan (including Yuzhou and Ruzhou), Hebi, Yima, Yongxia, Henan Province, the PRC to explore, exploit, develop and produce CBM.

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

## FINANCIAL REVIEW

### *Turnover*

| | **2011** | | 2010 | | |
|---|---|---|---|---|---|
| | | **% of total** | | % of total | Changes |
| | **HK$'000** | **%** | HK$'000 | % | % |
| Sales of piped gas | **1,231,876** | **68.6** | 721,374 | 61.7 | 70.8 |
| Connection revenue from gas pipeline construction | **394,470** | **22.0** | 305,205 | 26.1 | 29.2 |
| Operation of CNG filling stations | **123,373** | **6.9** | 88,765 | 7.6 | 39.0 |
| Sales of liquefied petroleum gas | **40,974** | **2.3** | 38,379 | 3.3 | 6.8 |
| Sales of stoves and related equipment | **3,626** | **0.2** | 15,746 | 1.3 | (77.0) |
| Total | **1,794,319** | **100.0** | 1,169,469 | 100.0 | 53.4 |

Turnover increased by 53.4% to approximately HK$1,794,319,000 in 2011 from approximately HK$1,169,469,000 in 2010. The tremendous growth in turnover was mainly attributable to the robust growth in sales of piped gas, connection revenue from gas pipeline construction and operation of CNG filing stations.

# MANAGEMENT DISCUSSION AND ANALYSIS

The rapid growth in sales of piped gas was mainly attributable to the increase in the number of households and industrial/commercial users connected as well as the increase in the total gas consumption, which was mainly resulted from the organic growth of the Group's downstream gas distribution business in Linyi City, Sanmenxia City, Jiaozuo City and Jiyuan City, Shandong and Henan Province, the PRC.

The stable supply of piped natural gas to Sanmenxia City, Henan Province, the PRC from the second West-East Gas Pipeline has been commenced in July 2011. As a result, piped gas supply for the Group's project located in the Sanmenxia City has increased significantly and has pushed up the sales during the year.

On the other hand, the continuous strong development in industrial region and many new residential properties are developed in recent year, which leaded to increase demand for natural gas from the new developed industrial and residential area.

The substantial increase in revenue from operation of CNG filing stations was mainly attributable to the increase in number of CNG vehicle gas refueling stations in Linyi City and Louhe City, Henan Province. Moreover. The organic growth of CNG filling station business in Nanjing has pushed the Group's revenue from operation of CNG filing stations.

### *Gross profit margin*

The overall gross profit margin in 2011 amounted to approximately 23.9% (2010: 26.9%). The decrease was mainly due to the increase in the proportion of turnover derived from sales of piped gas, which in general has a relatively low profit margin, in the Group's total turnover to approximately 68.6% for the year ended 31st December, 2011 from approximately 61.7% in 2010. The Chinese government announced an increase of natural gas wellhead prices in June 2010. As the Group did not obtain an approval from local authorities to raise its selling prices charged to residential customers until 9th December, 2011, the Group's residential selling prices in some cities are changed in late December 2011. The failure to pass the increase in the wellhead natural gas price to our residential customers caused the profit margins of gas sales to residential customers to decline which in turn attributed partially to the decrease in the overall gross profit margin.

### *Other gains and losses*

Other losses increased by 2.0% to approximately HK$11,208,000 in 2011 from approximately HK$10,984,000 in 2010. Other gains for the year under review includes: (i) the exchange gain of approximately HK$516,000 in 2011 (2010: HK$120,000); (ii) increase in fair value of investment properties of approximately HK$56,000 in 2011 (2010: HK$450,000); (iii) net reversal of impairment loss recognised on amounts due from customers for contract work of approximately HK$3,173,000 in 2011 (2010: HK$6,367,000). Pursuant to the Group's accounting policy, amounts due from customers for contract work would be made impairment if those respective contract works are not completed within one year; which set off by other losses for the year under review includes allowance for doubtful debt in trade and other receivables of approximately HK$2,646,000 (2010: HK$2,547,000) and loss on disposal/written off of property, plant and equipment of approximately HK$6,476,000 (2010: gain on disposal of property, plant and equipment: HK$652,000). On the other hand, no gain on redemption/repurchase of convertible bonds for the year was recorded as all of the outstanding convertible bonds were early redeemed on 13th September, 2010.

# MANAGEMENT DISCUSSION AND ANALYSIS

In 2011, due to the uncertainty of sufficient natural gas to be supplied to the CNG filling stations and some of the gas stations are not expected to commerce operations in 2012, the group made an net impairment loss on the licences for operating CNG filling stations of approximately HK$5,831,000 (2010: HK$30,751,000). In the future, the recognised impairment loss can be subsequently reversed if the carrying amount of the other intangible assets is increased to the revised estimate of its recoverable amount, and the reversal of impairment loss is recorded as income immediately.

In 2010, the Group recorded a non-cash gain of HK$12,360,000 arising on change in fair value of derivative financial instruments which was issued by the Company in 2007. In the event of a change of control as the completion of Offer, all of the outstanding Convertible Bonds was redeemed on 13th September, 2010. Accordingly, the Group expects no such item will be recorded in the future.

### *Other income*

Other income increased to approximately HK$11,547,000 in 2011 from approximately HK$8,308,000 in 2010. The 2011 balance represented the bank interest income of approximately HK$2,389,000 (2010: HK$1,455,000), government subsidies of approximately HK$4,104,000 (2010: HK$1,278,000) and sundry income of approximately HK$5,054,000 (2010: HK$5,575,000). The increase was mainly attributable to government subsidies increased by 221.1%.

### *Selling and distribution costs*

Selling and distribution costs increased by 15.6% to approximately HK$34,268,000 in 2011 from approximately HK$29,641,000 in 2010. The increase was mainly attributable to the increase in staff costs and related expenses increased by 22.1% to approximately HK$22,372,000 from approximately HK$18,316,000 as a result of the increase in headcount as well as increased salary for PRC subsidiaries.

### *Administrative expenses*

Administrative expenses increased by 37.1% to approximately HK$188,192,000 in 2011 from approximately HK$137,276,000 in 2010. The increase was mainly attributable to (i) staff costs and related expenses increased by 29.5% to approximately HK$73,592,000 in 2011 from approximately HK$56,817,000 in 2010 resulting from the increase in headcount as well as the salary increment; (ii) depreciation cost increased by 29.3% to approximately HK$17,980,000 in 2011 from approximately HK$13,910,000 in 2010 resulting from the additional equipment for the business development in Jiaozuo City; (iii) The entertainment expenses increased by 40.2% to approximately HK$28,131,000 in 2011 from approximately HK$20,066,000 in 2010 resulting from business opportunity seeking; (iv) one-off recognition of equity-settled share option expenses of approximately HK$23,632,000 resulting from the issuance of share options by the Company on 11th April, 2011 (2010: HK$6,038,000).

### *Other expenses*

The other expenses represented development costs incurred for exploration of CBM in the PRC. It decreased by 83.1% to approximately HK$1,575,000 in 2011 from approximately HK$9,306,000 in 2010. Such development costs mainly include cost of technical services and studies, exploration drilling, fracturing and dewatering. Pursuant to the Group's accounting policy, development cost shall be treated as expenses if the discovery of commercial reserve is not confirmed within one year.

### *Finance costs*

Finance costs decreased by 55.8% to approximately HK$19,198,000 in 2011 from approximately HK$43,466,000 in 2010. The decrease was mainly attributable to the decrease in non-cash effective interest expense charged on convertible bonds issued on 25th June, 2007 decreased to HK$nil in 2011 from approximately HK$20,124,000 in 2010, and the interest on bank borrowings decreased by 20.4% to approximately HK$16,812,000 in 2011 from approximately HK$21,117,000 in 2010 resulting from the increase the amounts capitalised in construction in progress.

### *Income tax expenses*

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

Hong Kong Profit Tax is calculated at 16.5% of the estimated profit for both years. No provision of Hong Kong Profits Tax has been made in the consolidated financial statements as the Group had no assessable profits arising in Hong Kong for the both years 2011 and 2010.

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

Under the EIT Law of the PRC, withholding tax is imposed on the dividend declared to non-PRC tax residents in respect of profits earned by PRC subsidiaries from 1st January, 2008 onwards. During the year ended 31st December, 2011, withholding tax amounted to HK$5,383,000 (2010: HK$4,331,000) was charged by the PRC tax authority which levied on the dividends paid to overseas group entities.

Accordingly, the income tax expenses in 2011 amounted to approximately HK$57,397,000 (2010: HK$35,425,000).

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

Excluding impairment loss recognised on other intangible assets and change in fair value of derivative financial instruments, the Group's Adjusted EBITDA was approximately HK$274,541,000 in 2011, representing an increase of 33.6% as compared with that of approximately HK$205,513,000 in 2010.

### *Profit attributable to owners of the Company*

As a result of the above, profit attributable to owners of the Company was approximately HK$86,114,000 in 2011, representing an increase of 277.5% as compared with that of approximately HK$22,811,000 in 2010.

### *Earnings per share*

The basic and diluted earnings per share attributable to the owners of the Company were HK3.82 cents and HK3.77 cents respectively in 2011, as compared with that of HK1.16 cents and HK1.14 cents respectively in 2010.

### *Net assets value per share*

The net assets value per share attributable to the owners of the Company was HK$0.5 in 2011, representing an increase of 25% as compared with that of HK$0.4 in 2010.

The net assets value represents total assets minus total liabilities.

## LIQUIDITY, FINANCIAL RESOURCES AND WORKING CAPITAL

### *Liquidity*

As at 31st December, 2011, the Group's net current liabilities increased by approximately HK$77,892,000 or 25.4% to approximately HK$384,939,000 (2010: HK$307,047,000).

The increase was mainly attributable to (i) incline the carrying amount of bank borrowings repayable within one year from approximately HK$390,447,000 in 2010 to HK$422,493,000 in 2011; (ii) the current deferred income and advance received increased by 53.2% to approximately HK$198,513,000 in 2011 from approximately HK$129,581,000 in 2010.

As at 31st December, 2011, the Group's current ratio, represented by a ratio of total current assets to total current liabilities, was approximately 0.7 (2010: 0.6).

As at 31st December, 2011, the total assets increased by approximately HK$561,131,000 or 24.7% to HK$2,836,665,000 (2010: HK$2,275,534,000).

As at 31st December, 2011, the total bank borrowings increased by approximately HK$142,199,000 or 19.4% to HK$876,030,000 (2010: HK$733,831,000).

All shareholder loan was repaid during the year ended 31st December, 2011. The shareholder loan amounted to approximately HK$144,355,000 as at 31st December, 2010.

Interest bearing loans and other borrowings represents bank borrowings and shareholder loan.

As at 31st December, 2011, the Group's gearing ratio, represented by a ratio of total interest bearing loans and other borrowings to total equity, was 0.7 (2010: 1.0).

### *Financial resources*

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

### *Working capital*

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

## CONNECTED TRANSACTION

### *Shareholder loan*

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

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

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

Reference is made to the announcement of Zhongyu Gas Holdings Limited (the "Company") dated 18th April, 2011 in relation to the completion of the placing of 394,000,000 new shares of the Company (the "Announcement"). Capitalised terms used in this report shall have the same meanings as those defined in the Announcement unless the context otherwise requires.

As stated in the Announcement, the Company would use part of the net proceeds from the Placing to repay the Loan and all interest accrued thereon. Accordingly, the Company has sent a cashier's cheque dated 28th April, 2011 by registered post to China Gas for the outstanding principal amount of the Loan being US$18,507,044.40 together with interest accrued on such amount (calculated from and including the drawdown date of the loan up to and including 29th April, 2011). China Gas sent a reply letter mentioned that China Gas accepted the cashier's cheque for partial payment of the sum due and owing to China Gas (including for expenses incurred, loss/damaged suffered) under the loan agreement and China Gas reserve all rights for demanding the payment of the outstanding sums due to China Gas.

### *Equity interest transfer*

On 22nd June, 2011, 泰安市旭升電子科技有限公司 (Taian City Xusheng Electronics Technology Company Limited) ("Xusheng") as transferor and 臨沂中燃城市燃氣建設發展有限公司 (Linyi China Gas City Gas Construction Company Limited) ("Linyi China Gas"), a non-wholly owned subsidiary of the Company, as transferee entered into the equity transfer agreement (the "Equity Transfer Agreement") pursuant to which Xusheng has agreed to transfer to Linyi China Gas 33% of the equity interest in 臨沂山林燃氣有限公司 (Linyi Shanlin Gas Company Limited) ("Linyi Shanlin") held by it in accordance with the terms of the Equity Transfer Agreement (the "Transaction"). For details, please refer to the announcements of the Company dated 22nd June, 2011 and 23rd June, 2011 respectively.

Linyi Shanlin was established on 6th January, 2008 in Linshu County, Shandong Province, the PRC with limited liability. It is principally engaged in the business of the supply of pipeline natural gas and the sale and installation of gas equipment in the Economic Development Zone of Linshu County, Shandong Province, the PRC.

Linyi China Gas currently owned as to 67% of the total equity interest in Linyi Shanlin. After completion of the transactions contemplated under the Equity Transfer Agreement, Linyi China Gas owns the entire equity interest in Linyi Shanlin.

The Directors (including independent non-executive Directors) are of the view that the transaction will enhance the earning base of the Group. Accordingly, the Directors (including independent non-executive Directors) believe that the terms of the Equity Transfer Agreement are fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

As Xusheng is a connected person of the Company and the relevant percentage ratios under the GEM Listing Rules do not exceed 5%, the Transaction only constitutes a connected transaction of the Company which is subject to reporting and announcement requirements but is exempt from independent shareholders' approval requirements set out in the GEM Listing Rules.

## EXPOSURE TO EXCHANGE RATE FLUCTUATIONS

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

## EMPLOYEE INFORMATION

As at 31st December, 2011, the Group had a total of 2,160 employees (2010: 2,040) in Hong Kong and the PRC, and the total employee benefit expenses (other than director) for the year under review was approximately HK$135,619,000 (2010: HK$102,954,000). The increase was mainly due to share option expense and salary increment as well as the increase in the number of headcount resulting from the Group's business expansion. More than 99.8% of the Group's employees are located in the PRC.

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

# MANAGEMENT DISCUSSION AND ANALYSIS

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

On 11th April, 2011, the Company granted the share options to the Grantees to subscribe for an aggregate of 159,000,000 ordinary shares at par value HK$0.01 each of the Company were granted to the eligible participants by the Company pursuant to the share option scheme adopted by the shareholders of the Company on 24th October, 2003 (the "Share Option"). The exercise price of share options granted was HK$0.49 per share. The share options granted shall be valid for a period of ten years from the date of grant.

## CHARGE ON THE GROUP'S ASSETS

As at 31st December, 2011, the Group did not have any charges on the Group's assets.

## DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

As at 31st December, 2011, the Directors did not have any future plans for material investment or capital assets.

## CAPITAL COMMITMENTS

As at 31st December, 2011, the capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements is HK$62,360,000 (2010: HK$2,883,000).

## CONTINGENT LIABILITIES

As at 31st December, 2011, the Group did not have any contingent liabilities.

