



中裕燃气

Zhongyu Gas Holdings Limited

中裕燃气控股有限公司



First Quarterly Report
第一季度業績報告 2005

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 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\$2,777,000 for the three months ended 31st March, 2005.
- The Group’s unaudited loss amounted to approximately HK\$4,732,000 for the three months ended 31st March, 2005.
- The Group’s basic loss per share for the three months ended 31st March, 2005 was approximately HK\$0.445 cent.
- The Directors do not recommend the payment of any interim dividend for the three months ended 31st March, 2005.

The board of Directors (the “Board”) is pleased to announce the unaudited consolidated results of the Group for the three months ended 31st March, 2005 (the “Relevant Period”), together with the comparative figures for the corresponding period in 2004, as follows:

CONSOLIDATED RESULTS (UNAUDITED)

		Three months ended	
		31st March,	
		2005	2004
	<i>Notes</i>	HK\$'000	HK\$'000
Turnover	2, 3	2,777	2,503
Cost of sales		(2,117)	(551)
GROSS PROFIT		660	1,952
Other revenue		32	104
Selling and marketing expenses		(352)	(461)
Administrative expenses		(4,515)	(2,507)
Other operating expenses		(909)	(657)
OPERATING LOSS		(5,084)	(1,569)
Finance costs		(1,085)	(21)
LOSS BEFORE TAXATION		(6,169)	(1,590)
Taxation	4	–	–
LOSS AFTER TAXATION		(6,169)	(1,590)
Minority interests		1,437	93
LOSS FOR THE PERIOD		(4,732)	(1,497)
LOSS PER SHARE – Basic (HK cent)	5	(0.445)	(0.156)

Notes:

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The unaudited consolidated results of the Group have been prepared under the historical cost convention and in accordance with accounting principles general accepted in Hong Kong. The principal policies adopted are the same as those adopted in the audited financial statements of the Group for the year ended 31st December, 2004.

2. TURNOVER

The Group is principally engaged in (i) the development, construction and operation of natural gas projects in the People's Republic of China ("PRC"), which principally 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, which principally include development and sale of HRM software, as well as provision of related consultancy services including the project management, implementation and maintenance of the MRC HRM system.

The turnover of the Group recognized for the three months ended 31st March, 2005, together with the comparative figures for the corresponding period in 2004 is as follows:

	Three months ended 31st March,	
	2005 HK\$'000	2004 HK\$'000
Sales of natural gas	1,156	—
Software project income	709	553
Software maintenance service income	457	1,805
Gas connection fees	354	—
Resale of hardware and software	65	—
Sales of stoves and related equipment	36	145
	<u>2,777</u>	<u>2,503</u>

3. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purpose, the Group is currently organized into four major operating divisions: Sale of natural gas, gas pipeline construction, development and sale of software and software maintenance services.

Segment information about these businesses is presented below:

Income statement for the three months ended 31st March, 2005

	Sale of natural gas <i>HK\$'000</i>	Gas pipeline construction <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	<u>1,156</u>	<u>354</u>	<u>457</u>	<u>709</u>	<u>101</u>	<u>2,777</u>
Segment results	<u>16</u>	<u>(94)</u>	<u>(444)</u>	<u>(75)</u>	<u>(306)</u>	<u>(903)</u>
Unallocated operating income						32
Unallocated corporate expenses						<u>(4,213)</u>
Operating loss						(5,084)
Finance costs						<u>(1,085)</u>
Loss before taxation						(6,169)
Taxation						<u>-</u>
Loss after taxation						(6,169)
Minority interests						<u>1,437</u>
Loss for the period						<u><u>(4,732)</u></u>

Income statement for the three months ended 31st March, 2004

	Sale of natural gas <i>HK\$'000</i>	Gas pipeline construction <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	<u>–</u>	<u>–</u>	<u>1,805</u>	<u>553</u>	<u>145</u>	<u>2,503</u>
Segment results	<u>–</u>	<u>–</u>	<u>(391)</u>	<u>(75)</u>	<u>15</u>	<u>(451)</u>
Unallocated operating income						104
Unallocated corporate expenses						<u>(1,222)</u>
Operating loss						<u>(1,569)</u>
Finance costs						<u>(21)</u>
Loss before taxation						<u>(1,590)</u>
Taxation						<u>–</u>
Loss after taxation						<u>(1,590)</u>
Minority interests						<u>93</u>
Loss for the period						<u><u>(1,497)</u></u>

Geographical segments

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

	Three months ended 31st March,	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
The PRC	<u>1,575</u>	34
Hong Kong	<u>1,202</u>	<u>2,469</u>
	<u><u>2,777</u></u>	<u>2,503</u>

4. TAXATION

The statutory tax rates for Hong Kong Profits Tax and the PRC Enterprise Income Tax are 17.5% (2004: 17.5%) and 33% (2004: 33%) respectively.

