



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 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](http://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**

- Turnover reached approximately HK\$5,509,000 for the six months ended 30 June 2005.
- Loss attributable to shareholders of the Company amounted to approximately HK\$8,155,000 for the six months ended 30 June 2005.
- The basic loss per share for the six months ended 30 June 2005 was approximately HK\$0.767 cent.
- The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2005.

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 1 January 2005 to 30 June 2005

	Notes	Three months ended		Six months ended	Twelve months
		30 June 2005	30 June 2004	30 June	ended 30 June
		HK\$'000	HK\$'000	2005	2004
		(unaudited)	(unaudited)	(unaudited)	(unaudited)
Turnover	2, 5	2,732	2,504	5,509	8,998
Cost of sales		(1,382)	(1,006)	(3,499)	(2,435)
<b>GROSS PROFIT</b>		<b>1,350</b>	1,498	<b>2,010</b>	6,563
Other revenue		142	23	174	202
Selling and marketing expenses		(1,002)	(501)	(1,354)	(1,559)
Administrative expenses		(3,072)	(2,919)	(7,587)	(8,245)
Other operating expenses		(1,854)	(513)	(2,763)	(2,382)
Finance costs		(159)	18	(1,244)	(7)
<b>LOSS BEFORE TAXATION</b>		<b>(4,595)</b>	(2,394)	<b>(10,764)</b>	(5,428)
Taxation	3	-	-	-	-
<b>LOSS FOR THE PERIOD</b>		<b>(4,595)</b>	(2,394)	<b>(10,764)</b>	(5,428)
Interim dividend	4	-	-	-	-
Attributable to:					
Shareholders of the Company		(3,423)	(2,432)	(8,155)	(5,268)
Minority interests		(1,172)	38	(2,609)	(160)
		<b>(4,595)</b>	(2,394)	<b>(10,764)</b>	(5,428)
<b>LOSS PER SHARE</b>	6				
Basic		<b>HK\$0.322 cent</b>	HK0.253 cent	<b>HK\$0.767 cent</b>	HK0.669 cent
Diluted		N/A	N/A	N/A	N/A

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2005

		<b>30 June 2005</b>	31 December 2004
	<i>Notes</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
		<b>(Unaudited)</b>	<b>(Audited)</b>
<b>Non-current assets</b>			
Property, plant and equipment	7	79,010	10,431
Other intangible asset	8	22,708	–
Deposit for investment	9	–	20,210
Goodwill		732	732
		<b>102,450</b>	<b>31,373</b>
<b>Current assets</b>			
Inventories		6,582	3,083
Amount due from customers for contract work		6,891	–
Trade receivables	10	3,078	4,821
Deposits, prepayments and other receivables		4,791	5,925
Loans to officers		485	112
Bank balances and cash		30,963	22,919
		<b>52,790</b>	<b>36,860</b>
<b>Current liabilities</b>			
Deferred income and advance received		12,819	1,578
Amounts due to customers for contract work		–	111
Trade payables	11	8,819	2,462
Other creditors and accrued charges		22,553	3,750
Amounts due to related companies	12	7,619	5,742
Bank borrowings – due within one year	13	40,189	–
		<b>91,999</b>	<b>13,643</b>
<b>Net current (liabilities)/assets</b>		<b>(39,209)</b>	<b>23,217</b>
		<b>63,241</b>	<b>54,590</b>
<b>Capital and reserves</b>			
Share capital		10,628	10,628
Reserves		34,682	42,837
		<b>45,310</b>	<b>53,465</b>
<b>Minority interests</b>		<b>17,718</b>	<b>912</b>
		<b>63,028</b>	<b>54,377</b>
<b>Non-current liability</b>			
Provision for long service payment		213	213
		<b>63,241</b>	<b>54,590</b>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period from 1 January 2005 to 30 June 2005

