



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)

**SECOND INTERIM REPORT
FOR THE TWELVE MONTHS ENDED
30 JUNE 2004**

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.

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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 announcements 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

- The Group's unaudited turnover amounted to approximately HK\$8,998,000 for the twelve months ended 30 June 2004, representing an increase of approximately 9.4% over the same period last year.
- The Group's unaudited loss attributable to shareholders amounted to approximately HK\$5,268,000 for the twelve months ended 30 June 2004, representing an improvement of approximately 2.3% over the same period last year.
- On 9 October 2003, the Company raised the net proceeds of approximately HK\$19,500,000 by issuing 405,400,000 Shares by way of the Rights Issue.
- On 19 December 2003, the Group completed the acquisition of 97% equity interest in China Gas Construction. China Gas Construction is an investment holding company of which the principal asset is the holding of 100% interest in Linyi China Gas. Linyi China Gas is principally engaged in the development, construction and operation of natural gas projects in Linyi City, Shandong Province, the PRC.
- On 14 January 2004, the financial year end date of the Group was changed from 30 June to 31 December commencing from the year 2004.
- On 20 February 2004, the name of the Company was changed from "MRC Holdings Limited" to "Zhongyu Gas Holdings Limited 中裕燃氣控股有限公司".
- On 18 March 2004, Portwood, a wholly-owned subsidiary of the Company and Hanzhong City Natural Gas, an independent third party, entered into the Joint Venture Agreement, as supplemented by the Supplemental Agreement, pursuant to which, both parties thereto agreed to establish the Hanzhong JV which is principally engaged in the construction and operation of natural gas projects in Hanzhong City, Shaanxi Province, the PRC.
- An ordinary resolution in respect of the appointment of Messrs. Deloitte Touche Tohmatsu as the new auditors of the Company and its subsidiaries for the financial year ending 31 December 2004 until the conclusion of the next general meeting was duly passed at the extraordinary general meeting of the Company convened on 1 April 2004.

CONSOLIDATED RESULTS

The board of Directors (the “Board”) is pleased to announce the unaudited consolidated results of the Group for the three months and the twelve months ended 30 June 2004, together with the comparative figures for the corresponding periods in 2003, which are set out as follows:

	<i>Notes</i>	Three months ended 30 June		Twelve months ended 30 June	
		2004 (Unaudited) <i>HK\$'000</i>	2003 (Unaudited) <i>HK\$'000</i>	2004 (Unaudited) <i>HK\$'000</i>	2003 (Audited) <i>HK\$'000</i>
Turnover	2, 5	2,504	1,355	8,998	8,226
Cost of sales		(1,006)	(406)	(2,435)	(2,131)
GROSS PROFIT		1,498	949	6,563	6,095
Other revenue		23	1	202	162
Selling and marketing expenses		(501)	(339)	(1,559)	(1,823)
Administrative expenses		(2,919)	(2,170)	(8,245)	(7,857)
Other operating expenses		(513)	(618)	(2,382)	(2,446)
OPERATING LOSS		(2,412)	(2,177)	(5,421)	(5,869)
Finance costs		18	—	(7)	(7)
LOSS BEFORE TAXATION		(2,394)	(2,177)	(5,428)	(5,876)
Taxation	3	—	—	—	—
LOSS AFTER TAXATION		(2,394)	(2,177)	(5,428)	(5,876)
Minority interests		(38)	130	160	485
LOSS ATTRIBUTABLE TO SHAREHOLDERS		(2,432)	(2,047)	(5,268)	(5,391)
Interim dividend	4	—	—	—	—
LOSS PER SHARE	6				
Basic		HK0.253cent	HK0.421cent	HK0.657cent	HK1.108cents
Diluted		N/A	N/A	N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