# BIOGRAPHICAL INFORMATION OF DIRECTORS

## EXECUTIVE DIRECTORS

**Mr. Wang Wenliang**, aged 41, is the Chairman and the chief Executive Officer of Zhongyu Gas Holdings Limited (the "Company"). He joined the Company in July 2003. Mr. Wang is responsible for the overall strategic development of the Company and its subsidiaries (collectively the "Group"). Mr. Wang has held investments in various industries in the PRC including aluminium, property, and information technology. Mr. Wang has been a deputy general manager of a company in Zhengzhou, People's Republic of China (the "PRC") (whose principal business is the manufacture and sale of aluminium products) since 1996 and has been a deputy general manager of a company in Henan Province, the PRC (whose principal business is property management and rental) since 1997. Mr. Wang also has been a president of a company in Henan Province, the PRC since 2000, the principal business of which is the provision of software development, networking engineering services, sale of computer and peripheral products, and provision of Internet services. Mr. Wang completed his postgraduate course in Finance in the Chinese Academy of Social Science in the PRC in 2001. Mr. Wang is a chairman and director of Hezhong Investment Holding Company Limited ("Hezhong").

**Mr. Lu Zhaoheng**, aged 47, graduated from 重慶建築工程學院 (The Architecture and Engineering Institute of Chongqing) in 1984, specialising in City Natural Gas Heat Energy Engineering. Mr. Lu has accumulated about twenty-four years of experience in the development and commercialisation of natural gas in the PRC. Mr. Lu held various positions in 河南省城鄉規劃設計院 (The City Planning Design Institute of Henan Province) and 鄭州市市政規劃設計院 (The Planning Design Institute of Zhengzhou City) and was mainly responsible for the planning, design and consultation regarding natural gas projects. Mr. Lu is mainly responsible for the management of the Group's piped natural gas projects. Mr. Lu joined the Company in June 2004.

**Mr. Lui Siu Keung**, aged 40, was appointed as an Executive Director of the Company in October 2007 and is the Chief Financial Officer, Company Secretary and Qualified Accountant of the Company. He joined the Company in 2003 and is responsible for the financial and accounting operation of the Group. Mr. Lui has approximately sixteen years of experience in corporate finance, accounting and auditing fields. He graduated from The Hong Kong Polytechnic University with a bachelor of arts degree in accountancy. Mr. Lui is an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Lui is an independent non-executive director of Co-Prosperity Holdings Limited (Stock Code: 707).

## NON-EXECUTIVE DIRECTORS

**Mr. Xu Yongxuan**, aged 66, the Vice Chairman of the Company. He graduated from the Beijing Institute of Petroleum, specialising in Geophysics in 1965. Mr. Xu had been an executive director of Greater China Sci-Tech Holdings Limited, the issued shares of which are listed on the main board of The Stock Exchange of Hong Kong Limited, for the period from October 2001 to January 2004. Mr. Xu joined the Company in March 2004.

# BIOGRAPHICAL INFORMATION OF DIRECTORS

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Li Chunyan**, aged 46, is the Chairman of Audit Committee and Remuneration Committee of the Company. He is currently a registered lawyer at He Nan Shi Ji Tong law offices (河南世紀通律師事務所) and is also a registered accountant, registered assets valuer and registered tax adviser in the People's Republic of China ("PRC"). Mr. Li has acted as legal adviser to the Henan province hospital authority, the Henan province television station and other listed companies listed in the PRC and overseas. He joined the Company in October 2010.

**Dr. Luo Yongtai**, aged 65, is a member of the Audit Committee and Remuneration Committee of the Company. He is a professor in management of Tianjin University of Finance and Economics, the head of the Microeconomic Institute of Tianjin University of Finance and Economics, a member of the committee of the Tianjin City People's Political Consultative Conference, the deputy supervisor of the People's Republic of China System Engineering Committee and also held positions in various professional organisations. Mr. Luo is a beneficiary of the Expert Special Subsidy granted by the State Council of the PRC and has been engaged in various national and provincial projects in recent years. Mr. Luo is also an independent director of two companies listed on the Shanghai Stock Exchange. He joined the Group in July 2003.

**Mr. Hung, Randy King Kuen**, aged 46, is a member of the Audit Committee and Remuneration Committee of the Company. Mr. Hung is a fellow certified public accountant in Hong Kong and a certified public accountant in the United States. Currently, he is an executive director of China Fiber Optic Network System Group Limited (Stock Code: 3777) and a non-executive director of China Shineway Pharmaceutical Group Limited (Stock Code: 2877). Mr. Hung is a member of the American Institute of Certified Public Accountants, a fellow of the Hong Kong Institute of Certified Public Accountants, a member of the Hong Kong Securities Institute, and a council member of the Hong Kong Institute of Directors, and an executive committee member of the Hong Kong Investor Relations Association. Mr. Hung holds a MBA degree in international management from the University of London, a bachelor's degree of accounting and a certificate of programming and data processing from the University of Southern California, a certificate of China Accounting, Finance, Taxation and Law from the Chinese University of Hong Kong Securities Institute Specialist Certificate in corporate finance. Mr. Hung joined the Company in September 2004.

# CORPORATE GOVERNANCE REPORT

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

Save as disclosed herein, the Company has fully complied with all requirements of the Code (the "Code") on Corporate Governance Practices, as set out in Appendix 15 of the rules governing the listing of securities on the Growth Enterprise Market operated by the Stock Exchange of Hong Kong Limited ("GEM Listing Rules") for the year ended 31st December, 2011. The following summarizes the corporate governance practices of the Company and the reasons for deviations, if any, from the Code.

## A. BOARD OF DIRECTORS

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

### *A.1 Board composition*

As at 31st December, 2011, the Board included seven Directors, of which three are executive Directors, one is non-executive Directors and the remaining three are independent non-executive Directors. The composition of the Board is as follows:

| | |
|---|---|
| ***Executive Directors:*** | Mr. Wang Wenliang ("Mr. Wang")<br>*(Chairman and Chief Executive Officer)*<br>Mr. Lu Zhaoheng<br>Mr. Lui Siu Keung *(Chief Financial Officer)* |
| ***Non-executive Directors:*** | Mr. Xu Yongxuan *(Vice-Chairman)* |
| ***Independent Non-executive Directors:*** | Mr. Li Chunyan<br>Dr. Luo Yongtai<br>Mr. Hung, Randy King Kuen |

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

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

Given the business nature, the Board members have distinct skills and experience in a variety of business range, which includes city gas network design and operation, organizational management, financial and securities trading market, etc. The relevant biographies and the respective roles of all Directors in the Board are set out on pages 16 and 17 in this report.

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

### *A.2 Board meetings and information supply*

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

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

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

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

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

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

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

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

For the year ended 31st December, 2011, the Board held seven board meetings. The attendance records of all board meetings are set out below:

| | | |
|---|---|---|
| **Executive Directors** | | |
| Mr. Wang Wenliang *(Chairman and Chief Executive Officer)* | 7 | 100% |
| Mr. Lu Zhaoheng | 7 | 100% |
| Mr. Lui Siu Keung *(Chief Financial Officer)* | 7 | 100% |
| **Non-executive Directors** | | |
| Mr. Xu Yongxuan *(Vice Chairman)* | 7 | 100% |
| **Independent Non-executive Directors** | | |
| Mr. Li Chunyan | 7 | 100% |
| Dr. Luo Yongtai | 7 | 100% |
| Mr. Hung, Randy King Kuen | 7 | 100% |

### A.3 Chairman and Chief executive officer

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

### A.4 Appointments and re-election

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

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

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

At the 2010 AGM, Mr. Xu Chao Ping, Mr. Li Chunyan, Mr. Xu Yongxuan and Dr. Luo Yongtai, four of the nine Directors subject to retirement by rotation, retired. Mr. Li Chunyan, Mr. Xu Yongxuan and Dr. Luo Yongtai were re-elected to the Board by the shareholders of the Company. Mr. Xu Chao Ping was not re-elected to the Board by the shareholders of the Company.

### A.5 Responsibilities of directors

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

### A.6 Directors' securities transaction

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

## B. REMUNERATION MATTERS

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

One remuneration meeting has been held on 22nd March, 2011 to review the remuneration packages of Directors which are nominal by market standards. The Remuneration Committee also consider and approve (i) the remuneration of the Directors for the year ending 31st December, 2012; (ii) salary increase of the management of the Group; and (iii) range of salary increase of employees of the Group. The attendance record of the remuneration committee meeting is set out below:

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

## C. ACCOUNTABILITY AND AUDIT

### *C.1 Financial reporting*

Generally, Directors acknowledge their responsibilities for preparing accounts with sufficient and reliable financial information in each financial period, while the auditors appointed by the Group provide auditors' report on financial statements. To resent a balanced, clear and comprehensible assessments of the Group's performance, position, and prospects, the Company publishes its results of operations on a quarterly basis, and in accordance with the GEM Listing Rules, the relevant annual and interim and quarterly results are announced in the limits of three months and 45 days respectively after the each financial period.

### *C.2 Internal controls*

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

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

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

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

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

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

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

In 2011, after applied in reviews of the effectiveness of internal control system through the Company's Audit Committee, the Board believes no suspected frauds and irregularities, internal control deficiencies or suspected infringement of laws, rules and regulations exist in the Group, which illustrates the system of internal controls is inadequate. The Board is also satisfied that the Group has fully complied with the code provisions on internal controls as set forth in the Code.

### *C.3 Audit committee*

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

The Audit Committee comprises three independent non-executive Directors who have extensive experience in financial matters, including Mr. Li Chunyan, Dr. Luo Yongtai and Mr. Hung, Randy King Kuen. Mr. Li Chunyan is the chairman of the Audit Committee. In 2011, the Audit Committee held four meetings to check the effectiveness of the internal control system; to review all draft annual, quarterly and interim financial reports, circulars and announcements; and know about the external auditors' statutory audit plan and the Letters of Representation, and to consider and approve the audit fees. The attendance records of the audit committee meetings are set out below:

| | | |
|---|---|---|
| **Independent Non-executive Directors** | | |
| Mr. Li Chunyan *(Chairman)* | 4 | 100% |
| Dr. Luo Yongtai | 4 | 100% |
| Mr. Hung, Randy King Kuen | 4 | 100% |

### *C.4 Auditors' remuneration*

The remuneration in respect of audit service provided by Deloitte Touche Tohmatsu, being the Company's auditors during the year 2011 amounted to HK$1,650,000.

# DIRECTORS' REPORT

The directors of the Company present their annual report and the audited consolidated financial statements of the Group for the year ended 31st December, 2011.

## PRINCIPAL ACTIVITIES

The Company acts as an investment holding company and provides corporate management services to its subsidiaries. The activities of the Company's principal subsidiaries are set out in note 42 to the consolidated financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2011 are set out in the consolidated statement of comprehensive income on page 37.

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

## INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

The Group revalued all of its investment properties at the year end date. The increase in fair value of investment properties, which has been credited to profit or loss, amounted to HK$56,000.

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

## SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 30 to the consolidated financial statements.

## DISTRIBUTABLE RESERVES

Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for distributions of dividends to shareholders subject to the provisions of its Articles of Association and provided that immediately following the distribution of dividends, the Company is able to pay its debts as they fall due in the ordinary course of business. In the opinion of the directors, as at 31st December, 2011, the Company's reserves available for distribution amounted to HK$865,343,000 which consisted of share premium of HK$816,047,000 and accumulated profit of HK$49,296,000.

## PURCHASE, SALE OR REDEMPTION OF SHARES

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

# DIRECTORS' REPORT

## DIRECTORS

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

### *Executive Directors*

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

### *Non-executive Directors*

Mr. Xu Yongxuan *(Vice-Chairman)*
Mr. Xu Chao Ping (removed on 28th April, 2011)

### *Independent non-executive Directors*

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

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

In accordance with the provisions of the Company's Articles of Association, Mr. Lu Zhaoheng, Mr. Lui Siu Keung and Mr. Hung, Randy King Kuen retire by rotation and, being eligible, offer themselves for re-election.

## DIRECTORS SERVICE CONTRACTS

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

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

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

## DISCLOSURE OF INTERESTS

### (a) *Interests of Directors*

As at 31st December, 2011, the interests and short positions of the Directors and the Chief Executive of the Company and their associates in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO")) which (a) are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) are required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, were as follows:

Long positions in the Shares of the Company:

| Name of directors | Notes | Nature of Shares and/or underlying Shares | Type of interests | Approximate percentage of issued share capital |
|---|---|---|---|---|
| Mr. Wang Wenliang | 1 | 578,619,542 | Beneficial and interest in corporation | 24.13% |
| Mr. Xu Yongxuan | 2 | 1,000,000 | Beneficial | 0.04% |
| Mr. Lu Zhaoheng | 3 | 3,000,000 | Beneficial | 0.13% |
| Mr. Lui Siu Keung | 2 | 6,000,000 | Beneficial | 0.25% |
| Mr. Li Chunyan | 2 | 1,000,000 | Beneficial | 0.04% |
| Mr. Luo Yongtai | 2 | 1,000,000 | Beneficial | 0.04% |
| Mr. Hung, Randy King Kuen | 2 | 1,000,000 | Beneficial | 0.04% |

Notes:

1. Among these Shares and/or underlying Shares, 567,453,542 Shares are held by Hezhong Investment Holding Company Limited ("Hezhong"). Mr. Wang Wenliang is beneficially interested in 100% of the issued share capital of Hezhong. 10,000,000 underlying Shares are to be allotted and issued upon exercise the rights attaching to the share options granted at an exercise price of HK$0.49 per share under the share option scheme adopted by the Company on 24th October, 2003. The remaining 1,166,000 Shares are directly held by Mr. Wang Wenliang.

2. These underlying Shares are to be allotted and issued upon exercise the rights attaching to the share options granted at an exercise price of HK$0.49 per share under the share option scheme adopted by the Company on 24th October, 2003.

3. The Shares are directly held by Mr. Lu Zhaoheng.

Save as disclosed above, as at 31st December, 2011, none of the Directors nor the chief executive of the Company had or was deemed to have any interests and short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) are required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

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

So far as is known to the Directors, as at 31st December, 2011, the following entities (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group, or substantial Shareholder which were recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

***Long positions in the shares***

| Name of shareholder | Type of interest | Number of shares | Approximate percentage of interests |
|---|---|---|---|
| China Gas Holdings Limited | Beneficial | 1,111,934,142 | 46.37% |
| Rich Legend International Limited | Beneficial | 1,111,934,142 | 46.37% |
| Hezhong | Beneficial | 567,453,542 | 23.66% |

Notes:

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

2. Hezhong is beneficially interested in 567,453,542 shares. Mr. Wang Wenliang is beneficially interested in 100% of the issued share capital of Hezhong.

Save as disclosed above, as at 31st December, 2011, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group, or substantial Shareholder which were recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

## SHARE OPTIONS

Particulars of the Company's share option schemes are set out in note 34 to the consolidated financial statements.