	Attributable to shareholders of the Company				Minority interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Merger reserve HK\$'000	Accumulated losses HK\$'000		
At 1 July 2003 as previously reported as equity	4,054	4,378	3,740	(10,635)		1,537
At 1 July 2003 as previously reported as minority interests					(864)	(864)
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
Acquisition of minority interests from a subsidiary	–	–	–	–	(24)	(24)
Contribution from a minority shareholders of a subsidiary	–	–	–	–	1,000	1,000
Loss for the period	–	–	–	(5,268)	(160)	(5,428)
At 30 June 2004	<u>9,608</u>	<u>27,383</u>	<u>3,740</u>	<u>(15,903)</u>	<u>(48)</u>	<u>24,780</u>
At 1 January 2005 as previously reported as equity	10,628	48,817	3,740	(9,720)		53,465
At 1 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)
At 30 June 2005	<u>10,628</u>	<u>48,817</u>	<u>3,740</u>	<u>(17,875)</u>	<u>17,718</u>	<u>63,028</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the period from 1 January 2005 to 30 June 2005

	<b>1 January 2005 to 30 June 2005 HK\$'000</b>	1 July 2003 to 30 June 2004 HK\$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(13,092)	(6,572)
NET CASH INFLOW FROM INVESTING ACTIVITIES	19,259	5,055
NET CASH INFLOW FROM FINANCING ACTIVITIES	<u>1,877</u>	<u>23,772</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,044	22,255
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	<u>22,919</u>	<u>444</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	<u><u>30,963</u></u>	<u><u>22,699</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<u><u>30,963</u></u>	<u><u>22,699</u></u>

*Notes:*

## **1. Basis of preparation and principal accounting policies**

The unaudited condensed financial statements have been prepared in accordance with the applicable disclosure requirements of chapter 18 of the GEM Listing Rules and with Hong Kong Accounting Standard 34 (HKAS 34) Interim Financial Reporting.

The condensed financial statements have been prepared on the historical cost basis.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the eighteen months ended 31 December 2004 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (HKFRSs), Hong Kong Accounting Standards (HKASs) and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has had no material effect on how the results for the current or prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented:

### *Business Combinations*

Assume that Listed Group Limited does not apply limited retrospective application in HKFRS 3 to any business combinations occurred prior to the effective date of HKFRS 3.

In the current period, the Group has applied HKFRS 3, Business Combinations, which is effective for business combinations for which the agreement date is on or after 1 January 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

### *Goodwill*

In previous periods, goodwill arising on acquisitions prior to 1 January 2001 was held in reserves, and goodwill arising on acquisitions after 1 January 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1 January 2005 onwards and goodwill will be tested for impairment at least annually. Goodwill arising on acquisitions after 1 January 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period. Figures for twelve months ended 30 June 2004 have not been restated.



## 2. Turnover

An analysis of the turnover of the Group for the three months and six months ended 30 June 2005, is as follows:

	<b>Three months ended</b>		<b>Six months</b>	<b>Twelve months</b>
	<b>30 June 2005</b>	30 June 2004	<b>ended 30</b>	<b>ended 30</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>June 2005</b>	<b>June 2004</b>
			<b>HK\$'000</b>	<b>HK\$'000</b>
By principal activities:				
Software project income	<b>1,092</b>	1,084	<b>1,832</b>	5,188
Sales of Natural gas	<b>589</b>	–	<b>1,745</b>	–
Maintenance income	<b>658</b>	835	<b>1,115</b>	3,049
Gas connection fees	<b>268</b>	370	<b>622</b>	370
Sales of stoves and related equipment	<b>123</b>	77	<b>188</b>	77
Resale of hardware	<b>2</b>	138	<b>7</b>	314
	<b><u>2,732</u></b>	<b><u>2,504</u></b>	<b><u>5,509</u></b>	<b><u>8,998</u></b>
By principal activities:				
Hong Kong	<b>1,379</b>	2,050	<b>2,954</b>	8,406
PRC	<b>1,353</b>	454	<b>2,555</b>	592
	<b><u>2,732</u></b>	<b><u>2,504</u></b>	<b><u>5,509</u></b>	<b><u>8,998</u></b>

## 3. Taxation

No provision for the Hong Kong profits tax has been made as the Group had no assessable profits for the six months ended 30 June 2005 (2004: Nil).

