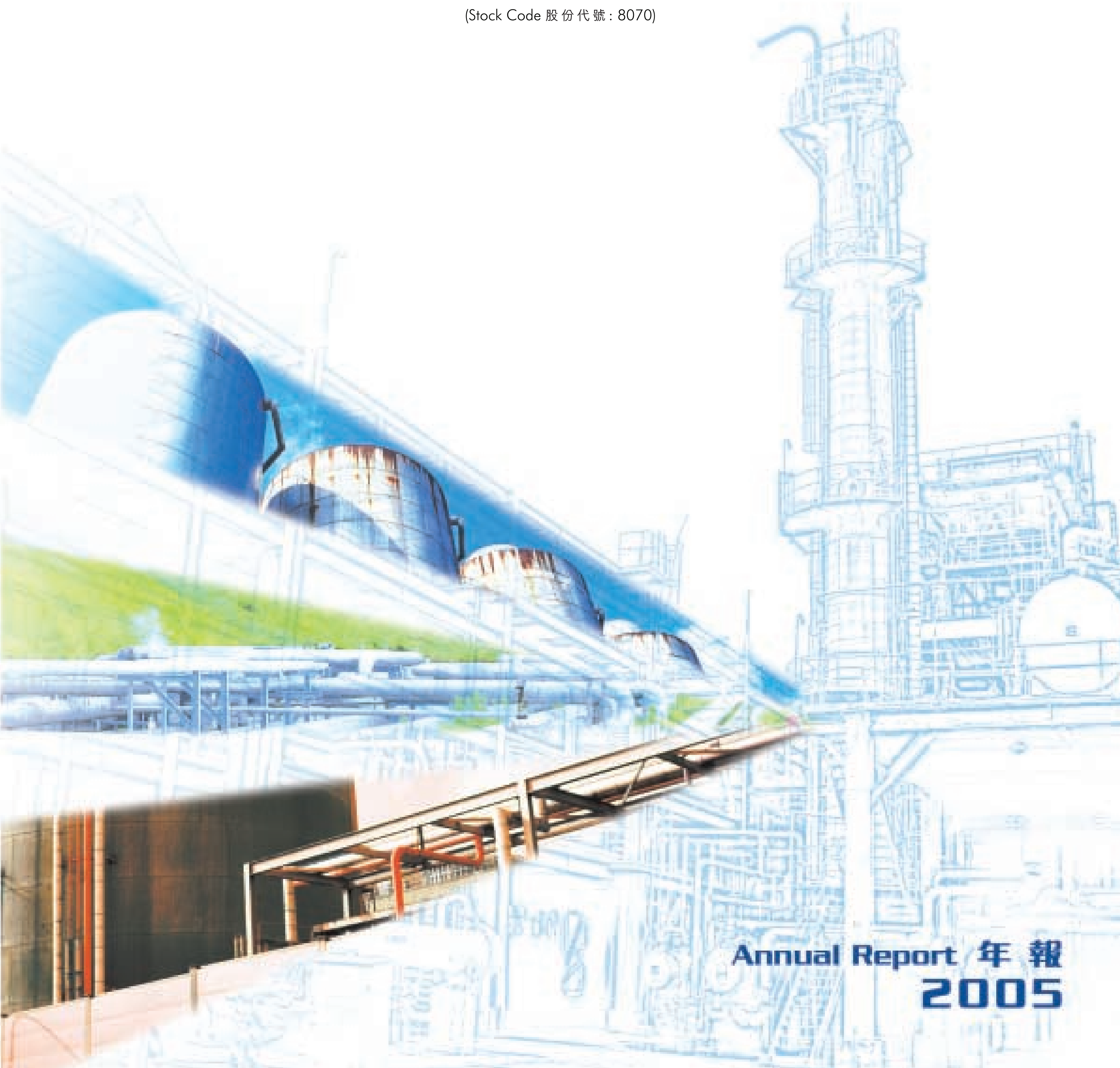
中裕燃气

ZHONGYU GAS HOLDINGS LIMITED
中裕燃氣控股有限公司

(Stock Code 股份代號 : 8070)



Annual Report 年報
2005

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This report, for which the directors of Zhongyu Gas Holdings Limited collectively and individually accept full 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 for the purpose of giving information with regard to Zhongyu Gas Holdings Limited. 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.