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

| | | | Number of share options | | | |
|---|---|---|---|---|---|---|
| **Directors** | **Exercise period** | **Exercise price** HK$ | **As at 1st January, 2011** | **Granted during the year** | **Exercised during the year** | **Outstanding at 31st December, 2011** |
| Wang Wenliang | 11.4.2011 to 10.4.2021 | 0.49 | – | 10,000,000 | – | 10,000,000 |
| Xu Yongxuan | 11.4.2011 to 10.4.2021 | 0.49 | – | 1,000,000 | – | 1,000,000 |
| Lu Zhaoheng | 11.4.2011 to 10.4.2021 | 0.49 | – | 3,000,000 | (3,000,000) | – |
| Lui Siu Keung | 11.4.2011 to 10.4.2021 | 0.49 | – | 6,000,000 | – | 6,000,000 |
| Li Chunyan | 11.4.2011 to 10.4.2021 | 0.49 | – | 1,000,000 | – | 1,000,000 |
| Luo Yongtai | 11.4.2011 to 10.4.2021 | 0.49 | – | 1,000,000 | – | 1,000,000 |
| Hung, Randy King Kuen | 11.4.2011 to 10.4.2021 | 0.49 | – | 1,000,000 | – | 1,000,000 |
| | | | – | 23,000,000 | (3,000,000) | 20,000,000 |
| Employees and others | 11.4.2011 to 10.4.2021 | 0.49 | – | 136,000,000 | (27,200,000) | 108,800,000 |
| | | | – | 159,000,000 | (30,200,000) | 128,800,000 |

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

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2011, our five largest supplier comprised 73.3% of our total purchase for the year. The Group's largest supplier accounted for 43.0% of the total purchase for the year. The aggregate sales attributable to the Group's five largest customers were less than 17.2% of total turnover for the year.

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

## PRE-EMPTIVE RIGHTS

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

## APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

## EMOLUMENT POLICY

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

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme are set out in note 34 to the consolidated financial statements.

## COMPETING BUSINESS

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

## SUFFICIENCY OF PUBLIC FLOAT

The Company did not fulfill the minimum public float requirement as set out under Rule 11.23 of the Listing Rules after the Offer. The Company applied to the Stock Exchange for a temporary waiver from strict compliance with the public float requirement under Rule 11.23 of the Listing Rules from 6th August, 2010 to 5th May, 2011. On 8th April, 2011, 394,000,000 new Shares are placed by the Company through Kingsway Financial Services Group Limited pursuant to the placing agreement. The Board is pleased to announce that all conditions of the Placing have been fulfilled and the completion of the placing took place on 18th April, 2011. Therefore, as a result of the completion of the placing, there are 687,454,000 Shares (representing approximately 29.03% of the existing issued share capital of the Company) in public hands. Accordingly, the Company has fulfilled the minimum public float requirement under Rule 11.23 of the GEM Listing Rules.

## AUDITOR

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

On behalf of the Board

**Wang Wenliang**
*Chairman*

Hong Kong
14th March, 2012

# INDEPENDENT AUDITOR'S REPORT

**Deloitte.**
**德勤**

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

We have audited the consolidated financial statements of Zhongyu Gas Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 37 to 110, which comprise the consolidated statement of financial position as at 31st December, 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

## AUDITOR'S RESPONSIBILITY

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

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

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

# INDEPENDENT AUDITOR'S REPORT

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st December, 2011, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
14th March, 2012

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the Year ended 31st December, 2011*

| | NOTES | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| Turnover | 6 | **1,794,319** | 1,169,469 |
| Cost of sales | | **(1,365,724)** | (854,554) |
| Gross profit | | **428,595** | 314,915 |
| Other gains and losses | 8 | **(11,208)** | (10,984) |
| Other income | 9 | **11,547** | 8,308 |
| Selling and distribution costs | | **(34,268)** | (29,641) |
| Administrative expenses | | | |
| – General administrative expenses | | **(164,560)** | (131,238) |
| – Equity-settled share option expenses | | **(23,632)** | (6,038) |
| Research and development costs | | **(1,575)** | (9,306) |
| Finance costs | 10 | **(19,198)** | (43,466) |
| Profit before tax | | **185,701** | 92,550 |
| Income tax expenses | 11 | **(57,397)** | (35,425) |
| Profit for the year | 12 | **128,304** | 57,125 |
| Other comprehensive income | | | |
| Exchange differences arising on translation | | **48,017** | 35,371 |
| Total comprehensive income for the year | | **176,321** | 92,496 |
| Profit for the year attributable to: | | | |
| Owners of the Company | | **86,114** | 22,811 |
| Non-controlling interests | | **42,190** | 34,314 |
| | | **128,304** | 57,125 |
| Total comprehensive income attributable to: | | | |
| Owners of the Company | | **127,483** | 53,637 |
| Non-controlling interests | | **48,838** | 38,859 |
| | | **176,321** | 92,496 |
| Earnings per share | 15 | | |
| Basic | | **HK3.82 cents** | HK1.16 cents |
| Diluted | | **HK3.77 cents** | HK1.14 cents |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 31st December, 2011*

| | NOTES | **2011** **HK$'000** | 2010 HK$'000 |
|---|---|---|---|
| Non-current assets | | | |
| Investment properties | 16 | **6,570** | 6,245 |
| Property, plant and equipment | 17 | **1,514,801** | 1,130,829 |
| Goodwill | 18 | **109,066** | 104,568 |
| Other intangible assets | 19 | **146,672** | 150,598 |
| Deposits paid for acquisition of property, plant and equipment | 20 | **180,891** | 227,203 |
| Prepaid lease payments | 21 | **146,476** | 115,196 |
| Available-for-sale investment | 22 | **3,697** | 2,954 |
| | | **2,108,173** | 1,737,593 |
| Current assets | | | |
| Inventories | 23 | **65,867** | 45,304 |
| Trade and bills receivables | 24 | **141,381** | 53,340 |
| Deposits, prepayments and other receivables | 24 | **130,939** | 67,346 |
| Prepaid lease payments | 21 | **4,448** | 3,676 |
| Amounts due from customers for contract work | 25 | **–** | 2,334 |
| Pledged bank deposits | 26 | **34,582** | 13,978 |
| Bank balances and cash | 26 | **351,275** | 351,963 |
| | | **728,492** | 537,941 |
| Current liabilities | | | |
| Deferred income and advance received | 28 | **198,513** | 129,581 |
| Trade and bills payables | 28 | **275,711** | 161,551 |
| Other payables and accrued charges | 28 | **169,378** | 126,887 |
| Amounts due to customers for contract work | 25 | **13,861** | 14,066 |
| Bank borrowings | 29 | **422,493** | 390,447 |
| Tax payables | | **33,475** | 22,456 |
| | | **1,113,431** | 844,988 |
| Net current liabilities | | **(384,939)** | (307,047) |
| Total assets less current liabilities | | **1,723,234** | 1,430,546 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 31st December, 2011*

| | NOTES | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| Capital and reserves | | | |
| Share capital | 30 | **23,982** | 19,740 |
| Reserves | | **1,064,459** | 749,571 |
| Equity attributable to owners of the Company | | **1,088,441** | 769,311 |
| Non-controlling interests | | **140,699** | 133,096 |
| Total equity | | **1,229,140** | 902,407 |
| Non-current liabilities | | | |
| Deferred income and advance received | 28 | **25,549** | 24,220 |
| Bank borrowings | 29 | **453,537** | 343,384 |
| Shareholder loan | 31 | **–** | 144,355 |
| Deferred taxation | 32 | **15,008** | 16,180 |
| | | **494,094** | 528,139 |
| | | **1,723,234** | 1,430,546 |

The consolidated financial statements on pages 37 to 110 were approved and authorised for issue by the Board of Directors on 14th March, 2012 and are signed on its behalf by:

DIRECTOR

DIRECTOR

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the Year ended 31st December, 2011*

| | Attributable to owners of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Share option reserve HK$'000 | Property revaluation reserve HK$'000 | Other reserve HK$'000 (Note a) | Statutory surplus reserve HK$'000 (Note b) | Translation reserve HK$'000 | Accumulated (losses) profit HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 | Total HK$'000 |
| At 1st January, 2010 | 19,490 | 625,142 | 24,258 | 1,128 | 7,607 | 22,386 | 110,780 | (116,994) | 693,797 | 119,964 | 813,761 |
| Profit for the year | – | – | – | – | – | – | – | 22,811 | 22,811 | 34,314 | 57,125 |
| Other comprehensive income for the year | – | – | – | – | – | – | 30,826 | – | 30,826 | 4,545 | 35,371 |
| Total comprehensive income for the year | – | – | – | – | – | – | 30,826 | 22,811 | 53,637 | 38,859 | 92,496 |
| Transfer to statutory surplus reserve | – | – | – | – | – | 10,031 | – | (10,031) | – | – | – |
| Recognition of equity-settled share-based payments | – | – | 6,038 | – | – | – | – | – | 6,038 | – | 6,038 |
| Shares issued upon conversion of convertible bonds | 112 | 9,893 | – | – | – | – | – | – | 10,005 | – | 10,005 |
| Exercise of share options | 138 | 4,428 | (496) | – | – | – | – | – | 4,070 | – | 4,070 |
| Cancellation of share options | – | – | (29,800) | – | – | – | – | 29,800 | – | – | – |
| Dividend paid by subsidiaries to non-controlling interests | – | – | – | – | – | – | – | – | – | (20,204) | (20,204) |
| Deemed acquisition of additional interest of a subsidiary (note 35) | – | – | – | – | 1,764 | – | – | – | 1,764 | (7,934) | (6,170) |
| Capital contribution from non-controlling interest of a subsidiary | – | – | – | – | – | – | – | – | – | 2,411 | 2,411 |
| At 31st December, 2010 | 19,740 | 639,463 | – | 1,128 | 9,371 | 32,417 | 141,606 | (74,414) | 769,311 | 133,096 | 902,407 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the Year ended 31st December, 2011*

| | Attributable to owners of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Share option reserve HK$'000 | Property revaluation reserve HK$'000 | Other reserve HK$'000 (Note a) | Statutory surplus reserve HK$'000 (Note b) | Translation reserve HK$'000 | Accumulated (losses) profit HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 | Total HK$'000 |
| Profit for the year | – | – | – | – | – | – | – | 86,114 | 86,114 | 42,190 | 128,304 |
| Other comprehensive income for the year | – | – | – | – | – | – | 41,369 | – | 41,369 | 6,648 | 48,017 |
| Total comprehensive income for the year | – | – | – | – | – | – | 41,369 | 86,114 | 127,483 | 48,838 | 176,321 |
| Transfer to statutory surplus reserve | – | – | – | – | – | 10,045 | – | (10,045) | – | – | – |
| Recognition of equity-settled share-based payments | – | – | 23,632 | – | – | – | – | – | 23,632 | – | 23,632 |
| Issue of shares under placement (note 30) | 3,940 | 159,619 | – | – | – | – | – | – | 163,559 | – | 163,559 |
| Transaction costs attributable to issue of shares | – | (2,019) | – | – | – | – | – | – | (2,019) | – | (2,019) |
| Exercise of share options | 302 | 18,984 | (4,489) | – | – | – | – | – | 14,797 | – | 14,797 |
| Dividend paid by subsidiaries to non-controlling interests | – | – | – | – | – | – | – | – | – | (30,542) | (30,542) |
| Acquisition of additional interest of a subsidiary (note 36) | – | – | – | – | (8,322) | – | – | – | (8,322) | (11,926) | (20,248) |
| Additional capital contribution from non-controlling interest of a subsidiary | – | – | – | – | – | – | – | – | – | 1,233 | 1,233 |
| At 31st December, 2011 | 23,982 | 816,047 | 19,143 | 1,128 | 1,049 | 42,462 | 182,975 | 1,655 | 1,088,441 | 140,699 | 1,229,140 |

Notes:

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

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

During the year ended 31st December, 2011, the difference between the consideration paid and the carrying amount of the additional interest effectively hold by the Group of HK$8,322,000 resulted from the acquisition of additional interest in Linyi Shanlin Gas Company Limited ("Linyi Shanlin") was debited to other reserve. Details of the acquisition are set out in note 36.

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

*For the Year ended 31st December, 2011*

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Operating activities | | |
| Profit before tax | **185,701** | 92,550 |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | **54,287** | 37,618 |
| Equity-settled share option expenses | **23,632** | 6,038 |
| Amortisation of other intangible assets | **5,821** | 6,140 |
| Amortisation of prepaid lease payments | **3,703** | 2,148 |
| Gain on repurchase and redemption of convertible bonds | **–** | (2,365) |
| Loss (gain) on disposal/written off of property, plant and equipment | **6,476** | (652) |
| Allowance for doubtful debts | | |
| – trade receivables | **329** | 619 |
| – other receivables | **2,317** | 1,928 |
| Net reversal of impairment loss recognised on amounts due from customers for contract work | **(3,173)** | (6,367) |
| Net Impairment loss recognised on other intangible assets | **5,831** | 30,751 |
| Interest income | **(2,389)** | (1,455) |
| Finance costs | **19,198** | 43,466 |
| Change in fair value of derivative financial instruments | **–** | (12,360) |
| Change in fair value of investment properties | **(56)** | (450) |
| Operating cash flows before movements in working capital | **301,677** | 197,609 |
| Increase in inventories | **(20,563)** | (9,087) |
| Increase in trade and bills receivables | **(88,370)** | (24,432) |
| Increase in deposits, prepayments and other receivables | **(51,428)** | (31,302) |
| Decrease in amounts due from customers for contract work | **5,507** | 10,114 |
| Increase in deferred income and advance received | **63,514** | 45,380 |
| Increase in trade and bills payables | **101,836** | 59,664 |
| Increase in other payables and accrued charges | **60,648** | 4,841 |
| (Decrease) increase in amounts due to customers for contract work | **(205)** | 2,044 |
| Cash generated from operations | **372,616** | 254,831 |
| Interest received | **2,389** | 1,455 |
| Income taxes and withholding tax paid | **(48,248)** | (34,605) |
| Net cash from operating activities | **326,757** | 221,681 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

*For the Year ended 31st December, 2011*

| | NOTES | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| Investing activities | | | |
| Purchases of property, plant and equipment | | **(134,471)** | (355,439) |
| Proceeds from disposal of property, plant and equipment | | **2,107** | 4,748 |
| Withdrawal of pledged bank deposits | | **8,000** | – |
| Placement of pledged bank deposits | | **(28,604)** | (504) |
| Addition of prepaid lease payments | | **(30,084)** | (2,753) |
| Deposit paid for acquisition of property, plant and equipment | | **(180,891)** | (227,203) |
| Purchase of intangible assets | | **(1,810)** | – |
| Increase in available-for-sale investment | | **(616)** | – |
| Increase in loan receivables | | **(14,482)** | – |
| Settlement of other payables and accrued charges obtained from acquisition of assets and liabilities | 20 | **–** | (32,339) |
| Government grants received for depreciable assets | | **–** | 7,820 |
| Net cash used in investing activities | | **(380,851)** | (605,670) |
| Financing activities | | | |
| Acquisition of additional interest in a subsidiary | 36 | **(19,334)** | – |
| Interest paid | | **(35,747)** | (38,981) |
| (Repayment) raise of shareholder loan | | **(150,564)** | 144,355 |
| New borrowings raised | | **272,615** | 714,121 |
| Repayments of borrowings | | **(161,980)** | (304,415) |
| Proceeds from issue of shares under placement | | **163,559** | – |
| Transaction costs paid on issue of shares under placement | | **(2,019)** | – |
| Proceeds from issue of shares upon exercise of share options | | **14,797** | 4,070 |
| Dividend paid by subsidiaries to its non-controlling interest | | **(30,542)** | (20,204) |
| Capital contribution from non-controlling interest of a subsidiary | | **1,233** | 2,411 |
| Redemption/repurchase of convertible bonds | | **–** | (181,579) |
| Net cash from financing activities | | **52,018** | 319,778 |
| Net decrease in cash and cash equivalents | | **(2,076)** | (64,211) |
| Cash and cash equivalents at 1st January | | **351,963** | 413,779 |
| Effect of foreign exchange rate changes | | **1,388** | 2,395 |
| Cash and cash equivalents at 31st December, represented by bank balances and cash | | **351,275** | 351,963 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the Year ended 31st December, 2011*

## 1. GENERAL

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

On 17th January, 2010, Rich Legend International Limited ("Rich Legend"), a wholly owned subsidiary of China Gas Holdings Limited ("China Gas"), a listed company in the Stock Exchange, proposed to the board of directors of the Company that it intends to make a voluntary conditional cash and securities exchange offer (the "Offer") (i) to acquire the entire issued share capital of the Company, (ii) for the acquisition of all outstanding convertible bonds and (iii) for the cancellation of all the outstanding share options of the Company. The Offer was closed on 6th August, 2010.