## 4. Interim dividend

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2005 (2004: Nil).

## 5. Segmental information

For management purpose, the Group is currently organised into four major operating divisions: Sales 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 period from 1 January 2005 to 30 June 2005

	Sales of natural gas 2005 <i>HK\$'000</i>	Gas pipeline construction 2005 <i>HK\$'000</i>	Development and sale of software 2005 <i>HK\$'000</i>	Software maintenance services 2005 <i>HK\$'000</i>	Other operations 2005 <i>HK\$'000</i>	Total 2005 <i>HK\$'000</i>
Turnover	<u>1,745</u>	<u>622</u>	<u>1,832</u>	<u>1,115</u>	<u>195</u>	<u>5,509</u>
Segment result	(72)	(118)	(1,480)	647	(278)	(1,301)
Unallocated corporate expenses						(8,230)
Interest income						11
Finance costs						<u>(1,244)</u>
Loss before taxation						(10,764)
Taxation						<u>-</u>
Loss for the period						<u>(10,764)</u>

### Income statement for the period from 1 July 2003 to 30 June 2004

	Sales of natural gas 2004 <i>HK\$'000</i>	Gas pipeline construction 2004 <i>HK\$'000</i>	Development and sale of software 2004 <i>HK\$'000</i>	Software maintenance services 2004 <i>HK\$'000</i>	Other operations 2004 <i>HK\$'000</i>	Total 2004 <i>HK\$'000</i>
Turnover	<u>-</u>	<u>370</u>	<u>5,188</u>	<u>3,049</u>	<u>391</u>	<u>8,998</u>
Segment result	-	171	854	2,733	306	4,064
Unallocated corporate expenses						(9,518)
Interest income						33
Finance costs						<u>(7)</u>
Loss before taxation						(5,428)
Taxation						<u>-</u>
Loss for the period						<u>(5,428)</u>

## 6. Loss per share

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

	<b>Three months ended</b>		<b>Six months ended</b>	Twelve months ended
	<b>30 June 2005</b>	30 June 2004	<b>30 June 2005</b>	30 June 2004
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
<b>Loss</b>				
Loss for the purpose of basic loss per share:				
– loss for the period attributable to equity holders of the Company	<u>(3,423)</u>	<u>(2,432)</u>	<u>(8,155)</u>	<u>(5,368)</u>
<b>Number of shares</b>				
Weight average number of ordinary shares for the purpose of basic loss per share ('000)	<u>1,062,800</u>	<u>960,800</u>	<u>1,062,800</u>	<u>802,106</u>

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

## 7. Property, plant and equipment

During the period under review, the Group acquired property, plant and equipment at a fair value of approximately HK\$56,342,000 which was contributed by 臨沂市城市燃氣工程籌建處 (the Department of City Natural Gas Engineering of Linyi City) (“CNGE”) pursuant to a joint venture agreement (“Linyi ZhongYu JV Agreement”) dated 12 November 2004 entered into between the Company and CNGE in respect of the establishment of Linyi ZhongYu Gas Company Limited (“Linyi ZhongYu JV”).

During the period under review, the addition to property, plant and equipment were approximately HK\$6,550,000, (Twelve months ended 31 December 2004: HK\$6,351,000).

## 8. Other intangible asset

During the period under review, the Group acquired other intangible asset Patent at a fair value of approximately HK\$22,708,000 which was contributed by CNGE pursuant to the Linyi ZhongYu JV Agreement in respect of the establishment of the Linyi ZhongYu JV (Twelve months ended 31 December 2004: Nil).