No provision for Hong Kong Profits Tax has been made as the Company and its subsidiaries either had no assessable profits arising in Hong Kong or the assessable profits were wholly absorbed by estimated tax losses brought forward.

Pursuant to the relevant laws and regulations in the PRC, the Group's PRC subsidiaries 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 PRC subsidiaries had no assessable profit for the Relevant Period (2004: nil).

5. LOSS PER SHARE

The calculation of the basic loss per share is based on the unaudited loss for the three months ended 31st March, 2005 of approximately HK\$4,732,000 (2004: HK\$1,497,000) and the number of 1,062,800,000 (2004: 960,800,000) ordinary shares in issue during the same periods.

No diluted loss per share for the three months ended 31st March, 2005 is shown as there were no dilutive potential ordinary shares.

6. 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 1st January, 2005	48,817	3,740	(9,720)	42,837
Loss for the period	—	—	(4,732)	(4,732)
At 31st March, 2005	<u>48,817</u>	<u>3,740</u>	<u>(14,452)</u>	<u>38,105</u>

INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividend for the three months ended 31st March, 2005 (2004: Nil).

COMPETING INTEREST

During the Relevant Period, 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.

FINANCIAL REVIEW

Overall

For the three months ended 31st March, 2005, the Group recorded a total turnover of approximately HK\$2,777,000, representing an increase of approximately 10.9% as compared with that of approximately HK\$2,503,000 over the corresponding period last year. The increase was mainly contributable to the increase in the Group's source of income resulting from the introduction of new businesses, including sale of natural gas and gas pipeline construction to the Group.

During the Relevant Period, the Group's gross profit margin was approximately 23.8%, representing a substantial decrease as compared with that of approximately 78.0% over the corresponding period last year. The decrease was mainly contributable to the introduction of the businesses of sale of natural gas and gas pipeline construction with a lower gross profit margin of approximately 17.7% and 59.6% respectively and the lower turnover of the Group derived from the software related business.

During the Relevant Period, the Group's administrative expenses amounted to approximately HK\$4,515,000, representing an increase of approximately 80.1% as compared with that of approximately HK\$2,507,000 over the corresponding period last year. The increase was mainly attributable to the increase in salary and staff welfare costs resulting from the employment of additional staff in order to cope with the development of the Group's natural gas business.

As a result of the above, the Group posted a loss of approximately HK\$4,732,000 for the three months ended 31st March, 2005, representing an increase of approximately 216.1% as compared with that of approximately HK\$1,497,000 over the corresponding period last year.

Sale of Natural Gas

Sale of natural gas is a new business for the Group. During the Relevant Period, the Group's turnover derived from sale of natural gas amounted to approximately HK\$1,156,000.

For the three months ended 31st March, 2005, the gross profit margin of sale of natural gas was approximately 17.7%.

Since from March 2005, Linyi China Gas City Gas Construction Company Limited ("Linyi China Gas"), a subsidiary of the Company, commenced to supply natural gas to its customers. During the Relevant Period, the total gas consumption by the Group's commercial users was approximately 491,133 m³.

Gas Pipeline Construction

Gas Pipeline Construction is a new business for the Group. During the Relevant Period, the Group's turnover derived from gas pipeline construction amounted to approximately HK\$354,000.

For the three months ended 31st March, 2005, the gross profit margin of gas pipeline construction was approximately 59.6%.

Development and sale of software

During the Relevant Period, the Group's turnover derived from the development and sale of software amounted to approximately HK\$457,000, representing a decrease of approximately 74.7% as compared with that of approximately HK\$1,805,000 over the corresponding period last year. The decrease was mainly attributable to the result of the intensive pricing competition and the concentration of the Group's resources to explore and develop the natural gas related business.

For the three months ended 31st March, 2005, the gross profit margin of software project income was approximately 40.5%, representing a decrease of approximately 20.8% as compared with that of approximately 61.3% over the corresponding period last year. The decrease was mainly attributable to the lower turnover of the Group derived from the development and sale of software because of keen pricing competition.

Software Maintenance Services

During the Relevant Period, the turnover of the Group derived from the provision of software maintenance services amounted to approximately HK\$709,000, representing an increase of approximately 28.2% as compared with that of approximately HK\$553,000 over the corresponding period last year. The increase in the turnover was mainly attributable to the increase of the accumulated number of customer using the Group's software products.

