



中裕燃气

中裕燃气控股有限公司

ZHONGYU GAS HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock Code : 8070)

INTERIM REPORT
FOR THE SIX MONTHS ENDED
30TH JUNE, 2006

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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

The principal means of information dissemination on GEM is publication on the internet website at www.hkgem.com operated by the Stock Exchange. Listed companies are not generally required to issue paid reports in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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.

HIGHLIGHTS

- During the period under review, the Group's turnover increased approximately 437.3%, to HK\$29,601,000.
- Loss attributable to equity holders of the parent for the period under review decreased approximately 9.0%, to HK\$7,425,000.
- The Board does not recommend the payment of any interim dividend for the six months ended 30th June, 2006.

The board of Directors (the "Board") is pleased to announce the unaudited condensed financial statements of the Group, which are set out as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the period from 1st January, 2006 to 30th June, 2006

	Notes	Three months ended		Six months ended	
		30th June,		30th June,	
		2006	2005	2006	2005
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(unaudited)	(unaudited)	(unaudited)	(unaudited)
Turnover	2	19,086	2,732	29,601	5,509
Cost of sales		(13,990)	(1,382)	(22,106)	(3,499)
GROSS PROFIT		5,096	1,350	7,495	2,010
Other income		48	142	94	174
Distribution costs		(740)	(1,002)	(1,520)	(1,354)
Administrative expenses		(4,080)	(3,072)	(9,137)	(7,587)
Other expenses		(1,757)	(1,854)	(2,584)	(2,763)
Finance costs		(1,359)	(159)	(1,882)	(1,244)
LOSS BEFORE TAX		(2,792)	(4,595)	(7,534)	(10,764)
Income tax expenses	4	—	—	—	—
LOSS FOR THE PERIOD		(2,792)	(4,595)	(7,534)	(10,764)
Attributable to:					
Equity holders of the parent		(2,750)	(3,423)	(7,425)	(8,155)
Minority interests		(42)	(1,172)	(109)	(2,609)
		(2,792)	(4,595)	(7,534)	(10,764)
Interim dividend	5	—	—	—	—
LOSS PER SHARE	6				
Basic		HK\$0.208 cent	HK\$0.322 cent	HK\$0.560 cent	HK\$0.767 cent
Diluted		HK\$0.205 cent	N/A	HK\$0.553 cent	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June, 2006

	NOTES	30th June, 2006 <i>HK\$'000</i> <i>(Unaudited)</i>	31st December, 2005 <i>HK\$'000</i> <i>(Audited)</i>
Non-current assets			
Property, plant and equipment	7	113,454	84,395
Intangible assets		11,640	11,594
Deposit for acquisition of property, plant and equipment		—	11,539
Goodwill		732	732
Prepaid lease payments		15,229	15,229
		141,055	123,489
Current assets			
Inventories		10,305	8,540
Trade receivables	8	2,720	3,233
Deposits, prepayments and other receivables		8,994	10,319
Prepaid lease payments		405	405
Tax recoverable		—	133
Amounts due from customers for contract work		20,675	15,208
Amounts due from a director and loan to an officer		—	4
Amounts due from related companies		—	8,775
Bank balances and cash		75,172	92,805
		118,271	139,422
Current liabilities			
Deferred income and advance received		4,393	7,066
Trade payables	9	11,144	9,777
Other payables and accrued charges		18,347	17,294
Amounts due to customers for contract work		3,403	577
Amounts due to related companies		—	635
Bank borrowings		22,885	26,234
		60,172	61,583
Net current assets		58,099	77,839
		199,154	201,328

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June, 2006

	30th June, 2006 <i>HK\$'000</i> <i>(Unaudited)</i>	31st December, 2005 <i>HK\$'000</i> <i>(Audited)</i>
	<i>NOTES</i>	
Capital and reserves		
Share capital	13,252	13,252
Reserves	149,030	153,979
	<hr/>	<hr/>
Equity attributable to equity holders of the parent	162,282	167,231
Minority interests	7,813	7,922
	<hr/>	<hr/>
Total equity	170,095	175,153
	<hr/>	<hr/>
Non-current liabilities		
Provision for long service payment	213	213
Bank borrowings	28,846	25,962
	<hr/>	<hr/>
	29,059	26,175
	<hr/>	<hr/>
	199,154	201,328
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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period from 1st January, 2006 to 30th June, 2006