## 9. Deposit for investment

Deposit for investment as at 31 December 2004 represented the deposit paid by the Company pursuant to the Linyi ZhongYu Agreement in respect of the establishment of the Linyi ZhongYu JV. During the period under review, the Linyi ZhongYu has been established.

No deposit was paid for investment as at 30 June 2005.

## 10. Trade receivables

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

	<b>30 June 2005 HK\$'000</b>	31 December 2004 HK\$'000
Within 1 month	760	1,953
Over 1 month but within 3 months	409	703
Over 3 months but within 6 months	1,156	1,242
Over 6 months	1,199	1,362
	<hr/>	<hr/>
	3,524	5,260
Less: Provision for bad and doubtful debts	(446)	(439)
	<hr/>	<hr/>
	<b>3,078</b>	<b>4,821</b>
	<hr/> <hr/>	<hr/> <hr/>

## 11. Trade payables

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

	<b>30 June 2005 HK\$'000</b>	31 December 2004 HK\$'000
0 – 30 days	3	240
31 – 90 days	349	2
91 – 180 days	184	237
Over 180 days	8,283	1,983
	<hr/>	<hr/>
	8,819	2,462
	<hr/> <hr/>	<hr/> <hr/>

## 12. Amount due to related companies

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

## 13. Bank borrowings – due within one year

Loans from financial institutions were secured, interest-bearing at commercial rates and repayable within one year.

## 14. Acquisitions, disposals and significant investments

Save as disclosed herein, the Group had no acquisitions, disposals nor significant investments for the six months ended 30 June 2005.

## 15. Capital commitments

As at 30 June 2005, the Group did not have any significant capital commitments.

## 16. Contingent liabilities

As at 30 June 2005, the Group did not have any contingent liabilities.

## **LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

### **Net current liabilities**

As at 30 June 2005, the Group had net current liabilities of approximately HK\$39,209,000.

The current assets of the Group as at 30 June 2005 amounted to approximately HK\$52,790,000, comprising inventories of approximately HK\$6,582,000, amount due from customers for contract work of approximately HK\$6,891,000, trade receivables of approximately HK\$3,078,000, deposits, prepayments and other receivables of approximately HK\$4,791,000, loan to offices of approximately HK\$485,000 and cash and bank balances of approximately HK\$30,963,000.

As at 30 June 2005, the current liabilities of the Group amounted to approximately HK\$91,999,000, comprising deferred income and advance received of approximately HK\$12,819,000, trade payables of approximately HK\$8,819,000, other creditors and accrued charges of approximately HK\$22,553,000 amount due to related companies of approximately HK\$7,619,000 which is unsecured, interest free and has no fixed terms of repayment, and bank borrowings – due within one year of approximately HK\$40,189,000 which were secured, interest-bearing at commercial rates and repayable within one year.

The gearing ratio as a percentage of bank borrowings over equity is 0.89 as at 30 June 2005.

### **Financial resources**

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

### **Directors' opinion on sufficiency of working capital**

Taking into account the current financial resources available to the Group, the extension of the maturity date of the short-term bank loans of approximately HK\$31,132,000 by one year from 7 July 2005 and approximately HK\$9,057,000 by half year from 30 June 2005, the promises given by related companies of the Group that they would not demand the repayment within 12 months of amounts due from the Group as at 30 June 2005 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 2005, the Group had 251 employees (2004: 110) in Hong Kong and the PRC, and the total remuneration for the period under review was approximately HK\$4,738,000 (1 July 2003 to 30 June 2004: HK\$6,912,000). The increase in number of staff in the Group was mainly attributable to the establishment of the Linyi ZhongYu JV 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 2005, 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 2005, 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**

During the period under review, the Group mainly focused on the exploration and the development of natural gas related business. Part of 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 Linyi ZhongYu JV Agreement, the Company and the CNGE established the Linyi ZhongYu JV in early 2005, the details of which were set out in the announcement of the Company dated 12 November, 2004 and the circular of the Company dated 23 December, 2004. The 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 the 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, including assets and liabilities.

