



中裕燃氣控股有限公司

ZHONGYU GAS HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8070)

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31ST DECEMBER, 2008

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

FINANCIAL HIGHLIGHTS

- The Group's audited turnover in 2008 amounted to approximately HK\$703,020,000, representing an increase of 138.7% as compared with that of approximately HK\$294,518,000 in 2007.
- The Group's gross profit in 2008 was approximately HK\$226,497,000, representing an increase of 120.6% as compared with that of approximately HK\$102,686,000 in 2007.
- 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.
- The Group's loss attributable to equity holders of the Company in 2008 was approximately HK\$92,797,000.
- The Board does not recommend the payment of any dividend for the year ended 31st December, 2008.

CHAIRMAN'S STATEMENT

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

DOWNSTREAM NATURAL GAS DISTRIBUTION

The Group 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 170,778,000m³ 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, 2008

The board of Directors (the “Board”) is pleased to announce the audited results of the Group for the year ended 31st December, 2008, together with the comparative audited figures for the year ended 31st December, 2007, which are set out as follows:

**CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER, 2008**

	<i>NOTES</i>	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Continuing operations			
Turnover	4	703,020	294,518
Cost of sales		<u>(476,523)</u>	<u>(191,832)</u>
Gross profit		226,497	102,686
Other income	6	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	7	(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	13	(107,485)	—
Change in fair value of derivative financial instruments	20	<u>28,075</u>	<u>(7,617)</u>
Loss before tax		(78,242)	(18,199)
Income tax expenses	8	<u>(13,323)</u>	<u>(4,109)</u>
Loss for the year from continuing operations		(91,565)	(22,308)
Discontinued operations			
Loss for the year from discontinued operations		<u>—</u>	<u>(403)</u>
Loss for the year	9	<u>(91,565)</u>	<u>(22,711)</u>

	<i>NOTES</i>	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Attributable to:			
Equity holders of the Company		(92,797)	(26,183)
Minority interests		<u>1,232</u>	<u>3,472</u>
		<u>(91,565)</u>	<u>(22,711)</u>
Dividends	10	<u>—</u>	<u>—</u>
Loss per share	11		
From continuing and discontinued operations:			
Basic		<u>4.79 cent</u>	<u>1.52 cent</u>
From continuing operations:			
Basic		<u>4.79 cent</u>	<u>1.49 cent</u>

CONSOLIDATED BALANCE SHEET
AT 31ST DECEMBER, 2008

	<i>NOTES</i>	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Non-current assets			
Investment properties		4,617	4,074
Property, plant and equipment	12	564,478	457,175
Goodwill		99,312	94,512
Other intangible assets	13	120,161	213,899
Deposits paid for acquisition of property, plant and equipment		42,494	40,440
Prepaid lease payments		59,069	44,133
		<u>890,131</u>	<u>854,233</u>
Current assets			
Inventories	14	38,960	34,000
Trade receivables	15	57,417	27,478
Deposits, prepayments and other receivables		29,751	29,922
Prepaid lease payments		1,527	1,076
Amounts due from customers for contract work	16	15,737	26,348
Loan receivables		—	133,190
Trust monies placed with a financial institution		—	42,964
Amounts due from related companies		—	118
Pledge bank deposit		13,826	1,171
Bank balances and cash		474,333	365,545
		<u>631,551</u>	<u>661,812</u>
Current liabilities			
Deferred income and advance received		46,670	31,499
Derivative financial instruments	17	101,961	130,036
Trade payables	18	68,725	59,398
Other payables and accrued charges		55,634	47,608
Amounts due to customers for contract work	16	10,872	1,348
Amounts due to related companies		—	1,105
Bank borrowings		114,675	201,091
Convertible bonds	20	233,141	—
Tax payables		11,586	3,579
		<u>643,264</u>	<u>475,664</u>
Net current (liabilities) assets		<u>(11,713)</u>	<u>186,148</u>
Total assets less current liabilities		<u>878,418</u>	<u>1,040,381</u>