	Attributable to equity holders of the parent									
	Share capital	Share premium	Share		Merger reserve	Other reserve	Translation reserve	Accumulated losses	Minority interests	Total equity
			Option reserve	Option reserve						
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1st January, 2005										
as previously reported										
as equity	10,628	48,817	–	3,740	–	–	(9,720)	–	53,465	
At 1st July, 2004										
as previously reported										
as minority interests	–	–	–	–	–	–	–	912	912	
Contribution from a minority shareholders of a subsidiary	–	–	–	–	–	–	–	19,415	19,415	
Loss for the period	–	–	–	–	–	–	(8,155)	(2,609)	(10,764)	
	<u>10,628</u>	<u>48,817</u>	<u>–</u>	<u>3,740</u>	<u>–</u>	<u>–</u>	<u>(17,875)</u>	<u>17,718</u>	<u>63,028</u>	
At 30th June, 2005										
	13,252	145,901	2,408	3,740	7,607	607	(6,284)	7,922	175,153	
Recognition of equity-settled share based payment	–	–	2,408	–	–	–	–	–	2,408	
Exchange differences arising on translation of foreign operations recognised directly in equity	–	–	–	–	–	68	–	–	68	
Loss for the period	–	–	–	–	–	–	(7,425)	(109)	(7,534)	
	<u>13,252</u>	<u>145,901</u>	<u>4,816</u>	<u>3,740</u>	<u>7,607</u>	<u>675</u>	<u>(13,709)</u>	<u>7,813</u>	<u>170,095</u>	

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.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the period from 1st January, 2006 to 30th June, 2006

	1st January, 2006 to 30th June, 2006 HK\$'000 (Unaudited)	1st January, 2005 to 30th June, 2005 HK\$'000 (Unaudited)
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	1,914	(13,092)
NET CASH (OUTFLOW)/INFLOW FROM INVESTING ACTIVITIES	(18,447)	19,259
NET CASH (OUTFLOW)/INFLOW FROM FINANCING ACTIVITIES	(1,100)	1,877
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(17,633)	8,044
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	92,805	22,919
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	75,172	30,963
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	75,172	30,963
Bank balances and cash	75,172	30,963

Notes:

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The unaudited condensed financial statements have been prepared under the historical cost basis and in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. In addition, the unaudited condensed financial statements include applicable disclosures required by the GEM Listing Rules and by the Hong Kong Companies Ordinance. The principal policies adopted are the same as those adopted in the audited consolidated financial statements of the Company for the year ended 31st December, 2005.

2. TURNOVER

Revenue represents the net amounts received and receivable for goods sold and services rendered by the Group to outside customers, less returns and allowances. An analysis of the Group's revenue for the six months ended 30th June, 2006 is as follows:

	Three months ended 30th June,		Six months ended 30th June,	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Connection fees from gas pipeline construction	8,543	268	11,538	622
Sales of liquefied petroleum gas	6,599	—	11,193	—
Sales of natural gas	2,172	589	4,569	1,745
Software project income	1,272	1,092	1,458	1,832
Software maintenance service income	432	658	711	1,115
Sales of stoves and related equipment	68	123	132	188
Sales of computer hardware	—	2	—	7
	<u>19,086</u>	<u>2,732</u>	<u>29,601</u>	<u>5,509</u>

3. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purpose, the Group is currently organised into five major operating divisions: Gas pipeline construction, sales of liquefied petroleum gas, sales of natural gas, development and sale of software and software maintenance services. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these divisions is presented below:

Income statement for the six months ended 30th June, 2006

	Gas pipeline construction	Sales of liquefied petroleum gas	Sales of natural gas	Development and sale of software	Software maintenance services	Other operations	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	11,538	11,193	4,569	1,458	711	132	29,601
Segment results	6,936	(1,276)	(592)	239	604	26	5,937
Unallocated corporate income							94
Unallocated corporate expenses							(11,683)
Finance costs							(1,882)
Loss before tax							(7,534)
Income tax expense							—
Loss for the period							(7,534)

3. **BUSINESS AND GEOGRAPHICAL SEGMENTS** (Continued)