Contents

Corporate Information

EXECUTIVE DIRECTORS

Mr. Wang Wenliang *(Chairman)*
Mr. Hao Yu *(Chief Executive Officer)*
Mr. Lu Zhaoheng

NON-EXECUTIVE DIRECTORS

Mr. Xu Yongxuan *(Vice Chairman)*
Mr. Wang Lei
Mr. Nicholas John Ashley Rigg

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wang Shunlong
Dr. Luo Yongtai
Mr. Hung, Randy King Kuen

QUALIFIED ACCOUNTANT

Mr. Lui Siu Keung

COMPANY SECRETARY

Mr. Lui Siu Keung

COMPLIANCE OFFICER

Mr. Hao Yu

AUTHORISED REPRESENTATIVES

Mr. Wang Wenliang
Mr. Hao Yu

AUDIT COMMITTEE

Mr. Wang Shunlong *(Chairman)*
Dr. Luo Yongtai
Mr. Hung, Randy King Kuen

REMUNERATION COMMITTEE

Mr. Wang Shunlong *(Chairman)*
Dr. Luo Yongtai
Mr. Hung, Randy King Kuen

REGISTERED OFFICE

Century Yard
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Grand Cayman
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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1 Harbour View Street
Central, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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36C Bermuda House, 3rd Floor
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Grand Cayman, Cayman Islands
British West Indies

AUDITORS

Deloitte Touche Tohmatsu

PRINCIPAL BANKER

Standard Chartered Bank

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Secretaries Limited
26/F., Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

STOCK CODE

8070

Chairman's Statement

The past twelve months is a busy year for the Group in terms of the expansion of its gas business. In January 2005, the Group formed Linyi Zhongyu Gas Company Limited. In October 2005, the Group successfully acquired four additional gas operations, including Sanmenxia China-Gas Gas Development Co., Ltd., Xinmi Zhongyu Gas Co., Ltd., Yanshi Zhongyu Gas Co., Ltd. and Yongcheng China-Gas Gas Heating Explore Co., Ltd.. Currently, the Group secured six exclusive gas operations in the PRC.

During the year, the Group's gas business achieve an encouraging operating results. For the year ended 31st December, 2005, the turnover derived from such business amounted to approximately HK$35,901,000, equivalent to approximately 18 times over that of approximately HK$2,012,000 for the eighteen months ended 31st December, 2004.

For the year ended 31st December, 2005, the Group recorded a net profit attributable to equity holders of the parent of approximately HK$3,436,000. This was approximately HK$1,231,000, exclusive of an extraordinary gain on disposal of a subsidiary, over a net profit attributable to equity holders of the parent of approximately HK$915,000 for the eighteen months ended 31st December, 2004. The growth is mainly attributable to the expansion of the Group's gas business in the PRC and the enhancement of quality sales force as well as the implementation of the stringent cost control measures.

As to the future prospect of the Group, I am positive about the boom of the natural gas market in People's Republic of China ("PRC"). Due to the growing prosperity, population and annual gross domestic production per capita in the PRC as well as the increasing awareness of environment protection in the PRC, I 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 order to benefit further from the sustained growth of the natural gas industry in the PRC, the Group will strive to obtain more exclusive gas operations in the PRC to enhance its market position and to improve its financial performance.

In addition, the Group will look for valuable strategic investors and introduce them to the Group in order to enhance the Group's reputation and financial position.

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

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

Chairman's Statement

Finally, I would like to extend my greatest appreciation to our management team and staff for their dedication and contribution. I would also like to take this opportunity to express appreciation to our shareholders and customers for their continuous support and confidence in the Group.

Wang Wenliang
Chairman

Hong Kong, 28th March, 2006

Management Discussion and Analysis

BUSINESS REVIEW

Overall

During the year under review, Zhongyu Gas Holdings Limited ("the Company") and its subsidiaries (collectively the "Group") mainly focused on the exploration and the development of 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 independent third party since the early 2005.