	<i>NOTES</i>	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Capital and reserves			
Share capital	19	19,341	19,440
Reserves		<u>636,446</u>	<u>677,157</u>
Equity attributable to equity holders of the parent		655,787	696,597
Minority interests		<u>105,588</u>	<u>65,249</u>
Total equity		<u>761,375</u>	<u>761,846</u>
Non-current liabilities			
Bank borrowings		99,642	58,521
Convertible bonds	20	—	203,358
Deferred taxation		<u>17,401</u>	<u>16,656</u>
		<u>117,043</u>	<u>278,535</u>
		<u><u>878,418</u></u>	<u><u>1,040,381</u></u>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31ST DECEMBER, 2008**

	Attributable to equity holders of the parent										
	Share capital	Share premium	Share option reserve	Merger reserve	Property revaluation reserve	Other reserve	Translation reserve	Accumulated profits (losses)	Total	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Note a)		(Note b)					
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

Attributable to equity holders of the parent

	Share capital	Share premium	Share option reserve	Merger reserve	Property revaluation reserve	Other reserve	Translation reserve	Accumulated profits (losses)	Total	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Note a)		(Note b)					
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
Deemed acquisition of a subsidiary	—	—	—	—	—	—	—	—	—	35,793	35,793
Exercise of share options	26	969	(204)	—	—	—	—	—	791	—	791
Shares repurchased and cancelled	(89)	(6,541)	—	—	—	—	—	—	(6,630)	—	(6,630)
Share repurchased and not yet cancelled (note 19)	(36)	(972)	—	—	—	—	—	—	(1,008)	—	(1,008)
At 31st December, 2008	<u>19,341</u>	<u>617,376</u>	<u>20,971</u>	<u>—</u>	<u>1,128</u>	<u>7,607</u>	<u>104,032</u>	<u>(114,668)</u>	<u>655,787</u>	<u>105,588</u>	<u>761,375</u>

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 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
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

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
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	—	(174,344)
Disposal of subsidiaries, net of cash and cash equivalents disposed of	—	(393)
Deemed acquisition of a subsidiary, net of cash and cash equivalent acquired	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	<u>3,904</u>	<u>4,258</u>
Net cash from (used in) investing activities	<u>96,460</u>	<u>(469,220)</u>
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	<u>(7,638)</u>	<u>(2,605)</u>
Net cash (used in) from financing activities	<u>(118,268)</u>	<u>683,497</u>
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	<u>23,845</u>	<u>24,348</u>
	<u>474,333</u>	<u>365,545</u>
Cash and cash equivalents at 31st December, represented by		
Bank balances and cash	<u>474,333</u>	<u>365,545</u>

Notes:

1. 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.

2. 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the 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. 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 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
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 stations	19,249	1,793
Sales of stoves and related equipment	<u>4,406</u>	<u>1,863</u>
	<u>703,020</u>	<u>294,518</u>
Discontinued operations		
Software project income	—	1,213
Software maintenance service income	—	603
Sales of computer hardware	<u>—</u>	<u>136</u>
	<u>—</u>	<u>1,952</u>
	<u>703,020</u>	<u>296,470</u>

5. 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 liquefied petroleum gas, operation of CNG filling stations and sales of coalbed methane ("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	<u>407,850</u>	<u>234,405</u>	<u>37,110</u>	<u>19,249</u>	<u>—</u>	<u>4,406</u>	<u>703,020</u>
Segment results	<u>38,413</u>	<u>91,540</u>	<u>(5,813)</u>	<u>(64,923)</u>	<u>(82,553)</u>	<u>132</u>	<u>(23,204)</u>
Unallocated corporate income							8,298
Unallocated corporate expenses							(38,671)
Finance costs							(52,740)
Change in fair value of derivative financial instruments							<u>28,075</u>
Loss before tax							<u>(78,242)</u>
Income tax expenses							<u>(13,323)</u>
Loss for the year							<u>(91,565)</u>