Income statement for the six months ended 30th June, 2005

	Gas pipeline construction <i>HK\$'000</i>	Sales of liquefied petroleum gas <i>HK\$'000</i>	Sale of natural gas <i>HK\$'000</i>	Development and sale of software <i>HK\$'000</i>	Software maintenance services <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Turnover	622	–	1,745	1,832	1,115	195	5,509
Segment results	(118)	–	(72)	(1,480)	647	(278)	(1,301)
Unallocated corporate income							174
Unallocated corporate expenses							(8,393)
Finance costs							(1,244)
Loss before tax							(10,764)
Income tax expense							–
Loss for the period							(10,764)

Geographical segments

The following table provides an analysis of the Group's turnover by geographical market, irrespective of the origins of goods/services:

	Three months ended 30th June,		Six months ended 30th June,	
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
The PRC	17,427	1,353	27,476	2,555
Hong Kong	1,659	1,379	2,125	2,954
	19,086	2,732	29,601	5,509

4. INCOME TAX EXPENSES

The statutory tax rates for Hong Kong Profits Tax and the PRC Enterprise Income Tax are 17.5% (2005: 17.5%) and 33% (2005: 33%) respectively.

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profits arising in Hong Kong during the periods.

Pursuant to the relevant laws and regulations in the PRC, the Group's PRC subsidiaries and jointly controlled entity are exempted from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years. No provision for PRC income tax has been made as all of the Group's PRC subsidiaries and jointly controlled entity either had no assessable profits arising in the PRC or were exempted from PRC income tax during the periods.

5. INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30th June, 2006 (2005: Nil).

6. LOSS PER SHARE

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

	Three months ended 30th June,		Six months ended 30th June,	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Loss for the period attributable to equity holders of the parent	<u>(2,750)</u>	<u>(3,423)</u>	<u>(7,425)</u>	<u>(8,155)</u>
Number of shares				
Weighted average number of ordinary shares for the purposes of basic loss per share	<u>1,325,186</u>	<u>1,062,800</u>	<u>1,325,186</u>	<u>1,062,800</u>
Effect of dilutive potential ordinary shares				
Share options	<u>14,928</u>		<u>18,004</u>	
Weighted average number of ordinary shares for the purposes of diluted loss per share	<u>1,340,114</u>		<u>1,343,190</u>	

No diluted loss per share for the three months and six months ended 30th June, 2005 has been presented because there were no dilutive potential ordinary shares.

7. PROPERTY, PLANT AND EQUIPMENT

During the period under review, the addition to property, plant and equipment was approximately HK24,319,000 (2005: HK\$6,550,000).

8. TRADE RECEIVABLES

An aged analysis of trade receivables as at the balance sheet dates is as follows:

	30th June, 2006 HK\$'000	31st December, 2005 HK\$'000
Within 1 month	1,242	1,272
Over 1 month but within 3 months	220	983
Over 3 months but within 6 months	241	186
Over 6 months	1,972	1,745
	<hr/>	<hr/>
	3,675	4,186
Less: Provision for bad and doubtful debts	(955)	(953)
	<hr/>	<hr/>
	2,720	3,233
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9. TRADE PAYABLES

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

	30th June, 2006 HK\$'000	31st December, 2005 HK\$'000
0 - 30 days	4,737	5,062
31 - 90 days	2,084	598
91 - 180 days	1,123	293
Over 180 days	3,200	3,824
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	11,144	9,777
	<hr/> <hr/>	<hr/> <hr/>

10. ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENTS

On 10th February, 2006, China Gas Construction Expansion Company Limited (中國天然氣建設發展有限公司) ("CGCE"), a non-wholly owned subsidiary of the Company, Zhongyu Gas Investment Limited ("Zhongyu Gas Inv"), a wholly owned subsidiary of the Company and Mr. Zheng Gang (鄭剛) ("Mr. Zheng") entered into the share subscription agreement ("Share Subscription Agreement") in relation to the subscription of a total of 1,280,000 new shares ("New Shares") of CGCE of HK\$7.80 each by Zhongyu Gas Inv and Mr. Zheng in proportion to their then respective shareholdings in CGCE. Immediately before completion of the Share Subscription Agreement, Zhongyu Gas Inv and Mr. Zheng is interested in 97% and 3% of the entire equity capital of CGCE respectively. Pursuant to the Share Subscription Agreement, Zhongyu Gas Inv and Mr. Zheng would be entitled to subscribe for 1,241,600 New Shares and 38,400 New Shares with a total consideration of HK\$9,684,480 and HK\$299,520 respectively. In addition, should Mr. Zheng fail to subscribe for his 38,400 New Shares, Zhongyu Gas Inv was entitled to subscribe for the said 38,400 New Shares for a total consideration of HK\$299,520.

