中裕燃气

中裕燃氣控股有限公司

ZHONGYU GAS HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8070)

THIRD QUARTERLY 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.

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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

– Turnover reached approximately HK$9,056,000 for the nine months ended 30 September 2005.

– Loss attributable to shareholders of the Company amounted to approximately HK$13,574,000 for the nine months ended 30 September 2005.

– The basic loss per share for the nine months ended 30 September 2005 was approximately HK$1.277 cents.

– The Directors do not recommend the payment of any interim dividend for the nine months ended 30 September 2005.

The board of Directors (the "Board") is pleased to announce the unaudited consolidated results of the Group for the three and nine months ended 30 September 2005, which are set out as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the three and nine months ended 30 September 2005

	Notes	Three months ended 30 September 2005 HK$'000 (unaudited)	Three months ended 30 September 2004 HK$'000 (unaudited)	Nine months ended 30 September 2005 HK$'000 (unaudited)	Fifteen months ended 30 September 2004 HK$'000 (unaudited)
Turnover	2	**3,547**	2,260	**9,056**	11,258
Cost of sales		**(1,657)**	(537)	**(5,156)**	(2,972)
GROSS PROFIT		**1,890**	1,723	**3,900**	8,286
Other revenue		**55**	112	**229**	314
Selling and marketing expenses		**(303)**	(397)	**(1,657)**	(1,956)
Administrative expenses		**(6,328)**	(3,460)	**(13,915)**	(11,705)
Other operating expenses		**(1,385)**	(267)	**(4,148)**	(2,649)
Finance costs		**(565)**	(5)	**(1,809)**	(12)
LOSS BEFORE TAXATION		**(6,636)**	(2,294)	**(17,400)**	(7,722)
Taxation	3	**–**	–	**–**	–
NET LOSS FOR THE PERIOD		**(6,636)**	(2,294)	**(17,400)**	(7,722)
Interim dividend	4	**–**	–	**–**	–
Attributable to:					
Shareholders of the Company		**(5,419)**	(2,120)	**(13,574)**	(7,388)
Minority interests		**(1,217)**	(174)	**(3,826)**	(334)
		(6,636)	(2,294)	**(17,400)**	(7,722)
LOSS PER SHARE	5				
Basic		**HK$0.510 cent**	HK0.221 cent	**HK$1.277 cents**	HK0.886 cent
Diluted		**N/A**	N/A	**N/A**	N/A

Notes:

1. Basis of preparation and principal accounting policies

The unaudited consolidated results have been prepared in accordance with the applicable disclosure requirements of chapter 18 of the GEM Listing Rules and with Hong Kong Accounting Standards ("HKAS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The accounting policies used in the unaudited consolidated results 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.

The amounts shown for the unaudited consolidated results and related notes for the current period cover the nine months ended 30 September 2005. The corresponding amounts shown for the unaudited consolidated results and related notes cover the 15 months ended 30 September 2004 because the Directors determined to bring the balance sheet date in line with that of the subsidiaries established in the PRC and therefore may not be comparable with amounts shown for the current period.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), HKAS and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA 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 nine months ended 30 September 2005, is as follows:

	Three months ended		Nine months ended	Fifteen months ended
	30 September 2005	30 September 2004	**30 September 2005**	30 September 2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
By principal activities:				
Sales of natural gas	**906**	–	**2,651**	–
Gas connection fees	**702**	625	**1,324**	995
Software project income	**1,439**	774	**3,271**	5,962
Maintenance income	**484**	794	**1,599**	3,843
Sales of stoves and related equipment	**16**	64	**204**	141
Resale of hardware	**–**	3	**7**	317
	3,547	2,260	**9,056**	11,258
By principal activities:				
Hong Kong	**1,892**	1,557	**4,846**	9,963
PRC	**1,655**	703	**4,210**	1,295
	3,547	2,260	**9,056**	11,258

3. Taxation

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

4. Interim dividend

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

5. 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:

	Three months ended 30 September 2005 HK$'000	Three months ended 30 September 2004 HK$'000	Nine months ended 30 September 2005 HK$'000	Fifteen months ended 30 September 2004 HK$'000
Loss				
Loss for the purpose of basic loss per share:				
– loss for the period attributable to equity holders of the Company	**(5,419)**	(2,120)	**(13,574)**	(7,388)
Number of shares				
Weight average number of ordinary shares for the purpose of basic loss per share ('000)	**1,062,800**	960,800	**1,062,800**	833,983

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

6. Reserves

	Attributable to shareholders of the Company					
	Share capital *HK$'000*	**Share premium** *HK$'000*	**Merger reserve** *HK$'000*	**Accumulated losses** *HK$'000*	**Minority interests** *HK$'000*	**Total equity** *HK$'000*
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 minority shareholders of subsidiaries	–	–	–	–	19,415	19,415
Net loss for the period	–	–	–	(13,574)	(3,826)	(17,400)
At 30 September 2005	10,628	48,817	3,740	(23,294)	16,501	56,392

7. Acquisitions, disposals and significant investments

Save as disclosed under the paragraph headed "Business Review" of this report, the Group had no acquisitions, disposals nor significant investments for the nine months ended 30 September 2005.

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 services originally performed by the Group itself had been subcontracted to subcontractors since the early 2005.

Pursuant to a joint venture agreement dated 12 November 2004 entered into between 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"), the Company and the CNGE established Linyi ZhongYu Gas Company Limited ("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 the 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 the 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$2,857,000) 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$833,000). Accordingly, the total compensation to be received by Portwood from Mr. Zheng Gang amounted to approximately RMB3,760,000 (equivalent to approximately HK$3,580,000).

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 announcement. 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 Zhongyu Gas Investment Limited ("Zhongyu Gas Investment"), a wholly owned subsidiary of the Company, entered into the sale and purchase agreement ("Sale and Purchase Agreement") pursuant to which the Zhongyu Gas Investment 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 Acquisition were completed on 3 October 2005 and the aforesaid consideration was satisfied by the allotment and issue of 262,385,542 new shares of the Company to Hezhong.

CCGC Holdings 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 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 nine months ended 30 September 2005 reached approximately HK$9,056,000. Of the Group's total turnover, approximately 29.3% was derived from sales of natural gas, approximately 14.6% was derived from the gas connection fees, approximately 36.1% was derived from development and sale of software, approximately 17.7% was derived from render of software maintenance services and the remaining approximately 2.3% was derived from others operations.

For the nine months ended 30 September 2005, the Group's overall gross profit margin was approximately 43.1%.

The Group's selling and marketing expenses for the nine months ended 30 September 2005 amounted to approximately HK$1,657,000, representing approximately 18.3% of the Group's turnover. As compared to that of approximately 17.4% for the fifteen months ended 30 September 2004, the increase in selling and marketing expenses 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 to the Group.

For the nine months ended 30 September 2005, the Group's administrative expenses and average administrative expenses per month amounted to approximately HK$13,915,000 and HK$1,546,000 respectively. As compared to that of approximately HK$780,000 for the fifteen months ended 30 September 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 nine months ended 30 September 2005 amounted to approximately HK$4,148,000 and HK$461,000. As compared to that of approximately 177,000 for the fifteen months ended 30 September 2004, the increase in other operating expenses per month was mainly attributable to the suffer of loss derived from supply of liquified gas to customers by Hanzhong China-Gas City Gas Development Company Limited and the Linyi ZhongYu JV in Hanzhong City, Shannxi Province and Linyi City, Shandong Province, the PRC respectively.

As a result from the above, the Group's loss attributable to shareholders of the Company for the nine months ended 30 September 2005 amounted to approximately HK$13,574,000.

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

Basic loss per share for the nine months ended 30 September 2005 amounted to approximately HK1.277 cents.

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. 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$2,651,000.