Income statement for the year ended 31st December, 2007

	Continuing operations						Discontinued operations				Total	Consolidated
	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	Total	Development and sale of software 2007 HK\$'000	Software maintenance services 2007 HK\$'000	Sales of computer hardware 2007 HK\$'000		
Turnover	<u>141,754</u>	<u>123,693</u>	<u>25,415</u>	<u>1,793</u>	<u>—</u>	<u>1,863</u>	<u>294,518</u>	<u>1,213</u>	<u>603</u>	<u>136</u>	<u>1,952</u>	<u>296,470</u>
Segment results	<u>18,685</u>	<u>35,157</u>	<u>(2,524)</u>	<u>444</u>	<u>(6,607)</u>	<u>237</u>	<u>45,392</u>	<u>172</u>	<u>192</u>	<u>136</u>	<u>500</u>	<u>45,892</u>
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							<u>(7,617)</u>				<u>—</u>	<u>(7,617)</u>
(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							<u>—</u>				<u>(839)</u>	<u>(839)</u>
Loss for the year							<u>(22,308)</u>				<u>(403)</u>	<u>(22,711)</u>

Balance sheet as at 31st December, 2008

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

Balance sheet as at 31st December, 2007

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

Other information for the year ended 31st December, 2008

	Connection revenue from		Sales of liquefied petroleum gas	Operations of CNG filling stations	Sales of CBM	Other operations	Unallocated	Consolidated
	Sales of piped gas	gas pipeline construction						
	2008 HK\$'000	2008 HK\$'000	2008 HK\$'000	2008 HK\$'000	2008 HK\$'000	2008 HK\$'000	2008 HK\$'000	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
Shared-based payment expenses	—	—	—	—	—	—	7,104	7,104

Other information for the year ended 31st December, 2007

	Continuing operations						Discontinued operations		Consolidated 2007 HK\$'000
	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	Unallocated	Development and sales of software	
	2007 HK\$'000	2007 HK\$'000	2007 HK\$'000	2007 HK\$'000	2007 HK\$'000	2007 HK\$'000	2007 HK\$'000	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
Shared-based payment expenses	—	—	—	—	—	—	9,657	—	9,657

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	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The PRC	979,676	935,958	155,003	642,346
Hong Kong	<u>—</u>	<u>—</u>	<u>5</u>	<u>1,073</u>
	<u>979,676</u>	<u>935,958</u>	<u>155,008</u>	<u>643,419</u>

6. OTHER INCOME

	2008	2007
	HK\$'000	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	<u>5,163</u>	<u>2,375</u>
	<u>14,094</u>	<u>11,256</u>
Discontinued operations		
Bank interest income	<u>—</u>	1
Sundry income	<u>—</u>	<u>11</u>
	<u>—</u>	<u>12</u>

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.

7. FINANCE COSTS

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

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.

8. INCOME TAX EXPENSES

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Current tax:		
PRC Enterprise Income Tax	13,424	4,118
Deferred tax:		
Current year	<u>(101)</u>	<u>(9)</u>
	<u>13,323</u>	<u>4,109</u>

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.

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.

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 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
(Loss) profit before tax						
Continuing operations	(24,300)	(41,944)	(53,942)	23,745	(78,242)	(18,199)
Discontinued operations	<u>—</u>	<u>(341)</u>	<u>—</u>	<u>(62)</u>	<u>—</u>	<u>(403)</u>
	<u>(24,300)</u>	<u>(42,285)</u>	<u>(53,942)</u>	<u>23,683</u>	<u>(78,242)</u>	<u>(18,602)</u>
Taxation at the statutory 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	<u>—</u>	<u>—</u>	<u>(12,199)</u>	<u>(4,091)</u>	<u>(12,199)</u>	<u>(4,091)</u>
Tax charge for the year	<u>—</u>	<u>—</u>	<u>13,323</u>	<u>4,109</u>	<u>13,323</u>	<u>4,109</u>

9. 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)	—

10. DIVIDENDS

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

11. 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 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
For continuing and discontinued operations		
<u>Loss</u>		
Loss for the purposes of basic loss per share	<u>(92,797)</u>	<u>(26,183)</u>
	2008 <i>'000</i>	2007 <i>'000</i>
<u>Number of shares</u>		
Weighted average number of shares for the purpose of basic loss per share	<u>1,939,290</u>	<u>1,727,476</u>

From continuing operations

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

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

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 since their exercise would result in a decrease in loss per share from continuing operations.
- (b) The conversion of the Company's outstanding convertible bonds, since their conversion would decrease the loss per share, after taking into account of the effect of interest and change in fair value of conversion/redemption option derivatives components of the convertible bonds.