After the completion of the Offer, Rich Legend acquired approximately 56.33% of the issued share capital of the Company, and thereafter, the Company's immediate holding company and ultimate holding company changed from Hezhong to Rich Legend and China Gas, respectively. Rich Legend is a company incorporated in the British Virgin Islands ("BVI"), while China Gas is a company incorporated in Bermuda. Details of the redemption of convertible bonds and the cancellation of the outstanding share option of the Company are set out in notes 33 and 34 respectively.

On 8th April, 2011, the Company entered into the placing agreement in relation to the placing of a maximum of 394,000,000 new ordinary shares of the Company to be placed by the Company at the placing price of HK$0.41 per share (the "Placing"). The Completion of the Placing took place on 18th April, 2011. Since then, the directors of the Company consider that the Company ceased to be a subsidiary of Rich Legend and China Gas. None of the existing shareholders hold more than 50% of the revised capital of the Company.

The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Corporate Information" of the Group's annual report.

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

The Company's subsidiaries are principally engaged in the development, construction and operation of natural gas and coalbed gas projects in the PRC.

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

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

In the current year, the Group has applied, for the first time, a number of new and revised Standards and Interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are mandatorily effect for 2011 financial year ends.

The application of the new and revised HKFRSs in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

The Group has not early applied the following new or revised HKFRSs that have been issued but are not yet effective:

| | |
|---|---|
| Amendments to HKFRS 7 | Disclosures – Transfers of financial assets[1] |
| Amendments to HKFRS 7 | Disclosures – Offsetting financial assets and financial liabilities[2] |
| Amendments to HKFRS 9 and HKFRS 7 | Mandatory effective date of HKFRS 9 and transition disclosures[3] |
| HKFRS 9 | Financial instruments[3] |
| HKFRS 10 | Consolidated financial statements[2] |
| HKFRS 11 | Joint arrangements[2] |
| HKFRS 12 | Disclosure of interests in other entities[2] |
| HKFRS 13 | Fair value measurement[2] |
| Amendments to HKAS 1 | Presentation of items of other comprehensive income[5] |
| Amendments to HKAS 12 | Deferred tax – Recovery of underlying assets[4] |
| HKAS 19 (as revised in 2011) | Employee benefits[2] |
| HKAS 27 (as revised in 2011) | Separate financial statements[2] |
| HKAS 28 (as revised in 2011) | Investments in associates and joint ventures[2] |
| Amendments to HKAS 32 | Offsetting financial assets and financial liabilities[6] |
| HK (IFRIC) – INT 20 | Stripping costs in the production phase of a surface mine[2] |

[1] Effective for annual periods beginning on or after 1st July, 2011.
[2] Effective for annual periods beginning on or after 1st January, 2013.
[3] Effective for annual periods beginning on or after 1st January, 2015.
[4] Effective for annual periods beginning on or after 1st January, 2012.
[5] Effective for annual periods beginning on or after 1st July, 2012.
[6] Effective for annual periods beginning on or after 1st January, 2014.

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

### *HKFRS 9 Financial instruments*

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

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

The directors of the Company anticipate that the adoption of HKFRS 9 in the future will have impact on the classification and measurement in respect of the Group's available-for-sale investment and other financial assets but not on the Group's other financial assets and financial liabilities.

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

### *Amendments to HKAS 1 Presentation of items of other comprehensive income*

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for the Group for annual periods beginning on or after 1st January, 2013. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

Other than as described above, the directors of the Company anticipate that the application of the other new or revised HKFRSs will have no material impact on the results and the financial position of the Group.

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

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

### *Basis of consolidation*

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

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### *Basis of consolidation (Continued)*

***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 (effective from 1st January, 2010 onwards).

***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.

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognise as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### *Goodwill*

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

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

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

### *Revenue recognition*

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

Revenue from the sale of goods is recognised when goods are delivered and titles have passed.

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### *Property, plant and equipment*

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or administrative purposes other than construction in progress as described below are stated in the consolidated statement of financial position 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 less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

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

### *Investment properties*

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

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

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the item is derecognised.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### *Construction contracts*

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, as measured by the proportion that contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

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

### *Borrowing costs*

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### *Leasing*

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

***The Group as lessor***

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

***The Group as lessee***

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

***Leasehold land and building***

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

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

### *Retirement benefits costs*

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### *Government grants*

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Other government subsidies are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

### *Intangible assets*

***Intangible assets acquired separately***

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses (see accounting policy on impairment loss on tangible and intangible assets below). Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effective of any changes in estimate being accounted for on a prospective basis.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### *Intangible assets* *(Continued)*

***Research and development expenditure***

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

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

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

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

***Intangible assets acquired in a business combination***

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### *Taxation*

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

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

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and 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 current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### *Financial instruments*

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

***Financial assets***

The Group's financial assets are classified into one of the two categories, including loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

*Effective interest method*

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

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investment.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at the end of reporting period (see accounting policy on impairment loss on financial assets below).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and bills receivables, refundable deposits, other receivables, pledged bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### *Financial instruments* (Continued)

***Impairment of financial assets***

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

For loans and receivables, objective evidence of impairment could include:

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

For trade receivables that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, observable changes in national or local economic conditions that correlate with default on receivables.

For loans and receivables, the amount of the impairment loss recognised is the difference between the carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate. If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

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

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### *Financial instruments* *(Continued)*

***Financial liabilities and equity instruments***

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

*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.

*Effective interest method*

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

Interest expense is recognised on an effective interest basis.

*Financial liabilities at fair value through profit or loss*

Financial liabilities at FVTPL represent financial liabilities held for trading.

A financial liability is classified as held for trading if it is a derivative that is not designated and effective as a hedging instrument.

At the end of the reporting period subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise.

*Convertible bonds with liability and derivative components*

Convertible bonds issued by the Company contain liability, conversion option and early redemption options (which is not closely related to the host liability component) are classified separately into liability and derivative components (including conversion option and early redemption option component) on initial recognition. Conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is a conversion option derivative. Early redemption options embedded in non-derivative host liability component with risks and characteristics that are not closely related to the liability component are classified separated from the liability component. At the date of issue, both the liability and derivative components are recognised at fair value.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### *Financial instruments* *(Continued)*

***Financial liabilities and equity instruments*** *(Continued)*

*Convertible bonds with liability and derivative components* (Continued)

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The derivative component is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and derivative components in proportion to their relative fair values. Transaction costs relating to the derivative components are charged to profit and loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

*Other financial liabilities*

Other financial liabilities including trade and bills payables, other payables, accrued charges, bank borrowings and shareholder loan are subsequently measured at amortised cost, using the effective interest method.

*Equity instruments*

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

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

***Embedded derivatives***

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their characteristics and risks are not closely related to those of the host contracts, and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

***Derecognition***

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### *Financial instruments (Continued)*

***Derecognition*** *(Continued)*

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

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

Where the Group repurchases/redeems a convertible bond before its maturity, the consideration paid is allocated to the liability and derivative components of the convertible bond at their respective fair values at the time of repurchase/redemption. To the extent that the amount of the consideration allocated to the liability component is less than the carrying amount of the liability component at the time of repurchase/redemption, a gain is recognised in profit or loss.

### *Equity-settled share-based payment transactions*

***Share options granted to employees***

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

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate with a corresponding adjustment to share options reserve.

***Share options granted to consultants***

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

### *Inventories*

Inventories, including construction materials, gas appliances, consumables and spare parts, are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

### *Foreign currencies*

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations in the PRC are translated into the presentation currency of the Group (i.e. HKD) using exchange rates prevailing at the end of the reporting period, and their income and expenses item are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributable to non-controlling interests as appropriate).

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### *Foreign currencies (Continued)*

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

### *Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)*

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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 in profit or loss.

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

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

In impairment testing, the Group determines the recoverable amount of the cash generating unit to which the assets belongs. Determining whether impairment needs to be provided requires an estimate the future cash flows expected to arise from the cash generating units. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate the present value. Where the future cash flows are less or more than expected or due to changes in estimates, a material impairment loss or reversal of impairment loss may arise. Details of the recoverable amount calculation for cash generating unit in respect of connection of pipeline construction are set out in note 18, whereas cash generating units in respect of sales of piped gas, sales of CNG filling stations as well as sales of coalbed methane gas are set out in note 19.

### *Depreciation*

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

## 5. FINANCIAL INSTRUMENTS AND CAPITAL DISCLOSURES

### *Capital risk management*

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

The capital structure of the Group consists of debt, which includes the bank borrowings and shareholder loan disclosed in notes 29 and 31 respectively and equity attributable to owners of the Company, comprising issued capital, accumulated profit and other reserves.

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

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

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

### *Categories of financial instruments*

| | **2011** **HK$'000** | 2010 HK$'000 |
|---|---|---|
| Financial assets | | |
| Available-for-sale investment | **3,697** | 2,954 |
| Loans and receivables (including cash and cash equivalents) | **560,863** | 433,927 |
| Financial liabilities | | |
| Amortised cost | **1,304,469** | 1,156,007 |

### *Financial risk management objectives and policies*

The Group's major financial instruments include trade and bills receivables, refundable deposits, other receivables, pledged bank deposits and bank balances, trade and bills payables, other payables and accrued charges, bank borrowings and shareholder loan. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

***Market risks***

*Interest rate risk*

The Group's fair value interest rate risk relates primarily to fixed-rate bank borrowings (2010: fixed-rate bank borrowings and shareholder loan). The Group has not used any derivative contracts to hedge these exposure to interest rate risk.

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

The sensitivity analysis has been determined based on the exposure to the variable-rate bank balances and bank borrowings at the end of the reporting period and management's assessment of the reasonably possible change interest rates. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for whole year. If interest rates on bank borrowings and bank balances had been 50 basis points and 20 basis points respectively (2010: 50 basis points for bank borrowings and 20 basis points for bank balances) higher/lower and all other variables were held constant, the Group's post-tax profit for the year would decrease/increase by HK$839,000 (2010: decrease/increase HK$677,000).

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

### *Financial risk management objectives and policies* *(Continued)*

***Market risks*** *(Continued)*

*Foreign currency risk*

The Group collects most of its revenue in RMB and incurs most of the expenditures as well as capital expenditures in RMB. The directors of the Company consider that the Group's exposure to foreign currency exchange risk is insignificant, except for bank balances (2010: shareholder loan and bank balances) denominated in United States Dollar ("USD") or HKD, as the majority of the Group's transactions are denominated in the functional currency of the respective group entities. The equivalent amount of HKD are set out below:

| | **2011** | 2010 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Shareholder loan – USD | **–** | 144,355 |
| Bank balances | | |
| – USD | **783** | 1,940 |
| – HKD | **44,546** | 6,159 |
| | **45,329** | 8,099 |

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

Sensitivity analysis

The Group is mainly exposed to the foreign currency risk in HKD and USD.

The following table details the Group's sensitivity to a 5% (2010: 5%) increase and decrease in RMB against USD and 5% (2010: 5%) increase and decrease in RMB against HKD. 5% (2010: 5%) represents management's assessment of the reasonable possible change in foreign exchange rates. The sensitivity analysis includes only USD and HKD bank balances, and shareholder loan, and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates decrease in post-tax profit where RMB strengthen 5% against the relevant currency. For a 5% weakening of RMB against in the USD and HKD, there would be an equal and opposite impact on the profit or loss.

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

### *Financial risk management objectives and policies* *(Continued)*

***Market risks*** *(Continued)*

*Foreign currency risk (Continued)*

Sensitivity analysis *(Continued)*

| | **2011** | 2010 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| USD shareholder loan | **–** | (6,027) |
| USD bank balances | **33** | 81 |
| HKD bank balances | **1,860** | 257 |

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

***Credit risk***

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December, 2011 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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

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

### *Financial risk management objectives and policies* *(Continued)*

***Credit risk*** *(Continued)*

The policy of allowances for doubtful debts of the Group is based on the evaluation of collectibility and aged analysis of accounts and on management's estimate. In determining whether impairment is required, the Group takes into consideration the aging status and likelihood of collection. Specific allowance is only made for receivables that are unlikely to be collected and is recognised on the difference between the estimated future cash flows expected to receive discounted using the original effective interest rate and the carrying value. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance may be required.

***Liquidity risk***

As at 31st December, 2011 the Group had net current liabilities of HK$384,939,000 (2010: HK$307,047,000). Subsequent to 31st December, 2011, the Group has renewed bank borrowings of HK$138,033,000 which were originally required to be repaid within 3 months after the end of reporting period and extended the repayment date to 2013. Besides, the directors of the Company expect bank borrowings of HK$199,901,000, which are due within one year after the end of the reporting period, could also be renewed upon the relevant maturity dates, based on their experience. The directors also believe the Group will only be demanded to repay a bank borrowing of HK$36,973,000 with repayment on demand clause, based on the repayment schedule in 2 to 3 years. In addition, included in the Group's current liabilities at 31st December, 2011 are deferred income and advance received amounting to HK$198,513,000 (2010: HK$129,581,000), which the directors do not expect to have a cash outflow impact, other than the related costs associated with respective construction contracts to be commenced, which in the opinion of the directors, the Group should have sufficient financial resources including expected cash inflows from operations to settle such costs. The directors believe that the Group has sufficient funds to finance its current working capital requirements taking into account of these factors and future cash inflows from operations and accordingly, have prepared the consolidated financial statements on a going concern basis.

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group also relies on issuance of new shares and bank borrowings as a significant source of liquidity. Prior to issuance of new shares, the Group also relied on funding from the then ultimate holding company. The outstanding shareholder loan of HK$144,355,000 at 31st December, 2010 was wholly settled in the current year. The management monitors the utilisation of bank borrowings and ensures compliance with the relevant covenants.

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

### *Financial risk management objectives and policies* *(Continued)*

***Liquidity risk*** *(Continued)*

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

*Liquidity tables*

| | Weighted average effective interest rate | On demand or less than 3 months HK$'000 | 3 months to 1 year HK$'000 | 1 – 5 years HK$'000 | More than 5 years HK$'000 | Total undiscounted cash flow HK$'000 | Carrying amount at 31.12.2011 HK$'000 |
|---|---|---|---|---|---|---|---|
| **2011** | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | |
| Trade and bills payables | – | 93,977 | 181,734 | – | – | 275,711 | 275,711 |
| Other payables and accrued charges | – | 152,728 | – | – | – | 152,728 | 152,728 |
| Bank borrowings | | | | | | | |
| – fixed rate | 6.77% | 167,375 | 136,364 | 142,179 | 156,097 | 602,015 | 511,708 |
| – variable rate | 7.01% | 65,420 | 43,782 | 140,275 | 202,708 | 452,185 | 364,322 |
| | | 479,500 | 361,880 | 282,454 | 358,805 | 1,482,639 | 1,304,469 |

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

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

### *Financial risk management objectives and policies (Continued)*

***Liquidity risk*** *(Continued)*

*Liquidity tables (Continued)*

Note: The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

Bank loans with a repayment on demand clause are included in the "on demand or less than 3 months" time band in the above maturity analysis. As at 31st December, 2011, the aggregate principal amounts of these bank loans amounted to HK$36,973,000 (2010: HK$59,081,000). Taking into account the Group's financial position, the directors of the Company do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that such bank loans will be repaid under category 1-5 years in the liquidity table after the end of the reporting period in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows will amount to HK$39,183,000 (2010: HK$70,586,000).