Pursuant to the sales and purchase agreement dated 26 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 City Gas Construction Company Limited (“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 31 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\$6,912,000). and the Loss. According to the audited report of Linyi China Gas for the year ended 31 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 amounted to approximately RMB3,760,000 (equivalent to approximately HK\$6,912,000).

The independent non-executive Directors, including Mr. Wang Shunlong, Dr. Luo Yongtai 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 14 April, 2005.

On 24 June 2005, the Company entered into the Letter of Intent with 黑龍江北方企業集團有限責任公司 (Heilongjiang Beifang Enterprise Group Limited) (“Heilongjiang Beifang Enterprise”) in respect of the possible investment by the Company or its subsidiary in the natural gas market of Jiamusi City, Heilongjiang Province, the PRC by way of acquiring the natural gas business related assets owned by Jiamusi Beifang Coal Chemical, a subsidiary of Heilongjiang Beifang Enterprise or establishing a joint venture with Heilongjiang Beifang Enterprise (the “**Proposed Investment**”). To the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, Heilongjiang Beifang Enterprise and its ultimate beneficial owner are independent third parties not connected with the directors, substantial shareholders or management shareholders of the Company or any of its subsidiaries or their respective associate. The Letter of Intent is non-legally binding. As the amount of the Proposed Investment has not yet been determined, the size of the Proposed Investment cannot be determined pursuant to Chapter 19 of the GEM Listing Rules as at the date of this report. As and when the formal agreement in respect of the Proposed Investment is entered into, further announcement will be made pursuant to Chapter 19 of the GEM Listing Rules if the transaction contemplated under the said formal agreement constitutes notifiable transaction of the Company.

On 29 July 2005, Hezhong Investment Holding Company Limited (“Hezhong”), the controlling Shareholder, and the Ocean Valley International Limited (“Ocean Valley”), a wholly owned subsidiary of the Company, entered into the sale and purchase agreement (“Sale and Purchase Agreement”) pursuant to which the Ocean Valley conditionally agreed to purchase and Hezhong conditionally agreed to sell the 100 ordinary shares of US\$1.00 each in the capital of China City Gas Construction Holdings Company Limited (“CCGC Holdings”) (being the entire issued share capital of CCGC Holdings) and 100 ordinary shares of US\$1.00 each in the capital of China City Gas Construction Explore Company Limited (“CCGC Explore”) (being the entire issued share capital of CCGC

Explore) and the outstanding shareholders' loans in an aggregate amount of HK\$112,998,440 owed by CCGC Holdings and CCGC Explore to Hezhong as at the date of the Sale and Purchase Agreement, which are unsecured, interest free and have no fixed terms of repayment for a total consideration of HK\$108,890,000 ("Acquisition"). The consideration will be satisfied by the allotment and issue of up to 294,297,297 new shares of the Company.

The Acquisitions constitute a very substantial acquisition pursuant to Rule 19.06(5) of the GEM Listing Rules. The Acquisitions also constitute a connected transaction of the Company pursuant to Rule 20.13(1)(a) of the GEM Listing Rules. Accordingly, the Acquisitions are subject to the approval of the shareholders of the Company other than Hezhong and its associates ("Independent Shareholders") at the extraordinary general meeting of the Company to be convened to consider and, if thought fit, approve the Acquisitions ("EGM"). In accordance with the GEM Listing Rules, Hezhong, which holds approximately 57.41% of the Shares, and its associates will abstain from voting on the resolution to approve the Acquisitions and any vote exercised by the Independent Shareholders at the EGM shall be taken by poll.