12. PROPERTY, PLANT AND EQUIPMENT

	Construction Buildings	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 deemed acquisition of a subsidiary	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
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

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.

13. OTHER INTANGIBLE ASSETS

	Development costs HK\$'000	Exclusive rights of operating HK\$'000	Other operation 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	<u>—</u>	<u>70,414</u>	<u>92,546</u>	<u>162,920</u>
At 31st December, 2007	40,065	83,823	92,546	216,434
Exchange adjustments	2,035	4,912	4,700	11,647
Acquired on deemed acquisition of a subsidiary	<u>—</u>	<u>11,584</u>	<u>—</u>	<u>11,584</u>
At 31st December, 2008	<u>42,100</u>	<u>100,319</u>	<u>97,246</u>	<u>239,665</u>
AMORTISATION				
At 1st January, 2007	—	843	—	843
Exchange adjustments	—	81	—	81
Charge for the year	<u>—</u>	<u>1,611</u>	<u>—</u>	<u>1,611</u>
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	<u>39,593</u>	<u>—</u>	<u>67,892</u>	<u>107,485</u>
At 31st December, 2008	<u>42,100</u>	<u>6,427</u>	<u>70,977</u>	<u>119,504</u>
CARRYING VALUES				
At 31st December, 2008	<u>—</u>	<u>93,892</u>	<u>26,269</u>	<u>120,161</u>
At 31st December, 2007	<u>40,065</u>	<u>81,288</u>	<u>92,546</u>	<u>213,899</u>

Note: Development costs represent costs incurred for exploration 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 natural gas refill stations in Jiyuan City, Luohe City and Sanmenxia City and is amortised on a straight line method over a period of 30 years.

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

As explained in note 4, 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 impairments 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 de-watering and releasing process is completed. 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 are 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 the additional research and development costs of HK\$32,990,000 were charged to the consolidated income statement.

14. INVENTORIES

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Construction materials	33,815	28,286
Finished goods	<u>5,145</u>	<u>5,714</u>
	<u>38,960</u>	<u>34,000</u>

15. 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 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
0 - 30 days	46,154	25,301
Over 30 days	<u>11,263</u>	<u>2,177</u>
	<u>57,417</u>	<u>27,478</u>

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 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
31 - 90 days	4,457	1,526
91 - 180 days	3,534	175
181 - 365 days	<u>3,272</u>	<u>476</u>
	<u>11,263</u>	<u>2,177</u>

Movement in the allowance for doubtful debts

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
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	<u>(829)</u>	<u>—</u>
Balance at the end of year	<u>2,206</u>	<u>1,312</u>

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.

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

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
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)	<u>(34,489)</u>	<u>(21,551)</u>
	<u>4,865</u>	<u>25,000</u>
Analysed for reporting purposes as:		
Amounts due from customers for contract work	15,737	26,348
Amounts due to customers for contract work	<u>(10,872)</u>	<u>(1,348)</u>
	<u>4,865</u>	<u>25,000</u>

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.

17. DERIVATIVE FINANCIAL INSTRUMENTS

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Derivative financial liabilities	<u>101,961</u>	<u>130,036</u>

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 20) 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	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.

18. TRADE PAYABLES

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

	2008	2007
	HK\$'000	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	<u>14,134</u>	<u>10,773</u>
	<u>68,725</u>	<u>59,398</u>

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.

19. SHARE CAPITAL

	Number of shares		Amount	
	2008 '000	2007 '000	2008 HK\$'000	2007 HK\$'000
Ordinary shares of HK\$0.01 each				
Authorised	<u>10,000,000</u>	<u>10,000,000</u>	<u>100,000</u>	<u>100,000</u>
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	2,550	5,028	26	50
Share repurchased and cancelled (note d)	(8,852)	(2,730)	(89)	(27)
Share repurchase and not yet cancelled (note e)	<u>(3,560)</u>	<u>—</u>	<u>(36)</u>	<u>—</u>
At end of year	<u>1,934,102</u>	<u>1,943,964</u>	<u>19,341</u>	<u>19,440</u>

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 places 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 places 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").
- (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.