For the nine months ended 30 September 2005, the gross profit margin of sales of natural gas was approximately 13.2%.

Gas Pipeline Construction

The Group has commenced its business of gas pipeline construction from April 2004. For the nine months ended 30 September 2005, the turnover of the Group derived from the gas connection fees amounted to approximately HK$1,324,000.

For the nine months ended 30 September 2005, the gross profit margin of the gas connection fees was approximately 65.8%.

The business of HRM Software Provision

Development and sale of software

For the nine months ended 30 September 2005, the Group's turnover and average turnover per month derived from development and sale of software amounted to approximately HK$3,271,000 and HK$363,000 respectively. As compared to the average turnover per month of approximately HK$397,000 for the fifteen months ended 30 September 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 nine months ended 30 September 2005, the gross profit margin of development and sales of software was approximately 41.1%, representing a substantial decrease of approximately 24.9% over the fifteen months ended 30 September 2004. The decrease was mainly attributable to the increase in cost of sales resulting from outsourcing part of the implementation of software projects.

Software maintenance services

For the nine months ended 30 September 2005, the turnover and the average turnover per month of the Group derived from the provision of software maintenance services amounted to approximately HK$1,599,000 and HK$178,000 respectively. As compared to the average turnover per month of approximately HK$256,000 for the fifteen months ended 30 September 2004, the decrease in average turnover per month derived from the provision 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 nine months ended 30 September 2005, the gross profit margin of software maintenance services income was approximately 86.9%, representing an slight decrease of approximately 4.9% over the fifteen months ended 30 September 2004. The decrease was mainly attributable to the increase in cost of sales resulting from outsourcing part of the provision of software maintenance services.

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 September 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 the SFO) (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, were as follows:

Name of Director	Nature of interests	Number of the Shares held	Approximate percentage of issued share capital
Mr. Wang Wenliang	Beneficial	914,419,297 ordinary Shares *(Notes 1 and 2)*	67.38%
Mr. Hao Yu	Beneficia	18,004,000 ordinary Shares *(Note 2)*	0.59%
Mr. Lu Zhaoheng	Beneficial	5,004,000 ordinary Shares *(Note 2)*	0.37%
Mr. Xu Yongxuan	Beneficial	5,004,000 ordinary Shares *(Note 2)*	0.37%

Note 1: Among these shares, 904,417,297 are held by Hezhong. Mr. Wang Wenliang is beneficially interested in 52% of the issued share capital of Hezhong.

Note 2: The Shares are allotted and issued through share option schemes adopted by the Company on 24 October 2003.

Save as disclosed above, as at 30 September 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) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors.

As at 30 September 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 consolidated accounts of the Group 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 September 2005, there were 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

So far as is known to the Directors, as at 30 September 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 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 and section 336 of the SFO or, who were or were expected, 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 Director	**Nature of interests**	**Number of the Shares held**	**Approximate percentage of issued share capital**
Hezhong	Beneficial	904,417,297 ordinary Shares	66.65%
Mr. Wang Wenliang	Beneficial	914,419,297 ordinary Shares *(Notes 1 and 2)*	67.38%
Mr. Zheng Gang	Beneficial	150,000,000 ordinary Shares	11.05%

Note 1: Among these shares, 904,417,297 are held by Hezhong. Mr. Wang Wenliang is beneficially interested in 52% of the issued share capital of Hezhong.

Note 2: The Shares are allotted and issued through share option schemes adopted by the Company on 24 October 2003.

Save as disclosed above, as at 30 September 2005, the Directors were not aware of any other person (other than the Directors and the chief executive the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares 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 and section 336 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 comprising three independent non-executive Directors, namely Mr. Wang Shunlong, Dr. Luo Yongtai and Mr. Hung, Randy King Kuen has reviewed with the 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 nine months ended 30 September 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 nine months ended 30 September 2005.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the nine months ended 30 September 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 nine months ended 30 September 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 nine months ended 30 September 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 November 2005