On 17th February, 2006, being the latest date to lodge the application letter to subscribe for the New Share pursuant to the Share Subscription Agreement, CGCE received the application letter with respective payment attached from Zhongyu Gas Inv for subscription for 1,280,000 New Shares and Mr. Zheng failed to subscribe for his 38,400 New Shares. Accordingly, CGCE allotted and issued 1,280,000 New Shares with a total consideration of HK\$9,984,000 to Zhongyu Gas Inv on 21st February, 2006. Zhongyu Gas Inv fully paid the said consideration on 10th February, 2006.

Upon completion of the Share Subscription Agreement, Zhongyu Gas Inv and Mr. Zheng are interested in approximately 99.89% and approximately 0.11% of the enlarged entire equity capital of CGCE respectively.

CGCE was incorporated in the British Virgin Islands on 12th May, 2003. It is an investment holding company interested in the entire registered capital of Linyi China Gas City Gas Construction Company Limited (“Linyi China Gas”), a wholly-foreign owned enterprise established in the PRC on 18 July, 2003. Linyi China Gas is principally engaged in design and construction of natural gas pipeline network and ancillary facilities, distribution and sales of natural gas in the Linyi Economic Development District, Linyi City, Shandong Province, the PRC.

The proceeds from the subscription for the New Shares were used to fund further investment in Linyi China Gas which used the proceeds to fund the construction of its natural gas pipeline network and ancillary facilities in Linyi City.

The construction of the west-east branch pipeline to reach Linyi City was completed in July 2006 and the piped natural gas supply is now available in Linyi City. The Directors are of the view that the turnover of Linyi China Gas would increase substantially in the second half of 2006. Having considered the expected increase in the turnover resulting from the business growth of Linyi China Gas in the near future, the Directors are of the view that the entering into of the Share Subscription Agreement would increase the Company’s portion of the profits sharing from Linyi China Gas and thus improve the results of the Group.

The entering into of the Share Subscription Agreement and the transaction in relation to the further investment in Linyi China Gas did not constitute discloseable transactions under Chapters 19 and 20 of the GEM Listing Rules.

Save as disclosed above, the Group had no acquisitions, disposals nor significant investments for the six months ended 30th June, 2006.

11. CAPITAL COMMITMENTS

As at 30th June, 2006, the Group did not have any significant capital commitments.

12. CONTINGENT LIABILITIES

As at 30th June, 2006, the Group did not have any contingent liabilities.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current liabilities

As at 30th June, 2006, the Group had net current assets of approximately HK\$58,099,000.

The current assets of the Group as at 30th June, 2006 amounted to approximately HK\$118,271,000, comprising inventories of approximately HK\$10,305,000, trade receivables of approximately HK\$2,720,000, deposits, prepayments and other receivables of approximately HK\$8,994,000, prepaid lease payments of approximately HK\$405,000, amounts due from customers for contract work of approximately HK\$20,675,000 and bank balances and cash of approximately HK\$75,172,000.

As at 30th June, 2006, the current liabilities of the Group amounted to approximately HK\$60,172,000, comprising deferred income and advance received of approximately HK\$4,393,000, trade payables of approximately HK\$11,144,000, other payables and accrued charges of approximately HK\$18,347,000, amounts due to customers for contract work of approximately HK\$3,403,000, and bank borrowings — due within one year of approximately HK\$22,885,000 which were secured, interest-bearing at commercial rates and repayable within one year.

The gearing ratio as a percentage of total bank borrowings over equity attributable to equity holders of the parent is 0.32 as at 30th June, 2006.

Financial resources

During the period under review, the Group generally financed its operations with internally generated resources and bank borrowings.

Directors' opinion on sufficiency of working capital

Taking into account the current financial resources available to the Group, 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 period under review, the Group experienced only immaterial exchange rates fluctuations as most of the Group's monetary assets and liabilities were denominated in either Hong Kong Dollars or RMB and the Group conducted its business transactions principally in these types of currency. 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 30th June, 2006, the Group had 503 employees (2005: 251) in Hong Kong and the PRC, and the total remuneration for the period under review was approximately HK\$4,936,000 (2005: HK\$4,738,000). The increase in number of staff in the Group was mainly attributable to the additional four operating subsidiaries acquired by the Group in October 2005.