An independent board committee of the Company has been established to consider the Acquisitions and to advise the Independent Shareholders as to whether the terms of the Sale and Purchase Agreement are fair and reasonable, whether the Acquisitions are in the interests of the Company and the Shareholders as a whole and to advise the Shareholders on how to vote. SinoPac Securities (Asia) Limited has been appointed as an independent financial adviser of the Company to advise the independent board committee of the Company and the Independent Shareholders regarding the Acquisitions. A circular containing, among other things, (i) details of the Sale and Purchase Agreement; (ii) the recommendation of the independent board committee of the Company to the Independent Shareholders in relation to the Acquisitions; (iii) the advice of the independent financial adviser to the independent board committee of the Company and the Independent Shareholders in relation to the Acquisitions; and (iv) a notice convening the EGM, will be despatched to the Shareholders as soon as practicable in accordance with the GEM Listing Rules.

CCGC Holdings, which is wholly-owned by Hezhong as at the date of this report, was incorporated in the BVI on 16 August 2002. It is an investment holding company and has no other business save for the holding of Sanmenxia China-Gas Gas Development Co. Ltd (三門峽中燃城市燃氣發展有限公司) ("Sanmenxia"), Xinmi Zhongyu Gas Co., Ltd. (新密中裕燃氣有限公司) ("Xinmi") and Yanshi Zhongyu Gas Co., Ltd. (偃師中裕燃氣有限公司) ("Yanshi").

Sanmenxia, Xinmi and Yanshi are Chinese-foreign cooperative joint ventures, the details of which are as follows:

Sanmenxia was established on 24 July 2003 in Sanmenxia City, Henan Province, PRC. It is mainly engaged in the natural gas pipeline network development and sale of natural gas in Sanmenxia City, as well as sale and maintenance of natural gas appliances. Sanmenxia is owned as to 90% by CCGC Holdings and as to 10% by Sanmenxia City Gas Co., Ltd.(三門峽市燃氣總公司). According to official statistics from the Sanmenxia municipal government, its GDP for 2004 was approximately RMB27 billion, which had grown by approximately 14% from 2003. It had a population of approximately 2.2 million in 2004.



Xinmi was established on 13 October 2003 in Xinmi City, Henan Province, PRC. It is mainly engaged in the construction of natural gas pipeline projects, sale of natural gas, design and installation of gas projects and facilities, as well as the sale and maintenance of natural gas facilities and appliances. Xinmi is owned as to 97% by CCGC Holdings and as to 3% by Xinmi City Qiushi Project Cost Consulting Co., Ltd. (新密市求是工程造價諮詢有限公司). According to official statistics from the Xinmi municipal government, it had a population of approximately 750,000 in 2004. Its GDP for 2004 was approximately RMB11 billion, which had grown by approximately 15% from 2003.

Yanshi was established on 28 May 2003 in Yanshi City, Henan Province, PRC. It is mainly engaged in the design and construction of natural gas projects in Yanshi City, sale of liquid petroleum gas, as well as maintenance of natural gas appliances. Yanshi is owned as to 95% by CCGC Holdings and as to 5% by Yanshi City Gas Co., Ltd. (偃師市燃氣公司). According to official statistics from the Yanshi municipal government, it had a population of about 830,000 in 2004. Its GDP for 2004 was approximately RMB16 billion, which had grown by approximately 17% from 2003.

CCGC Explore, which is wholly owned by Hezhong as at the date of this announcement, was incorporated in the BVI on 9 December 2002. It is an investment holding company and has no other business save for the holding of Yongcheng China-Gas Heating Explore Co., Ltd. (永城中裕燃氣有限公司) (“Yongcheng”). CCGC Explore’s former name was Goldmax Investment Development Limited (金豐投資發展有限公司) and has been changed to the present one since 6 March 2003.