		30 June 2004 (Unaudited) <i>HK\$'000</i>	31 December 2003 (Unaudited) <i>HK\$'000</i>
	<i>Notes</i>		
NON-CURRENT ASSETS			
Intangible assets		—	328
Fixed assets	7	4,589	1,221
		4,589	1,549
CURRENT ASSETS			
Trade receivables	8	3,074	2,064
Deposits, prepayments and other receivables		1,953	1,738
Cash and bank balances		22,699	29,967
		27,726	33,769
CURRENT LIABILITIES			
Other payables and accruals		4,455	4,380
Amount due to a shareholder	10	2,572	2,572
		7,027	6,952
NET CURRENT ASSETS			
		20,699	26,817
TOTAL ASSETS LESS CURRENT LIABILITIES			
		25,288	28,366
NON-CURRENT LIABILITY			
Provision for long service payment		508	578
MINORITY INTERESTS			
		48	969
		24,828	28,757
FINANCED BY:			
Share capital	11	9,608	9,608
Reserves	12	15,220	19,149
		24,828	28,757

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Twelve months ended 30 June	
	2004 (Unaudited) <i>HK\$'000</i>	2003 (Audited) <i>HK\$'000</i>
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(6,572)	(3,422)
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES	5,055	(1,161)
NET CASH INFLOW FROM FINANCING ACTIVITIES	23,772	—
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	22,255	(4,583)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	444	5,027
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	22,699	444
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	22,699	444

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued share capital (Audited) <i>HK\$'000</i>	Share premium (Audited) <i>HK\$'000</i>	Merger reserve (Audited) <i>HK\$'000</i>	Accumulated losses (Audited) <i>HK\$'000</i>	Total equity (Audited) <i>HK\$'000</i>
At 1 July 2002	4,054	4,378	3,740	(4,502)	7,670
Prior years' adjustment arising from changes in accounting policy for employee benefits	—	—	—	(742)	(742)
Net loss for the period	—	—	—	(5,391)	(5,391)
At 30 June 2003	4,054	4,378	3,740	(10,635)	1,537

	Issued share capital (Unaudited) <i>HK\$'000</i>	Share premium (Unaudited) <i>HK\$'000</i>	Merger reserve (Unaudited) <i>HK\$'000</i>	Accumulated losses (Unaudited) <i>HK\$'000</i>	Total equity (Unaudited) <i>HK\$'000</i>
At 1 July 2003	4,054	4,378	3,740	(10,635)	1,537
New issue of shares on rights issue	4,054	15,464	—	—	19,518
Capitalisation issue of shares for acquisition	1,500	7,541	—	—	9,041
Net loss for the period	—	—	—	(5,268)	(5,268)
At 30 June 2004	9,608	27,383	3,740	(15,903)	24,828

Notes:

1. Basis of presentation and accounting policies

The unaudited consolidated results have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.

The basis of presentation and accounting policies used in the preparation of the unaudited consolidated results are the same as those used in the audited financial statements of the Group for the year ended 30 June 2003.

2. Turnover

An analysis of the turnover of the Group for the three months and twelve months ended 30 June 2004, together with the comparative figures for the corresponding periods in 2003 is as follows:

	Three months ended 30 June		Twelve months ended 30 June	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
By principal activities:				
Construction of natural gas pipeline — Gas connection fees	370	—	370	—
Software project income	1,084	633	5,188	5,406
Render of HRM software related maintenance services	835	654	3,049	2,635
Resale of hardware and software rental income	138	68	314	185
Others	77	—	77	—
	<u>2,504</u>	<u>1,355</u>	<u>8,998</u>	<u>8,226</u>
By principal markets:				
Hong Kong	2,050	1,245	8,406	6,765
PRC	454	110	592	1,461
	<u>2,504</u>	<u>1,355</u>	<u>8,998</u>	<u>8,226</u>

3. Taxation

No provision for the Hong Kong profits tax has been made as the Group had no assessable profits for the twelve months ended 30 June 2004 (2003: Nil).

4. Interim dividend

The Board does not recommend the payment of any interim dividend for the twelve months ended 30 June 2004 (2003: Nil).