### *Fair value*

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

- the fair value of derivative instruments was calculated using Monte Carol Simulation Model as disclosed in note 27.

- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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

***Fair value measurements recognised in the consolidated statement of financial position***

As at 1st January, 2010, the derivative financial instruments amounting to HK$45,625,000 were grouped in Level 3. Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). During the year ended 31st December, 2010, the Company had repurchased and redeemed a total principal amount of US$20,000,000 (equivalent to HK$156,000,000) convertible bond from certain bondholders. The relevant derivative financial instruments related to the repurchase and redemption portion had been derecognised and included in the calculation of gain/loss on repurchase and redemption of convertible bonds. There is no fair value measurement recognised in the consolidated statement of financial position at 31st December, 2011 and 31st December, 2010.

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

### *Fair value* *(Continued)*

***Reconciliation of Level 3 fair value measurements of derivative financial instruments***

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| At 1st January | – | 45,625 |
| Changes in fair value | | |
| – profit or loss | – | (12,360) |
| Conversion during the year | – | (3,140) |
| Repurchase and redemption during the year | – | (30,125) |
| At 31st December | – | – |

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

## 6. TURNOVER

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

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Sales of piped gas | 1,231,876 | 721,374 |
| Connection revenue from gas pipeline construction | 394,470 | 305,205 |
| Operation of compressed natural gas ("CNG") filling stations | 123,373 | 88,765 |
| Sales of liquefied petroleum gas | 40,974 | 38,379 |
| Sales of stoves and related equipment | 3,626 | 15,746 |
| | 1,794,319 | 1,169,469 |

## 7. SEGMENT INFORMATION

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

(a) sales of piped gas

(b) connection revenue from gas pipeline construction

(c) operation of CNG filling stations

(d) sales of liquefied petroleum gas

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

(f) sales of stoves and related equipment

### *Segment revenue and results*

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

**For the year ended 31st December, 2011**

| | Sales of piped gas HK$'000 | Connection revenue from gas pipeline construction HK$'000 | Operation of CNG filling stations HK$'000 | Sales of liquefied petroleum gas HK$'000 | Sales of CBM HK$'000 | Sales of stoves and related equipment HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|---|---|
| Segment revenue | **1,231,876** | **394,470** | **123,373** | **40,974** | **–** | **3,626** | **1,794,319** |
| Segment profit (loss) | **52,273** | **205,880** | **9,843** | **(47)** | **(18,175)** | **(113)** | **249,661** |
| Interest income and other gains | | | | | | | **3,741** |
| Central corporate expenses | | | | | | | **(48,503)** |
| Finance costs | | | | | | | **(19,198)** |
| Profit before tax | | | | | | | **185,701** |

## 7. SEGMENT INFORMATION *(Continued)*

### *Segment revenue and results (Continued)*

For the year ended 31st December, 2010

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

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit (loss) represents the profit earned by/loss from each segment without allocation of central administration costs, directors' salaries, share option expenses, bank interest income, gain on redemption/repurchase of convertible bonds and increase in fair value of investment properties, finance cost, change in fair value of derivatives financial instruments and income tax expenses. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

## 7. SEGMENT INFORMATION *(Continued)*

### *Segment assets and liabilities*

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

**As at 31st December, 2011**

| | Sales of piped gas HK$'000 | Connection revenue from gas pipeline construction HK$'000 | Operation of CNG filling stations HK$'000 | Sales of liquefied petroleum gas HK$'000 | Sales of CBM HK$'000 | Sales of stoves and related equipment HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|---|---|
| ASSETS | | | | | | | |
| Segment assets | 2,187,957 | 60,356 | 110,082 | 27,041 | 2,154 | 1,944 | 2,389,534 |
| Investment properties | | | | | | | 6,570 |
| Available-for-sale investment | | | | | | | 3,697 |
| Buildings for corporate use | | | | | | | 39,441 |
| Prepaid lease payments for corporate use | | | | | | | 3,549 |
| Pledged bank deposits | | | | | | | 34,582 |
| Bank balances and cash | | | | | | | 351,275 |
| Other assets | | | | | | | 8,017 |
| Consolidated assets | | | | | | | 2,836,665 |
| LIABILITIES | | | | | | | |
| Segment liabilities | 483,945 | 166,261 | 8,317 | 12,138 | – | 4,949 | 675,610 |
| Tax payables | | | | | | | 33,475 |
| Bank borrowings | | | | | | | 876,030 |
| Deferred tax liabilities | | | | | | | 15,008 |
| Other liabilities | | | | | | | 7,402 |
| Consolidated liabilities | | | | | | | 1,607,525 |

## 7. SEGMENT INFORMATION *(Continued)*

### *Segment assets and liabilities (Continued)*

As at 31st December, 2010

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

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

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

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

## 7. SEGMENT INFORMATION *(Continued)*

### *Other segment information*

**2011**

| | Sales of piped gas HK$'000 | Connection revenue from gas pipeline construction HK$'000 | Operations of CNG filling stations HK$'000 | Sales of liquefied petroleum gas HK$'000 | Sales of CBM HK$'000 | Sales of stoves and related equipment HK$'000 | Segment total HK$'000 | Unallocated HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|---|---|---|---|
| Amounts included in the measure of segment profit or loss or segment assets: | | | | | | | | | |
| Capital additions | 404,492 | – | 4,168 | 5,641 | 2,934 | – | 417,235 | 2,654 | 419,889 |
| Loss on disposal/written off of property, plant and equipment | 55 | – | – | – | 6,421 | – | 6,476 | – | 6,476 |
| Amortisation of prepaid lease payments | 3,375 | – | 328 | – | – | – | 3,703 | – | 3,703 |
| Depreciation of property, plant and equipment | 43,839 | – | 2,392 | 2,601 | 2,024 | – | 50,856 | 3,431 | 54,287 |
| Amortisation of other intangible assets | 3,915 | – | 1,906 | – | – | – | 5,821 | – | 5,821 |
| Net reversal of impairment loss recognised on amounts due from customers for contract work | – | 3,173 | – | – | – | – | 3,173 | – | 3,173 |
| Allowance for doubtful debts | 329 | – | – | – | – | – | 329 | 2,317 | 2,646 |
| Research and development cost | – | – | – | – | 1,575 | – | 1,575 | – | 1,575 |
| Net impairment loss recognised on other intangible assets | – | – | 5,831 | – | – | – | 5,831 | – | 5,831 |
| Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profits or loss: | | | | | | | | | |
| Income tax expenses | – | – | – | – | – | – | – | 57,397 | 57,397 |

## 7. SEGMENT INFORMATION *(Continued)*

### *Other segment information* *(Continued)*

2010

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

### *Geographical information*

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

All the non-current assets of the Group located in the PRC.

## 8. OTHER GAINS AND LOSSES

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Allowance for doubtful debts | | |
| – trade receivables | **(329)** | (619) |
| – other receivables | **(2,317)** | (1,928) |
| Change in fair value of derivative financial instruments | **–** | 12,360 |
| Exchange gain | **516** | 120 |
| Increase in fair value of investment properties | **56** | 450 |
| Net impairment loss recognised on other intangible assets | **(5,831)** | (30,751) |
| Net reversal of impairment loss recognised on amounts due from customers for contract work | **3,173** | 6,367 |
| Gain on repurchase and redemption of convertible bonds | **–** | 2,365 |
| (Loss) gain on disposal/written off of property, plant and equipment | **(6,476)** | 652 |
| | **(11,208)** | (10,984) |

## 9. OTHER INCOME

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Bank interest income | **2,389** | 1,455 |
| Government subsidies (note) | **4,104** | 1,278 |
| Sundry income | **5,054** | 5,575 |
| | **11,547** | 8,308 |

Note: During the year ended 31st December, 2011, the Group has received subsidies of HK$4,104,000 (2010: HK$1,278,000) from the relevant PRC governments for promoting the use of natural gas. There are no conditions attached to the subsidies granted to the Group.

## 10. FINANCE COSTS

| | **2011** | 2010 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Interest on bank borrowings: | | |
| – wholly repayable within five years | **27,049** | 26,738 |
| – over five years | **6,312** | 7,931 |
| Effective interest expense on convertible bonds (note 33) | **–** | 20,124 |
| Interest on shareholder loan | **2,386** | 2,225 |
| Total borrowing costs | **35,747** | 57,018 |
| Less: Amounts capitalised in construction in progress | **(16,549)** | (13,552) |
| | **19,198** | 43,466 |

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 8.49% (2010: 6.98%) per annum to expenditure on qualifying assets.

## 11. INCOME TAX EXPENSES

| | **2011** | 2010 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| PRC Enterprise Income Tax: | | |
| Current tax | **53,657** | 34,757 |
| Underprovision in prior years | **227** | 830 |
| PRC withholding tax | **1,092** | 4,331 |
| | **54,976** | 39,918 |
| Deferred tax (note 32): | | |
| Current year | **2,421** | (4,493) |
| | **57,397** | 35,425 |

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

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Company and its subsidiaries had no assessable profits arising in Hong Kong for both years.

## 11. INCOME TAX EXPENSES *(Continued)*

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

Under the EIT Law of the PRC, withholding tax is imposed on the dividend declared to non-PRC tax residents in respect of profits earned by PRC subsidiaries from 1st January, 2008 onwards. During the year ended 31st December, 2011, withholding tax amounted to HK$5,383,000 (2010: HK$4,331,000) was charged by the PRC tax authority which levied on the dividends paid to overseas group entities.

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

| | **Hong Kong** | | **PRC** | | **Total** | |
|---|---|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| (Loss) profit before tax | **(44,910)** | (32,124) | **230,611** | 124,674 | **185,701** | 92,550 |
| Taxation at the domestic income tax rate | **(7,410)** | (5,300) | **57,652** | 31,169 | **50,242** | 25,869 |
| Tax effect of expenses not deductible for tax purpose | **4,545** | 7,344 | **3,577** | 4,569 | **8,122** | 11,913 |
| Tax effect of income not taxable for tax purpose | **–** | (2,651) | **(681)** | (1,306) | **(681)** | (3,957) |
| Underprovision in respect of prior years | **–** | – | **227** | 830 | **227** | 830 |
| Tax effect of estimated tax losses not recognised | **2,865** | 607 | **7,498** | 5,834 | **10,363** | 6,441 |
| Utilisation of estimated tax losses previously not recognised | **–** | – | **(1,345)** | (3,755) | **(1,345)** | (3,755) |
| Income tax on concessionary rate | **–** | – | **(14,519)** | (8,818) | **(14,519)** | (8,818) |
| Withholding tax levied on dividend paid previously not recognised | **1,092** | 4,331 | **–** | – | **1,092** | 4,331 |
| Deferred tax on undistributed earnings of subsidiaries (note 32) | **3,896** | 2,571 | **–** | – | **3,896** | 2,571 |
| Tax charge for the year | **4,988** | 6,902 | **52,409** | 28,523 | **57,397** | 35,425 |

## 12. PROFIT FOR THE YEAR

| | **2011** **HK$'000** | 2010 HK$'000 |
|---|---|---|
| Profit for the year has been arrived at after charging (crediting): | | |
| Auditor's remuneration | **1,650** | 1,690 |
| Amortisation of other intangible assets (included in cost of sales) | **5,821** | 6,140 |
| Amortisation of prepaid lease payments | **3,703** | 2,148 |
| Depreciation of property, plant and equipment | **54,287** | 37,618 |
| Employee benefits expenses, other than directors (including contributions to retirement benefits schemes of HK$14,279,000 (2010: HK$9,823,000)) | **135,619** | 102,954 |
| Operating lease rentals in respect of rented premises | **3,299** | 2,850 |
| Cost of inventories recognised as expenses in respect of: | | |
| Contract cost for gas pipeline construction | **134,003** | 80,513 |
| Cost of inventories recognised as expenses in respect of sales of piped gas, liquefied petroleum gas and stoves equipment | **1,008,982** | 612,570 |
| | **1,142,985** | 693,083 |
| Gross rental income from investment properties with minimal outgoings | **(378)** | (386) |
| Gross rental income from equipment with minimal outgoings | **(511)** | (519) |

## 13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

### *Director's emoluments*

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

| | **2011** **HK$'000** | 2010 HK$'000 |
|---|---|---|
| Fees | **3,657** | 2,440 |
| Other emoluments: | | |
| – Salaries and other benefits | **3,844** | 2,163 |
| – Bonus | **–** | 1,500 |
| – Contributions to retirement benefits scheme | **12** | 12 |
| – Employee share option benefits | **4,644** | 484 |
| Total emoluments | **12,157** | 6,599 |

## 13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

### *Director's emoluments* *(Continued)*

The emoluments of directors were analysed as follows:

| | 2011 | | | | | | 2010 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Employee share option benefits HK$'000 | Salaries and other benefits HK$'000 | Bonus HK$'000 (note vi) | Fees HK$'000 | Contributions to retirement benefits scheme HK$'000 | Total HK$'000 | Employee share option benefits HK$'000 | Salaries and other benefits HK$'000 | Bonus HK$'000 (note vi) | Fees HK$'000 | Contributions to retirement benefits scheme HK$'000 | Total HK$'000 |
| Wang Wenliang | 2,019 | – | – | 2,920 | – | 4,939 | – | – | – | 1,500 | – | 1,500 |
| Hao Yu (note i) | – | – | – | – | – | – | – | – | – | 420 | – | 420 |
| Huang Yong (note ii) | – | – | – | – | – | – | – | – | – | – | – | – |
| Xu Chao Ping (note iii) | – | – | – | – | – | – | – | – | – | – | – | – |
| Li Chun Yan (note v) | 202 | – | – | 167 | – | 369 | – | – | – | 24 | – | 24 |
| Lu Zhaoheng | 606 | 1,378 | – | – | – | 1,984 | 145 | 502 | – | – | – | 647 |
| Lui Siu Keung | 1,211 | 2,466 | – | – | 12 | 3,689 | 145 | 1,661 | 1,500 | – | 12 | 3,318 |
| Xu Yongxuan | 202 | – | – | 240 | – | 442 | – | – | – | 240 | – | 240 |
| Wang Shunlong (note iv) | – | – | – | – | – | – | – | – | – | 76 | – | 76 |
| Luo Yongtai | 202 | – | – | 167 | – | 369 | 97 | – | – | 100 | – | 197 |
| Hung, Randy King Kuen | 202 | – | – | 163 | – | 365 | 97 | – | – | 80 | – | 177 |
| | 4,644 | 3,844 | – | 3,657 | 12 | 12,157 | 484 | 2,163 | 1,500 | 2,440 | 12 | 6,599 |

Notes:

(i) Resigned on 11th August, 2010.