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

The Group has adopted a share option scheme whereby certain employees of the Group may be granted options to acquire shares.

CHARGE ON THE GROUP'S ASSETS

As at 30th June, 2006, the Group did not have any charges on the Group's assets.

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

As at 30th June, 2006, the Directors did not have any future plans for material investment or capital assets.

COMPETING INTEREST

During the period 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

FINANCIAL REVIEW

Overall

During the period under review, the Group's turnover increased approximately 437.3%, to HK\$29,601,000 from approximately HK\$5,509,000 for the corresponding period in 2005. The increase was mainly attributable to the continual expansion of the Group's gas businesses, including gas supply business and gas pipeline construction business. Of the Group's total turnover, approximately 39.0% was derived from connection fees from gas pipeline construction, approximately 37.8% was derived from sales of liquefied petroleum gas, approximately 15.4% was derived from sales of natural gas, approximately 4.9% was derived from software project income, approximately 2.4% was derived from software maintenance services income, and the remaining approximately 0.5% was derived from sales of stoves and related equipment.

The Group's overall gross profit margin decreased to approximately 25.3% for the period under review from approximately 36.5% for the corresponding period in 2005. The decrease was mainly attributable to the increase in the proportion of turnover derived from sales of natural gas and liquefied petroleum gas, which in general have relatively low profit margins, in the Group's total turnover. The negative effect on the Group's overall gross profit margin attributable to the sales of natural gas and liquefied petroleum gas was partly offset by the increase in the proportion of turnover derived from connection fees from gas pipeline construction, which in general has a relatively high profit margin, in the Group's total turnover.

The Group's distribution costs for the period under review was increased approximately 12.3%, to HK\$1,520,000 from approximately HK\$1,354,000 for the corresponding period in 2005. The increase was mainly attributable to the increase in salaries as the number of the Group's operating subsidiaries increased.

During the period under review, the Group's administrative expenses increased approximately 20.4%, to HK\$9,137,000 from approximately HK\$7,587,000 for the corresponding period in 2005. The increase was mainly attributable to the increase in salaries and wages as the number of the Group operating subsidiaries increased and rent and rates paid for an office located in Hong Kong.

The Group's finance costs for the period under review increased approximately 51.3%, to HK\$1,882,000 from approximately HK\$1,244,000 for the corresponding period in 2005. The increase was mainly attributable to the increase in interest expenses incurred for serving the Group's outstanding bank borrowings which were mainly used to fund the construction of the Group's pipeline networks.

As a result, loss attributable to equity holders of the parent for the period under review decreased 9.0%, to HK\$7,425,000 from HK\$8,155,000 for the corresponding period in 2005.

Gas Business

Sales of Liquefied Petroleum Gas

For the period under review, the turnover of the Group derived from sale of liquefied petroleum gas was approximately HK\$11,193,000. This type of turnover was generated from the Group's operating subsidiaries acquired by the Group in October 2005, therefore, no such type of turnover was recorded for the corresponding period in 2005. The households are the main users for consumption of liquefied petroleum gas.

Gas Pipeline Construction

For the period under review, the turnover of the Group derived from the connection fees from gas pipeline construction increased approximately 1,755.0%, to HK\$11,538,000 from HK\$622,000 for the corresponding period in 2005. The substantial increase was mainly attributable to the increase in the number of households connected to the Group's existing gas pipeline networks and the increase in the number of the Group's gas pipeline projects.

Sales of Natural Gas

For the period under review, the turnover of the Group derived from sale of natural gas increased approximately 161.8%, to HK\$4,569,000 from approximately HK\$1,745,000 for the corresponding period in 2005. The increase 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.

Software Business

Software Maintenance Services

For the period under review, the Group's turnover derived from software maintenance service income decreased approximately 36.2%, to HK\$711,000 from approximately HK\$1,115,000 for the corresponding period in 2005. The decrease was mainly attributable to the decrease in number of customers using the software maintenance service rendered by the Group.

Development and sales of HRM Software

For the period under review, the Group's turnover derived from software project income decreased approximately 20.4%, to HK\$1,458,000 from approximately HK\$1,832,000 for the corresponding period in 2005. The decrease was mainly attributable to the result of the concentration of the Group's resources on the exploration and development of the gas related businesses.