5. Segmental information

An analysis of business segments is as follows:

	Construction of natural gas pipeline – Gas connection fees		Software project income		Render of HRM software related maintenance services		Resale of hardware and software rental income		Others		Total	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Turnover	370	–	5,188	5,406	3,049	2,635	314	185	77	–	8,998	8,226
Segment result	171	–	854	(87)	2,733	2,120	299	134	7	–	4,064	2,167
Unallocated Interest income											(9,518)	(8,050)
											35	14
Operating loss											(5,421)	(5,869)
Finance costs											(7)	(7)
Loss before taxation											(5,428)	(5,876)
Taxation											–	–
Loss after taxation											(5,428)	(5,876)
Minority interests											160	485
Loss attributable to shareholders											(5,268)	(5,391)

An analysis of geographical segments is as follows:

	Hong Kong	PRC	Group
	2003	2003	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment revenue	6,765	1,461	8,226
Segment assets	3,368	225	3,593
Capital expenditure incurred during the year	78	83	161

	Hong Kong	PRC	Group
	2004	2004	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment revenue	8,406	592	8,998
Segment assets	3,785	106	3,891
Capital expenditure incurred during the year	699	4,042	4,741

6. Loss per share

The calculation of the basic loss per share is based on the loss attributable to shareholders for the three months and twelve months ended 30 June 2004 of approximately HK\$2,432,000 and HK\$5,268,000 (2003: HK\$2,047,000 and HK\$5,391,000) respectively and the weighted average number of 960,800,000 and 802,106,011 (2003: 486,480,000 and 486,480,000) ordinary shares respectively in issue during the same periods. The weighted average number of shares outstanding for 2003 has been adjusted for the effect of the Rights Issue (as defined herein).

No diluted loss per share is shown as there were no dilutive potential ordinary shares.

7. Depreciation

During the period under review, depreciation charge in respect of the fixed assets of the Group amounted to approximately HK\$757,000 (2003: approximately HK\$587,000).

8. Trade receivables

The Group generally allows credit period ranging from 30 to 60 days to its trade customers.

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

	30 June 2004 <i>HK\$'000</i>	31 December 2003 <i>HK\$'000</i>
Within 1 month	1,820	592
Over 1 month but within 3 months	224	1,061
Over 3 months but within 6 months	873	260
Over 6 months	886	880
	<hr/>	<hr/>
	3,803	2,793
Less: Provision for bad and doubtful debts	(729)	(729)
	<hr/>	<hr/>
	3,074	2,064
	<hr/> <hr/>	<hr/> <hr/>

9. Trade payables

The Group did not have any trade payables as at 30 June 2004.

10. Amount due to a shareholder

The amount due to a shareholder is unsecured, interest free and has no fixed terms of repayment.

11. Share capital

	30 June 2004		31 December 2003	
	No. of shares '000 shares	Nominal Value HK\$'000	No. of shares '000 shares	Nominal Value HK\$'000
Authorised:				
Ordinary shares of HK\$0.01 each	10,000,000	100,000	10,000,000	100,000
Issued and fully paid or credited as fully paid:				
At the beginning of the period	405,400	4,054	405,400	4,054
New issue of shares on rights issue (<i>Note a</i>)	405,400	4,054	405,000	4,054
Capitalisation issue of shares for acquisition (<i>Note b</i>)	150,000	1,500	150,000	1,500
At the end of the period	960,800	9,608	960,800	9,608

Notes:

- (a) On 13 October 2003, the Company issued 405,400,000 new ordinary shares of HK\$0.01 each by way of rights issue ("Rights Issue") on the basis of one rights share for every one share held by the shareholders whose names appeared on the register of members of the Company on 13 October 2003 at a price of HK\$0.05 per share, the details of which were set out in the announcement of the Company dated 15 August 2003 and the circulars of the Company dated 5 September 2003 and 23 September 2003 respectively.
- (b) On 17 December 2003, the Company issued 150,000,000 new ordinary shares of HK\$0.01 each at a price of approximately HK\$0.060 per share as the consideration for the purchase of 97% of the issued share capital of China Gas Construction Expansion Company Limited ("China Gas Construction") and the aggregate amount owed by China Gas Construction in the form of shareholder's loan as at 31 October 2003, the details of which were set out in the announcement of the Company dated 26 November 2003 and the circular of the Company dated 15 December 2003.