(ii) Appointed on 15th September, 2010 and removed on 28th April, 2011.

(iii) Appointed on 15th September, 2010.

(iv) Resigned on 5th October, 2010.

(v) Appointed on 5th October, 2010.

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

## 13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

### *Director's emoluments (Continued)*

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

No directors waived any emoluments during both years.

### *Employees' emoluments*

Of the five individuals with the highest emoluments in the Group, three (2010: three) were directors of the Company whose emoluments are disclosed above. The emolument of the remaining two (2010: two) individuals was as follows:

| | **2011** | 2010 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Salaries and other benefits | **1,268** | 991 |
| Contributions to retirement benefits scheme | **24** | 24 |
| | **1,292** | 1,015 |

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

## 14. DIVIDENDS

No dividend was paid or proposed during 2011, nor has any dividend been proposed since the end of the reporting period (2010: HK$Nil).

## 15. EARNINGS PER SHARE

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

| | **2011** | 2010 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **Earnings** | | |
| Earnings for the purposes of basic and diluted earnings per share, being profit for the year attributable to owners of the Company | **86,114** | 22,811 |

| | **2011** | 2010 |
|---|---|---|
| | **'000** | '000 |
| **Number of shares** | | |
| Weighted average number of shares for the purpose of basic earnings per share | **2,255,650** | 1,972,359 |
| Effect of dilutive potential ordinary shares: | | |
| Share options issued by the Company (note) | **30,571** | 22,227 |
| Weighted average number of shares for the purpose of diluted earnings per share | **2,286,221** | 1,994,586 |

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

## 16. INVESTMENT PROPERTIES

| | HK$'000 |
|---|---|
| FAIR VALUE | |
| At 1st January, 2010 | 5,574 |
| Exchange adjustments | 221 |
| Increase in fair value recognised in profit or loss | 450 |
| At 31st December, 2010 | 6,245 |
| Exchange adjustments | 269 |
| Increase in fair value recognised in profit or loss | 56 |
| At 31st December, 2011 | 6,570 |

The fair value of the Group's investment properties at 31st December, 2011 and 2010 have been arrived at on the basis of a valuation carried out on that date by 河南九鼎資產評估有限公司, which is an independent qualified valuer not connected with the Group. The valuation was arrived at by reference to recent market evidence of transaction price for similar properties in the same locations and conditions.

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

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

## 17. PROPERTY, PLANT AND EQUIPMENT

| | Buildings HK$'000 | Construction in progress HK$'000 | Leasehold improvements HK$'000 | Pipelines HK$'000 | Machinery and equipment HK$'000 | Furniture and fixtures HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| COST | | | | | | | | |
| At 1st January, 2010 | 97,508 | 49,854 | 14,131 | 494,803 | 78,347 | 5,112 | 36,181 | 775,936 |
| Exchange adjustments | 3,955 | 5,790 | 444 | 22,833 | 2,819 | 151 | 1,214 | 37,206 |
| Additions | 8,755 | 335,308 | 664 | 40,706 | 36,998 | 737 | 19,636 | 442,804 |
| Disposals | (1,513) | (2,555) | – | – | (668) | (32) | (4,897) | (9,665) |
| Transfer | 3,881 | (124,237) | – | 112,176 | 8,180 | – | – | – |
| At 31st December, 2010 | 112,586 | 264,160 | 15,239 | 670,518 | 125,676 | 5,968 | 52,134 | 1,246,281 |
| Exchange adjustments | 5,320 | 9,580 | 609 | 41,696 | 7,240 | 315 | 2,567 | 67,327 |
| Additions | 48 | 348,734 | – | 4,282 | 22,498 | 1,070 | 11,363 | 387,995 |
| Disposals/written off | – | (6,421) | – | – | (1,579) | (144) | (956) | (9,100) |
| Transfer | 7,099 | (426,768) | – | 383,616 | 36,053 | – | – | – |
| At 31st December, 2011 | 125,053 | 189,285 | 15,848 | 1,100,112 | 189,888 | 7,209 | 65,108 | 1,692,503 |
| DEPRECIATION | | | | | | | | |
| At 1st January, 2010 | 9,095 | – | 2,116 | 34,703 | 18,686 | 1,742 | 12,892 | 79,234 |
| Exchange adjustments | 457 | – | 30 | 1,360 | 816 | 28 | 662 | 3,353 |
| Provided for the year | 4,887 | – | 130 | 16,914 | 8,376 | 740 | 6,571 | 37,618 |
| Eliminated on disposals | (562) | – | – | – | (304) | (3) | (3,884) | (4,753) |
| At 31st December, 2010 | 13,877 | – | 2,276 | 52,977 | 27,574 | 2,507 | 16,241 | 115,452 |
| Exchange adjustments | 1,047 | – | 70 | 3,592 | 1,874 | 182 | 2,727 | 9,492 |
| Provided for the year | 5,958 | – | 344 | 26,261 | 12,519 | 921 | 8,284 | 54,287 |
| Eliminated on disposals | – | – | – | – | (766) | (76) | (687) | (1,529) |
| At 31st December, 2011 | 20,882 | – | 2,690 | 82,830 | 41,201 | 3,534 | 26,565 | 177,702 |
| CARRYING VALUES | | | | | | | | |
| At 31st December, 2011 | 104,171 | 189,285 | 13,158 | 1,017,282 | 148,687 | 3,675 | 38,543 | 1,514,801 |
| At 31st December, 2010 | 98,709 | 264,160 | 12,963 | 617,541 | 98,102 | 3,461 | 35,893 | 1,130,829 |

## 17. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The buildings of the Group are situated outside Hong Kong under medium-term leases.

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

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

At 31st December, 2011, the Group is in process of obtaining title deeds from relevant government authority for its buildings in the PRC amounting to HK$25,756,000 (2010: HK$24,702,000). In the opinion of the directors, the Group is not required to incur additional cost in obtaining the title deeds for its buildings in the PRC.

The Group has pledged certain buildings in the PRC having a carrying value of approximately HK$24,707,000 (2010: HK$24,655,000) to secure certain bank borrowings granted to the Group.

Due to the anticipated delay in de-watering and releasing process of the commercial production of CBM, the expected future economic benefits associated with this cash-generating unit is considered as less than probable. Accordingly, the management wrote-off the related construction in progress of HK$6,421,000 during the year ended 31st December, 2011.

## 18. GOODWILL

| | **2011**<br>**HK$'000** | 2010<br>HK$'000 |
|---|---|---|
| Cost and carrying amount | | |
| At 1st January | **104,568** | 100,793 |
| Exchange adjustments | **4,498** | 3,775 |
| At 31st December | **109,066** | 104,568 |

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

For the purposes of impairment testing, the carrying amount of goodwill has been allocated to an individual cash-generating units ("CGUs") relating to sales of piped gas ("Unit A") amounting to HK$53,760,000 in aggregate (2010: HK$51,543,000) and connection of pipeline constructions ("Unit B") amounting to HK$55,306,000 in aggregate (2010: HK$53,025,000).

## 18. GOODWILL *(Continued)*

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

The recoverable amount of the CGU engaged in Unit B has been determined based on a value in use calculation. For impairment assessment purposes, cash flow projections based on financial budgets approved by management covering a 15-year period (2010: 15-year period) at a discount rate of 13% (2010: 13%) was used. The cash flows of the CGU engaged in Unit B beyond the 5-year period (2010: 5-year period) of the financial budgets are extrapolated using a steady 2% (2010: 2%) growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Another key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the past performance of the CGU engaged in Unit B and management's expectations for the market development. At the end of the reporting period, the recoverable amount of the CGU engaged in Unit B exceeded the carrying amount, therefore, no impairment loss is considered necessary.

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

## 19. OTHER INTANGIBLE ASSETS

| | **Development costs** HK$'000 | **Exclusive rights of operation** HK$'000 | **Other operating rights** HK$'000 | **Total** HK$'000 |
|---|---|---|---|---|
| COST | | | | |
| At 1st January, 2010 | 42,484 | 101,244 | 165,564 | 309,292 |
| Exchange adjustments | 1,248 | 2,974 | 4,862 | 9,084 |
| At 31st December, 2010 | 43,732 | 104,218 | 170,426 | 318,376 |
| Exchange adjustments | 2,238 | 3,283 | 7,683 | 13,204 |
| Additions | – | 1,810 | – | 1,810 |
| At 31st December, 2011 | 45,970 | 109,311 | 178,109 | 333,390 |
| AMORTISATION AND IMPAIRMENT | | | | |
| At 1st January, 2010 | 42,484 | 10,227 | 72,582 | 125,293 |
| Exchange adjustments | 1,248 | 543 | 3,803 | 5,594 |
| Charge for the year | – | 3,776 | 2,364 | 6,140 |
| Impairment loss recognised | – | – | 30,751 | 30,751 |
| At 31st December, 2010 | 43,732 | 14,546 | 109,500 | 167,778 |
| Exchange adjustments | 2,238 | 673 | 4,377 | 7,288 |
| Charge for the year | – | 3,915 | 1,906 | 5,821 |
| Impairment loss recognised, net | – | – | 5,831 | 5,831 |
| At 31st December, 2011 | 45,970 | 19,134 | 121,614 | 186,718 |
| CARRYING VALUES | | | | |
| At 31st December, 2011 | – | 90,177 | 56,495 | 146,672 |
| At 31st December, 2010 | – | 89,672 | 60,926 | 150,598 |

## 19. OTHER INTANGIBLE ASSETS *(Continued)*

Development costs represent costs incurred for extraction of CBM in the PRC, and the costs were fully impaired in prior years.

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

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

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

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

| | **2011**<br>**HK$'000** | 2010<br>HK$'000 |
|---|---|---|
| Subsidiaries engaged in sales of piped gas ("Unit A") | 90,177 | 89,672 |
| Operation of CNG filling stations ("Unit C") | 56,495 | 60,926 |
| Sales of CBM ("Unit D") | Nil | Nil |

### *Impairment testing on Unit A*

Unit A consisted of several CGUs. The recoverable amount of these CGUs (comprising intangible assets of HK$90,177,000 (2010: HK$89,672,000), goodwill of HK$53,760,000 (2010: HK$51,543,000), property, plant and equipment of HK$839,800,000 (2010: HK$618,223,000) and prepaid lease payment of HK$90,777,000 (2010: HK$89,914,000)) has been determined individually based on a value in use calculation using the following assumptions for 2011 and 2010:

| | |
|---|---|
| Period of cash flow projections | 12 years (2010: 13 years) |
| Growth rate beyond 5-year period extrapolated in the financial budgets approved by the management | 2% |
| Discount rate | 13% |

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

## 19. OTHER INTANGIBLE ASSETS *(Continued)*

### *Impairment testing on Unit C*

Unit C consisted of several CGUs which represent individual subsidiaries engaging in the operation of CNG filling stations. The recoverable amount of Unit C (comprising intangible assets of HK$56,495,000 (2010: HK$60,926,000) and property, plant and equipment of HK$39,566,000 (2010: HK$28,300,000) and prepaid lease payment of HK$11,632,000 (2010: HK$11,473,000) have been determined individually based on a value in use calculation using the following assumptions for 2011 and 2010:

| | |
|---|---|
| Period of cash flow projections | 26 years (2010: 27 years) |
| Growth rate beyond 5-year period extrapolated in the financial budgets approved by the management | 0% |
| Discount rate | 16% |

This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Another key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the unit's past performance and management's expectations for the market development.

Due to the insufficient quantities of natural gas to be supplied to the CNG filling stations in the PRC, one of the gas stations of Unit C ("CGU1") that was originally expected to commence operation in the near future needs to postpone its operation plan and is not expected to commence operations in the near future and hence the expected future cash flows for this gas station could not be realised. Accordingly, an impairment of HK$30,751,000 was recognised in the year ended 31st December, 2010. Based on the revised estimates of the expected cash inflows, as at 31st December, 2011, the carrying amount of CGU1 exceeds its relevant recoverable amount based on the cash flow projections. A further impairment of HK$16,871,000 was recognised due to the further postpone of the operation plan.

And due to one CNG filling station of Unit C ("CGU2") commenced operation in current year, based on the revised estimates of the expected cash inflows, at the end of the reporting period, the recoverable amount of this CGU exceeds its carrying amount based on the cash flow projections. A credit of HK$11,040,000 was recognised during the year ended 31st December, 2011, which represented a partial reversal of previously recognised impairment loss of CGU2.

### *Impairment testing on Unit D*

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

During the year ended 31st December, 2011, the Group continues the de-watering process. The management is unable to demonstrate the technical feasibility of completing the extraction process for the purpose of commercial production in the near future. As a result, the additional cost incurred for Unit D amounting to HK$1,575,000 (2010: HK$9,306,000) was charged to profit or loss as research and development cost.

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

On 5th March, 2009, the Group entered into a sales and purchase agreement with the 焦作市建設投資(控股)有限公司 ("Seller") for the acquisition of certain assets and liabilities ("Original Assets"), which is mainly comprised of gas pipeline network in the area of Jiaozuo City, with a total consideration of HK$54,271,000 (equivalent to RMB47,649,000). Deposits of HK$42,881,000 (equivalent to RMB37,649,000) were already paid to Finance Bureau of Jiaozuo City and included in deposits paid for acquisition of property, plant and equipment as at 31st December, 2009. The Original Assets are stated-owned which require approval by State-owned Assets Supervision and Administration Commission of Jiaozuo City 焦作市國有資產委員會 ("Jiaozuo SASAC"), such approval was not yet obtained as at 31st December, 2009, and was subsequently used to settle the overall consideration during the year ended 31st December, 2010.

On 6th September, 2010, the Group entered into a framework agreement ("Framework Agreement") with Jiaozuo SASAC. The Framework Agreement was entered into to secure the approval from the Jiaozuo SASAC to acquire the Original Assets and agreed to further acquire certain assets from the Seller for an aggregate consideration (included the consideration for the acquisition of Original Assets) of HK$87,711,000 (equivalent to RMB76,270,000). The acquisition was completed and the remaining consideration of HK$46,753,000 after offsetting against, the deposits made in prior years, will be settled upon the proper transfer of legal title of the assets acquired.

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

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

Note: During the year ended 31st December, 2010, HK$32,339,000 of these other payables and accrued changes were settled by the Group and the cash outflow was considered as investing activities.

As at 31st December, 2011, deposit of RMB124,099,000 (2010: RMB191,582,000) (equivalent to HK$152,944,000 (2010: HK$226,376,000)) was paid to a supplier for acquisition of construction materials mainly for construction of the Group's pipeline in Jiyuan, Jiaozuo, Luohe and Xinmi Cities.

## 21. PREPAID LEASE PAYMENTS

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

At 31st December, 2011, the Group is in process of obtaining land use right certificate from relevant government authority for its land in the PRC amounting to HK$73,058,000 (2010: HK$71,221,000). In the opinion of the directors, the Group is not required to incur additional cost in obtaining the land use right certificate for its land in the PRC.

The Group has pledged certain prepaid lease payments in the PRC having carrying value of HK$11,805,000 (2010: HK$24,816,000) to secure certain bank borrowings granted to the Group.

