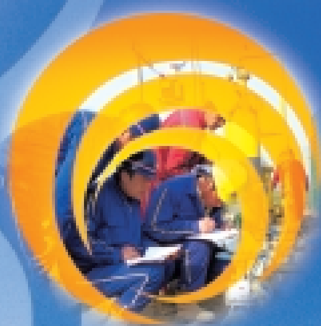
中裕燃气

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

(Stock Code 股份代號: 8070)



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Annual Report

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This report, for which the directors of Zhongyu Gas Holdings Limited (the "Company") collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") for the purpose of giving information with regard to the Company and its subsidiaries (collectively the "Group"). The directors of the Company (the "Directors"), having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

Contents

Corporate Information

EXECUTIVE DIRECTORS

Mr. Wang Wenliang *(Chairman)*
Mr. Hao Yu *(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. Wang Shunlong
Dr. Luo Yongtai
Mr. Hung, Randy King Kuen

QUALIFIED ACCOUNTANT

Mr. Lui Siu Keung

COMPANY SECRETARY

Mr. Lui Siu Keung

COMPLIANCE OFFICER

Mr. Hao Yu

AUTHORISED REPRESENTATIVES

Mr. Wang Wenliang
Mr. Hao Yu

AUDIT COMMITTEE

Mr. Wang Shunlong *(Chairman)*
Dr. Luo Yongtai
Mr. Hung, Randy King Kuen

REMUNERATION COMMITTEE

Mr. Wang Shunlong *(Chairman)*
Dr. Luo Yongtai
Mr. Hung, Randy King Kuen

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 10, 33rd Floor
China Merchant Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

COMPANY'S WEBSITE ADDRESS

www.zygas.com.cn

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Bermuda (Cayman) Limited
36C Bermuda House, 3rd Floor
P.O. Box 513 G.T.
Dr. Roy's Drive, George Town
Grand Cayman, Cayman Islands
British West Indies

AUDITOR

Deloitte Touche Tohmatsu

PRINCIPAL BANKER

Standard Chartered Bank
The Hong Kong & Shanghai Banking Corporation Limited

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Secretaries Limited
26/F Tesbury Centre,
28 Queen's Road East,
Hong Kong

STOCK CODE

8070

To all shareholders:

The Group's natural gas operations continued to develop rapidly in 2008. Turnover amounted to approximately HK$703,020,000, representing a growth of 138.7% as compared to HK$294,518,000 in 2007. The outstanding revenue growth is mainly attributable to the continuous expansion in the Group's downstream gas distribution in the People's Republic of China (the "PRC"), including sales of natural gas and connection fee income.

UPSTREAM CBM EXPLORATION

2008 was a challenging but fruitful year for the Group. With the foresight to develop a vertically integrated value chain in the natural gas industry, the Group began its upstream coalbed methane ("CBM") exploration and downstream natural gas distribution in March 2007. The exploration of CBM in Henan province is operating smoothly under the joint venture, Henan Zhongyu Coalbed Methane Development and Utilization Company Limited ("Henan Zhongyu JV"), which was established in 2007 with the Henan Provincial government. Henan Zhongyu JV has completed drilling of 33 wells in Jiaozuo CBM block and all of them have entered into dewatering and releasing process since third quarter 2008 and some are showing positive result until now. Meanwhile, according to the technical evaluation report released by Netherland, Sewell & Associates, Inc. ("NSAI"), a renowned energy research firm based in Texas, U.S.A, the estimated low, medium and high gas volumes in Jiaozuo CBM block as of 1st April, 2008 were approximately 4,166.9 BCF (approximately 118.0 bln m^3), 5,916.3 BCF (approximately 167.5 bln m^3) and 9,275.6 BCF (approximately 262.7 bln m^3) respectively. The result indicates an enormous CBM reserves located in our Jiaozuo CBM block, and approximates to the preliminary gas volume estimation which was conducted by the related domestic CBM exploration institutions and announced by the Group before. Going onward, the Group will further extend the trial and exploration in Jiaozuo CBM blocks as well as to better master its reserve estimates, with the aim of hastening the commercial production of the CBM.

DOWNSTREAM NATURAL GAS DISTRIBUTION

The Group is currently operating nine downstream projects with two in Shandong province and seven in Henan province. Contributing to the Group's downstream revenue surge is the increase in natural gas sales which has reached approximately 170,778,000 m^3 in 2008. The Group is satisfied with the growth momentum demonstrated by its downstream projects. They are, at the same time, providing constant cash flow and have laid a solid foundation for the Group's further enhancement of its vertically integrated value chain.

PROSPECTS

The Group is confident in its future prospects since the natural gas market in China will continue to boom amid the global economic downturn. Striving for energy independence, the Chinese government is supporting the exploration and development of domestic energy sources. Along with the rising awareness to environmental protection, the demand for clean energy in China will remain its growth momentum. In order to capture this growing demand, the Group is expanding its downstream natural gas distribution with a focus on high margin commercial and industrial users and compressed natural gas filling stations. It will also increase the number of residential users to further enhance its penetration rate in the nine cities it is operating in. Meanwhile, the Group will hasten the commercialization of its CBM production by advancing the exploration technology as well as extending the exploration of CBM to coal block outside Jiaozuo city, optimizing our vertically integrated value chain and rendering our future prospect promising. The constant revenue growth in the downstream projects coupled with the promising outlook of the upstream resources exploration, we are confident to further enhance our market position as well as our financial performance.

In addition to the abovementioned strategies, the Group is cautiously seeking for suitable investment opportunities. With our healthy financial position, coupled with the constant cash inflow generated by our downstream projects, we believe that we would be able to prudently increase our market penetration. At the same time, we will strive to enhance our operation efficiency by cooperating with promising peers in the industry. We believe that Zhongyu Gas is well-positioned to tackle the challenges imposed by the global economic environment and maximize our shareholders' returns.

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

Wang Wenliang
Chairman
Zhengzhou, the PRC
25th March, 2009

BUSINESS REVIEW

Overall

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

Upstream CBM Exploration

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

As at 31st December, 2008, the Group secured eight coal blocks, situated at Jiaozuo, Zhengzhou, Pingdingshan (including Yuzhou and Ruzhou), Hebi, Yima, Yongxia, Henan Province, the PRC to explore, exploit, develop and produce CBM.

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

Management Discussion and Analysis

Downstream Natural Gas Distribution

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

As at 31st December, 2008, the Group secured nine exclusive gas projects, two in Shandong Province, the PRC and seven in Henan Province, the PRC. Among nine gas projects, three gas projects and their subsidiaries, including Jiaozuo China-Gas City Gas Development Co. Ltd., Jiaozuo China-Gas Gas Project Install Co. Ltd., Jiyuan Zhongyu Gas Co. Ltd., Luohe Zhongyu Gas Co. Ltd. and Luohe Zhongyu Gas Project Install Co. Ltd. (collectively "Newly Acquired Projects") were acquired by the Group in August 2007.

The cities in which the Group's gas projects operate currently have a total connectable urban population of approximately 3,084,000. It is estimated that there are an aggregate of approximately 881,000 connectable residential households in such cities.

With the aim to enhance the Group's turnover and results, the Group has commenced to develop CNG vehicle gas filling business in the PRC since September 2007. In September 2007, one CNG filling station has been erected and commenced its operation in Linyi City, Shandong Province, the PRC. In October 2008, the Group has completed construction of a new CNG filling station in Luohe City, Henan Province, the PRC. The commercial operation of such CNG filling station has been commenced from the end of November 2008. As at 31st December, 2008, a total of two more CNG filling stations located in Jiyuan City and Sanmenxia City, Henan Province, the PRC respectively are under construction. We anticipate that the construction works of such two CNG filling stations will be completed by the second quarter of 2009. In future, the Group plans to erect five new CNG filling station in Luohe City, Jiyuan City and Sanmenxia respectively by 2010 in order to increase the Group's market share.

In order to ease shortage of the natural gas supply and to meet robust demand for clean energy, the construction works for building of West-East natural gas transmission project second pipeline progresses commenced in 2008. The construction works were projected to be completed at the end of 2009 and the commercial operation was planned to be commenced in early 2010. With the aim to secure the Group's future natural gas supply and further develop the Group's downstream natural gas distribution business in Luohe City, Jiyuan City and Sanmenxia City, where West-East natural gas pipeline branch networks will cover, the Group has entered into 3 outline agreements of natural gas sales and transportation with the local natural gas suppliers respectively.

Sales of Piped Gas

Sales of piped gas to customers provide the Group with a recurring stream of revenue. Because of the huge usage of piped gas by our industrial/commercial customers and the increase in the accumulated number of residential customers, sales of piped gas has become the largest component of the Group's total turnover since 2007 and still the largest one in 2008. Nearly 90% of total sales of piped gas for the year ended 31st December, 2008 were derived from provision of natural gas. Fees charged by the Group for provision of piped natural gas are required to obtain approval from local pricing bureaus. During the year under review, the total unit of natural gas provided by the Group to its customers was approximately 170,778,000m^3 (2007: 77,399,000m^3) among which, sales volume to its residential customers was approximately 17,738,000m^3 (2007: 7,422,000m^3); to its commercial/industrial customers was approximately 120,668,000m^3 (2007: 54,571,000m^3); to its wholesale customers was approximately 32,372,000m^3 (2007: 15,406,000m^3).

Gas Pipeline Construction

Connection revenue from gas pipeline construction is one-off connection fees paid by residential households and industrial/commercial customers for the connection of their premises to the piped gas networks operated by the Group. Connection fees charged by the Group are required to obtain approval from local pricing bureaus. During the year under review, the average connection fees charged to residential households by the Group was approximately RMB2,100. The connection fees charged to industrial/commercial customers by the Group was significantly higher amounts than that charged to residential households and was determined on a case basis. With the aim to minimize our risk on the recoverability of amounts due from customers of contract work, commencing from the year 2007, 20-40% of the contract sum is required to be paid in advance by our customers before the commencement of their premises to our piped gas networks. As the Group's downstream gas distribution business is still at the development stage, connection revenue from gas pipeline construction remained a significant component of the Group's turnover in 2008.

During the year under review, the Group made new gas pipeline connection for 50,291 residential households (2007: 38,950 residential households) and 333 industrial/commercial customers (2007: 131 industrial/commercial customers). As at 31st December, 2008, the Group have the accumulated number of residential households of 266,158 (2007: 215,867 residential households) and industrial/commercial customers of 1051 (2007: 718 industrial/commercial customers). As at 31st December, 2008, the Group's penetration rate reached 30% (2007: 25%) (represented by the percentage of accumulated number of residential households to estimated an aggregate of connectable residential households).

Sales of Natural Gas From CNG Filling Stations

During the year under review, the total unit of CNG provided by the Group to its customers was approximately 6,113,000 m^3 (2007: Nil).

FINANCIAL REVIEW

Turnover

	2008		2007		
		% of total		% of total	Changes
	HK$'000	%	HK$'000	%	%
Sales of piped gas	407,850	58.0	141,754	48.2	187.7
Connection revenue from gas pipeline construction	234,405	33.4	123,693	42.0	89.5
Sales of liquefied petroleum gas	37,110	5.3	25,415	8.6	46.0
Operation of CNG filling stations	19,249	2.7	1,793	0.6	973.6
Sales of stoves and related equipment	4,406	0.6	1,863	0.6	136.5
Total	703,020	100.0	294,518	100.0	138.7

Turnover increased by 138.7% to approximately HK$703,020,000 in 2008 from approximately HK$294,518,000 in 2007. The tremendous growth in turnover was mainly attributable to the robust growth in sales of piped gas and connection revenue from gas pipeline construction.

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 sustained expansion of the Group's downstream gas distribution business in the PRC by the successful acquisition of Newly Acquired Projects in August 2007. For the period between the date of acquisition and 31st December, 2007, the Newly Acquired Projects contributed approximately HK$95,929,000 to the Group's sales of piped gas. Whereas in the year under review, the Nearly Acquired Projects contributed approximately HK$291,541,000.

The substantial increase in connection revenue from gas pipeline construction was mainly attributable to the increase in the number of households connected to the Group's existing gas pipeline networks which was mainly resulted from the sustained expansion of the Group's downstream gas distribution business in the PRC by the successful acquisition of Newly Acquired Projects in August 2007. For the period between the date of acquisition and 31st December, 2007, the Newly Acquired Projects contributed approximately HK$69,905,000 to the Group's connection revenue from gas pipeline construction. Whereas in the year under review, the Newly Acquired Projects contributed approximately HK$114,579,000.

Gross profit margin

The overall gross profit margin in 2008 amounted to approximately 32.2% (2007: 34.9%). 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 58.0% for the year ended 31st December, 2008 from approximately 48.2% in 2007 and the decrease in the gross profit margin of connection revenue from gas pipeline construction to approximately 58.2% for the year ended 31st December, 2008 from approximately 59.9% in 2007, resulting from the surge of material cost.

Other income

Other income increased to approximately HK$14,094,000 in 2008 from approximately HK$11,256,000 in 2007. The 2008 balance mainly represented the bank interest income of approximately HK$3,432,000, the interest income from loan receivables of approximately HK$3,904,000, and Sundry income (including proceeds from disposal of certain fixed assets and local government rewards) of approximately HK$5,163,000.

Selling and distribution costs

Selling and distribution costs increased by 203.2% to approximately HK$23,237,000 in 2008 from approximately HK$7,663,000 in 2007. The increase was mainly attributable to the increase in (i) staff costs and related expenses increased by 305.3% to approximately HK$13,550,000 from approximately HK$3,343,000 as a result of the increase in headcount and (ii) repairs and maintenance expenses increased by 396.5% to approximately HK$3,143,000 from approximately HK$633,000; (iii) insurance cost increased by 3,088.8% to approximately HK$1,435,000 from approximately HK$45,000, all resulting from the increase in number of subsidiaries.

Administrative expenses

Administrative expenses increased by 90.0% to approximately HK$110,414,000 in 2008 from approximately HK$58,105,000 in 2007. The increase was mainly attributable to (i) staff costs and related expenses increased by 126.5% to approximately HK$31,780,000 in 2008 from approximately HK$14,034,000 in 2007 resulting from the increase in headcount ; (ii) office related expenses increased by 137.1% to approximately HK$23,228,000 in 2008 from approximately HK$9,795,000 in 2007 resulting from the increase in number of subsidiaries (iii) stamp duties increased by 225.1% to approximately HK$4,828,000 in 2008 from approximately HK$1,485,000 in 2007 resulting from the increase in number of subsidiaries and (iv) vehicle expenses increased by 187.4% to approximately HK$4,988,000 in 2008 from approximately HK$2,622,000 in 2007 resulting from the increase in number of subsidiaries; (v) depreciation cost increased by 104.1% to approximately HK$6,403,000 in 2008 from approximately HK$3,138,000 in 2007 resulting from the increase in number of subsidiaries; (vi) provision for doubtful debts increased by 5,584.5% to approximately HK$8,413,000 in 2008 from approximately HK$148,000 in 2007; (vii) amortisation cost of operating right of CNG filling stations to approximately HK$3,085,000 in 2008 from nil in 2007; (viii) bank charges increased by 104.1% to approximately HK$2,829,000 in 2008 from approximately HK$685,000 in 2007 resulting from the increase in number of subsidiaries.

Other expenses

Other expenses increased to approximately HK$40,094,000 in 2008 from approximately HK$9,657,000 in 2007. Other expense for the year under review includes: (i) one-off recognition of equity-settled share based payments approximately HK$7,104,000 resulting from the issuance of share options by the Company on 29th March, 2007 and on 3rd April, 2008 (2007: HK$9,657,000); (ii) development costs incurred for exploration of CBM in the PRC of approximately HK$32,990,000 (2007: nil). 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 increased by 91.4% to approximately HK$52,740,000 in 2008 from approximately HK$27,548,000 in 2007. The increase was mainly attributable to the increase in (i) non-cash effective interest expense charged on convertible bonds issued on 25th June, 2008 increased by 114.5% to approximately HK$32,903,000 in 2008 from approximately HK$15,337,000 in 2007; (ii) interest on bank borrowings increased by 62.5% to approximately HK$19,837,000 in 2008 from approximately HK$12,211,000 in 2007 resulting from the increase in the average bank borrowings.