12. Reserves

	Share premium <i>HK\$'000</i>	Merger reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 July 2003	4,378	3,740	(10,635)	(2,517)
New issue of shares on rights issue	15,464	—	—	15,464
Capitalisation issue of shares for acquisition	7,541	—	—	7,541
Net loss for the period	—	—	(5,268)	(5,268)
At 30 June 2004	27,383	3,740	(15,903)	15,220

13. Acquisitions, disposals and significant investments

On 19 December 2003, the Company, through its wholly-owned subsidiary, Portwood International Limited (“Portwood”) completed the acquisition of 97% of the issued share capital of China Gas Construction and the aggregate amount owed by China Gas Construction in the form of shareholder’s loan as at 31 October 2003. In connection with this acquisition, the Company issued 150,000,000 new ordinary shares of HK\$0.01 each at a price of approximately HK\$0.060 per share as the consideration.

China Gas Construction was incorporated in the British Virgin Islands on 12 May 2003. It is an investment holding company of which the principal asset is the holding of 100% interest in 臨沂中燃城市燃氣建設發展有限公司 (Linyi China Gas City Gas Construction Company Limited) (“Linyi China Gas”), a wholly-foreign-owned enterprise established in the PRC on 18 July 2003. The registered capital of Linyi China Gas is HK\$10,000,000, which has been fully paid-up.

Linyi China Gas is principally engaged in the development, construction and operation of natural gas projects in Linyi City, Shandong Province, the PRC. The main business activities of Linyi China Gas include design and construction of natural gas pipelines network and ancillary facilities and sale of natural gas, as well as sale and maintenance of natural gas appliances in Linyi City.

On 18 March 2004, Portwood and Hanzhong City Natural Gas Company Limited (“Hanzhong City Natural Gas”), an independent third party, entered into a joint venture agreement (the “JV Agreement”), as supplemented by a supplemental agreement (the “Supplemental Agreement”) entered into by the same parties on 26 March 2004 in relation to the Hanzhong JV (as defined below), pursuant to which, both parties thereto agreed to establish 漢中中燃城市燃氣發展有限公司 (Hanzhong China-Gas City Gas Development Company Limited) (“Hanzhong JV”), the details of which were set out in the announcement of the Company dated 18 March 2004 and the circular of the Company dated 8 April 2004.

The Hanzhong JV is principally engaged in the construction and operation of natural gas projects in Hanzhong City, Shaanxi Province the PRC. Its main business activities include design and construction of natural gas pipeline network and ancillary facilities and sale of natural gas as well as sale and maintenance of natural gas appliances in Hanzhong City.

The registered capital of the Hanzhong JV was HK\$10,000,000, of which HK\$9,000,000 was contributed by the Group by using the net proceeds derived from the Rights Issue, and the remaining HK\$1,000,000 was contributed by Hanzhong City Natural Gas by way of contribution in kind. The Hanzhong JV is owned as to 90% by Portwood and the remaining 10% by Hanzhong City Natural Gas.

Save as disclosed above, the Group had no acquisitions, disposals nor significant investments for the twelve months ended 30 June 2004.

14. Capital commitments

On 30 October 2003, China Gas Construction entered into the cooperation agreement with Linyi Economic Development District, pursuant to which a total investment in Linyi China Gas of HK\$14 million (the "Total Investment") should be made. Among the Total Investment, HK\$10 million should be contributed by China Gas Construction as the registered capital of Linyi China Gas which was fully paid, and the remaining HK\$4 million should be born by Linyi China Gas. Such remaining balance will be funded by internal resources of Linyi China Gas, such as profits generated by Linyi China Gas or other financing obtained by Linyi China Gas.

Save as disclosed above, as at 30 June 2004, the Group did not have any significant capital commitments.

15. Contingent liabilities

As at 30 June 2004, the Group did not have any contingent liabilities.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current assets

As at 30 June 2004, the Group had net current assets of approximately HK\$20,699,000. It represented the Group had a healthy financial position to meet its short term liabilities.