20. CONVERTIBLE BONDS

On 28th May, 2007, the Company entered into a bond subscription agreement with five institutional subscribers of the Group, whereby they subscribed the USD denominated Bonds (“the Bond”) issued at par by the Company in an aggregate principal amount of US\$40,000,000. The Bond was issued on 25th June, 2007 (“the Issue Date”) and carries interest at 1% per annum and will be matured on 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 days prior to Maturity Date or 7 business days prior to the date of redemption. Unless previously redeemed, converted or purchased and cancelled, the Bonds can be redeemed at 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 to be accounted for as a separate financial liability represents the fair value of 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.

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

	Liability <i>HK\$'000</i>	Embedded derivatives <i>HK\$'000</i>	Total <i>HK\$'000</i>
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	<u>—</u>	<u>7,617</u>	<u>7,617</u>
At 31st December, 2007	203,358	130,036	333,394
Interest charged (note 7)	32,903	—	32,903
Interest paid	(3,120)	—	(3,120)
Gain arising on change in fair value	<u>—</u>	<u>(28,075)</u>	<u>(28,075)</u>
At 3 1st December, 2008	<u>233,141</u>	<u>101,961</u>	<u>335,102</u>

21. ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENTS

The Group had no acquisitions, disposals nor significant investments for the year ended 31st December, 2008.

22. CAPITAL COMMITMENTS

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

23. CONTINGENT LIABILITIES

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

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 20 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.

COMPETING INTEREST

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

BUSINESS REVIEW

Overall

We are an early mover in developing a vertically integrated gas operation from upstream resource development to downstream distribution in the PRC. During the year under review, we are principally engaged in (i) the exploration, exploitation and development of coalbed methane (“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 station 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 March, 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 m³), 5,916.3 BCF (approximately 167.5 bln m³) and 9,275.6 BCF (approximately 262.7 bln m³) respectively. The result indicates an enormous CBM reserves located in our Jiaozuo CBM block, and approximates to the preliminary gas volume estimation which was conducted by the related domestic

CBM exploration institutions and announced by the Group before. Going onward, the Group will further extend the trial and exploration in Jiaozuo CBM blocks as well as to better master its reserve estimates, with the aim of hastening the commercial production of the CBM.

Downstream Natural Gas Distribution

The Group's 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 Zhougyu Gas Co. Ltd. and Luohe Zhougyu 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, Shangdong 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 Senmenxia 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 Senmenxia 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 Project's 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 Senmenxia 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 170,778,000m³ (2007: 77,399,000m³) among which, sales volume to its residential customers was approximately 17,738,000m³ (2007: 7,422,000m³); to its commercial/industrial customers was approximately 120,668,000m³ (2007: 54,571,000m³); to its wholesale customers was approximately 32,372,000m³ (2007: 15,406,000m³).

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 m³ (2007: Nil).

FINANCIAL REVIEW

Turnover

	2008		2007		
	<i>HK\$'000</i>	% of total	<i>HK\$'000</i>	% of total	Changes
		<i>%</i>		<i>%</i>	<i>%</i>
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
Sales of natural gas from CNG filling stations	19,249	2.7	1,793	0.6	973.6
Sales of stoves and related equipment	<u>4,406</u>	<u>0.6</u>	<u>1,863</u>	<u>0.6</u>	<u>136.5</u>
Total	<u>703,020</u>	<u>100.0</u>	<u>294,518</u>	<u>100.0</u>	<u>138.7</u>

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 Newly 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 1557.0% to approximately HK\$7,755,000 in 2008 from approximately HK\$468,000 in 2007; (vii) amortisation cost of operating right of CNG filling station to approximately HK\$3,085,000 in 2008 from nil in 2007; (viii) bank charge 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 cost 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 cost 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, 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.

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	Approximate	
		Number of shares	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.

CODE OF CORPORATE GOVERNANCE PRACTICES

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

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

AUDIT COMMITTEE

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

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year, the Company repurchased a total of 12,412,000 shares through 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 19 to the consolidated financial statements.

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

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated balance sheet, consolidated income statement and the related notes thereto for the year ended 31st December, 2008 as set out in this announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement."

BOARD OF DIRECTORS

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

By Order of the Board
Wang Wenliang
Chairman

Hong Kong, 25th March, 2009

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