Impairment loss recognised on amounts due from customers for contract work

The Group recorded impairment loss recognised amounts due from customers for contract work of approximately HK$12,938,000 (2007: HK$21,551,000). Pursuant to the Group's accounting policy, amounts due from customers for contract work would be made impairment if those respective contract works are not completed within one year.

Change in fair value of derivative financial instruments

The Group recorded a non-cash gain arising on change in fair value of derivative financial instruments which was issued by the Company in 2007 of HK$28,075,000 in 2008 (2007: Loss: HK$7,617,000).

Impairment loss recognized on other intangible assets

Due to the uncertainty of sufficient quantities of potentially economic CBM reserves and natural gas to be supplied to the CNG filling stations, the group made an impairment loss on other intangible assets of approximately HK$107,485,000 (2007: nil) which includes (i) impairment loss on development costs incurred for exploration of CBM of approximately HK$39,593,000; (ii) impairment loss on the licences possessed by Jiyuan Yulian Compressed Gas Co. Ltd, Luohe Yulian Compressed Gas Co. Ltd, and Sanmenxia Yulian Compressed Gas Co. Ltd. to operate eight CNG filling stations of approximately HK$67,892,000.

Income tax expenses

No provision of Hong Kong Profits Tax has been made as the Group had no assessable profits arising in Hong Kong for the year 2008 and 2007.

Pursuant to the relevant laws and regulations in the PRC, certain PRC subsidiaries of the Group and the jointly controlled entity are exempted from PRC Enterprise Income Tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years. The tax concession arrangement of the aforesaid PRC subsidiaries will be expired from 2009 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 such tax concession but have not commenced their first profit-making year will be exempted from PRC Enterprise Income Tax for two years, followed by a 50% reduction for the next three years regardless of its reported results commencing from 1st January, 2008 and the charge of PRC Enterprise Income Tax for the year has been provided for after taking these tax incentive into account.

Accordingly, the income tax expenses in 2008 amounted to approximately HK$13,323,000 (2007: HK$4,109,000).

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

Excluding impairment loss recognised on amounts due from customers for contract work, impairment loss recognised on other intangible assets and change in fair value of derivative financial instruments, the Group's Adjusted EBITDA was approximately HK$105,037,000 in 2008, representing an increase of 94.2% as compared with that of approximately HK$54,074,000 in 2007.

Loss attributable to equity holders

As a result of the above, loss attributable to equity holders was approximately HK$92,797,000 in 2008.

LIQUIDITY, FINANCIAL RESOURCES AND WORKING CAPITAL

Liquidity

As at 31st December, 2008, the Group's net current assets decreased by approximately HK$197,861,000 or 106.3% to approximately HK$11,713,000 (2007: HK$186,148,000).

The decrease was mainly attributable to the reclassification of the convertible bonds at approximately HK$233,141,000 from Non-current Liabilities to Current Liabilities. Details of the convertible bonds are set out in note 36 to consolidated financial statements.

As at 31st December, 2008, the Group's current ratio, represented by a ratio of total current assets to total current liabilities, was approximately 1.0 (2007: 1.4).

As at 31st December, 2008, the total assets increased by approximately HK$5,637,000 or 0.4% to HK$1,521,682,000 (2007: HK$1,516,045,000).

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

As at 31st December, 2008, the total bank loans decreased by approximately HK$45,295,000 or 17.4% to HK$214,317,000 (2007: HK$259,612,000).

As at 31st December, 2008, the convertible bonds amounted to approximately HK$233,141,000 (2007: HK$203,358,000).

As at 31st December, 2008, the Group's gearing ratio, represented by a ratio of total interest-bearing loans and other borrowings to total assets, was 0.29 (2007: 0.31).

Financial resources

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

Working capital

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

EXPOSURE TO EXCHANGE RATE FLUCTUATIONS

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

EMPLOYEE INFORMATION

As at 31st December, 2008, the Group had a total of 1,761 employees (2007: 1,867) in Hong Kong and the PRC, and the total remuneration for the year under review was approximately HK$67,797,000 (2007: HK$30,997,000). The increase was mainly due to the increase in the number of headcount resulting from the Group's business expansion by acquiring and establishing a number of companies during the year under review. More than 99.7% of the Group's employees are located in the PRC.

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

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

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

CHARGE ON THE GROUP'S ASSETS

As at 31st December, 2008, 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, 2008, the Directors did not have any future plans for material investment or capital assets.

CAPITAL COMMITMENTS

As at 31st December, 2008, the Group did not have any significant capital commitments.

CONTINGENT LIABILITIES

As at 31st December, 2008, the Group did not have any contingent liabilities.

EXECUTIVE DIRECTORS

Mr. Wang Wenliang, aged 38, is the Chairman 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. Hao Yu, aged 36, is the Chief Executive Officer of the Company. He joined the Company in July 2003. Mr. Hao is responsible for supervising the implementation of the Group's strategic plans and managing the day-to-day operation of the Group. He received his master degree in Enterprise Management from the Tianjin University of Finance and Economics in the PRC in 2001 and doctorate degree in Managerial Science and Engineering from the University of Tianjin, the PRC in 2005. Mr. Hao has about eight years' working experience in the securities industry in the PRC, holding various positions with responsibilities in daily operations and business planning. Mr. Hao is a director of Hezhong.

Mr. Lu Zhaoheng, aged 44, 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-two 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 37, 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 over twelve 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).

Biographical Information of Directors

NON-EXECUTIVE DIRECTORS

Mr. Xu Yongxuan, aged 63, 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wang Shunlong, aged 44, is the Chairman of the Audit Committee and Remuneration Committee of the Company. He is a managing director of Hony Capital, sponsored by Legend Holdings Limited. He graduated from Tsinghua University in the PRC with a doctoral degree in engineering and was employed by the Eindhoven University of Technology in The Netherlands as a researcher for three years. Mr. Wang has over thirteen years of experience in corporate management and investment planning. He joined the Company in July 2003.

Dr. Luo Yongtai, aged 62, 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 43, is a member of the Audit Committee and Remuneration Committee of the Company. Mr. Hung is a fellow certified public accountant in Hong Kong and a certified public accountant in the United States. Currently, he is an executive director of China Shineway Pharmaceutical Group Limited (Stock Code: 2877) and an independent non-executive director of Zhongtian International Limited (Stock Code: 2379). Mr. Hung is a member of the American Institute of Certified Public Accountants, a fellow of the Hong Kong Institute of Certified Public Accountants, a member of the Hong Kong Securities Institute, and a council member of the Hong Kong Institute of Directors. Mr. Hung holds a MBA degree in international management from the University of London, a bachelor's degree of accounting and a certificate of programming and data processing from the University of Southern California, a certificate of China Accounting, Finance, Taxation and Law from the Chinese University of Hong Kong Securities Institute Specialist Certificate in corporate finance. Mr. Hung joined the Company in September 2004.

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, 2008. 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, 2008, the Board included eight Directors, of which four are executive Directors, one is non-executive Director and the remaining three are independent non-executive Directors. The composition of the Board is as follows:

Executive Directors:	Mr. Wang Wenliang *(Chairman)* Mr. Hao Yu *(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. Wang Shunlong Dr. Luo Yongtai Mr. Hung, Randy King Kuen

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

With a balanced Board consisting of three-eighths 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 13 and 14 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, 2008, the Board held 13 board meetings. The attendance records of all board meetings are set out below:

Executive Directors		
Mr. Wang Wenliang *(Chairman)*	13	100%
Mr. Hao Yu *(Chief Executive Officer)*	13	100%
Mr. Lu Zhaoheng	13	100%
Mr. Lui Siu Keung *(Chief Financial Officer)*	13	100%
Non-executive Directors		
Mr. Xu Yongxuan *(Vice Chairman)*	13	100%
Independent Non-executive Directors		
Mr. Wang Shunlong	13	100%
Dr. Luo Yongtai	13	100%
Mr. Hung, Randy King Kuen	13	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 separate and are performed by two different Directors. 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 re-election.

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 re-election. 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 2007 AGM, Mr. Xu Yongxuan, Mr. Wang Lei and Mr. Nicholas John Ashley Rigg, three of the nine Directors subject to retirement by rotation, retired. Mr. Xu Yongxuan was re-elected to the Board by the shareholders of the Company. Both Mr. Wang Lei and Mr. Nicholas John Ashley Rigg had informed the Company that they did not intend to offer themselves for re-election as Directors.

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 27th March, 2008 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, 2009; (ii) salary increase of the management of the Group; and (iii) range of salary increase of employees of the Group. The attendance record of the remuneration committee meeting is set out below:

Independent Non-executive Directors		
Mr. Wang Shunlong *(Chairman)*	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 present a balanced, clear and comprehensible assessment 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 2008, after applied in reviews of the effectiveness of internal control system through the Company's Audit Committee, the Board believes no suspected frauds and irregularities, internal control deficiencies or suspected infringement of laws, rules and regulations exist in the Group, which illustrates the system of internal controls is inadequate. The Board is also satisfied that the Group has fully complied with the code provisions on internal controls as set forth in the Code.

C.3 *Audit committee*

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

The Audit Committee comprises three independent non-executive Directors who have extensive experience in financial matters, including Mr. Wang Shunlong, Dr. Luo Yongtai and Mr. Hung, Randy King Kuen. Mr. Wang Shunlong is the chairman of the Audit Committee. In 2008, 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. Wang Shunlong *(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 2008 amounted to HK$1,500,000.

Report of the Directors

The directors present their annual report and the audited consolidated financial statements for the year ended 31st December, 2008.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company and provides corporate management services to its subsidiaries. The activities of the Company's subsidiaries are set out in notes 48 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2008 are set out in the consolidated income statement on page 32.

The directors do not recommend the payment of a dividend.

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 consolidated income statement, amounting to HK$337,000.

Details of these and other movements during the year in investment properties and property, plant and equipment of the Group are set out in notes 18 and 19 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 35 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, 2008, the Company's reserves available for distribution amounted to HK$537,325,000 which consisted of share premium of HK$618,348,000 less accumulated losses of HK$81,023,000.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year, the Company repurchased a total of 12,412,000 shares through The Stock Exchange of Hong Kong Limited (the "Stock Exchange") of which 8,852,000 shares were cancelled as at 31st December, 2008. Details of the repurchase of shares are set out in note 35 to the consolidated financial statements.

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

DIRECTORS

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

Executive Directors

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

Non-executive Directors

Mr. Xu Yongxuan *(Vice-Chairman)*
Mr. Wang Lei *(retired on 25th April, 2008)*
Mr. Nicholas John Ashley Rigg *(retired on 25th April, 2008)*

Independent non-executive Directors

Mr. Wang Shunlong
Dr. Luo Yongtai
Mr. Hung, Randy King Kuen

In accordance with the provisions of the Company's Articles of Association, Mr. Wang Shunlong, Dr. Luo Yongtai 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 AND CONNECTED TRANSACTIONS

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, 2008, 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")) (a) which were 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) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, were as follows:

Long positions in the Shares of the Company:

Name of directors	Notes	Nature of shares and/or underlying shares	Type of interests	Approximate percentage of issued share capital
Mr. Wang Wenliang	1	956,923,542	Beneficial and interest in corporation	49.39%
Mr. Hao Yu	2	1,010,759,542	Beneficial and interest in corporation	52.16%
Mr. Lu Zhaoheng	3	8,004,000	Beneficial	0.41%
Mr. Xu Yongxuan	4	5,004,000	Beneficial	0.26%
Mr. Lui Siu Keung	5	12,000,000	Beneficial	0.62%
Dr. Luo Yongtai	6	2,000,000	Beneficial	0.10%
Mr. Hung, Randy King Kuen	6	2,000,000	Beneficial	0.10%

Notes:

1. Among these Shares and/or underlying Shares, 945,755,542 Shares are held by Hezhong Investment Holding Company Limited ("Hezhong"). Mr. Wang Wenliang is beneficially interested in 60% of the issued share capital of Hezhong. 10,002,000 underlying Shares are to be allotted and issued upon exercise the rights attaching to the share options granted at an exercise price of HK$0.31 per share under the share option scheme adopted by the Company on 24th October, 2003. The remaining 1,166,000 underlying Shares are bought by Mr. Wang Wenliang during the year.

2. Among these Shares and/or underlying Shares, 945,755,542 Shares are held by Hezhong. Mr. Hao Yu is interested in 40% of the issue share capital of Hezhong. The remaining 8,004,000 and 57,000,000 underlying Shares are to be allotted and issued upon exercise the rights attaching to the share options granted at an exercise price of HK$0.31 per share and HK$0.56 per share respectively under the share option scheme adopted by the Company on 30th September, 2003.

3. 5,004,000 and 3,000,000 underlying Shares are to be allotted and issued upon exercise the rights attaching to the share options granted at an exercise price of HK$0.31 per share and HK$0.80 per share respectively under the share option scheme adopted by the Company on 30th September, 2003.

4. 5,004,000 underlying Shares are to be allotted and issued upon exercise the rights attaching to the share options granted at an exercise price of HK$0.31 per share under the share option scheme adopted by the Company on 30th September, 2003.

5. 9,000,000 and 3,000,000 underlying Shares entitle the holder thereof to subscribe for Shares at an exercise price of HK$0.56 per share and HK$0.80 per share respectively under the share option scheme adopted by the Company on 30th September, 2003.

6. These underlying Shares entitle the holders thereof to subscribe for Shares at an exercise price of HK$0.80 per share under the share option scheme adopted by the Company on 30th September, 2003.

Save as disclosed above, as at 31st December, 2008, 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 were required (i) 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, 2008, 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 were 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.

Long positions in the shares

Name of shareholder	Type of interest	Number of shares	Approximate percentage of interests
Hezhong	Beneficial	945,755,542	48.81%
Perry Capital (Asia) Limited	Deemed/Beneficial	387,222,665	20.00%
Perry Capital LLC	Deemed/Beneficial	387,222,665	20.00%
Perry Corp.	Deemed/Beneficial	387,222,665	20.00%
Perry Richard Cayne	Deemed/Beneficial	387,222,665	20.00%
Perry Partners International, Inc.	Beneficial	321,553,290	16.61%

Notes:

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

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

Save as disclosed above, as at 31st December, 2008, 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.