The current assets of the Group as at 30 June 2004 amounted to approximately HK\$27,726,000, comprising trade receivables of approximately HK\$3,074,000, deposits, prepayments and other receivables of approximately HK\$1,953,000 and cash and bank balances of approximately HK\$22,699,000.

As at 30 June 2004, the current liabilities of the Group amounted to approximately HK\$7,027,000, comprising other payables and accruals of approximately HK\$4,455,000 and amount due to a shareholder of approximately HK\$2,572,000. The amount due to a shareholder is unsecured, interest free and has no fixed terms of repayment.

As at 30 June 2004, the Group did not have any outstanding bank borrowing.

Financial resources

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

Directors' opinion on sufficiency of working capital

Taking into account the current financial resources available to the Group 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 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 30 June 2004, the Group had 110 employees (2003: 37) in Hong Kong and the PRC, and the total remuneration for the period was approximately HK\$6,912,000 (2003: HK\$5,603,000). The increase of number of staff in the Group was mainly attributable to the inclusion of staff of the Linyi China Gas, acquired by the Group and the Hanzhong JV formed by the Group during the period under review.

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 30 June 2004, the Group did not have any charges on the Group's assets.

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

As at 30 June 2004, 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 AND OPERATIONAL REVIEW

On 9 October 2003, the Company raised the net proceeds of approximately HK\$19,500,000 by issuing 405,400,000 Shares by way of Rights Issue so as to strengthen its capital base and improve its financial position and thus to provide flexibility to pursue any new business opportunities for the Group's future development and expansion.

On 19 December 2003, the Group completed the acquisition of 97% equity interest in China Gas Construction. China Gas Construction is an investment holding company of which the principal asset is the holding of 100% interest in Linyi China Gas, a wholly-foreign-owned enterprise established in the PRC on 18 July 2003. Linyi China Gas is principally engaged in the development, construction and operation of natural gas projects in Linyi City, Shandong Province, the PRC. Its main business activities include the design and construction of natural gas pipeline network and ancillary facilities and sale of natural gas, as well as the sale and maintenance of natural gas appliances in Linyi City. Linyi China Gas was granted the exclusive right to develop, construct and operate natural gas projects in the Linyi Economic Development District, Linyi City for a period of 50-year.

The Directors believe that such acquisition could provide an ideal opportunity for the Group to diversify into natural gas business with growth potential which might increase the Group's source of income and improve the earning base of the Group.

As at 30 June 2004, Linyi China Gas had built natural gas pipeline of approximately 12 km and there were two industrial users completed the connection of the natural gas pipeline. The remaining construction works on natural gas pipeline network in Linyi Economic Development District are expected to be completed by the end of 2004.

In order to facilitate the Group to prepare its consolidated financial statements since the Company and its subsidiaries established in the PRC had different financial year end dates, on 14 January 2004, the Company announced that the financial year end date of the Group was changed from 30 June to 31 December commencing from the year 2004.

On 20 February 2004, the name of the Company was changed from "MRC Holdings Limited" to "Zhongyu Gas Holdings Limited 中裕燃氣控股有限公司". The Board considers that such change would better reflect the diversification of the Group into the natural gas business.

On 18 March 2004, Portwood and Hanzhong City Natural Gas, entered into the JV Agreement, as supplemented by the Supplemental Agreement entered into by the same parties on 26 March 2004 in relation to the Hanzhong JV, pursuant to which, both parties thereto agreed to establish Hanzhong JV which is principally engaged in the construction and operation of natural gas projects in Hanzhong City, Shaanxi Province, the PRC. Its main business activities include design and construction of natural gas pipeline network and ancillary facilities and sale of natural gas, as well as sale and maintenance of natural gas appliances in Hanzhong City. On 8 April 2004, the Hanzhong JV obtained the exclusive right from 漢中市城鄉建設管

理局 (Urban Rural Construction Administrative Bureau of Hanzhong City) to engage in the development, construction and operation of piped gas projects in Hanzhong City. The Hanzhong JV is owned as to 90% by Portwood and the remaining 10% by Hanzhong City Natural Gas.