Prospects

We expect that the gas market in the PRC will continue to be robust for the rest of 2006. In 2006, the Group will continue to focus on the exploration and the development of gas related businesses. The Group will strive to obtain more exclusive gas operations in the PRC in order to enhance its market position and to improve its financial performance. In respect of its existing gas operations, the Group will devote much effort to connecting more users to the Group's gas pipeline networks in order to increase the Group's turnover derived from connection fees from gas pipeline construction and sales of piped gas and in turn, improve its financial results.

The prospects for the software business is still challenging due to keen competition from local and foreign competitors. As such, the Group would stay vigilant over the market environment and would continue to adopt a prudent and conservative approach on its software business.

In order to improve the Group's operating results, the Group will continue to implement stringent cost control measures, such as combining procurement volumes of construction materials and consolidating back-office operations such as accounting and administration.

DISCLOSURE OF INTERESTS

(a) Interests of Directors

As at 30th June, 2006, 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 the Part XV of 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:

(i) Long positions in the shares of the Company:

Name of Director	Nature of interest	Total	Approximate percentage or attributable percentage of shareholdings (%)
Mr. Wang Wenliang (“Mr. Wang”)	<i>Note</i> Personal	10,002,000	
	Corporate	872,505,542	
		<u>882,507,542</u>	<u>66.59</u>

Note: Mr. Wang is interested in the underlying shares of the Company (“Shares”) of the 10,002,000 option held by him as stated in (a)(ii) below. Hezhong Investment Holding Company Limited (“Hezhong”) is the beneficial owner of 882,507,542 Shares. Mr. Wang is deemed to be interested in these Shares through his 52% interest in the issued share capital of Hezhong.

(ii) *Share options:*

Name of Directors	Number of options held	Nature of interest	Number of underlying Shares	Approximate percentage of the issued share capital of the Company (%)
Mr. Wang	10,002,000 <i>(Notes 1 and 2)</i>	Personal	10,002,000	0.75%
Mr. Hao Yu	8,004,000 <i>(Note 1)</i>	Personal	8,004,000	0.60%
Mr. Lu Zhaoheng	5,004,000 <i>(Note 1)</i>	Personal	5,004,000	0.38%
Mr. Xu Yongxuan	5,004,000 <i>(Note 1)</i>	Personal	5,004,000	0.38%

Notes:

1. These options were granted under the share option scheme adopted by the Company on 24th October, 2003 and entitle the holders thereof to subscribe for Shares at an exercise price of HK\$0.310 per Share during the period from 4th July, 2006 to 12th June, 2015.
2. The underlying Shares of these 10,002,000 options held by Mr. Wang duplicates his shareholding stated in section (a)(i) above.

(iii) *Long positions in the shares of an associated corporation:*

Name of Directors	Nature of interest	Associated corporation	Percentage of shareholding
Mr. Wang	Personal	Hezhong	52%
Mr. Hao Yu	Personal	Hezhong	12%

Note: Hezhong is an associated corporation of the Company for the reason of its being a holding company of the Company by holding more than 50% of the entire issued share capital of the Company pursuant to s.308 of the SFO.

Save as disclosed above, as at 30th June, 2006, none of the directors nor the chief executive of the Company nor their associates had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (a) where 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.

(b) Interests of substantial shareholders of the Company

So far as is known to the Directors, as at 30th June, 2006, the following person (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 10% 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 interests	Number of Shares	Approximate percentage of interests
Hezhong (<i>Note 1</i>)	Beneficial	872,505,542	65.84%

Note:

1. Mr. Wang Wenliang is deemed to be interested in the Shares through his 52% interest in the issued share capital of Hezhong.

Save as disclosed above, as at 30th June, 2006, 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, interest 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 10% 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 unaudited results of the Group for the six months ended 30th June, 2006.

BOARD PRACTICE AND PROCEDURES

The Company has complied with the requirement of Board Practices and Procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules during the six months ended 30th June, 2006.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Shares during the six months ended 30th June, 2006.

BOARD OF DIRECTORS

As at the date of this report, the Board comprises Mr. Wang Wenliang (*Chairman*), Mr. Hao Yu (*Chief Executive Officer*) and Mr. Lu Zhaoheng, as the executive Directors, Mr. Xu Yongxuan (*Vice-Chairman*), Mr. Wang Lei and Mr. Nicholas John Ashley Rigg, 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, 9th August, 2006