SHARE OPTIONS

Particulars of the Company's share option schemes are set out in note 38 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, 2008	Granted during the year	Exercised during the year	Outstanding at 31st December, 2008
Wang Wenliang	4.7.2006 to 3.7.2016	0.31	10,002,000	—	—	10,002,000
Xu Yongxuan	4.7.2006 to 3.7.2016	0.31	5,004,000	—	—	5,004,000
Hao Yu	4.7.2006 to 3.7.2016	0.31	8,004,000	—	—	8,004,000
	29.3.2008 to 28.3.2016	0.56	57,000,000	—	—	57,000,000
Lu Zhaoheng	4.7.2006 to 3.7.2016	0.31	5,004,000	—	—	5,004,000
	3.4.2010 to 2.4.2011	0.80	—	900,000	—	900,000
	3.4.2011 to 2.4.2012	0.80	—	900,000	—	900,000
	3.4.2012 to 2.4.2018	0.80	—	1,200,000	—	1,200,000
Lui Siu Keung	29.3.2008 to 28.3.2016	0.56	9,000,000	—	—	9,000,000
	3.4.2010 to 2.4.2011	0.80	—	900,000	—	900,000
	3.4.2011 to 2.4.2012	0.80	—	900,000	—	900,000
	3.4.2012 to 2.4.2018	0.80	—	1,200,000	—	1,200,000
Luo Yongtai	3.4.2010 to 2.4.2011	0.80	—	600,000	—	600,000
	3.4.2011 to 2.4.2012	0.80	—	600,000	—	600,000
	3.4.2012 to 2.4.2018	0.80	—	800,000	—	800,000
Hung, Randy King Kuen	3.4.2010 to 2.4.2011	0.80	—	600,000	—	600,000
	3.4.2011 to 2.4.2012	0.80	—	600,000	—	600,000
	3.4.2012 to 2.4.2018	0.80	—	800,000	—	800,000
			94,014,000	10,000,000	—	104,014,000
Employees and others	4.7.2006 to 3.7.2016	0.31	27,528,000	—	(2,550,000)	24,978,000
	29.3.2008 to 28.3.2016	0.56	5,100,000	—	—	5,100,000
	3.9.2010 to 2.4.2011	0.80	—	11,520,000	—	11,520,000
	3.4.2011 to 2.4.2012	0.80	—	11,520,000	—	11,520,000
	3.4.2013 to 2.4.2018	0.80	—	15,360,000	—	15,360,000
			126,642,000	48,400,000	(2,550,000)	172,492,000

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, 2008, the aggregate amount of turnover and purchase attributable to the Group's five largest customers and suppliers respectively accounted for less than 30% of the Group's total turnover and purchases.

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.

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 38 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.

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.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2008.

POST BALANCE SHEET EVENT

Details of significant events occurring after the balance sheet date are set out in note 47 to the consolidated financial statements.

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

Zhengzhou, the People's Republic of China
25th March, 2009

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 32 to 112 which comprise the consolidated balance sheet as at 31st December, 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements 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. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 as to 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 and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st December, 2008 and of the Group's loss 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
25th March, 2009

Consolidated Income Statement

For the year ended 31st December, 2008

	NOTES	2008 HK$'000	2007 HK$'000
Continuing operations			
Turnover	7	**703,020**	294,518
Cost of sales		**(476,523)**	(191,832)
Gross profit		**226,497**	102,686
Other income	9	**14,094**	11,256
Selling and distribution costs		**(23,237)**	(7,663)
Administrative expenses		**(110,414)**	(58,105)
Other expenses		**(40,094)**	(9,657)
Finance costs	10	**(52,740)**	(27,548)
Impairment loss recognised on amounts due from customers for contract work		**(12,938)**	(21,551)
Impairment loss recognised on other intangible assets	21	**(107,485)**	—
Change in fair value of derivative financial instruments	36	**28,075**	(7,617)
Loss before tax		**(78,242)**	(18,199)
Income tax expenses	11	**(13,323)**	(4,109)
Loss for the year from continuing operations		**(91,565)**	(22,308)
Discontinued operations			
Loss for the year from discontinued operations	12	**—**	(403)
Loss for the year	13	**(91,565)**	(22,711)
Attributable to:			
Equity holders of the Company		**(92,797)**	(26,183)
Minority interests		**1,232**	3,472
		(91,565)	(22,711)
Dividends	16	**—**	—
Loss per share	17		
From continuing and discontinued operations:			
Basic		**4.79 cent**	1.52 cent
From continuing operations:			
Basic		**4.79 cent**	1.49 cent

Consolidated Balance Sheet

At 31st December, 2008

	NOTES	2008 HK$'000	2007 HK$'000
Non-current assets			
Investment properties	18	**4,617**	4,074
Property, plant and equipment	19	**564,478**	457,175
Goodwill	20	**99,312**	94,512
Other intangible assets	21	**120,161**	213,899
Deposits paid	22	**42,494**	40,440
Prepaid lease payments	23	**59,069**	44,133
		890,131	854,233
Current assets			
Inventories	25	**38,960**	34,000
Trade receivables	26	**57,417**	27,478
Deposits, prepayments and other receivables		**29,751**	29,922
Prepaid lease payments	23	**1,527**	1,076
Amounts due from customers for contract work	27	**15,737**	26,348
Loan receivables	28	**—**	133,190
Trust monies placed with a financial institution	29	**—**	42,964
Amounts due from related companies	30	**—**	118
Pledge bank deposit	31	**13,826**	1,171
Bank balances and cash	31	**474,333**	365,545
		631,551	661,812
Current liabilities			
Deferred income and advance received		**46,670**	31,499
Derivative financial instruments	32	**101,961**	130,036
Trade payables	33	**68,725**	59,398
Other payables and accrued charges		**55,634**	47,608
Amounts due to customers for contract work	27	**10,872**	1,348
Amounts due to related companies	30	**—**	1,105
Bank borrowings	34	**114,675**	201,091
Convertible bonds	36	**233,141**	—
Tax payables		**11,586**	3,579
		643,264	475,664
Net current (liabilities) assets		**(11,713)**	186,148
Total assets less current liabilities		**878,418**	1,040,381

Consolidated Balance Sheet

At 31st December, 2008

	NOTES	2008 HK$'000	2007 HK$'000
Capital and reserves			
Share capital	35	**19,341**	19,440
Reserves		**636,446**	677,157
Equity attributable to equity holders of the parent		**655,787**	696,597
Minority interests		**105,588**	65,249
Total equity		**761,375**	761,846
Non-current liabilities			
Bank borrowings	34	**99,642**	58,521
Convertible bonds	36	**—**	203,358
Deferred taxation	37	**17,401**	16,656
		117,043	278,535
		878,418	1,040,381

The consolidated financial statements on pages 32 to 112 were approved and authorised for issue by the Board of Directors on 25th March, 2009 and are signed on its behalf by:

DIRECTOR

DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2008

	Attributable to equity holders of the parent										
	Share capital HK$'000	Share premium HK$'000	Share option reserve HK$'000	Merger reserve HK$'000 (Note a)	Property revaluation reserve HK$'000	Other reserve HK$'000 (Note b)	Translation reserve HK$'000	Accumulated profits (losses) HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1st January, 2007	13,252	145,901	4,816	3,740	—	7,607	7,436	572	183,324	8,172	191,496
Exchange differences arising on translation to presentation currency	—	—	—	—	—	—	44,866	—	44,866	581	45,447
Revaluation upon change of intended use of properties	—	—	—	—	1,747	—	—	—	1,747	—	1,747
Share of valuation surplus by minority shareholders	—	—	—	—	(182)	—	—	—	(182)	182	—
Deferred taxation liability on revaluation of buildings	—	—	—	—	(437)	—	—	—	(437)	—	(437)
Net income recognised directly in equity	—	—	—	—	1,128	—	44,866	—	45,994	763	46,757
Loss for the year	—	—	—	—	—	—	—	(26,183)	(26,183)	3,472	(22,711)
Total recognised income for the year	—	—	—	—	1,128	—	44,866	(26,183)	19,811	4,235	24,046
Recognition of equity-settled share-based payments	—	—	9,657	—	—	—	—	—	9,657	—	9,657
Acquisition of subsidiaries	—	—	—	—	—	—	—	—	—	28,675	28,675
Issue of shares	6,165	509,898	—	—	—	—	—	—	516,063	—	516,063
Disposal of subsidiaries	—	—	—	(3,740)	—	—	—	3,740	—	—	—
Exercise of share options	50	1,911	(402)	—	—	—	—	—	1,559	—	1,559
Shares repurchased and cancelled	(27)	(2,578)	—	—	—	—	—	—	(2,605)	—	(2,605)
Transaction costs attributable to issue of shares	—	(31,212)	—	—	—	—	—	—	(31,212)	—	(31,212)
Contributions from minority shareholders upon incorporation of subsidiaries	—	—	—	—	—	—	—	—	—	24,167	24,167
At 31st December, 2007	19,440	623,920	14,071	—	1,128	7,607	52,302	(21,871)	696,597	65,249	761,846

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2008

	Attributable to equity holders of the parent										
	Share capital HK$'000	**Share premium** HK$'000	**Share option reserve** HK$'000	**Merger reserve** HK$'000 (Note a)	**Property revaluation reserve** HK$'000	**Other reserve** HK$'000 (Note b)	**Translation reserve** HK$'000	**Accumulated profits (losses)** HK$'000	**Total** HK$'000	**Minority interests** HK$'000	**Total** HK$'000
Exchange differences arising on translation to presentation currency	—	—	—	—	—	—	51,730	—	51,730	3,314	55,044
Net income recognised directly in equity	—	—	—	—	—	—	51,730	—	51,730	3,314	55,044
Loss for the year	—	—	—	—	—	—	—	(92,797)	(92,797)	1,232	(91,565)
Total recognised income (loss) for the year	—	—	—	—	—	—	51,730	(92,797)	(41,067)	4,546	(36,521)
Recognition of equity-settled share-based payments	—	—	7,104	—	—	—	—	—	7,104	—	7,104
Business combination by contract alone without acquiring interest (Note 39)	—	—	—	—	—	—	—	—	—	35,793	35,793
Exercise of share options	26	969	(204)	—	—	—	—	—	791	—	791
Shares repurchased and cancelled	(89)	(6,541)	—	—	—	—	—	—	(6,630)	—	(6,630)
Shares repurchased and not yet cancelled (Note 35)	(36)	(972)	—	—	—	—	—	—	(1,008)	—	(1,008)
At 31st December, 2008	**19,341**	**617,376**	**20,971**	**—**	**1,128**	**7,607**	**104,032**	**(114,668)**	**(655,787)**	**105,588**	**761,375**

Notes:

(a) The merger reserve of the Group represents the difference between the nominal value of the share capital of a subsidiary acquired pursuant to the group reorganisation completed on 21st May, 2001 and the nominal value of the share capital of the Company issued in exchange thereof.

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

Consolidated Cash Flow Statement

For the year ended 31st December, 2008

	2008 HK$'000	2007 HK$'000
Operating activities		
Loss before tax	**(78,242)**	(18,602)
Adjustments for:		
Depreciation of property, plant and equipment	**27,369**	13,220
Share-based payment expense	**7,104**	9,657
Amortisation of other intangible assets	**9,346**	1,611
Amortisation of prepaid lease payments	**1,476**	726
Loss on disposal of a subsidiary	**—**	839
Loss on disposal of property, plant and equipment	**212**	1,067
Impairment loss recognised on other intangible assets	**107,485**	—
Allowance for doubtful debts		
- trade receivable	**1,723**	148
- other receivable	**6,690**	—
Impairment loss recognised on amounts due from customers for contract work	**12,938**	21,551
Interest income	**(7,336)**	(8,882)
Finance costs	**52,740**	27,548
Change in fair value of derivative financial instruments	**(28,075)**	7,617
Change in fair value of investment properties	**(337)**	—
Operating cash flows before movements in working capital	**113,093**	56,500
(Increase) decrease in inventories	**(1,541)**	463
Increase in trade receivables	**(31,480)**	(19,810)
(Increase) decrease in deposits, prepayments and other receivables	**(4,456)**	71,071
Decrease (increase) in amounts due from customers for contract work	**3,851**	(4,087)
Increase (decrease) in deferred income and advance received	**10,480**	(8,359)
Increase in trade payables	**2,350**	7,157
Increase (decrease) in other payables and accrued charges	**7,366**	(41,656)
Increase (decrease) in amounts due to customers for contract work	**9,073**	(3,535)
Cash generated from operations	**108,736**	57,744
Interest received	**3,432**	4,624
Income taxes paid	**(5,417)**	(1,263)
Net cash from operating activities	**106,751**	61,105

Consolidated Cash Flow Statement

For the year ended 31st December, 2008

	NOTES	2008 HK$'000	2007 HK$'000
Investing activities			
Purchases of property, plant and equipment		**(72,023)**	(82,138)
Decrease (increase) in loan receivables		**133,190**	(133,190)
Proceeds on disposal of property, plant and equipment		**712**	1,252
Acquisition of subsidiaries, net of cash and cash equivalents acquired	40 & 41	**—**	(174,344)
Disposal of subsidiaries, net of cash and cash equivalents disposed	42	**—**	(393)
Business combination by contract alone without acquiring additional interest, net of cash and cash equivalent acquired	39	**10,011**	—
Repayments from related companies		**118**	3,736
Decrease (increase) in trust monies placed with a financial institution		**42,964**	(42,964)
Increase in pledged bank deposits		**(12,655)**	(1,171)
Addition of prepaid lease payments		**(9,761)**	(4,201)
Development costs paid		**—**	(40,065)
Interest received		**3,904**	4,258
Net cash from (used in) investing activities		**96,460**	(469,220)
Financing activities			
New loans raised		**70,429**	48,075
Contributions from minority shareholders upon incorporation of subsidiaries		**—**	24,167
Interest paid		**(25,378)**	(18,123)
Repayments of borrowings		**(155,367)**	(86,766)
Advance from related companies		**—**	943
Repayments to related companies		**(1,105)**	(876)
Proceed from issue of ordinary shares		**791**	437,894
Shares issue expenses		**—**	(31,212)
Proceed on issue of convertible bonds		**—**	312,000
Payment on repurchase of shares		**(7,638)**	(2,605)
Net cash (used in) from financing activities		**(118,268)**	683,497
Net increase in cash and cash equivalents		**84,943**	275,382
Cash and cash equivalents at 1st January		**365,545**	65,815
Effect of foreign exchange rate changes		**23,845**	24,348
Cash and cash equivalents at 31st December, represented by bank balances and cash		**474,333**	365,545

1. GENERAL

The Company was incorporated in the Cayman Islands on 12th February, 2001 as an exempted company with limited liability under the Companies Law (2001 Revision) of the Cayman Islands. The shares of the Company were listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its parent and ultimate holding company is Hezhong Investment Holding Company Limited ("Hezhong"), incorporated in the British Virgin Islands. 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 functional currency of the Company is Renminbi.

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 People's Republic of China ("PRC").

2. PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The presentation currency of the consolidated financial statements is Hong Kong dollars. The directors consider this presentation is more appropriate as the Company is listed on the Stock Exchange.

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

In the current year, the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of financial assets
HK(IFRIC) - INT 11	HKFRS 2: Group and treasury share transactions
HK(IFRIC) - INT 12	Service concession arrangements
HK(IFRIC) - INT 14	HKAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

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

The Group has not early applied the following new and revised standards or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs [1]
HKAS 1 (Revised)	Presentation of financial statements [2]
HKAS 23 (Revised)	Borrowing costs [2]
HKAS 27 (Revised)	Consolidated and separate financial statements [3]
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation [2]
HKAS 39 (Amendment)	Eligible hedged items [3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate [2]
HKFRS 2 (Amendment)	Vesting conditions and cancellations [2]
HKFRS 3 (Revised)	Business combinations [3]
HKFRS 7 (Amendment)	Improving disclosures about financial instruments [2]
HKFRS 8	Operating segments [2]
HK(IFRIC) - INT 9 & HKAS 39 (Amendments)	Embedded derivatives[7]
HK(IFRIC) - INT 13	Customer loyalty programmes [4]
HK(IFRIC) - INT 15	Agreements for the construction of real estate [2]
HK(IFRIC) - INT 16	Hedges of a net investment in a foreign operation [5]
HK(IFRIC) - INT 17	Distributions of non-cash assets to owners [3]
HK(IFRIC) - INT 18	Transfer of assets from customers [6]

1 Effective for annual periods beginning on or after 1st January, 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1st July, 2009.

2 Effective for annual periods beginning on or after 1st January, 2009.

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

4 Effective for annual periods beginning on or after 1st July, 2008.

5 Effective for annual periods beginning on or after 1st October, 2008.

6 Effective for transfers on or after 1st July, 2009.

7 Effective for annual periods ending on or after 30th June, 2009.

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1st January, 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (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 income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations

The acquisition of business is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Business combination by contract alone without acquiring additional interest

If the Group obtains control over a business by contract alone without acquiring additional interest, the assets and liabilities of the business are measured at the carrying values as at the date control is obtained.