Yongcheng is a Chinese-foreign cooperative joint venture and to the best of the Directors’ knowledge, information and believes, having made all reasonable enquiries, its minority shareholder and its ultimate beneficial owner are Independent Third Parties. The details of Yongcheng is as follows:

Yongcheng was established on 17 June 2003 in Yongcheng City, Henan Province, PRC and is mainly engaged in the transportation, provision and sale of natural gas, as well as the production, sale and maintenance of natural gas facilities and appliances. Yongcheng is owned as to 99% by CCGC Explore and as to 1% by Yongcheng Jinzhi Gas Consulting Co., Ltd. (永城金智燃氣熱力諮詢服務有限公司). According to official statistics from the Yongcheng municipal government, it had a population of about 1.4 million in 2004. Its GDP for 2004 was approximately RMB10.3 billion, which had grown by approximately 30.1% from 2003.

The Directors are of the view that the entering into of the Sale and Purchase 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 operations.

As mentioned above, the four cities in which Sanmenxia, Yanshi, Xinmi and Yongcheng collectively (the “Gas Companies”) operate, namely Sanmenxia City, Yanshi City, Xinmi City and Yongcheng City, have a total population of over 5 million. Their GDPs have increased by over 14% annually as well.

Currently, the primary source of energy of the four cities is produced from coal, which the respective municipal governments regard as inefficient and causing high pollution. They are therefore seeking alternative and cleaner sources of energy to reduce such pollution. As such, the Gas Projects have received governmental support in their development, including receiving exclusive rights to sell and distribute natural gas in the four cities. The municipal governments have also imposed policies to tear down certain coal energy stations as well as providing incentives for households and businesses to switch to cleaner energy sources.

Since Sanmenxia and Yanshi began operations in late 2003 while Xinmi and Yongcheng only began sales in late 2004, the Gas Companies had net losses for 2003 and 2004. However, based on the developments mentioned above, the Directors believe that demand for natural gas in the four cities will grow and the Gas Companies will generate assets and profits in the near future. Furthermore, the Directors are of the view that the Acquisitions would provide steady cash flows to the Group.

As such, the entering into of the Sale and Purchase Agreement could provide an opportunity for the Group to increase its source of income and improve the earning base of the Group.

## **FINANCIAL REVIEW**

### **Overall**

During the period under review, the Group is principally engaged in (i) the development, construction and operation of natural gas projects in the 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 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 HRM system.

The Group's turnover for the six months ended 30 June 2005 reached approximately HK\$5,509,000. Of the Group's total turnover, approximately 31.7% was derived from sales of natural gas, approximately 11.3% was derived from the gas connection fees, approximately 33.3% was derived from development and sale of software, approximately 20.2% was derived from render of software maintenance services and the remaining approximately 3.5% was derived from others operations.

For the six months ended 30 June 2005, the Group's overall gross profit margin was approximately 36.5%.

The Group's distribution costs for the six months ended 30 June 2005 amounted to approximately HK\$6,912,000, representing approximately 24.6% of the Group's turnover. As compared to that of approximately 17.3% for the twelve months ended 30 June 2004, the increase in distribution costs as a percentage of the Group's turnover was mainly attributable to the increase in commission paid to outsiders for referring new customers of MRC HRM software.

For the six months ended 30 June 2005, the Group's administrative expenses and average administrative expenses per month amounted to approximately HK\$7,587,000 and HK\$1,265,000 respectively. As compared to that of approximately HK\$687,000 for the twelve months ended 30 June 2004, the increase in the Group's average administrative expenses per month was mainly attributable to the establishment of the Linyi ZhongYu JV in early 2005.

The Group's other operating expenses and average other operating expenses per month for the six months ended 30 June 2005 amounted to approximately HK\$2,763,000 and HK\$461,000. As compared to that of approximately 199,000 for the twelve months ended 30 June 2004, the increase in other operating expenses per month was mainly attributable to the suffer of loss derived from supply of liquified petroleum gas to customers by the Hanzheng JV and the Linyi ZhongYu JV in Hanzhong City, Shannxi Province and Linyi City, Shandong Province, PRC.