## 22. AVAILABLE-FOR-SALE INVESTMENT

| | **2011** | 2010 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Available-for-sale investment comprises of unlisted equity security at cost less impairment | | |
| Balance at beginning of year | **2,954** | 2,847 |
| Addition | **616** | – |
| Exchange adjustments | **127** | 107 |
| Balance at the end of the year | **3,697** | 2,954 |

The above unlisted investment represents 10% (2010: 10%) in equity interest of Linyi Gas Pipeline Transport Company Limited (臨沂管道燃氣輸配有限公司). It is measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that its fair value cannot be measured reliably.

## 23. INVENTORIES

| | **2011** | 2010 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Construction materials | **60,355** | 40,015 |
| Finished goods | **5,512** | 5,289 |
| | **65,867** | 45,304 |

## 24. TRADE AND BILLS RECEIVABLES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

The Group allows an average credit period of 30 days to its trade customers. The bills receivables are matured within the range of 60 days to 180 days for the year ended 31st December, 2011. The following is an aged analysis of trade and bills receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period:

| | **2011** | 2010 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| 0 – 30 days | **93,036** | 52,224 |
| 31 – 90 days | **155** | 1,116 |
| 91 – 180 days | **52** | – |
| 181 – 360 days | **46** | – |
| Trade receivables | **93,289** | 53,340 |
| 0 – 90 days | **30,466** | – |
| 91 – 180 days | **17,626** | – |
| Bills receivables | **48,092** | – |
| Trade and bills receivables | **141,381** | 53,340 |

Included in deposits, prepayments and other receivables is advance to suppliers of natural gas and construction materials for customer's gas pipeline construction amounting to HK$69,945,000 (2010: HK$39,899,000). At 31st December, 2011, there are loan receivables of HK$19,888,000 (2010: HK$4,726,000) due from independent third parties, bearing interest at market rate and are expected to be repaid in the next twelve months. Subsequent to the end of the reporting period, the loan receivables of HK$19,888,000 were wholly settled.

The trade receivables of HK$93,036,000 (2010: HK$52,224,000) and bills receivable of HK$48,092,000 (2010: nil) were neither past due nor impaired. These customers are local reputable real estate developers and corporate entities in Henan Province and no significant counterparty default was noted in the past.

As at 31st December, 2011, trade receivables of HK$253,000 (2010: HK$1,116,000) were past due but not provided for as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these trade receivables is 90 days (2010: 90 days).

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

### *Ageing of trade receivables which are past due but not impaired*

| | **2011** | 2010 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| 31 – 90 days | **155** | 1,116 |
| 91 – 180 days | **52** | – |
| 181 – 360 days | **46** | – |
| | **253** | 1,116 |

### *Movement in the allowance for doubtful debts*

***Trade receivables***

| | **2011** | 2010 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Balance at beginning of year | **2,549** | 1,930 |
| Increase in allowance recognised in profit or loss | **329** | 619 |
| Balance at the end of year | **2,878** | 2,549 |

***Other receivables***

| | **2011** | 2010 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Balance at beginning of year | **4,279** | 2,351 |
| Increase in allowance recognised in profit or loss | **2,317** | 1,928 |
| Balance at the end of year | **6,596** | 4,279 |

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

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

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

| | **2011** | 2010 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Contracts in progress at the end of the reporting period: | | |
| Contract costs incurred plus recognised profits | **177,565** | 174,492 |
| Less: Progress billings | **(166,159)** | (157,784) |
| Less: Impairment losses recognised (Note) | **(25,267)** | (28,440) |
| | **(13,861)** | (11,732) |
| Analysed for reporting purposes as: | | |
| Amounts due from customers for contract work | **–** | 2,334 |
| Amounts due to customers for contract work | **(13,861)** | (14,066) |
| | **(13,861)** | (11,732) |

At 31st December, 2011, advances received from customers before the contract work is performed amounted to HK$120,452,000 (2010: HK$88,831,000) and were included in deferred income and advance received.

Note: The directors of the Company reviewed the recoverable amounts of the amounts due from customers for contract work and identified that certain projects are under slow construction progress. In the opinion of the directors, for such amounts that the recoverability are uncertain, impairment losses were recognised in full and for those amounts previously impaired but subsequently settled, impairment losses were reversed. Accordingly, during the year ended 31st December, 2011, the Group recognised a net reversal of impairment loss of HK$3,173,000 (2010: HK$6,367,000).

## 26. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

The bank balances carry interest at market rates which ranged from 0.50% to 3.5% (2010: 0.72% to 2.75%) per annum for the year ended 31st December, 2011. At 31st December, 2011, the bank balances and cash of HK$305,946,000 (2010: HK$343,864,000) were denominated in RMB which are not freely convertible into other currencies.

As at 31st December, 2011, the bank balances and cash consisted of HK$783,000 and HK$44,546,000 (2010: HK$1,940,000 and HK$6,159,000) denominated in USD and HKD respectively, which are foreign currencies of the respective group entities.

Pursuant to a letter of undertaking, the Group is required to maintain deposits of RMB28,060,000 (equivalent to HK$34,582,000) (2010: RMB11,830,000 (equivalent to HK$13,978,000)) with a bank as a condition precedent to the supply of natural gas from its suppliers. The amount of deposits required to maintain with a bank will be negotiated with suppliers annually by considering the estimated purchase volume for the year. The pledged bank deposits carry interest at average market rate of 2.8% (2010: 1.9%) per annum.

## 27. DERIVATIVE FINANCIAL INSTRUMENTS

The derivatives embedded in convertible bonds (as detailed in note 33) comprised (i) conversion option; and (ii) early redemption option held by the Company.

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

| | **Date of conversion of principal amount of US$1,000,000** (note 33) | **Date of repurchase of principal amount of US$4,400,000** (note 33) | **Date of repurchase of principal amount of US$15,600,000** (note 33) |
|---|---|---|---|
| Conversion price | HK$0.70 | HK$0.70 | HK$0.70 |
| Expected volatility (note a) | 59.71% | 55.58% | 52.53% |
| Expected life (note b) | 2.44 years | 2 years | 1.78 years |
| Risk free rate (note c) | 0.51% per annum | 0.72% per annum | 0.38% per annum |
| Market price | HK$0.90 | HK$0.66 | HK$0.70 |

Notes:

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

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

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

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

During the year ended 31st December, 2010, the Remaining Bond (as defined in note 33) were either early repurchased by the Group or early redeemed by the Group or converted by the bond holders.

During the year ended 31st December, 2010, a gain of HK$12,360,000 was recognised as a change in fair value of derivative financial instruments.

## 28. DEFERRED INCOME AND ADVANCE RECEIVED, TRADE AND BILLS PAYABLES, OTHER PAYABLES AND ACCRUED CHARGES

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

| | **2011** | 2010 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| 0 – 30 days | **223,768** | 105,200 |
| 31 – 90 days | **20,579** | 9,013 |
| 91 – 180 days | **5,458** | 18,664 |
| Over 180 days | **13,582** | 28,674 |
| Trade payables | **263,387** | 161,551 |
| Bills payables – 0 – 90 days | **12,324** | – |
| Trade and bills payables | **275,711** | 161,551 |

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

Deferred income and advance received classified as current liabilities represent the amounts received from customers before the contract work is performed. Deferred income and advance received classified as non-current liabilities are government grants of HK$25,549,000 (2010: HK$24,220,000). Due to redevelopment of Jiaozuo city, Jiaozuo government subsidised the Group for enhancement and relocation of certain pipelines in Jiaozuo city.

Included in other payables and accrued charges are deposits received from customers in relation to gas supply business of HK$45,394,000 (2010: HK$12,087,000) and accrued expenses of HK$17,139,000 (2010: HK$18,203,000).

As at 31st December, 2011, the unsettled consideration for the acquisition of assets and liabilities from the Seller (as defined in note 20) of HK$46,753,000 (2010: HK$44,830,000) was include in other payables and accrued charges.

## 29. BANK BORROWINGS

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Bank loans | | |
| Secured | **450,592** | 342,717 |
| Unsecured | **425,438** | 391,114 |
| | **876,030** | 733,831 |
| Carrying amount repayable*: | | |
| Within one year | **385,520** | 331,366 |
| More than one year, but not exceeding two years | **34,508** | 38,528 |
| More than two years but not exceeding five years | **123,244** | 92,165 |
| More than five years | **295,785** | 212,691 |
| | **839,057** | 674,750 |
| Add: Carrying amount of bank loans that are not repayable within one year from the end of the reporting period but contain a repayment on demand clause (shown under current liabilities) | **36,973** | 59,081 |
| | **876,030** | 733,831 |
| Less: Amounts due within one year shown under current liabilities | **(422,493)** | (390,447) |
| | **453,537** | 343,384 |

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

## 29. BANK BORROWINGS *(Continued)*

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

| | **2011** | 2010 |
|---|---|---|
| Effective interest rate: | | |
| Fixed-rate borrowings | **6.40% – 9.47%** | 3.60% – 7.16% |
| Variable-rate borrowings | **5.85% – 8.53%** | 5.94% – 7.55% |

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

As at 31st December, 2011, certain bank borrowings were secured by the Group's prepaid lease payments and buildings with the carrying amounts of HK$11,805,000 (2010: HK$24,816,000) and HK$24,707,000 (2010: HK$24,665,000) respectively.

## 30. SHARE CAPITAL

| | **Number of shares** | | **Amount** | |
|---|---|---|---|---|
| | **2011 '000** | 2010 '000 | **2011 HK$'000** | 2010 HK$'000 |
| Ordinary shares of HK$0.01 each | | | | |
| Authorised | **10,000,000** | 10,000,000 | **100,000** | 100,000 |
| Issued and fully paid | | | | |
| At beginning of year | **1,974,008** | 1,949,010 | **19,740** | 19,490 |
| Exercise of share options (note 34) | **30,200** | 13,822 | **302** | 138 |
| Conversion of convertible bonds (note 32) | **–** | 11,176 | **–** | 112 |
| Issue of new ordinary shares (note) | **394,000** | – | **3,940** | – |
| At end of year | **2,398,208** | 1,974,008 | **23,982** | 19,740 |

Note: On 18th April, 2011, the Placing was completed, 394,000,000 ordinary shares of HK$0.01 each in the Company at the Placing price of HK$0.41 per share.

All the shares issued during the year ended 31st December, 2011 and 2010 rank pari passu with the then existing shares in all respects.

## 31. SHAREHOLDER LOAN

On 9th September, 2010, the Company entered into a loan agreement with China Gas, the then ultimate holding company of the Company after the completion of the Offer. Pursuant to which China Gas agreed to make available to the Company a loan facility of up to US$19,000,000 and the Company made a drawing of approximately US$18,507,000 (equivalent to HK$144,355,000) on 10th September, 2010. The shareholder loan was drawn for the sole and exclusive purpose of the redemption of convertible bonds as disclosed in note 33, and the remaining undrawn facility was cancelled and ceased to be available to the Company.

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

During the year, the Company used part of the net proceeds from the Placing to repay the outstanding shareholder's loan and all interest accrued thereon.

## 32. DEFERRED TAXATION

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

| | **Revaluation of properties** HK$'000 | **Other intangible assets** HK$'000 | **Undistributed profits of subsidiaries** HK$'000 | **Total** HK$'000 |
|---|---|---|---|---|
| At 1st January, 2010 | 777 | 17,492 | 1,656 | 19,925 |
| Exchange adjustments | 29 | 655 | 64 | 748 |
| Charge (credit) to profit or loss | 144 | (7,208) | 2,571 | (4,493) |
| At 31st December, 2010 | 950 | 10,939 | 4,291 | 16,180 |
| Exchange adjustments | 40 | 472 | 186 | 698 |
| (Credit) charge to profit or loss | (16) | (1,459) | 3,896 | 2,421 |
| Release of previously provided deferred tax upon payment | – | – | (4,291) | (4,291) |
| At 31st December, 2011 | 974 | 9,952 | 4,082 | 15,008 |

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1st January, 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to undistributed profits of certain PRC subsidiaries amounting to HK$192,862,000 (2010: HK$111,384,000) as the Group is able to control the timing of the reversal of the temporary differences for these subsidiaries and it is probable that the temporary differences will not reverse in the foreseeable future.

At 31st December, 2011, the Group had unused estimated tax losses of HK$236,737,000 (2010: HK$194,760,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unrecognised estimated tax losses due to unpredictability of future profit stream. Included in unrecognised tax losses are losses of PRC subsidiaries of HK$208,124,000 (2010: HK$183,512,000) that will expire in various dates up to 2018. Other losses may be carried forward indefinitely.

## 33. CONVERTIBLE BONDS

On 28th May, 2007, the Company entered into a bond subscription agreement with five institutional subscribers of the Group, whereby they subscribed the USD denominated Bonds ("the Bond") issued at par by the Company in an aggregate principal amount of US$40,000,000. The Bond was issued on 25th June, 2007 ("the Issue Date") and carries interest at 1% per annum (revised to 2% per annum commencing from 18th May, 2009) and will be matured on 25th June, 2012 ("Maturity Date"). The original conversion price of the Bond was HK$1.456, and subsequently adjusted to HK$0.968 on 25th June, 2008 and HK$0.70 on 18th May, 2009.

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

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

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

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

## 33. CONVERTIBLE BONDS *(Continued)*

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

### *Option 1*

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

### *Option 2*

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

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

On 17th January, 2010, the Offer (defined in note 1) was proposed by Rich Legend to acquire all of the outstanding convertible bonds, share options and issued shares in the share capital of the Company. As stated in the Company's response document to the Offer dated 31st May, 2010, in the event of a change of control (whereby, amongst other things, any person or persons acting together, other than Hezhong, acquires more than 50% voting rights in the issued share capital of the Company), the holders of the Bond will have the right to require the Company to redeem in whole or in part such outstanding Bond pursuant to the terms of thereof. Pursuant to the terms of the Bond, the Company had issued a notice of the change of control in the Company to the Bond Holders B.

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

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

## 33. CONVERTIBLE BONDS *(Continued)*

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

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

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

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

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

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

| | **Liability** | **Embedded derivatives** | **Total** |
|---|---|---|---|
| | HK$'000 | HK$'000 (Note 27) | HK$'000 |
| At 1st January, 2010 | 142,647 | 45,625 | 188,272 |
| Interest charged (note 10) | 20,124 | – | 20,124 |
| Interest paid | (2,087) | – | (2,087) |
| Conversion during the year | (6,865) | (3,140) | (10,005) |
| Gain arising on change in fair value | – | (12,360) | (12,360) |
| Repurchase during the year | (32,819) | (5,484) | (38,303) |
| Redemption during the year | (121,000) | (24,641) | (145,641) |
| At 31st December, 2010 | – | – | – |

During the year ended 31st December, 2010, the gain on redemption/repurchase of the convertible bonds of HK$2,365,000 was recognised and included in other income and gains.