Goodwill

Goodwill arising on acquisitions prior to 1st January, 2005

Goodwill arising on an acquisition of net assets and operations of another entity for which the agreement date is before 1st January, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant acquiree at the date of acquisition.

For previously capitalised goodwill arising on acquisitions of net assets and operations of another entity after 1st January, 2001, the Group has discontinued amortisation from 1st January, 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired. (See the accounting policy below).

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

Goodwill arising on acquisitions on or after 1st January, 2005

Goodwill arising on an acquisition of a business for which the agreement date is on or after 1st January. 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated balance sheet.

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 acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. 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 the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent 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.

Jointly controlled entity

Joint venture arrangement that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as a jointly controlled entity.

The Group recognises its interests in a jointly controlled entity using proportionate consolidation. The Group's share of each of the assets, liabilities, income and expenses of the jointly controlled entity are combined with the Group's similar line items, line by line, in the consolidated financial statements.

When a group entity transacts with a jointly controlled entity of the Group, profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

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

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 balance sheet date can be measured reliably. Revenue from gas connection contracts is recognised on the percentage of completion method, measured by reference to the value of work carried out during the year. 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.

Software project income is recognised by reference to the stage of completion of the project at the balance sheet date. Stage of completion is generally determined by reference to the services performed to date as a proportion of total services to be performed.

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

Software maintenance service income is recognised on a straight-line basis over the life of the maintenance service agreements. The unearned portion of the maintenance service income received is stated as deferred income in the consolidated balance sheet.

Interest income from a financial asset including financial assets at fair value through profit or loss 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.

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

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

Construction in progress represents buildings, machinery and pipelines under construction for the Group's own use purposes and is carried at cost less any recognised impairment loss. Cost comprises direct and indirect costs of acquisition or construction. Completed items are transferred from construction in progress to the relevant categories of property, plant and equipment when they are ready for their intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for intended use.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment (Continued)

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised as a revaluation increase in accordance with HKAS 16 "Property, plant and equipment" in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

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 derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Investment properties

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

On initial recognition, investment properties are 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.

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 balance sheet date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

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 balance sheet, as a liability, as advance received. Amounts billed for work performed but not yet paid by the customers are included in the consolidated balance sheet under trade receivables.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when 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.

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 the consolidated income statement 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

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is classified as a finance lease and accounted for as property, plant and equipment. Leasehold land which title is not expected to pass to the lessee by the end of the lease term is classified as an operating lease 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 charged as an expense when employees have rendered services entitling them to the contributions.

4. SIGNIFICANT ACCOUNTING POLICIES *(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 expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

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.

Government grant

Government grants with no future related cost are recognised as income when they are unconditional and become receivable and are reported separately as "other income".

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired (see the accounting policies in respect of impairment losses for tangible and intangible assets below).

4. 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 income statement 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 balance sheet date.

Deferred tax is recognised on 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, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised 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 and in a jointly controlled entity, 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.

The carrying amount of deferred tax assets is reviewed at each balance sheet date 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 is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets

The Group's financial assets are mainly classified as loans and receivables and the accounting policies adopted are set out below.

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. Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, receivables (including trade receivables, refundable deposits, other receivables, loan receivables, trust monies placed with a financial institution, amounts due from related companies, pledged bank deposit and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. (See accounting policy on impairment loss on financial assets below).

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments (Continued)

Impairment of loan and receivables

Loan and receivables are assessed for indicators of impairment at each balance sheet date. Loan and receivables are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the loan and receivables, the estimated future cash flows of the loan and receivables have been affected. Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- the receivables become past due for a long period of time;
- default or delinquency in interest or 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 subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, observable changes in national or local economic conditions that correlate with default on receivables.

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

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 through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Financial liabilities at fair value through profit or loss

Financial liabilities at FVTPL represent financial liabilities held for trading.

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

At each balance sheet date subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any interest paid on the financial liabilities.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity (Continued)

Convertible bonds contain liability component and conversion/redemption option derivatives

Convertible bonds issued by the Group that contain liability and conversion/redemption option derivatives components are classified separately into respective items on initial recognition. Conversion option derivatives 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. The redemption option derivatives represent the redemption at the option of the bondholders before the maturity date and will be settled by fixed amount of cash upon exercise of such option by the bondholders. At the date of issue, both the liability and conversion/redemption option components are recognised at fair value.

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The conversion/redemption option derivative 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 conversion/redemption option components in proportion to their relative fair value. Transaction costs relating to the conversion/redemption option derivatives is charged to profit and loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

Other financial liabilities

Other financial liabilities including trade payables, other payables, amounts due to related companies and bank borrowings 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.

The amount of proceeds resulting from share repurchase are deducted against share capital and share premium accounts directly. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derecognition

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

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 each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss with a corresponding adjustment to share options reserve.

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

Share options granted to consultants

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received. The fair values of the goods or services received are recognised as expenses with a corresponding increase in equity (share options reserve), when the Group obtains the goods or when the counterparties rendered services, unless the goods or services qualify for recognition as assets.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in 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 each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet 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.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations in the PRC are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

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.

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 balance sheet date. Exchange differences arising are recognised in the translation reserve.

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

At each balance sheet date, 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. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Revenue recognition of gas connection contract

Revenue from gas connection contracts is recognised on the percentage of completion method, measured by reference to the proportion of the contract costs incurred for the work performed to date over the estimated total costs. Accordingly, any changes to the estimated total cost may have material impact on the contract revenue and net profit recognised in each accounting period over the contract term.

Impairment on amounts due from customers for contract work

At each balance sheet date, management reconsidered the recoverability of its amounts due from customers for contract work. The Group is entitled to issue progress billing based on the stage of completion. However, the management will also consider the likelihood of collection from its customers before issuing the billing. In determining whether impairment is required, the Group takes into consideration of the construction progress and the progress payments received from its customers. Impairment is recognised for those contracts that may not be honored by the customers and is recognised on the difference between the estimated future cash flows expected to be received discounted using the effective interest rate and the carrying value. During the year, the Group has recognised impairment loss on amounts due from customers for contract work of HK$12,938,000 (2007: HK$21,551,000).

Impairment of intangible assets

Determining whether the exclusive rights of operation and other operating rights (details are set out in note 21) are impaired requires an estimation of the value in use of the cash-generating units to which these intangible assets has been allocated. 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. In respect of the development costs incurred for extraction of coalbed methane gas, the Group reviews its carrying amount to determine whether they may impair. It also requires the Group to estimate the future economic benefits associated with coalbed methane gas business.

Where the actual future cash flows from the exclusive rights of operation and other operating rights are less than expected, a material impairment loss may arise. Where the actual future cash flows are more than expected, a reversal of impairment loss may arise. As at 31st December, 2008, the carrying amount of intangible asset is HK$ 120,161,000 (net of accumulated impairment loss of HK$107,485,000) (2007: HK$213,899,000 without any impairment loss being recognised). Details are disclosed in note 21.

6. 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 borrowings and convertible bonds disclosed in notes 34 and 36 respectively, and equity attributable to equity holders of the Company, comprising issued capital and retained profits.

The management of the Group review 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.

Categories of financial instruments

	2008 **HK$'000**	2007 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**552,961**	583,465
Financial liabilities		
Amortised cost	**558,207**	559,598
Derivative financial liabilities (held for trading)	**101,961**	130,036
	660,168	689,634

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

Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, refundable deposits, other receivables, loan receivables, trust monies placed with a financial institution, amounts due from related companies, pledged bank deposit and bank balances, trade payables, other payables, amounts due to related companies, convertible bonds (including derivative financial instruments) and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The 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 certain fixed-rate bank borrowings (see note 34 for details of these borrowings), fixed-rate loan receivables and trust monies placed with a financial institution (see note 28 and 29 for details) and convertible bonds (see note 36 for details). The Group has not used any derivative contracts to hedge these exposure to interest rate risk. The directors of the Company consider that the Group's exposure to interest rate risk is not significant as the fixed-rate bank borrowings, fixed-rate loan receivables and trust monies placed with a financial institution are within short maturity period.

The Group's cash flow interest rate risk primarily relates to variable-rate bank balances and bank borrowings (see note 34 for details of these borrowings). The Group has not used any interest rate swaps in order 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 base interest rate fixed by People's Bank of China plus a premium.

The impact on the Group's cash flow is due in part to its sensitivity to interest rates which has been determined based on the exposure to the floating-rate bank loans and variable-rate bank balances at the balance sheet date and the reasonably possible change taking place at the beginning of each year and held constant throughout the year. If interest rates on bank loans and bank balances had been 50 basis points (2007: 100 basis points) higher/lower and all other variables were held constant, the potential effect on post-tax loss for the year is as follows:

	2008 **HK$'000**	2007 HK$'000
Decrease/increase in post-tax loss for the year	**1,375**	907

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

Financial risk management objectives and policies (Continued)

Market risks (Continued)

Interest rate risk on redemption option derivatives (Continued)

The Group is required to estimate the fair values of the derivative components embedded in the convertible notes at each balance sheet date with changes in fair value to be recognised in the consolidated income statement as long as the convertible notes are outstanding. The fair value adjustment will be affected either positively or negatively by the changes in market interest rate.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rate risk on financial instruments arising from mandatory redemption option derivative held by the bondholders. In the opinion of the directors, the fair values of the conversion option held by the bondholders and early redemption option held by the Company are insignificant, any change in market interest rate may not have sufficient financial impact in the fair value of financial instruments as a whole. Accordingly, they have been excluded from sensitivity analysis.

If the market interest rate had been 5% higher/lower and all other variables were held constant, the Group's post-tax loss for the year (as a result of changes in fair value of mandatory redemption option derivative held by bondholders) would increase/decrease by HK$5,014,000 (2007: HK$3,599,000).

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 considered that the Group's exposure to foreign currency exchange risk is insignificant as the majority of the Group's transactions are denominated in the functional currency of the respective group entities.

As at balance sheet date, the Group has convertible bonds denominated in United State Dollars ("USD") and certain bank balances denominated in USD and Hong Kong dollars ("HKD") amounting to HK$233,141,000 (2007: HK$203,358,000), HK$50,940,000 (2007: HK$82,763,000) and HK$11,196,000 (2007: HK$2,051,000) respectively, which is the currency other than the functional currency of the respective group entities.

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.

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

Financial risk management objectives and policies (Continued)

Market risks *(Continued)*

Foreign currency risk (Continued)

Except for convertible bonds and bank balances denominated in USD and HKD, the directors considered that the sensitivity of the Group's exposure towards the change in foreign exchange rates is minimal as the assets and liabilities of the Group, denominated in currency other than functional currency of a particular group entity were insignificant as at the balance sheet dates. The sensitivity analysis of convertible bonds and bank balances denominated in USD and HKD were as follows.

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% increase and decrease in RMB against USD and 5% increase and decrease in RMB against HKD. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonable possible change in foreign exchange rates. The sensitivity analysis includes only USD and HKD bank balances and convertible bonds, and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates an increase in post-tax loss 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.

	2008 **HK$'000**	2007 HK$'000
USD convertible bonds	**9,734**	8,389
USD bank balances	**(2,127)**	(3,414)
HKD bank balances	**(468)**	(86)

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

Price risk on embedded conversion option

The Group is required to estimate the fair value of the conversion option embedded in the convertible notes at each balance sheet date with changes in fair value to be recognised in the consolidated income statement as long as the convertible notes are outstanding. The fair value adjustment will be affected either positively or negatively, amongst others, by the changes in market interest rate, the Company's share market price and share price volatility.

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

Financial risk management objectives and policies (Continued)

Market risks (Continued)

Price risk on embedded conversion option (Continued)

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to the Company's share price risk at the reporting date only. If the Company's share price had been 10% higher/lower and all other variables were held constant, the Group's post-tax loss for the year (as a result of changes in fair value of conversion option component of convertible bonds) would increase/decrease by HK$4,758,000 and (2007: increase/decrease by HK$3,104,000).

In management's opinion, the sensitivity analyses are unrepresentative of the inherent market risk as the pricing model used in the fair value valuation of the conversion option component of convertible bonds involves multiple variables. The variables used to estimate the fair value of the multiple embedded derivative features especially the embedded conversion option and mandatory redemption option held by the bondholders are interdependent.

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, 2008 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. 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 each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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

The policy of allowances for doubtful debts of the Group is based on the evaluation of collectibility and aging analysis of accounts and on management's estimate. In determining whether impairment is required, the Group takes into consideration the aging status and likelihood of collection. Specific allowance is only made for receivables that are unlikely to be collected and is recognised on the difference between the estimated future cash flows expected to receive discounted using the 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.

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

Financial risk management objectives and policies (Continued)

Liquidity risk

The Group has net current liabilities of approximately HK$11,713,000 as at 31st December, 2008. The consolidated financial statements have been prepared on a going concern basis because the directors believed that the Group has sufficient funds to finance its current working capital requirements taking into account of the cash flows from operations and the subsequent event set out in note 47(b).

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 bank balances have maturity less than three months. In additional to issuance of new shares, the Group also relies on bank borrowings as a significant source of liquidity. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its financial liabilities, including the derivative component of the convertible bonds. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

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

Financial risk management objectives and policies *(Continued)*

Liquidity risk (Continued)

Liquidity tables

	Weighted average effective interest rate %	Less than 3 month HK$'000	3 months to 1 year HK$'000	1 - 5 years HK$'000	Total undiscounted cash flow HK$'000	Carrying amount at 31.12.2008 HK$'000
2008						
Non-derivative financial liabilities						
Trade payables	**N/A**	**24,105**	**44,620**	**—**	**68,725**	**68,725**
Other payables	**N/A**	**42,024**	**—**	**—**	**42,024**	**42,024**
Bank borrowings						
– fixed rate	**7.47%**	**36,173**	**52,313**	**—**	**88,486**	**82,280**
– variable rate	**7.00%**	**—**	**34,630**	**121,368**	**155,998**	**132,037**
Convertible bond (note 36) (note)	**1.00%**	**—**	**400,920**	**—**	**400,920**	**335,102**
		102,302	**532,483**	**121,368**	**756,153**	**660,168**

	Weighted average effective interest rate %	Less than 3 month HK$'000	3 months to 1 year HK$'000	1 - 5 years HK$'000	Total undiscounted cash flow HK$'000	Carrying amount at 31.12.2007 HK$'000
2007						
Non-derivative financial liabilities						
Trade payables	N/A	48,627	10,771	—	59,398	59,398
Other payables	N/A	36,125	—	—	36,125	36,125
Bank borrowings						
– fixed rate	8.45%	—	50,987	—	50,987	47,014
– variable rate	9.5%	—	168,714	79,662	248,376	212,598
Amounts due to related companies	N/A	1,105	—	—	1,105	1,105
Convertible bond (note 36) (note)	1.00%	—	3,120	400,920	404,040	333,394
		85,857	233,592	480,582	800,031	689,634

Note: The amount of undiscounted cash flow represents the redemption amount of the convertible bond assumed no early conversion taken place before its maturity. The carrying amount represents the liability components carried at amortised cost with an effective interest rate of 16.18% and the fair value of derivatives embedded in the convertible bonds (details are set out in note 32).

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

Fair value

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

- 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 or using prices from observable current market transactions.

- the fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of option pricing models for optional derivatives.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values except for the convertible bonds with the carrying amount of HK$233,141,000 (2007: HK$203,358,000) as stated in note 36 which has fair value of HK$243,245,000 (2007: HK$214,529,000).