As a result from the above, the Group's loss attributable to shareholders of the Company for the six months ended 30 June 2005 amounted to approximately HK\$6,912,000). as compared to that of approximately HK\$5,268,000 for the twelve months ended 30 June 2004.

The Board does not recommend the payment of any dividend for the six months ended 30 June 2005.

Basic loss per share for the six months ended 30 June 2005 amounted to approximately HK0.767 cent.

### **The business of Natural Gas Supply**

#### *Sales of Natural Gas*

Sales of natural gas is a new business for the Group. The Group has commenced to supply natural gas to its customers in Linyi Economic Development District, Linyi City, Shandong Province, the PRC from March 2005. Taking into account the existing construction progress of the West-to-East Gas project, the Directors expected that the Group will commence natural gas supply to its customers in 蘭山區 (Lan Shan Qu), 羅莊區 (Luo Zhuang Qu), Linyi City, Shandong Province, the PRC from the first quarter of 2006. During the period under review, the Group's turnover derived from sales of natural gas amounted to approximately HK\$1,745,000.

For the six months ended 30 June 2005, the gross profit margin of sales of natural gas was approximately 14.9%.

#### *Gas Pipeline Construction*

The Group has commenced its business of gas pipeline construction from April 2004. For the six months ended 30 June 2005, the turnover of the Group derived from the gas connection fees amounted to approximately HK\$622,000.

For the six months ended 30 June 2005, the gross profit margin of the gas connection fees was approximately 53.9%.

## **The business of HRM Software Provision**

### *Development and sale of software*

For the six months ended 30 June 2005, the Group's turnover and average turnover per month derived from development and sale of software amounted to approximately HK\$1,832,000 and HK\$305,000 respectively. As compared to that of approximately HK\$432,000 for the twelve months ended 30 June 2004, the decrease in average turnover derived from development and sale of software was mainly attributable to the result of intensive pricing competition and the concentration of the Group's resources to explore and develop, the natural gas related business.

For the six months ended 30 June 2005, the gross profit margin of development and sales of software was approximately 25.9%, representing a substantial decrease of approximately 38.7% over the twelve months ended 30 June 2004. The decrease was mainly attributable to outsourcing part of implementation of software projects.

### *Software maintenance services*

For the six months ended 30 June 2005, the turnover and the average turnover per month of the Group derived from the render of software maintenance services amounted to approximately HK\$1,115,000 and HK\$186,000 respectively. As compared to that of approximately HK\$254,000 the twelve months ended 30 June 2004, the decrease in average turnover per month derived from render of software maintenance services was mainly due to the fact that some customers ceased to renew the agreement with the Group relating to the provision of software maintenance services.

For the six months ended 30 June 2005, the gross profit margin of software maintenance services income was approximately 86.5%, representing a slight decrease of approximately 3.1% over the twelve months ended 30 June 2004. The decrease was mainly attributable to outsourcing part of the provision of software maintenance.

## **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.

Taking into account the construction progress of the West-to-East Gas project, the Directors expected that natural gas supply in the cities in which the Group's gas companies operate via the West-to-East pipeline would be available in the first quarter of 2006 and by that time, the Group's gas companies could commence to supply natural gas to its customers. Accordingly, it is expected that the Group's gas companies would achieve greater development in the near future.

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 30 June 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 ("Hezhong")	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 30 June 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 30 June 2005, none of the Directors had any interest, direct or indirect, in any assets which had been, since 31 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 30 June 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 30 June 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:

<b>Name of shareholders</b>	<b>Name of company</b>	<b>Capacity</b>	<b>Number and class of securities</b>
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 30 June 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.

## **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 six months ended 30 June 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 six months ended 30 June 2005.

## **CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

During the six months ended 30 June 2005, 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.

## **CORPORATE GOVERNANCE**

The Company has complied with the code provision set out in Code on Corporate Governance Report contained in Appendix 15 of the GEM Listing Rules for the six months ended 30 June 2005.

## **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 six months ended 30 June 2005.

## **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, 11 August 2005