## 34. SHARE-BASED PAYMENT TRANSACTIONS

### *Equity-settled share option schemes*

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

Under the Share Option Scheme, the directors may offer to any employees or any person who has contributions to the Group share options to subscribe for shares in the Company in accordance with the terms of the Share Option Scheme. The exercise price is determined by the directors, and shall not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

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

| | | | | Number of share options | | | |
|---|---|---|---|---|---|---|---|
| Category of grantee | Exercise price per share HK$ | Date of grant | Exercisable period | At 1st January, 2011 | Granted during the year | Exercised during the year (note a) | At 31st December, 2011 |
| Directors | 0.49 | 11th April, 2011 | 11th April, 2011 to 11th April, 2021 | – | 23,000,000 | (3,000,000) | 20,000,000 |
| Employees | 0.49 | 11th April, 2011 | 11th April, 2011 to 11th April, 2021 | – | 136,000,000 | (27,200,000) | 108,800,000 |
| | | | | – | 159,000,000 | (30,200,000) | 128,800,000 |
| Exercisable at the end of the year | | | | | | | 128,800,000 |
| Weighted average exercise price | | | | | HK$0.49 | HK$0.49 | HK$0.49 |

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

### *Equity-settled share option schemes (Continued)*

| Category of grantee | Exercise price per share HK$ | Date of grant | Exercisable period | Number of share options: At 1st January, 2010 | Exercised during the year (note a) | Cancelled during the year (note b) | At 31st December, 2010 |
|---|---|---|---|---|---|---|---|
| Directors | 0.31 | 13th June, 2005 | 13th June, 2006 to 12th June, 2015 | 28,014,000 | (1,000,000) | (27,014,000) | – |
| | 0.56 | 29th March, 2007 | 29th March, 2007 to 28th March, 2017 | 66,000,000 | – | (66,000,000) | – |
| | 0.80 | 3rd April, 2008 | 3rd April, 2010 to 2nd April, 2011 | 3,000,000 | – | (3,000,000) | – |
| | 0.80 | 3rd April, 2008 | 3rd April, 2011 to 2nd April, 2012 | 3,000,000 | – | (3,000,000) | – |
| | 0.80 | 3rd April, 2008 | 3rd April, 2012 to 2nd April, 2018 | 4,000,000 | – | (4,000,000) | – |
| Employees | 0.31 | 13th June, 2005 | 13th June, 2006 to 12th June, 2015 | 1,896,000 | (1,002,000) | (894,000) | – |
| | 0.80 | 3rd April, 2008 | 3rd April, 2010 to 2nd April, 2011 | 11,520,000 | – | (11,520,000) | – |
| | 0.80 | 3rd April, 2008 | 3rd April, 2011 to 2nd April, 2012 | 11,520,000 | – | (11,520,000) | – |
| | 0.80 | 3rd April, 2008 | 3rd April, 2012 to 2nd April, 2018 | 15,360,000 | – | (15,360,000) | – |
| Others (note c) | 0.31 | 13th June, 2005 | 13th June, 2006 to 12th June, 2015 | 12,224,000 | (11,820,000) | (404,000) | – |
| | | | | 156,534,000 | (13,822,000) | (142,712,000) | – |
| Exercisable at the end of the year | | | | | | | – |
| Weighted average exercise price | | | | HK$0.57 | HK$0.33 | HK$0.59 | – |

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

### *Equity-settled share option schemes* *(Continued)*

Notes:

a. In respect of the share options exercised during the year, the weighted average share price at the date of exercise is HK$0.67 (2010: HK$0.87).

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

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

The Group recognised expense of HK$23,632,000 for the year ended 31st December, 2011 (2010: HK$6,038,000) in relation to share options granted by the Company.

The options granted during the year ended 31st December, 2011 were measured using Black-Scholes Option Pricing Model. The inputs into the model were summarised as follows:

| Batch | Batch 1 | Batch 2 | Batch 3 |
|---|---|---|---|
| No. of exercisable options | 68,000,000 | 68,000,000 | 23,000,000 |
| Expected life of options (*) | 2 years | 3 years | 4 years |
| Expected volatility (**) | 44.451% | 49.635% | 53.541% |
| Risk-free interest rate (***) | 0.636% | 1.190% | 1.617% |
| Expected annual dividend yield (****) | Nil | Nil | Nil |
| Average Fair value per option (HK$) | 0.1171 | 0.1622 | 0.2019 |

* Expected life of options for each class of option holder over the exercisable period of the share options was based on the Company's estimate, for the effects of non-transferability and behavioral considerations.

** Expected volatility was determined by using the weekly historical volatility of the Company in similar duration as of the date of valuation.

*** Risk free rates were based on Hong Kong Exchange Fund Notes yields as of the date of valuation.

**** Dividend yield was based on historical dividend trend and expected future dividend policy determined by the Company.

Subsequent to the end of the reporting period, the Company has received exercise notice regarding 124,800,000 share options from directors and employees.

## 35. DEEMED ACQUISITION OF ADDITIONAL INTERESTS OF A SUBSIDIARY

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

## 36. ACQUISITION OF ADDITIONAL INTEREST IN A SUBSIDIARY

On 22nd June, 2011, Linyi China Gas City Gas Construction Company Limited ("Linyi China Gas"), a non-wholly owned subsidiary of the Company, and Taian City Xusheng Electronics Technology Company Limited ("Xusheng"), the non-controlling interest of Linyi Shanlin entered into an equity transfer agreement, pursuant to which, Xusheng has agreed to transfer holding of 33% of the equity interest in Linyi Shanlin held by Xusheng to Linyi China Gas at consideration of RMB16,800,000 (equivalent to HK$20,248,000), including RMB774,000 (equivalent to Hk$914,000) to be settled through the current account between Xusheng and Linyi Shanlin. Thereafter, the Group's effective interest in Linyi Shanlin increased from 66.9% to 99.89%. The transaction was accounted for as an equity transaction. The difference between the consideration paid and the carrying amount of the additional interest effectively hold by the Group of HK$8,322,000 was debited to equity as other reserve during the year ended 31st December, 2011.

## 37. OPERATING LEASES

### *The Group as lessee*

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | **2011** | 2010 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within one year | **3,050** | 2,181 |
| In the second to fifth year inclusive | **2,198** | 2,934 |
| Over five years | **6,740** | 5,827 |
| | **11,988** | 10,942 |

Operating lease payments represent rental payable by the Group in respect of leasehold land and buildings and equipments. Leases for rented premises and equipments are negotiated for a period of one to five years with fixed rental.

## 37. OPERATING LEASES *(Continued)*

### *The Group as lessor*

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments under non-cancellable operating leases in respect of rented premises and equipment which fall due as follows:

| | **2011** | 2010 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within one year | **589** | 594 |
| In the second to fifth year inclusive | **2,260** | 2,470 |
| Over five years | **1,162** | 1,454 |
| | **4,011** | 4,518 |

Leases are negotiated for an average term of five years.

Certain of the Group's properties with a carrying amount of HK$6,570,000 (2010: HK$6,245,000) are held for rental purposes. All of the properties held have committed tenants for the next four to nine years.

## 38. RETIREMENT BENEFITS PLANS

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

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

## 39. RELATED PARTY TRANSACTIONS

The Company obtained a shareholder loan of US$18,507,000 (equivalent to HK$144,355,000) from its then ultimate holding company during the year ended 31st December, 2010 and accrued interest thereon of HK$2,386,000 (2010: HK$2,225,000) regarding the shareholder loan. The outstanding shareholder's loan and all interest accrued thereon were repaid in current year.

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

## 40. CAPITAL COMMITMENTS

As at 31st December, 2011, the capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements is HK$62,360,000 (2010: HK$2,883,000).

## 41. MAJOR NON-CASH TRANSACTIONS

During the year ended 31st December, 2010, the non-controlling shareholder of Luohe Zhongyu withdrew registered capital of HK$7,934,000 from Luohe Zhongyu resulting in deemed acquisition of additional interest in Luohe Zhongyu. The return of capital was satisfied by property, plant and equipment and prepaid lease payment held by Luohe Zhongyu with carrying amount of HK$816,000 and HK$5,354,000 respectively. Details are set out in note 35.

During the year ended 31st December, 2010, the Group acquired certain assets and liabilities from the Seller (defined in note 20) at a total consideration of HK$87,711,000, of which deposit of HK$42,881,000 was paid in prior year and the remaining HK$44,830,000 was remain unsettled and included in other payables and accrued charges at 31st December, 2010.

## 42. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

### *As at 31st December, 2011 and 2010*

| Name of subsidiary | Place/Country of incorporation/ registration | Form of business structure | Paid up issued share capital/ registered capital | Proportion of nominal value of issued capital/ registered capital held by the Company 2011 % | 2010 % | Principal activities |
|---|---|---|---|---|---|---|
| China Gas Construction Expansion Company Limited | BVI | Incorporated | 1,330,000 ordinary shares of US$1 each | **99.89##** | 99.89## | Investment holding |
| Linyi China Gas | PRC | Sino-foreign joint venture | Registered capital HK$29,080,000 | **99.89##** | 99.89## | Trading of natural gas and gas pipeline construction |
| Linyi Shanlin | PRC | Limited liability company | Registered capital HK$15,160,000 | **99.89##** | 66.9## | Trading of natural gas and gas pipeline construction |
| Linyi Zhongyu Gas Co. Ltd | PRC | Sino-foreign joint venture | Registered capital HK$42,000,000 | **51#** | 51# | Trading of natural gas and gas pipeline construction |

## 42. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

### *As at 31st December, 2011 and 2010 (Continued)*

| Name of subsidiary | Place/Country of incorporation/ registration | Form of business structure | Paid up issued share capital/ registered capital | Proportion of nominal value of issued capital/ registered capital held by the Company 2011 % | 2010 % | Principal activities |
|---|---|---|---|---|---|---|
| Sanmenxia China-Gas City Gas Development Co. Ltd. | PRC | Sino-foreign joint venture | Registered capital HK$50,000,000 | **90##** | 90## | Trading of natural gas and liquefied petroleum gas and gas pipeline construction |
| Xinmi City Zhongyu Gas Co., Ltd. | PRC | Sino-foreign joint venture | Registered capital HK$15,000,000 | **97##** | 97## | Trading of natural gas and gas pipeline construction |
| Yantis Zhongyu Gas Co., Ltd. | PRC | Sino-foreign joint venture | Registered capital HK$25,000,000 | **95##** | 95## | Trading of natural gas and liquefied petroleum gas and gas pipeline construction |
| Yongcheng China-Gas Heating Explore Co., Ltd. | PRC | Sino-foreign joint venture | Registered capital HK$30,000,000 | **99##** | 99## | Trading of natural gas and gas pipeline construction |
| Jiyuan Zhongyu Gas Co. Ltd. | PRC | Sino-foreign joint venture | Registered capital HK$40,280,000 | **92.9##** | 92.9## | Trading of natural gas and gas pipeline construction |
| Luohe Zhongyu | PRC | Sino-foreign joint venture | Registered capital RMB95,468,511 | **77.3##** | 77.3## | Trading of natural gas and gas pipeline construction |
| Luohe Zhongyu Gas Project Install Co. Ltd. | PRC | Sino-foreign joint venture | Registered capital RMB5,000,000 | **68.3##** | 68.3## | Gas pipeline construction |
| Jiaozuo CGCG Development | PRC | Sino-foreign joint venture | Registered capital HK$80,000,000 | **93.2##** | 93.2## | Trading of natural gas, coal gas and liquefied petroleum gas and gas pipeline construction |
| Jiaozuo CG Project | PRC | Sino-foreign joint venture | Registered capital RMB25,000,000 | **88.54##** | 88.54## | Gas pipeline construction |

## 42. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

### *As at 31st December, 2011 and 2010 (Continued)*

| Name of subsidiary | Place/Country of incorporation/ registration | Form of business structure | Paid up issued share capital/ registered capital | Proportion of nominal value of issued capital/ registered capital held by the Company 2011 % | 2010 % | Principal activities |
|---|---|---|---|---|---|---|
| Xiuwu Zhongyu Gas Development Co., Ltd. | PRC | Other limited liability company | Registered capital RMB8,000,000 | **55.9##** | 55.9## | Trading of natural gas and gas pipeline construction |
| Zhongyu (Henan) Energy Holdings Ltd. | PRC | Incorporated | Registered capital HK$400,000,000 | **100#** | 100# | Investment holding |
| Henan Zhongyu Coalbed Methane Development and Utilization Co. Ltd. | PRC | Sino-foreign joint venture | Registered capital RMB200,000,000 | **75##** | 75## | Exploration, development and production of coalbed methane |
| Zhongyu Jiaozuo CMB Development and Utilization Co. Ltd. | PRC | Sino-foreign joint venture | Registered capital RMB150,000,000 | **71.25##** | 71.25## | Exploration, development and production of coalbed methane |
| JYCG | PRC | Sino-foreign joint venture | Registered capital RMB5,000,000 | **100##** | 100## | Not yet commenced business |
| LYCG | PRC | Sino-foreign joint venture | Registered capital RMB1,000,000 | **100##** | 100## | Operation of CNG filling stations |
| SYCG | PRC | Sino-foreign joint venture | Registered capital RMB1,000,000 | **100##** | 100## | Not yet commenced business |
| NYCS | PRC | Limited liability company | Registered capital RMB10,000,000 | **100##** | 100## | Operation of CNG filling stations |
| Nanjing Yulian Natural Gas Filling Co., Ltd. | PRC | Limited liability company | Registered capital RMB7,000,000 | **70##** | 70## | Operation of natural gas filling stations |

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

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

The above list includes the subsidiaries of the Company which, in the opinion of the directors, principally affect the results of the Group for the year or form a substantial portion of the assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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

# FINANCIAL SUMMARY

| | **1.1.2011 to 31.12.2011 HK$'000** | 1.1.2010 to 31.12.2010 HK$'000 | 1.1.2009 to 31.12.2009 HK$'000 | 1.1.2008 to 31.12.2008 HK$'000 | 1.1.2007 to 31.12.2007 HK$'000 |
|---|---|---|---|---|---|
| Results | | | | | |
| Turnover | **1,794,319** | 1,169,469 | 844,150 | 703,020 | 294,518 |
| Profit (loss) for the year attributable to the owners of the Company | **86,114** | 22,811 | 20,060 | (92,797) | (26,183) |

| | **31.12.2011 HK$'000** | 31.12.2010 HK$'000 | 31.12.2009 HK$'000 | 31.12.2008 HK$'000 | 31.12.2007 HK$'000 |
|---|---|---|---|---|---|
| Assets and liabilities | | | | | |
| Total assets | **2,836,665** | 2,275,534 | 1,630,853 | 1,521,682 | 1,516,045 |
| Total liabilities | **(1,607,525)** | (1,373,127) | (817,092) | (760,307) | (754,199) |
| | **1,229,140** | 902,407 | 813,761 | 761,375 | 761,846 |
| Equity attributable to the owners of the Company | **1,088,441** | 769,311 | 693,797 | 655,787 | 696,597 |
| Non-controlling interests | **140,699** | 133,096 | 119,964 | 105,588 | 65,249 |
| | **1,229,140** | 902,407 | 813,761 | 761,375 | 761,846 |

# NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the annual general meeting of Zhongyu Gas Holdings Limited (the "Company") will be held at Unit 04, 28th Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong on Monday, 16th April, 2012 at 11:00 a.m. for the following purposes:

1. To receive and consider the audited consolidated financial statements, the report of the directors and independent auditor's report of the Company for the year ended 31st December, 2011;

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

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

4. "**THAT**

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

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

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

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

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

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

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

(iv) for the purpose of this resolution:

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

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

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

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

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

5. "**THAT**

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

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

(iii) for the purpose of this resolution:

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

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

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

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

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

7. "**THAT**

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

By Order of the Board
**Wang Wenliang**
*Chairman*

Hong Kong
21st March, 2012

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

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

Notes:

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

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

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

中裕燃氣控股有限公司

**ZHONGYU GAS HOLDINGS LIMITED**

(incorporated in the Cayman Islands with limited liability 於開曼群島註冊成立之有限公司)

(Stock Code 股份代號: 8070)