7. 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 for both continuing and discontinued operations, is as follows:

	2008	2007
	HK$'000	HK$'000
Continuing operations		
Sales of piped gas	**407,850**	141,754
Connection revenue from gas pipeline construction	**234,405**	123,693
Sales of liquefied petroleum gas	**37,110**	25,415
Operation of compressed natural gas ("CNG") filling station	**19,249**	1,793
Sales of stoves and related equipment	**4,406**	1,863
	703,020	294,518
Discontinued operations		
Software project income	**—**	1,213
Software maintenance service income	**—**	603
Sales of computer hardware	**—**	136
	—	1,952
	703,020	296,470

8. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purpose, the Group is currently organised into five major operating divisions: Sales of piped gas, connection revenue from gas pipeline construction, sales of piped gas, sales of liquefied petroleum gas, operation of CNG filling stations and sales of coalbed methane gas ("CBM"). These divisions are the basis on which the Group reports its primary segment information. On 3rd May, 2007, the Group completed the discontinuation of development and sale of software maintenance services and sales of computer hardware operations.

Segment information about these business is presented below:

Income statement for the year ended 31st December, 2008

	Sales of piped gas 2008 HK$'000	Connection revenue from gas pipeline construction 2008 HK$'000	Sales of liquefied petroleum gas 2008 HK$'000	Operation of CNG filling stations 2008 HK$'000	Sales of CBM 2008 HK$'000	Other operations 2008 HK$'000	Consolidated 2008 HK$'000
Turnover	407,850	234,405	37,110	19,249	—	4,406	703,020
Segment results	38,413	91,540	(5,813)	(64,923)	(82,553)	132	(23,204)
Unallocated corporate income							8,298
Unallocated corporate expenses							(38,671)
Finance costs							(52,740)
Change in fair value of derivative financial instruments							28,075
Loss before tax							(78,242)
Income tax expenses							(13,323)
Loss for the year							(91,565)

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments (Continued)

Income statement for the year ended 31st December, 2007

	Continuing operations							Discontinued operations				
	Sales of piped gas	Connection revenue from gas pipeline construction	Sales of liquefied petroleum gas	Operation of CNG filling stations	Sales of CBM	Other operations	Total	Development and sale of software	Software maintenance services	Sales of computer hardware	Total	Consolidated
	2007	2007	2007	2007	2007	2007	2007	2007	2007	2007	2007	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	141,754	123,693	25,415	1,793	–	1,863	294,518	1,213	603	136	1,952	296,470
Segment results	18,685	35,157	(2,524)	444	(6,607)	237	45,392	172	192	136	500	45,892
Unallocated corporate income							8,881				1	8,882
Unallocated corporate expenses							(37,307)				(65)	(37,372)
Finance costs							(27,548)				–	(27,548)
Change in fair value of derivative financial instruments							(7,617)				–	(7,617)
(Loss) profit before tax							(18,199)				436	(17,763)
Income tax expenses							(4,109)				–	(4,109)
Loss on disposal of discontinued operation, net of tax							–				(839)	(839)
Loss for the year							(22,308)				(403)	(22,711)

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments (Continued)

Balance sheet as at 31st December, 2008

	Sales of piped gas HK$'000	Connection revenue from gas pipeline construction HK$'000	Sales of liquefied petroleum gas HK$'000	Operation of CNG filling stations HK$'000	Sales of CBM HK$'000	Other operations HK$'000	Consolidated HK$'000
ASSETS							
Segment assets	**822,242**	**80,063**	**13,489**	**55,615**	**7,060**	**1,207**	**979,676**
Unallocated corporate assets							**542,006**
Consolidated total assets							**1,521,682**
LIABILITIES							
Segment liabilities	**101,170**	**45,226**	**16,215**	**2,826**	**—**	**5,183**	**170,620**
Unallocated corporate liabilities							**589,687**
Consolidated total liabilities							**760,307**

Balance sheet as at 31st December, 2007

	Continuing operations						
	Sales of piped gas HK$'000	Connection revenue from gas pipeline construction HK$'000	Sales of liquefied petroleum gas HK$'000	Operation of CNG filling stations HK$'000	Sales of CBM HK$'000	Other operations HK$'000	Consolidated HK$'000
ASSETS							
Segment assets	712,251	67,023	11,351	97,403	45,070	2,860	935,958
Unallocated corporate assets							580,087
Consolidated total assets							1,516,045
LIABILITIES							
Segment liabilities	83,359	27,143	17,643	—	—	—	128,145
Unallocated corporate liabilities							626,054
Consolidated total liabilities							754,199

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments (Continued)

Other information for the year ended 31st December, 2008

	Sales of piped gas 2008 HK$'000	Connection revenue from gas pipeline construction 2008 HK$'000	Sales of liquefied petroleum gas 2008 HK$'000	Operations of CNG filling stations 2008 HK$'000	Sales of CBM 2008 HK$'000	Other operations 2008 HK$'000	Unallocated 2008 HK$'000	Consolidated 2008 HK$'000
Capital additions	104,377	—	—	13,511	3,143	—	987	122,018
Loss on disposal of property, plant and equipment	212	—	—	—	—	—	—	212
Amortisation of prepaid lease payment	1,361	—	—	115	—	—	—	1,476
Depreciation of property, plant and equipment	24,190	—	1,326	68	1,283	—	502	27,369
Amortisation of other intangible assets	3,754	—	—	3,085	2,507	—	—	9,346
Allowance for doubtful debts	6,739	—	213	—	—	—	1,461	8,413
Impairment loss recognised on amounts due from customers for contract work	—	12,938	—	—	—	—	—	12,938
Impairment loss recognised on other intangible assets	—	—	—	67,892	39,593	—	—	107,485
Increase in fair value of investment properties	—	—	—	—	—	—	337	337
Share-based payment expenses	—	—	—	—	—	—	7,104	7,104

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments (Continued)

Other information for the year ended 31st December, 2007

	Continuing operations							Discontinued operations	
	Sales of piped gas 2007 HK$'000	Connection revenue from gas pipeline construction 2007 HK$'000	Sales of liquefied petroleum gas 2007 HK$'000	Operation of CNG filling stations 2007 HK$'000	Sales of CBM 2007 HK$'000	Other operations 2007 HK$'000	Unallocated 2007 HK$'000	Development and sales of software 2007 HK$'000	Consolidated 2007 HK$'000
Capital additions	172,713	173,307	—	92,546	45,655	—	159,198	—	643,419
Loss on disposal of property, plant and equipment	1,067	—	—	—	—	—	—	—	1,067
Amortisation of prepaid lease payment	726	—	—	—	—	—	—	—	726
Depreciation of property, plant and equipment	9,887	—	2,806	—	505	—	—	22	13,220
Amortisation of other intangible assets	1,611	—	—	—	—	—	—	—	1,611
Allowance for doubtful debts	148	—	—	—	—	—	—	—	148
Impairment loss recognised on amounts due from customers for contract work	—	21,551	—	—	—	—	—	—	21,551
Share-based payment expenses	—	—	—	—	—	—	9,657	—	9,657

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Geographical segments

All the sales revenue of the Group for the year ended 31st December, 2008 are derived from the PRC. For the year ended 31st December, 2007, sales revenue from Group's continuing operations derived from the PRC was HK$294,518,000 and revenue from the Group's discontinued operations derived from Hong Kong was HK$1,952,000.

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, goodwill and intangible assets, analysed by the geographical area in which the assets are located.

	Carrying amount of segment assets		**Additions to property, plant and equipment, goodwill and intangible assets**	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
The PRC	**979,676**	935,958	**155,003**	642,346
Hong Kong	**—**	—	**5**	1,073
	979,676	935,958	**155,008**	643,419

9. OTHER INCOME

	2008 HK$'000	2007 HK$'000
Continuing operations		
Bank interest income	**3,432**	4,623
Interest income from loan receivables	**3,904**	4,258
Government subsidy (note)	**1,258**	—
Increase in fair value of investment properties	**337**	—
Sundry income	**5,163**	2,375
	14,094	11,256
Discontinued operations		
Bank interest income	**—**	1
Sundry income	**—**	11
	—	12

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

10. FINANCE COSTS

	2008 HK$'000	2007 HK$'000
Continuing operations		
Interest on		
Bank borrowings wholly repayable within five years	**22,258**	16,563
Effective interest expense on convertible bonds	**32,903**	15,337
Total borrowing costs	**55,161**	31,900
Less: Amounts capitalised in construction in progress	**(2,421)**	(4,352)
	52,740	27,548

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 6.2% (2007: 8.7%) to expenditure on qualifying assets.

11. INCOME TAX EXPENSES

	2008 HK$'000	2007 HK$'000
Current tax:		
PRC Enterprise Income Tax	**13,424**	4,118
Deferred tax (note 37):		
Current year	**(101)**	(9)
	13,323	4,109

On 26th June, 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profit for the year.

On 16th March, 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6th December, 2007, the State Council of the PRC issued Implementation Regulation of the New Law. Under the New Law and Implementation Regulation, the Enterprise Income Tax of the Group's subsidiaries in the PRC was reduced from 33% to 25% from 1st January, 2008 onwards. Therefore, the PRC Enterprise Income Tax is calculated at a tax rate of 25% (2007: 33%), which is the prevailing tax rate in the PRC.

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.

11. INCOME TAX EXPENSES *(Continued)*

Pursuant to the relevant laws and regulations in the PRC, certain PRC subsidiaries of the Group and the jointly controlled entity are exempted from Enterprise Income Tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years. The tax concession arrangement of the aforesaid PRC subsidiaries will be expired from 2009 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 such tax concession but have not commenced their first profit-making year will be exempted from Enterprise Income Tax for two years, followed by a 50% reduction for the next three years regardless of its reported results commencing from 1st January, 2008 and the charge of Enterprise Income Tax for the year has been provided for after taking these tax incentive into account.

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

	Hong Kong		PRC		Total	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
(Loss) profit before tax						
Continuing operations	**(24,300)**	(41,944)	**(53,942)**	23,745	**(78,242)**	(18,199)
Discontinued operations	**—**	(341)	**—**	(62)	**—**	(403)
	(24,300)	(42,285)	**(53,942)**	23,683	**(78,242)**	(18,602)
Taxation at the domestic income tax rate	**(4,010)**	(7,400)	**(13,486)**	7,815	**(17,496)**	415
Tax effect of expenses not deductible for tax purpose	**8,115**	7,454	**16,973**	—	**25,088**	7,454
Tax effect of income not taxable for tax purpose	**(4,686)**	(497)	**—**	—	**(4,686)**	(497)
Tax effect of estimated tax losses not recognised	**581**	533	**27,456**	8,039	**28,037**	8,572
Utilisation of estimated tax losses previously not recognised	**—**	(90)	**—**	—	**—**	(90)
Effect of tax exemptions granted to PRC subsidiaries and a jointly controlled entity	**—**	—	**(5,421)**	(7,654)	**(5,421)**	(7,654)
Income tax on concessionary rate	**—**	—	**(12,199)**	(4,091)	**(12,199)**	(4,091)
Tax charge for the year	**—**	—	**13,323**	4,109	**13,323**	4,109

12. DISCONTINUED OPERATIONS

On 30th April, 2007, the Group entered into a sale agreement to dispose of a subsidiary, Cyber Dynamic Enterprise Limited ("Cyber Dynamic") and its subsidiaries which carried out all of the Group's operations related to sales of software and software maintenance services. The disposal was effected in order to streamline the principal businesses of the Group to focus mainly on the coalbed methane and natural gas businesses. The disposal resulted a net loss of HK$839,000 and was completed on 10th May, 2007, on which date control of Cyber Dynamic was passed to the acquirer.

The loss for the year from the discontinued operation is analysed as follows:

	2007 HK$'000
Profit of software operation for the year	436
Loss on disposal of software operation (see note 42)	(839)
	(403)

The results of the software operations for the period from 1st January, 2007 to 10th May, 2007, which have been included in the consolidated income statement, were as follows:

	Period from 1.1.2007 to 10.5.2007 HK$'000
Revenue	1,952
Cost of sales	(462)
Other income	12
Selling and distribution costs	(349)
Administrative expenses	(593)
Other expenses	(124)
Profit before tax	436
Income tax expense	—
Profit for the period	436

During the year ended 31st December, 2007, Cyber Dynamic contributed HK$795,000 to the Group's net operating cash flows, paid HK$393,000 in respect of investing activities.

The carrying amounts of the assets and liabilities of Cyber Dynamic at the date of disposal are disclosed in note 42.

13. LOSS FOR THE YEAR

	Continuing operations		Discontinued operations		Consolidated	
	2008 **HK$'000**	2007 HK$'000	**2008** **HK$'000**	2007 HK$'000	**2008** **HK$'000**	2007 HK$'000
Loss for the year has been arrived at after charging (crediting):						
Auditor's remuneration	**1,500**	1,600	**—**	—	**1,500**	1,600
Amortisation of other intangible assets (included in cost of sales)	**9,346**	1,611	**—**	—	**9,346**	1,611
Amortisation of prepaid lease payments	**1,476**	726	**—**	—	**1,476**	726
Depreciation of property, plant and equipment	**27,369**	13,198	**—**	22	**27,369**	13,220
Loss on disposal of property, plant and equipment	**212**	1,067	**—**	—	**212**	1,067
Loss on disposal of subsidiaries	**—**	—	**—**	839	**—**	839
Research and development cost (included in other expenses)	**32,990**	—	**—**	—	**32,990**	—
Allowance for doubtful debts						
- trade receivables	**1,723**	148	**—**	—	**1,723**	148
- other receivables	**6,690**	—	**—**	—	**6,690**	—
Employee benefits expenses, other than directors (including contributions to retirement benefits schemes of HK$6,736,000 (2007: HK$4,284,000))	**64,079**	27,932	**—**	1,150	**64,079**	29,082
Employee share option benefits other than directors	**3,718**	1,915	**—**	—	**3,718**	1,915
Exchange loss	**4,102**	—	**—**	—	**4,102**	—
Operating lease rentals in respect of rented premises	**2,969**	1,171	**—**	157	**2,969**	1,328
Cost of inventories recognised as expense	**369,447**	138,232	**—**	—	**369,447**	138,232
Gross rental income from investment properties with minimal outgoings	**(618)**	—	**—**	—	**(618)**	—

14. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the 10 (2007: 10) directors were as follows:

	2008 HK$'000	2007 HK$'000
Fees	2,440	2,640
Other emoluments:		
- Salaries and other benefits	1,598	320
- Contributions to retirement benefits scheme	12	4
- Employee share option benefits	3,386	7,742
Total emoluments	7,436	10,706

The emoluments of directors are analysed as follows:

	2008					2007				
	Employee share option benefits HK$'000	Salaries and other benefits HK$'000	Fees HK$'000	Contributions to retirement benefits scheme HK$'000	Total HK$'000	Employee share option benefits HK$'000	Salaries and other benefits HK$'000	Fees HK$'000	Contributions to retirement benefits scheme HK$'000	Total HK$'000
Wang Wenliang	—	—	1,200	—	1,200	—	—	1,200	—	1,200
Hao Yu	2,584	—	720	—	3,304	7,742	—	720	—	8,462
Lu Zhaoheng	241	378	—	—	619	—	—	120	—	120
Lui Siu Keung	241	1,220	—	12	1,473	—	320	—	4	324
Xu Yongxuan	—	—	240	—	240	—	—	240	—	240
Wang Lei	—	—	—	—	—	—	—	80	—	80
Nicholas John Ashley Rigg	—	—	—	—	—	—	—	—	—	—
Wang Shunlong	—	—	100	—	100	—	—	100	—	100
Luo Yongtai	160	—	100	—	260	—	—	100	—	100
Hung, Randy King Kuen	160	—	80	—	240	—	—	80	—	80
	3,386	1,598	2,440	12	7,436	7,742	320	2,640	4	10,706

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 the year.

No directors waived any emoluments during the year.

15. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2007: three) were directors of the Company whose emoluments are included in the disclosures in note 14 above . The emolument of the remaining one (2007: two) individual was as follows:

	2008 **HK$'000**	2007 HK$'000
Salaries and other benefits	**336**	672
Contributions to retirement benefits scheme	**20**	17
	356	689

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

16. DIVIDENDS

No dividend was paid or proposed during 2008, nor has any dividend been proposed since the balance sheet date (2007: nil).