The Directors are of the view that the entering into of the JV Agreement could provide an opportunity for the Group to further invest in the natural gas business in the PRC in order to enlarge the geographical coverage of its operation. In addition, having considered that the natural gas project to be undertaken by the Hanzhong JV is on an exclusive basis, and the increase in demand of natural gas in the PRC, the Directors are of the view that the Hanzhong JV could provide a steady cash inflow to the Group. As such, the entering into of the JV Agreement could provide an opportunity for the Group to increase its source of income and improve the earning base of the Group.

As at 30 June 2004, the Hanzhong JV had built natural gas pipeline of approximately 39 km and there were 1,400 domestic household users and one commercial user completed the connection of the natural gas pipeline. The remaining construction works on natural gas pipeline network in Hanzhong City are expected to be completed by the end of 2006.

FINANCIAL REVIEW

Overall

During the period under review, the Group is principally engaged in (i) the business of natural gas supply in the PRC. Its main business activities include design and construction of natural gas pipeline network and ancillary facilities and sale of natural gas, as well as sale and maintenance of natural gas appliances; and (ii) the business of human resource management (“HRM”) solution provision in Hong Kong and the PRC. Its main business activities include development and sale of HRM software, as well as provision of related consultancy services including the project management, implementation and maintenance of the HRM system.

For the twelve months ended 30 June 2004, the Group recorded a turnover of approximately HK\$8,998,000, representing an increase of approximately 9.4% over the same period last year. Of the Group’s total turnover, approximately 4.1% was derived from the construction of natural gas pipeline - gas connection fees, approximately 57.6% was derived from software project income, approximately 33.9% was derived from render of HRM software related maintenance services, approximately 3.5% was derived from resale of hardware and software rental income and the remaining approximately 0.9% was derived from others.

For the twelve months ended 30 June 2004, the Group’s overall gross profit margin was approximately 72.9%, representing a slight decrease of approximately 1.2% over the same period last year. The decrease was mainly attributable to the introduction of the construction of natural gas pipeline - gas connection fees with a gross profit margin of approximately 46.2% since April 2004.

The Group's total operating expenses, including selling and marketing expenses, administrative expenses and other operating expenses, for the twelve months ended 30 June 2004 amounted to approximately HK\$12,186,000, representing a slight increase of approximately 0.5% over the same period last year. The increase was mainly attributable to the absorption of operating expenses of Linyi China Gas, acquired by the Group in December 2003 and the Hanzhong JV, formed by the Group in April 2004.

The Group posted loss attributable to shareholders of approximately HK\$5,268,000 for the twelve months ended 30 June 2004, representing an improvement of approximately 2.3% over the same period last year.

The Board does not recommend the payment of any interim dividend for the twelve months ended 30 June 2004.

Basic loss per share for the twelve months ended 30 June 2004 amounted to approximately HK0.657 cent.

The financial position of the Group remains healthy with a non-gearing capital structure.

The business of Natural Gas Supply

Construction of Natural Gas Pipeline — Gas Connection Fees

The Group has commenced to charge the gas connection fees since April 2004. For the twelve months ended 30 June 2004, the turnover of the Group derived from the gas connection fees amounted to approximately HK\$370,000.

For the twelve months ended 30 June 2004, the gross profit margin of the construction of natural gas pipeline was approximately 46.2%.

The business of HRM Software Provision

Software Project Income

For the twelve months ended 30 June 2004, the Group recorded a turnover of approximately HK\$5,188,000, representing a decrease of approximately 4.0% over the same period last year. The decrease in turnover was mainly attributable to the decrease in contract price resulting from the intensive pricing competition.

For the twelve months ended 30 June 2004, the gross profit margin of software project income was approximately 64.6%, representing a decrease of approximately 6.7% over the same period last year. The decrease was mainly attributable to the intensive pricing competition.

Render of HRM Software related Maintenance Services

For the twelve months ended 30 June 2004, the turnover of the Group derived from the render of HRM software related maintenance services amounted to approximately HK\$3,049,000, representing an increase of approximately 15.7% over the same period last year. The increase in the turnover was mainly attributable to the increase of the accumulated number of customer using the HRM software.