For the three months ended 31st March, 2005, the gross profit margin of the provision of software maintenance services was approximately 40.6%, representing a decrease of approximately 42.0% as compared with that of approximately 82.6% over the corresponding period last year. The decrease was mainly attributable to the lower turnover of the Group derived from the provision of software maintenance services because of lower rates charged to the Group's customers.

BUSINESS REVIEW

During the Relevant Period, the Group mainly focused on the exploration and the development of natural gas related business. The implementation of software projects and the provision of software maintenance originally performed by the Group itself had been subcontracted to subcontractors since the early 2005.

Pursuant to the joint venture agreement entered into by both parties thereto, the Company and 臨沂市城市燃氣工程籌建處 (The Department of City Natural Gas Engineering of Linyi City) ("CNGE") established Linyi ZhongYu City Gas Company Limited ("Linyi ZhongYu JV") in early 2005, the details of which were set out in the announcement of the Company dated 12th November, 2004 and the circular of the Company dated 23rd December, 2004. Linyi ZhongYu JV is principally engaged in the construction and operation of natural gas projects in 蘭山區 (Lan Shan Qu) (exclusive of 南坊片 (Nan Fang Pian)) and part of 羅莊區 (Luo Zhuang Qu), Linyi City, Shandong 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. The Linyi ZhongYu JV is owned as to 51% by the Company and the remaining 49% by CNGE.

The total registered capital of Linyi ZhongYu JV is RMB42,000,000 (equivalent to approximately HK\$39,200,000), of which RMB21,420,000 (equivalent to approximately HK\$20,000,000) is contributed by the Group in cash and RMB20,580,000 (equivalent to approximately HK\$19,200,000) is contributed by CNGE by way of contribution in kind.

Pursuant to the sales and purchase agreement dated 26th November, 2003 entered into between Portwood International Limited (“Portwood”), a wholly-owned subsidiary of the Company, as purchaser, and Mr. Zheng Gang, as vendor in respect of the acquisition of Linyi China Gas, Mr. Zheng Gang had irrevocably undertaken to Portwood that should any loss (the “Loss”) be recorded in the audited profit and loss account of Linyi China Gas for the year ended 31st December, 2004 prepared by a qualified accountant in the PRC, Mr. Zheng Gang should pay Portwood 97% of the sum of RMB3,000,000 (equivalent to approximately HK\$2,860,000) and the Loss. According to the audited report of Linyi China Gas for the year ended 31st December, 2004 issued by 河南勤德聯合會計師事務所 (Qinde Certified Public Accountants), Linyi China Gas recorded a loss of approximately RMB874,000 (equivalent to approximately HK\$830,000). Accordingly, the total compensation to be received by Portwood from Mr. Zheng Gang will be approximately RMB3,760,000 (equivalent to approximately HK\$3,580,000).

The independent non-executive Directors, including Mr. Wang Shunlong, Dr. Luo Yong Tai and Mr. Hung, Randy King Kuen, confirmed that Mr. Zheng Gang fulfilled his obligations in relation to the aforesaid loss compensation to pay a sum of HK\$3,580,000 to the Group on 14th April, 2005.

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. In the rest of the current financial year, the Group will continue to focus on exploring and developing natural gas related business. The Group will strive to obtain more exclusive gas projects in the PRC in order 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.

As 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 31st March, 2005, 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 the 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 (L) of HK\$0.01 each
	Hezhong Investment Holding Company Limited (“Hong Kong”)	Beneficial	26,000 ordinary shares (L) of US\$1.00 each
Mr. Hao Yu	Hezhong	Beneficial	6,000 ordinary shares (L) of US\$1.00 each

Note 1: These shares are held by Hezhong which is owned as to 52% by Mr. Wang Wenliang, as to 12% by Mr. Hao Yu, as to 12% by Mr. Yang Jianguo, as to 12% by Mr. Li Weisong and as to 12% by Mr. Li Zifeng.

L: Long position

Save as disclosed above, as at 31st March, 2005, 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 31st March, 2005, none of the Directors had any interest, direct or indirect, in any assets which had been, since 31st December, 2004, 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 31st March, 2005, 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 31st March, 2005, 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	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 31st March, 2005, 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.

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 Relevant Period.

AUDIT COMMITTEE

The Company has established an audit committee in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group and to provide advice and comments to the board of directors.

The audit committee comprises three independent non-executive Directors, including Mr. Wang Shunlong, Dr. Luo Yongtai and Mr. Hung, Randy King Kuen. Mr. Wang Shunlong is the chairman of the audit committee. The audit committee reviewed the unaudited quarterly results of the Group for the three months ended 31st March, 2005.

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 Relevant Period.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the Relevant Period, 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.

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, 12th May, 2005

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