17. LOSS PER SHARE

The calculation of the basic loss per share attributable to the ordinary equity holders of the Company is based on the following data:

	2008 **HK$'000**	2007 HK$'000
For continuing and discontinued operations		
Loss		
Loss for the purposes of basic loss per share	**(92,797)**	(26,183)

	2008 **'000**	2007 '000
Number of shares		
Weighted average number of shares for the purpose of basic loss per share	**1,939,290**	1,727,476

17. LOSS PER SHARE *(Continued)*

From continuing operations

The calculation of the basic loss per share attributable to the ordinary equity holders of the Company is based on the following data:

	2008 **HK$'000**	2007 HK$'000
Loss		
Loss for the year attributable to equity holders of the Company	**(92,797)**	(26,183)
Add: Loss for the year from discontinued operations	**—**	403
Loss for the purposes of basic loss per share from continuing operations	**(92,797)**	(25,780)

The denominators used are the same as those detailed above for both basic loss per share.

From discontinued operations

Basic loss per share for discontinued operations for the year ended 31st December, 2007 is HK0.02 cent based on the calculation of the loss for the year from discontinued HK$403,000 and the same denominators detailed above for the basic loss per share.

Notes:

Diluted loss per share has not been presented for both years because:

(a) The exercise of the Company's outstanding share options would result in a decrease in loss per share from continuing operations.

(b) The conversion of the Company's outstanding convertible bonds would decrease the loss per share, after taking into account of the effect of interest and change in fair value of conversion/redemption option derivative components of the convertible bonds.

18. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1st January, 2007	—
Transferred from property, plant and equipment (note 19)	4,074
At 31st December, 2007	4,074
Exchange adjustments	206
Increase in fair value recognised in the consolidated income statement	337
At 31st December, 2008	4,617

Note: Buildings and prepaid lease payments having an aggregate carrying value of HK$2,327,000 were revalued on 31st December, 2007 by 河南九鼎資產評估有限公司. The resulting surplus of HK$1,747,000 was credited to properties revaluation reserve. The buildings and prepaid lease payments were transferred from property, plant and equipment to investment properties on the same date.

The fair value of the Group's investment properties at 31st December, 2008 and 2007 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 has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation was arrived at by reference to rental yield 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.

19. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Construction in progress	Leasehold improvements	Pipelines	Machinery and equipment	Furniture and fixtures	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
COST								
At 1st January, 2007	13,002	19,781	3,340	64,486	14,438	862	4,922	120,831
Acquired on acquisition of subsidiaries	16,517	134,190	296	86,462	17,363	1,086	4,210	260,124
Exchange adjustments	1,529	6,344	132	7,793	1,556	42	676	18,072
Additions	31,539	29,364	1,887	1,207	10,529	874	11,090	86,490
Disposals	(938)	—	(402)	(695)	(528)	—	(231)	(2,794)
Transfer	10,120	(164,944)	—	153,709	1,115	—	—	—
Disposal of subsidiaries	—	—	(296)	—	(1,582)	(374)	—	(2,252)
Transfer to investment properties	(2,545)	—	—	—	—	—	—	(2,545)
At 31st December, 2007	69,224	24,735	4,957	312,962	42,891	2,490	20,667	477,926
Acquired on business combination by contract alone without acquiring additional interest (note 39)	5,802	1,152	1,267	22,194	4,834	—	741	35,990
Exchange adjustments	3,844	453	141	18,004	2,425	114	1,244	26,224
Additions	2,167	56,372	3,210	221	2,231	2,069	8,174	74,444
Disposals	(68)	—	—	—	(93)	(67)	(1,833)	(2,061)
Transfer	5,337	(40,244)	—	27,874	7,033	—	—	—
At 31st December, 2008	86,306	42,468	9,575	381,255	59,321	4,606	28,993	612,523

19. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Buildings	Construction in progress	Leasehold improvements	Pipelines	Machinery and equipment	Furniture and fixtures	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
DEPRECIATION								
At 1st January, 2007	678	—	871	2,018	3,500	536	1,564	9,167
Exchange adjustments	110	—	41	574	245	11	241	1,222
Provided for the year	1,458	—	328	6,525	1,903	200	2,806	13,220
Eliminated on disposals	(61)	—	(50)	(21)	(215)	—	(128)	(475)
Eliminated on disposals of subsidiaries	—	—	(296)	—	(1,503)	(366)	—	(2,165)
Eliminated on transfer to investment properties	(218)	—	—	—	—	—	—	(218)
At 31st December, 2007	1,967	—	894	9,096	3,930	381	4,483	20,751
Exchange adjustments	113	—	44	462	200	15	228	1,062
Provided for the year	3,126	—	694	12,041	6,178	658	4,672	27,369
Eliminated on disposals	(3)	—	—	—	(40)	(17)	(1,077)	(1,137)
At 31st December, 2008	5,203	—	1,632	21,599	10,268	1,037	8,306	48,045
CARRYING VALUES								
At 31st December, 2008	81,102	42,468	7,943	359,656	49,053	3,569	20,687	564,478
At 31st December, 2007	67,257	24,735	4,063	303,866	38,961	2,109	16,184	457,175

19. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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

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

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

At 31st December, 2008, the Group is in process of obtaining title deeds from relevant government authority for its buildings in the PRC amounting to HK$24,190,000 (2007: HK$22,993,000). 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 net book value of approximately HK$27,216,000 (2007: HK$25,873,000) to secure certain bank borrowings granted to the Group.

20. GOODWILL

	2008 **HK$'000**	2007 HK$'000
Cost and carrying amount		
At 1st January	**94,512**	732
Exchange adjustments	**4,800**	—
Arising on acquisition of subsidiaries	**—**	93,780
At 31st December	**99,312**	94,512

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

As explained in note 8, the Group presents business segments as its primary segment for reporting segment information. For the purposes of impairment testing, the carrying amount of goodwill has been allocated to an individual cash-generating unit, including a subsidiary engaged in sales of piped gas ("Unit A") amounted to HK$48,663,000 (2007: HK$46,311,000) and connection of pipeline constructions ("Unit B") amounted to HK$50,649,000 (2007: HK$48,201,000).

During the year ended 31st December, 2008 and 2007, management of the Group determines that there is no impairment of Unit A and Unit B.

20. GOODWILL *(Continued)*

The basis of the recoverable amounts of Unit A and Unit B and its major underlying assumptions are summarised below:

The recoverable amount of Unit A and 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 at a discount rate of 13% (2007: 11.3%) was used. The cash flows of Unit A and Unit B beyond the 5-year period of the financial budgets are extrapolated using a steady 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 unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of Unit A and Unit B to exceed the aggregate recoverable amount of Unit A and Unit B.

21. 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, 2007	—	12,484	—	12,484
Exchange adjustments	—	925	—	925
Additions	40,065	—	—	40,065
Acquired on acquisition of subsidiaries (notes 40 and 41)	—	70,414	92,546	162,960
At 31st December, 2007	40,065	83,823	92,546	216,434
Exchange adjustments	2,035	4,912	4,700	11,647
Acquired on business combination by contract alone without acquiring additional interest (note 39)	—	11,584	—	11,584
At 31st December, 2008	42,100	100,319	97,246	239,665
AMORTISATION				
At 1st January, 2007	—	843	—	843
Exchange adjustments	—	81	—	81
Charge for the year	—	1,611	—	1,611
At 31st December, 2007	—	2,535	—	2,535
Exchange adjustments	—	138	—	138
Charge for the year	2,507	3,754	3,085	9,346
Impairment loss recognised	39,593	—	67,892	107,485
At 31st December, 2008	42,100	6,427	70,977	119,504
CARRYING VALUES				
At 31st December, 2008	—	93,892	26,269	120,161
At 31st December, 2007	40,065	81,288	92,546	213,899

21. OTHER INTANGIBLE ASSETS *(Continued)*

Note: Development costs represent costs incurred for extraction of coalbed methane gas in the PRC. Amortisation shall begin when the relevant gas wells are available for mass extraction and will be based on the expected length of extraction on a straight-line basis.

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

Other operating rights represent the licences possessed by Jiyuan Yulian Compressed Gas Co. Ltd ("JYCG"), Luohe Yulian Compressed Gas Co. Ltd ("LYCG"), and Sanmenxia Yulian Compressed Gas Co. Ltd. ("SYCG") (collectively named as "Acquired Companies") to operate eight CNG refill stations in Jiyuan City, Luohe City and Sanmenxia City and is amortised on a straight line method over a period of 30 years. Details are set out in note 41.

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

As explained in note 8, the Group presents business segments as its primary segment for reporting segment information. For the purposes of impairment testing, the carrying amount of intangible assets has been allocated to an individual cash-generating unit, including subsidiaries engaged in Unit A amounted to HK$93,892,000 (2007: HK$81,288,000), operation of CNG filling stations ("Unit C") amounted to HK$94,161,000 (2007: HK$92,546,000) and sales of CBM ("Unit D") amounted to HK$39,593,000 (2007: HK$40,065,000).

During the year ended 31st December, 2008, the Group recognised an impairment loss of HK$39,593,000 (2007: HK$nil) and HK$67,892,000 (2007: HK$nil) for Unit D and Unit C respectively and also determine that there is no impairment for Unit A.

The recoverable amounts of Unit A and Unit C have been determined based on a value in use calculation. For impairment assessment purposes, cash flow projections are prepared under the following assumptions:

	Unit A	**Unit C**
Period of cash flow projections	15 years	29 years
Growth rate beyond 5-year period extrapolated in the financial budgets	2%	0%

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, the carrying amount of Unit C exceeds its value in use based on the cash flow projections. An impairment of HK$67,892,000 was recognised.

As for Unit D, the management originally anticipated that the commercial production of CBM will commence by the fourth quarter of 2008 after the completion of the de-watering and releasing process. The production is delayed because the de-watering process was longer than expected and will not be completed within the next one year. In view of the delay, the expected future economic benefits associated with Unit D is considered as less than probable. Accordingly, the management has recognised full impairment on the carrying amount of the development costs previously capitalised of HK$39,393,000 and additional research and development costs of HK$32,990,000 were charged to the consolidated income statement.

22. DEPOSITS PAID

At 31st December, 2008 and 2007, the amount represents deposits paid to the Finance Bureau of Jiaozuo City for the purpose of acquiring certain assets and liabilities which mainly comprised of gas pipeline network in the area of Jiaozuo City. On 5th March,2009, the Group entered into a sale and purchase agreement with the Seller. Details are set out in note 47.

23. 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, 2008, the Group is in process of obtaining land use right certificate from relevant government authority for its land in the PRC amounting to HK$9,012,000 (2007: HK$8,893,000). In the opinion of the directors, the Group is not required to incur additional cost in obtaining the land use right certificate for its land in the PRC.

The Group has pledged certain leasehold land in the PRC having a net book value of approximately HK$24,107,000 (2007: HK$24,210,000) to secure certain bank borrowings granted to the Group.

24. INVESTMENT IN A JOINTLY CONTROLLED ENTITY

As at 31st December, 2007, the Group had interest in the following jointly controlled entity:

Name of entity	Form of business structure	Country of registration/principal place of operations	Registered capital	Proportion of nominal value of registered capital held by the Group	Proportion of voting power held	Principal activities
Linyi Zhong Yu City Gas Construction Development Company Limited ("Linyi Zhong Yu JV")	Sino-foreign joint venture	PRC	RMB42,000,000	51%	57% (Note)	Trading of natural gas and pipeline construction

The summarised financial information in respect of the Group's jointly controlled entity which are accounted for using proportionate consolidation with the line-by-line reporting format is set out below:

	2008 HK$'000	2007 HK$'000
Current assets	—	22,992
Non-current assets	—	53,852
Current liabilities	—	39,509
Income	—	31,325
Expenses	—	23,364

Note: At 31st December, 2007, the Group holds 51% of the registered capital of Linyi Zhong Yu JV and controls 57% of the voting power in directors' meetings, with the remaining held by The Department of City Natural Gas Engineering of Linyi City ("CNGE"). Pursuant to the shareholders' agreement, the board of directors of Linyi Zhong Yu JV comprised 7 directors, of which 4 of them were nominated by the Group. For all the decisions approved in the directors' meetings, approval from a minimum of 5 directors must be obtained. Therefore, Linyi Zhong Yu JV was classified as a jointly controlled entity of the Group as at 31st December, 2007.

Pursuant to a resolution passed in the board of directors meeting of Linyi Zhong Yu JV held on 17th November, 2007, all decisions being approved in the directors' meeting must obtain approval from a minimum of any 4 directors effective from 1st January, 2008. Accordingly, the Group obtained control in Linyi Zhong Yu JV which was accounted for as a subsidiary of the Group on the same date. Details of this transaction are set out in note 39.

25. INVENTORIES

	2008 HK$'000	2007 HK$'000
Construction materials	**33,815**	28,286
Finished goods	**5,145**	5,714
	38,960	34,000

26. TRADE RECEIVABLES

The Group allows an average credit period of 30 days to its trade customers. The following is an aged analysis of trade receivables net of allowance for doubtful debts at the balance sheet date:

	2008 HK$'000	2007 HK$'000
0 - 30 days	**46,154**	25,301
Over 30 days	**11,263**	2,177
	57,417	27,478

The trade receivables of HK$46,154,000 (2007: HK$25,301,000) were neither past due nor impaired. These customers were local reputable real estate developers and corporate entities in Henan City and no significant counterparty default was noted in the past.

As at 31st December, 2008, trade receivables of HK$11,263,000 (2007: HK$2,177,000) 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 198 days (2007: 60 days).

Ageing of trade receivables which are past but not impaired

	2008 HK$'000	2007 HK$'000
31 - 90 days	**4,457**	1,526
91 - 180 days	**3,534**	175
181 - 365 days	**3,272**	476
	11,263	2,177

26. TRADE RECEIVABLES *(Continued)*

Movement in the allowance for doubtful debts

	2008 **HK$'000**	2007 HK$'000
Balance at beginning of year	**1,312**	1,164
Increase in allowance recognised in consolidated income statement	**1,723**	148
Amounts written off as uncollectible	**(829)**	—
Balance at the end of year	**2,206**	1,312

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

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

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

	2008	2007
	HK$'000	HK$'000
Contracts in progress at the balance sheet date:		
Contract costs incurred plus recognised profits	**311,806**	148,740
Less: Progress billings	**(272,452)**	(102,189)
Less: Impairment losses recognised (Note)	**(34,489)**	(21,551)
	4,865	25,000
Analysed for reporting purposes as:		
Amounts due from customers for contract work	**15,737**	26,348
Amounts due to customers for contract work	**(10,872)**	(1,348)
	4,865	25,000

At 31st December, 2008, advances received from customers for contract work amounted to HK$24,863,000 (2007: HK$23,952,000) which was included in deferred income and advance received.

Note: During the year ended 31st December, 2008 and 2007, the directors of the Company reviewed the recoverable amounts of the amounts due from customers for contract work and identified certain projects have slow construction progress. In the opinion of the directors, the recoverability of such amounts are uncertain and accordingly, impairment losses were recognised in full.

28. LOAN RECEIVABLES

	2008	2007
	HK$'000	HK$'000
Fixed-rate loan receivables	**—**	133,190

As at 31st December, 2007, all the loan receivables were denominated in RMB and have contractual maturity dates of one year. The effective interest rates (which was equal to contractual interest rate) were ranged from 4.20% to 7.29% per annum.

All the loan receivables were entrusted by the Guangdong Development Bank (a financial institution in the PRC) to certain independent third parties and were fully received during the year ended 31st December, 2008.