For the twelve months ended 30 June 2004, the gross profit margin of HRM software related maintenance services income was approximately 89.6%, representing an increase of approximately 8.0% over the same period last year. The increase was mainly attributable to the implementation of the stringent cost control measures.

PROSPECTS

Due to the growing prosperity and annual gross domestic production per capita in the PRC as well as the increasing awareness of environment protection in the PRC, the Directors believe that the demand for the natural gas in the PRC would increase as natural gas is considered to be an environmentally clean source of energy. The Group will strive to obtain more exclusive gas projects in the PRC to enhance its market position and to improve its financial performance, so as to benefit further from the sustained growth of the natural gas industry in the PRC.

With the continues improvement of the economies in the PRC and Hong Kong, the business environment in both the PRC and Hong Kong becomes more favourable. The Directors believe that the demand for the Group's HRM software would increase. Nevertheless, the prospects for the IT industry is still challenging due to keen competition from local and overseas competitors. As such, the Group would stay vigilant over the market environment and would maintain a prudent and conservative approach to its software business.

In order to improve the Group's operating results, the Group will continue to implement stringent cost control measures.

DISCLOSURE OF INTERESTS

(a) Interests of Directors

As at 30 June 2004, the interests and short positions of the Directors and the chief executive of the Company 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 5.66 of the GEM Listing Rules relating to securities transactions by Directors, were as follows:

Name of Directors	Name of company	Capacity	Number and class of securities
Mr. Wang Wenliang	The Company	Corporate (<i>Note 1</i>)	610,120,000 ordinary shares of HK\$0.01 each
	Hezhong Investment Holding Company (“Hezhong Investment”)	Beneficial	26,000 ordinary shares of US\$1.00 each
Mr. Hao Yu	Hezhong Investment	Beneficial	6,000 ordinary shares of US\$1.00 each
Mr. Li Weisong	Hezhong Investment	Beneficial	6,000 ordinary shares of US\$1.00 each
Mr. Li Zifeng	Hezhong Investment	Beneficial	6,000 ordinary shares of US\$1.00 each
Mr. Yang Jianguo	Hezhong Investment	Beneficial	6,000 ordinary shares of US\$1.00 each

Note 1: These Shares are held by Hezhong Investment. Mr. Wang Wenliang is beneficially interested in 52% of the issued share capital of Hezhong Investment.

Save as disclosed above, as at 30 June 2004, none of the Directors nor the chief executive of the Company 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 5.66 of the GEM Listing Rules relating to securities transactions by Directors.

As at 30 June 2004, none of the Directors had any interest, direct or indirect, in any assets which had been, since 30 June 2003, the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

As at 30 June 2004, there was no contract or arrangement subsisting in which a Director was materially interested and which was significant in relation to the business of the Group.

(b) Interests of substantial shareholders of the Company

So far as is known to the Directors, as at 30 June 2004, the following persons (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:

Name of shareholders	Name of company	Capacity	Number and class of securities
Hezhong Investment	The Company	Beneficial	610,120,000 ordinary shares of HK\$0.01 each
Mr. Zheng Gang	The Company	Beneficial	150,000,000 ordinary shares of HK\$0.01 each

Save as disclosed above, as at 30 June 2004, 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 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.

AUDIT COMMITTEE

The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited consolidated results of the Group for the twelve months ended 30 June 2004.

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 twelve months ended 30 June 2004.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the twelve months ended 30 June 2004, the Company had adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings. Having made specific enquiry of all Directors, the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by the Directors.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the twelve months ended 30 June 2004.

BOARD OF DIRECTORS

As at the date of this report, the Board comprises Mr. Wang Wenliang, Mr. Hao Yu and Mr. Lu Zhaoheng, as the executive Directors, Mr. Xu Yongxuan, Mr. Wang Lei, Mr. Li Weisong, Mr. Yang Jianguo and Mr. Li Zifeng, as the non-executive Directors and Mr. Wang Shun Long and Dr. Luo Yong Tai, as the independent non-executive Directors.

By Order of the Board
Wang Wenliang
Chairman

Hong Kong, 12 August 2004