29. TRUST MONIES PLACED WITH A FINANCIAL INSTITUTION

As at 31st December, 2007, the amount represented trust monies placed with a company incorporated in the PRC that was engaged in the business of assets management. The amount was denominated in RMB and had contractual maturity date of 38 days. The effective interest rate was 5.2% per annum. The trust monies were refunded to the Group upon maturity.

30. AMOUNTS DUE FROM (TO) RELATED COMPANIES

	2008 **HK$'000**	2007 HK$'000
Amount due from a jointly controlled entity	—	118
Amount due to a jointly controlled entity	—	1,105

The amounts are unsecured and interest-free. The amounts due from/to related companies are non-trade in nature and are repayable within one year/repayable on demand, respectively.

31. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

The bank balances carry interest at market rates which ranged from 0.72% to 2.75% per annum. At 31st December, 2008, the bank balances and cash of approximately HK$412,197,000 (2007: HK$281,753,000) were denominated in Renminbi which are not freely convertible into other currencies.

As at 31st December, 2008, the bank balances and cash consisted of approximately HK$50,940,000 and HK$11,196,000 (2007: HK$82,763,000 and HK$2,051,000) denominated in USD and HKD respectively.

Pursuant to a letter of undertaking, the Group is required to maintain deposits of RMB12,250,000 (approximately HK$13,826,000) (2007: RMB1,090,000 (approximately HK$1,171,000)) with a bank as a condition precedent to the supply of natural gas from its suppliers. The pledged bank deposits carry interest at average market rate of 3.33% per annum.

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32. DERIVATIVE FINANCIAL INSTRUMENTS

	2008 HK$'000	2007 HK$'000
Derivative financial liabilities	**101,961**	130,036

The derivative financial liabilities comprise of three embedded options as follows.

Embedded conversion option represents the bondholders' option to convert the convertible bond issued on 25th June, 2007 (as detailed in note 36) 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.

Early redemption option and mandatory redemption option represent the Company's option to early redeem and the redemption at the option of certain bondholders prior to the maturity date on 25th June, 2012 ("Maturity Date"), in respect of convertible bond issued on 25th June, 2007.

The fair value of the embedded conversion option is calculated using the Monte Carol Simulation Model. The inputs into the model were as follows:

	2008	2007
Conversion price (note 36)	**HK$0.968**	HK$1.456
Expected volatility (note a)	**58.16%**	46.14%
Expected life (note b)	**3.48 years**	3 years
Risk free rate (note c)	**0.91% per annum**	4.39% per annum

Notes:

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

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

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

The fair value of the early redemption option and mandatory redemption option is determined by application of Trinomial method, using effective yield at 5.42% (2007: 5.42%) per annum and time to maturity equal to the expected remaining life of the option.

During the year, a gain of HK$28,075,000 (2007: loss of HK$7,617,000) was recognised as a change in fair value of derivative financial instruments.

33. TRADE PAYABLES

The following is an aged analysis of trade payables at the balance sheet date:

	2008 HK$'000	2007 HK$'000
0 - 30 days	**44,620**	15,109
31 - 90 days	**7,085**	26,709
91 - 180 days	**2,886**	6,807
Over 180 days	**14,134**	10,773
	68,725	59,398

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.

34. BANK BORROWINGS

	2008 HK$'000	2007 HK$'000
Bank loans		
Secured	**132,037**	144,361
Unsecured	**82,280**	115,251
	214,317	259,612
Carrying amount repayable:		
On demand or within one year	**114,675**	201,091
More than one year, but not exceeding two years	**37,597**	15,127
More than two years but not exceeding five years	**62,045**	43,394
	214,317	259,612
Less: Amounts due within one year shown under current liabilities	**(114,675)**	(201,091)
	99,642	58,521

34. BANK BORROWINGS *(Continued)*

The exposure of the Group's fixed-rate borrowings are as follows:

	2008	2007
	HK$'000	HK$'000
Fixed-rate borrowings:		
Within one year	**82,280**	47,014

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

	2008	2007
Effective interest rate:		
Fixed-rate borrowings	**6.8% - 10%**	6.1% - 10.8%
Variable-rate borrowings	**4.9% - 8.4%**	6.3% - 12.7%

As at 31st December, 2008, certain bank loans were secured by the Group's prepaid lease payment and buildings with the carrying amounts of HK$24,107,000 (2007: HK$24,210,000) and HK$27,216,000 (2007: HK$25,873,000) respectively.

35. SHARE CAPITAL

	Number of shares		Amount	
	2008	2007	**2008**	2007
	'000	'000	**HK$'000**	HK$'000
Ordinary shares of HK$0.01 each				
Authorised	**10,000,000**	10,000,000	**100,000**	100,000
Issued and fully paid				
At beginning of year	**1,943,964**	1,325,186	**19,440**	13,252
Issue of new shares (note a)	**—**	265,000	**—**	2,650
Issue of new shares (note b)	**—**	279,000	**—**	2,790
Issue of shares for acquisition of subsidiaries (notes c)	**—**	72,480	**—**	725
Exercise of share options (note 38)	**2,550**	5,028	**26**	50
Share repurchased and cancelled (note d)	**(8,852)**	(2,730)	**(89)**	(27)
Share repurchased and not yet cancelled (note e)	**(3,560)**	—	**(36)**	—
At end of year	**1,934,102**	1,943,964	**19,341**	19,440

Notes:

(a) Pursuant to a placing and subscription agreement dated 1st March, 2007, the substantial shareholder of the Company, Hezhong, agreed to place, through a placing agent, 265,000,000 shares beneficially owned by Hezhong to not less than six placees at a price of HK$0.42 per share. On the same date, the Company had conditionally agreed to allot and issue, and Hezhong had agreed to subscribe for 265,000,000 new Shares at a price of HK$0.42 per share. The placement was completed on 8th March, 2007 and the total proceeds raised as a result of the placement were HK$111,300,000.

(b) Pursuant to a placing and subscription agreement dated 25th May, 2007, the substantial shareholder of the Company, Hezhong, agreed to place, through a placing agent, 279,000,000 shares beneficially owned by Hezhong to not less than six placees at a price of HK$1.165 per share. On the same date, the Company had conditionally agreed to allot and issue, and Hezhong had agreed to subscribe for 279,000,000 new shares at a price of HK$1.165 per share. The placement was completed on 7th June, 2007 and the total proceeds raised as a result of the placement were HK$325,035,000.

(c) On 14th August, 2007, the Group allotted and issued 72,480,000 new shares of HK$0.01 each as a partial consideration to acquire the entire issued share capital and outstanding shareholder's loan of Glory Path Investment Limited ("Glory Path"). Details of the acquisitions are set out in note 40.

(d) During the year ended 31st December, 2008, the Company repurchased a total of 8,852,000 (2007: 2,730,000) shares through the Stock Exchange at a price ranged from HK$0.73 to HK$0.83 (2007: HK$0.90 to HK$0.97) per share at an aggregate consideration of HK$6,630,000 (2007: HK$2,605,000). All shares were cancelled upon repurchase.

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

All the shares issued during the year ended 31st December, 2008 and 2007 rank pari passu with the then existing shares in all respects.

36. CONVERTIBLE BONDS

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

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

The Bond can be converted at any time after 40 days from the Issue Date up to 5 business day prior to Maturity Date or 7 business days prior to the date of redemption. Unless previously redeemed, converted or purchased and cancelled, the Bonds can be redeemed at 125 per cent of their principal amount on Maturity Date. The Bonds 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.

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

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

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

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

    (ii) Mandatory redemption option of the Bond represents redemption at the option of the bond holders.

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

36. CONVERTIBLE BONDS *(Continued)*

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

	Liability	Embedded derivatives	Total
	HK$'000	HK$'000	HK$'000
At 1st January, 2007	—	—	—
Issued during the year, net of issued cost	189,581	122,419	312,000
Interest charged	15,337	—	15,337
Interest paid	(1,560)	—	(1,560)
Loss arising on change in fair value	—	7,617	7,617
At 31st December, 2007	203,358	130,036	333,394
Interest charged (note 10)	32,903	—	32,903
Interest paid	(3,120)	—	(3,120)
Gain arising on change in fair value	—	(28,075)	(28,075)
At 31st December, 2008	233,141	101,961	335,102

37. 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	Total HK$'000
At 1st January, 2007	—	—	—
Acquisition of subsidiaries (note 40)	—	16,228	16,228
Credit to consolidated income statement	—	(9)	(9)
Charge to equity	437	—	437
At 31st December, 2007	437	16,219	16,656
Exchange adjustments	22	824	846
Charge (credit) to consolidated income statement	84	(185)	(101)
At 31st December, 2008	543	16,858	17,401

Under the New 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 the PRC subsidiaries amounting to HK$91,338,000 as Company controls the dividend policy of these subsidiaries and it is probable that the profit will not be distributed in the foreseeable future.

At 31st December, 2008, the Group had unused estimated tax losses of HK$154,545,000 (2007: HK$41,200,000) 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$149,143,000 (2007: HK$39,319,000) that will expire in various dates up to 2017. Other losses may be carried forward indefinitely.

38. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option schemes

Pursuant to an ordinary resolution passed on 21st May, 2001, the Company adopted a share option scheme ("Old Share Option Scheme") pursuant to which the directors of the Company were authorised to grant share options to full-time employees (including executive directors) of the Company or any of its subsidiaries to subscribe for shares in the Company.

On 24th October, 2003, the Old Share Option Scheme was terminated and a new share option scheme ("New Share Option Scheme") was adopted. The purpose of the New Share Option Scheme is to enable the Company to grant option to eligible participants in order to reward or provide incentives to its employees or any person who has contributed or will contribute to the Group. The New Share Option Scheme shall continue in force for the period commencing from 30th September, 2003 and expiring at the close of business on the tenth anniversary thereof, after such period no further options will be granted but the provisions of the New Share Option Scheme shall remain in full force and effect in respect of any options granted before its expiry or termination but not yet exercised.

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

The maximum number of shares in respect of which share options may be granted under the New Share Option Scheme shall not, when aggregated with any shares subject to any other schemes, exceed such number of shares as represents 10% of the issued shares as at the date of approval of the New Share Option Scheme (the "Scheme Mandate Limit") which shall be equivalent to 81,080,000 shares. On 25th April, 2005, the Scheme Mandate Limit was refreshed to 106,280,000 shares. On 25th April, 2008, the Scheme Mandate Limit was refreshed to 194,461,354 shares. The Company may seek approval from the shareholders in a general meeting to refresh the Scheme Mandate Limit. However, the total number of shares which may be issued upon exercise of all share options to be granted under all of the schemes of the Company or its subsidiaries under the limit as refreshed must not exceed 10% of the shares in issue as at the date of approval of the Scheme Mandate Limit. Share options previously granted under the New Share Option Scheme (excluding those outstanding, cancelled, lapsed in accordance with the New Share Option Scheme or any other share option schemes and exercised the share options) will not be counted for the purpose of calculating the Scheme Mandate Limit.

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

Equity-settled share option schemes *(Continued)*

The total number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the New Share Option Scheme and any other scheme of the Company must not exceed 30% of the total issued shares from time to time.

The total number of shares issued and to be issued on the exercise of share options granted and to be granted in any 12-month period up to the date of grant of each eligible participant shall not exceed 1% of the total issued shares.

The exercise price is determined by the directors of the Company, and shall not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

In July 2003, all the holders of share options under the Old Share Option Scheme accepted the mandatory unconditional cash offer made by Hezhong to cancel all the outstanding share options.

On 13th June, 2005, the Company granted 62,574,000 share options to its directors, employees and certain third parties under the New Share Option Scheme. Options granted must be taken up within 21 days of the date of grant, upon payment of HK$1 by each of the grantees. The options may be exercised at any time after twelve months from the date of grant of the share options to the tenth anniversary of the date of grant.

On 29th March, 2007, the Company granted 71,100,000 share options to its directors and employees under the New Share Option Scheme. Options granted must be taken up within 21 days of the date of grant, upon payment of HK$1 by each of the grantees. The options may be exercised at any time after twelve months from the date of grant of the share options to the tenth anniversary of the date of grant.

On 3rd April, 2008, the Company granted 48,400,000 share options to its directors and employees under the New Share Option Scheme. Options granted must be taken up within 21 days of the date of grant, upon payment of HK$1 by each of the grantees. The options of 13,120,000, 15,120,000 and 20,160,000 may be exercised after the second, third and fourth anniversary after the date of grant respectively.

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

Equity-settled share option schemes (Continued)

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

Category of grantee	Exercise price per share HK$	Date of grant	Exercisable period	Number of share options: At 1st January, 2008	Granted during year	Exercised during year (note c)	At 31st December, 2008
Directors	0.31	13th June, 2005	4th July, 2006 to 3rd July, 2016	**28,014,000**	—	—	**28,014,000**
	0.56	29th March, 2007	29th March, 2008 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	4th July, 2006 to 3rd July, 2016	**12,504,000**	—	(2,550,000)	**9,954,000**
	0.56	29th March, 2007	29th March, 2008 to 28th March, 2017	**5,100,000**	—	—	**5,100,000**
	0.80	3rd April, 2008	3rd April, 2010 to 2nd April, 2011	**—**	11,520,000	—	**11,520,000**
	0.80	3rd April, 2008	3rd April, 2011 to 2nd April, 2012	**—**	11,520,000	—	**11,520,000**
	0.80	3rd April, 2008	3rd April, 2012 to 2nd April, 2018	**—**	15,360,000	—	**15,360,000**
Others (note a)	0.31	13th June, 2005	4th July, 2006 to 3rd July, 2016	**15,024,000**	—	—	**15,024,000**
				126,642,000	48,400,000	(2,550,000)	**172,492,000**
Exercisable at the end of the year							**124,092,000**
Weighted average exercise price				**0.45**	0.80	0.31	**0.55**

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

Equity-settled share option schemes (Continued)

				Number of share options				
Category of grantee	Exercise price per share HK$	Date of grant	Exercisable period	At 1st January, 2007	Granted during year	Exercised during year (note c)	Transfer of category during the year (note b)	At 31st December, 2007
Directors	0.31	13th June, 2005	4th July, 2006 to 3rd July, 2016	28,014,000	—	—	—	28,014,000
	0.56	29th March, 2007	29th March, 2008 to 28th March, 2017	—	57,000,000	—	9,000,000	66,000,000
Employees	0.31	13th June, 2005	4th July, 2006 to 3rd July, 2016	17,532,000	—	(5,028,000)	—	12,504,000
	0.56	29th March, 2007	29th March, 2008 to 28th March, 2017	—	14,100,000	—	(9,000,000)	5,100,000
Others (note a)	0.31	13th June, 2005	4th July, 2006 to 3rd July, 2016	15,024,000	—	—	—	15,024,000
				60,570,000	71,100,000	(5,028,000)	—	126,642,000
Exercisable at the end of the year								55,542,000
Weighted average exercise price				0.31	0.56	0.31	N/A	0.45

Notes:

a. These are individuals who rendered consultancy services in respect of management of natural gas projects to the Group without receiving any compensation. The Group granted share options to them for recognising their services similar to those rendered by other employees.

b. During the year ended 31st December, 2007, Mr. Lui Siu Keung was appointed as an executive director of the Company, who was the Chief Financial Officer of the Company and was categorised under employees previously.

c. In respect of the share options exercised during the year, the weighted average share price at the date of exercise is HK$0.95 (2007: HK$0.76).

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

Equity-settled share option schemes (Continued)

During the year ended 31st December, 2008 and 2007, the estimated fair value of the options granted on 3rd April, 2008 and 29th March, 2007 are HK$15,130,000 and HK$12,870,000 respectively.

These fair value was calculated using the Black-Scholes pricing model (the "Model"). The inputs into the model were as follows:

	2008	2007
Closing share price at the date of grant	**HK$0.80**	HK$0.56
Exercise price	**HK$0.80**	HK$0.56
Date of grant	**3rd April, 2008**	29th March, 2007
Expected volatility	**52.83% - 62.67%**	53.86%
Expected life	**2 - 4 years**	2 years
Risk-free rate	**1.37% - 1.91%**	3.76%

Expected volatility was determined by using the historical volatility of the Company's share price over 260 trading days. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

The Company has used the Model to value the share options granted during the year ended 31st December, 2008. The Model is one of the commonly used models to estimate the fair value of an option. The value of an option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.

The Group recognised the total expense of HK$7,104,000 for the year ended 31st December, 2008 (2007: HK$9,657,000) in relation to share options granted by the Company.

39. BUSINESS COMBINATION BY CONTRACT ALONE WITHOUT ACQUIRING ADDITIONAL INTEREST

Pursuant to a resolution passed in the board of directors meeting of Linyi Zhong Yu JV held on 17th November, 2007, all decisions being approved in the directors' meeting must obtain approval from a minimum of any four directors effective from 1st January, 2008. The Group obtained control in Linyi Zhong Yu JV which was changed from a jointly controlled entity to a subsidiary of the Group on the same date. The assets and liabilities of Linyi Zhong Yu JV are measured at carrying values as at the date control is obtained, of which 51% was previously proportionately consolidated by the Group.

The net assets attributable to the minority interests are as follows:

	Carrying amount HK$'000
Property, plant and equipment	35,990
Prepaid lease payments	4,324
Intangible assets - exclusive rights of operation	11,584
Inventories	3,419
Trade receivables	182
Deposits, prepayments and other receivables	2,063
Amounts due from customers for contracts work	6,178
Bank balances and cash	10,011
Trade payables	(6,977)
Other payables and accrued charges	(660)
Deferred income and advance received	(4,691)
Amounts due to customers for contract work	(451)
Bank borrowings	(25,179)
	35,793
Minority interests	(35,793)
Total consideration	—
Net cash inflow arising on this transaction:	
Bank balances and cash acquired	10,011

40. ACQUISITION OF BUSINESSES

On 2nd May, 2007, the Group entered into a sale and purchase agreement with Hezhong, pursuant to which the Group agreed to acquire the entire share capital and outstanding shareholder's loan of Glory Path which is principally engaged in development, construction and operation of natural gas in the PRC for a total consideration of RMB294,045,000 (approximately HK$306,824,000). This acquisition has been accounted for using the purchase method.

The net assets acquired in the transaction are as follows:

	Acquiree's carrying amount before combination HK$'000	**Fair value adjustments** HK$'000	**Fair value** HK$'000
Net assets acquired:			
Property, plant and equipment	260,124	—	260,124
Prepaid lease payments	23,891	—	23,891
Deposit paid for acquisition of property, plant and equipment	39,100	—	39,100
Intangible assets - exclusive rights of operation	—	70,414	70,414
Inventories	23,484	—	23,484
Trade receivables	7,425	—	7,425
Deposits, prepayments and other receivables	76,892	—	76,892
Amount due from customers for contracts work	11,191	—	11,191
Bank balances and cash	145,586	—	145,586
Trade payables	(36,156)	—	(36,156)
Other payables and accrued charges	(84,310)	—	(84,310)
Deferred income and advance received	(35,519)	—	(35,519)
Amount due to customers for contract work	(3,131)	—	(3,131)
Tax payable	(724)	—	(724)
Deferred taxation	—	(16,228)	(16,228)
Bank borrowings	(240,320)	—	(240,320)
	187,533	54,186	241,719
Minority interests			(28,675)
Goodwill			93,780
Total consideration			306,824
Satisfied by:			
Shares issued (Note)			79,728
Cash			227,096
			306,824
Net cash outflow arising on acquisition:			
Bank balances and cash acquired			145,586
Cash consideration paid			(227,096)
			(81,510)

Note: As part of the consideration for the acquisition of Glory Path, 72,480,000 ordinary shares of the Company with par value of HK$0.01 each were issued at a price of HK$1.10 being the closing price on 9th August, 2007, amounted to HK$79,728,000.

40. ACQUISITION OF BUSINESSES *(Continued)*

Glory Path principally engages in the trading of natural gas and gas pipeline construction in certain cities in the PRC. Goodwill on acquisition of Glory Path amounted to HK$93,780,000 which is attributable on the anticipated profitability of the gas connection and sales of piped gas business of these companies.

Glory Path contributed HK$175,226,000 to the turnover and HK$42,267,000 to the Group's profit before tax for the period between the date of acquisition and 31st December, 2007.

If the acquisition had been completed on 1st January, 2007, total Group's turnover for the year ended 31st December, 2007 would have been HK$441,280,000, and loss for the year ended 31st December, 2007 would have been HK$22,440,000. The proforma information is for illustrative purposes only and is not necessarily an indication of turnover and profit for the year of the Group that actually would have been achieved had the acquisition been completed on 1st January, 2007, nor is it intended to be projection of future results.

41. ACQUISITION OF ASSETS THROUGH PURCHASE OF SUBSIDIARIES

On 16th December, 2007, the Group acquired certain assets through purchase of the entire equity interests of the Acquired Companies at a total consideration of RMB90,160,000 (approximately HK$96,842,000). The subsidiaries have not commenced businesses at the date of acquisition.

The principal assets of the Acquired Companies is certain operating rights for operation of CNG filling stations in Jiyuan City, Luohe City and Sanmenxia City. The Group is in substance acquiring assets instead of business.

	JYCG	**LYCG**	**SYCG**	**Net assets acquired**
	HK$'000	HK$'000	HK$'000	HK$'000
Other receivables	17	242	29	288
Operating rights	31,343	40,591	20,612	92,546
Bank balances and cash	2,131	832	1,045	4,008
Total consideration satisfied by cash	33,491	41,665	21,686	96,842
Net cash outflow arising on acquisition:				
Cash consideration paid				(96,842)
Bank balance and cash acquired				4,008
				(92,834)

42. DISPOSAL OF A SUBSIDIARY

As referred to in note 12, on 30th April, 2007, the Group discontinued its software operations at time of disposal of its subsidiary, Cyber Dynamic. The net assets of Cyber Dynamic at the date of disposal were as follows:

	HK$'000
Net assets disposed of:	
Property, plant and equipment	87
Trade receivables	2,207
Deposits, prepayments and other debtors	897
Inventories	87
Bank balances and cash	433
Other payables and accrued charges	(2,619)
Provision for long service payment	(213)
	879
Loss on disposal	839
Total consideration satisfied by cash	40
Net cash outflow arising on disposal:	
Cash consideration	40
Bank balances and cash disposed of	(433)
	(393)

The impact of Cyber Dynamic on Group's results and cash flows in the current and prior periods is disclosed in note 12.

43. MAJOR NON-CASH TRANSACTIONS

On 31st July, 2007, the Group acquired the entire issued share capital and outstanding shareholder's loan of Glory Path, the purchase consideration of which was partially satisfied by the allotment and issue of the Company's shares. Details of this are set out in note 40.

Pursuant to a resolution passed in the board of directors meeting of Linyi Zhong Yu JV held on 17th November, 2007, all decisions being approved in the directors' meeting must obtain approval from a minimum of any four directors effective from 1st January, 2008. The Group obtained control in Linyi Zhong Yu JV which was changed from a jointly controlled entity to a subsidiary of the Group. Details of this are set out in note 39.

44. OPERATING LEASES

The Group as lessee

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2008 **HK$'000**	2007 HK$'000
Within one year	**3,761**	5,093
In the second to fifth year inclusive	**2,193**	2,706
Over five years	**542**	170
	6,496	7,969

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

The Group as lessor

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2008 **HK$'000**	2007 HK$'000
Within one year	**762**	150
In the second to fifth year inclusive	**2,760**	887
After five years	**877**	823
	4,399	1,860

Leases are negotiated for an average term of five years.

Certain of the Group's properties with a carrying amount of HK$4,617,000 (2007: HK$4,074,000) are held for rental purposes. The properties are expected to generate rental yield of 9.54% (2007: 9.30%) on an ongoing basis. All of the properties held have committed tenants for the next four to nine years.

45. 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.

46. RELATED PARTY TRANSACTIONS

During the year ended 31st December, 2007, the Group acquired Glory Path from Hezhong satisfied partially by issuance of Company's ordinary shares and partially by cash . Details of this are set out in note 40.

The directors of the Company considered that they are the only key management personnel of the Group. Their emoluments are set out in note 14.

47. POST BALANCE SHEET EVENT

(a) 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 ("Acquired Assets"), which is mainly comprised of gas pipeline network in the area of Jiaozuo City, with a total consideration of HK$53,781,000 (equivalent to RMB 47,649,000) of which HK$29,666,000 (equivalent to RMB26,284,000) was used to repay certain bank borrowings of the Acquired Assets. Details of the Acquired Assets are set out below:

	Acquired assets	**Repayment of bank borrowings**	**Total assets and liabilities to be acquired by the Group**
	HK$'000	HK$'000	HK$'000
Property, plant and equipment	32,166	—	32,166
Prepaid lease payment	51,313	—	51,313
Bank balance and cash	9	—	9
Account payables	(22,165)	—	(22,165)
Other payables	(1,684)	—	(1,684)
Bank borrowings	(35,524)	29,666	(5,858)
	24,115		53,781

Note: Finance Bureau of Jiaozuo City and Seller are both under the control of municipal government of Jiaozuo City. Deposits were already paid to Finance Bureau of Jiaozuo City of HK$42,494,000 (equivalent to RMB37,649,000) as shown in note 22. The remaining consideration payable to the Seller of HK$11,287,000 (equivalent to RMB10,000,000) will be settled in cash.

47. POST BALANCE SHEET EVENT *(Continued)*

(b) Subsequent to 31st December, 2008, the Company entered into certain arrangements with the bondholders of the Bond of aggregate principal amount of US$40,000,000.

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

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

The terms and conditions of the remaining principal amount of US$21,000,000 held by Bond Holders B have been amended, the coupon rate will be revised to 2% per annum, and will mature on 25th June, 2012. The mandatory redemption option held by the Bond Holders B has been cancelled. This portion of Bond can be redeemed at the option of the Company at either one of the following options:

Option 1

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

Option 2

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

The Bond Holders B can convert the remaining outstanding principal amount of US$21,000,000 into ordinary shares of the Company at HK$0.7 per share from the completion date of such agreement to 25th June, 2012.

The financial impact arising from the above transactions could not be determined at the date of report, awaiting the receipt of professional valuations in relation to the Bond.

48. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

As at 31st December, 2008

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 Directly %	Indirectly %	Principal activities
China City Gas Construction Explore Company Limited	British Virgin Islands	Incorporated	100 ordinary shares of US$1 each	—	100	Investment holding
China City Gas Construction Holdings Company Limited	British Virgin Islands	Incorporated	100 ordinary shares of US$1 each	—	100	Investment holding
China Gas Construction Expansion Company Limited	British Virgin Islands	Incorporated	1,330,000 ordinary shares of US$1 each	—	99.89	Investment holding
Linyi China Gas City Gas Construction Company Limited	PRC	Sino-foreign joint venture	Registered capital HK$20,000,000	—	99.89	Trading of natural gas and gas pipeline construction
Linyi Zhong Yu JV	PRC	Sino-foreign joint venture	Registered capital HK$42,000,000	51	—	Trading of natural gas and gas pipeline construction
Sanmenxia China-Gas City Gas Development Co. Ltd.	PRC	Sino-foreign joint venture	Registered capital HK$50,000,000	—	90	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	Trading of natural gas and gas pipeline construction
Yanshi Zhongyu Gas Co., Ltd.	PRC	Sino-foreign joint venture	Registered capital HK$25,000,000	—	95	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	Trading of natural gas and gas pipeline construction
Zhongyu Gas Investment Limited	Hong Kong	Incorporated	1 ordinary share of HK$1	100	—	Investment holding

48. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(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 Directly %	Indirectly %	Principal activities
Zhongyu Gas Investment Limited	British Virgin Islands	Incorporated	1 ordinary share of US$1	100	—	Investment holding
China City Gas Construction Development Limited	British Virgin Islands	Incorporated	100 ordinary shares of US$1 each	—	100	Investment holding
China City Gas Construction Investment Co. Ltd.	British Virgin Islands	Incorporated	100 ordinary shares of US$1 each	—	100	Investment holding
Jiyuan Zhongyu Gas Co. Ltd.	PRC	Sino-foreign joint venture	Registered capital HK$40,280,000	—	92.9	Trading of natural gas and gas pipeline construction
Luohe Zhongyu Gas Co. Ltd.	PRC	Sino-foreign joint venture	Registered capital HK$50,580,000	—	71.9	Trading of natural gas and gas pipeline construction
Luohe Zhongyu Gas Project Install Co. Ltd.	PRC	Sino-foreign joint venture	Registered capital RMB3,500,000	—	68.3	Gas pipeline construction
Jiaozuo China-Gas City Gas Development Co. Ltd.	PRC	Sino-foreign joint venture	Registered capital HK$80,000,000	—	93.2	Trading of natural gas, coal gas and liquefied petroleum gas and gas pipeline construction
Jiaozuo China-Gas Project Install Co. Ltd.	PRC	Sino-foreign joint venture	Registered capital RMB5,000,000	—	88.54	Gas pipeline construction
Zhongyu (Henan) Energy Holdings Ltd.	PRC	Incorporated	Registered capital RMB400,000,000	100	—	Investment holding
Henan Zhongyu Coalbed Methane Development and Utilization Co. Ltd.	PRC	Sino-foreign joint venture	Registered capital RMB200,000,000	—	75	Exploration, development and production of coalbed methane

48. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(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 Directly %	Proportion of nominal value of issued capital/ registered capital held by the Company Indirectly %	Principal activities
Zhongyu Jiaozuo CMB Development and Utilization Co. Ltd.	PRC	Sino-foreign joint venture	Registered capital RMB150,000,000	—	71.25	Exploration, development and production of coalbed methane
JYCG	PRC	Sino-foreign joint venture	Registered capital RMB2,000,000	—	100	Not yet commenced business
LYCG	PRC	Sino-foreign joint venture	Registered capital RMB1,000,000	—	100	Operation of CNG filling station
SYCG	PRC	Sino-foreign joint venture	Registered capital RMB1,000,000	—	100	Not yet commenced business

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

Except for Linyi Zhong Yu JV that become a subsidiary of the Group during the year ended 31st December, 2008, there is no change in investments in subsidiaries since 31st December, 2007.

FINANCIAL SUMMARY

	1.1.2008 to 31.12.2008 HK$'000	1.1.2007 to 31.12.2007 HK$'000	1.1.2006 to 31.12.2006 HK$'000 (restated)	1.1.2005 to 31.12.2005 HK$'000	1.7.2003 to 31.12.2004 HK$'000
Results					
Turnover	**703,020**	294,518	78,159	43,161	15,267
(Loss) profit for the year attributable to the equity holders of the parent	**(92,797)**	(26,183)	6,856	3,436	915

	31.12.2008 HK$'000	31.12.2007 HK$'000	31.12.2006 HK$'000	31.12.2005 HK$'000	31.12.2004 HK$'000
Assets and liabilities					
Total assets	**1,521,682**	1,516,045	280,479	262,911	68,233
Total liabilities	**(760,307)**	(754,199)	(88,983)	(87,758)	(13,856)
	761,375	761,846	191,496	175,153	54,377
Equity attributable to the equity holders of the parent	**655,787**	696,597	183,324	167,231	53,465
Minority interests	**105,588**	65,249	8,172	7,922	912
	761,375	761,846	191,496	175,153	54,377

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 10, 33rd Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong on Friday, 24th April, 2009 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, 2008;

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."

By Order of the Board
Wang Wenliang
Chairman

Zhengzhou, People's Republic of China
31st March, 2009

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

Head Office and Principal Place of Business:
Unit 10, 33rd 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.

中裕燃气

中裕燃氣控股有限公司
Zhongyu Gas Holdings Limited