Gas Business

The Group's gas business primarily comprises gas pipeline construction and provision of gas. As at 31st December, 2005, the Group secured six exclusive gas operations in Linyi City, Shandong Province, Sanmenxia City, Xinmi City, Yanshi City and Yongcheng City, Henan Province, the PRC. Of the six gas operations of the Group, one, namely Linyi China Gas City Gas Construction Company Limited ("Linyi China Gas") was acquired by the Group in December 2003, one, namely Linyi Zhongyu Gas Company Limited ("Linyi ZhongYu JV"), was formed by the Group in January 2005 and the remaining four, including, Sanmenxia China-Gas Gas Development Co. Ltd. ("Sanmenxia"), Yanshi Zhongyu Gas Co., Ltd. ("Yanshi"), Xinmi Zhongyu Gas Co., Ltd. ("Xinmi") and Yongcheng China-Gas Heating Explore Co., Ltd. ("Yongcheng") were acquired by the Group in October 2005. The details of the formation of Linyi ZhongYu JV and the acquisition of Sanmenxia, Yanshi, Xinmi and Yongcheng were set out under the sub-paragraph headed "Acquisitions, Disposal and Significant Investments" of the paragraph headed "Business Review" in this section. The Group holds at least 90% interests in Linyi China Gas, Sanmenxia, Yanshi, Xinmi and Yongcheng and 51% interests in Linyi ZhongYu JV. The aforesaid cities currently have a total connectable urban population of approximately 1,800,000. It is estimated there were an aggregate of approximately 510,000 connectable residential households in such cities.

Gas Pipeline Construction

The Group commenced to engage in gas pipeline construction activities in People's Republic of China ("the PRC") from 2004. Currently, all the six gas operations of the Group are principally engaged in the business of gas pipeline construction. Turnover derived from gas pipeline construction is one-off connection fees paid by residential households and industrial/commercial customers for the connection of their premises to the piped gas networks operated by the Group. Connection fees charged by the Group are required to obtain approval from local pricing bureaus. During the year under review, the average connection fees charged to residential households by the Group was RMB2,300. The connection fees charged to industrial/commercial customers by the Group was determined on a case basis. Taking into account the huge volume usage of gas by industrial/commercial customers, the Group normally gives special discount to such customers in order to attract them to connect their premises to the piped gas networks operated by the Group. During the year under review, the number of new gas pipeline connection made to residential households and industrial/commercial customers amounted to 12,293 households and 19 customers respectively. As at 31st December, 2005, the accumulated number of residential households and industrial/commercial customers reached 57,919 households and 87 customers respectively.

Management Discussion and Analysis

Provision of Gas

The Group commenced to provide liquefied petroleum gas and natural gas to customers from 2005. Of the six gas operations of the Group, three, including Linyi China Gas, Sanmenxia and Yanshi currently provide piped natural gas and the remaining three, including Linyi Zhongyu JV, Xinmi and Yongcheng currently provide piped and bottled liquefied petroleum gas. Sales of liquefied petroleum gas in the cities in which the Group operates is expected to convert to piped natural gas gradually as and when sufficient natural gas supply becomes available. Provision of gas to customers provides the Group with a recurring stream of revenue. Fees charged by the Group for provision of gas are required to obtain approval from local pricing bureaus. During the year under review, the total unit of natural gas and liquefied petroleum gas provided by the Group to its customers was approximately 1,940,000 m^3 and approximately 2,970,000 m^3 respectively.

Software Business

The Group's software business primarily comprises the development of and sale of human resource management software ("HRM") software system and the provision of HRM software maintenance services.

Development and Sale of Software

The Group commenced to engage in the development of and sale of HRM software system from 1991. Turnover derived from the development of and sale of HRM software system is charges paid by customers for the implementation of HRM software projects. Such charges are usually negotiable between the Group and its customers, depending on the complexity of the projects. During the year under review, the HRM software system had been licensed to 29 new customers in Hong Kong. In line with the Group's strategy in focusing its business on the gas business, part of implementation of HRM software projects had been subcontracted to independent third party since early 2005.

Software Maintenance Services

The Group commenced to engage in the provision of HRM software maintenance services from 1991. The fees paid by customers for the provision of HRM software maintenance services are usually negotiable between the Group and its customers. In line with the Group's strategy in focusing its business on the gas business, part of the provision of HRM software maintenance services had been subcontracted to independent third party since early 2005.

Acquisitions, Disposal and Significant Investments

Pursuant to a joint venture agreement dated 12th 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 CNGE established Linyi ZhongYu JV in January 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 gas as well as sale and maintenance of gas appliances. Linyi ZhongYu JV is owned as to 51% by the Company and the remaining 49% by CNGE.

Management Discussion and Analysis

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, including assets and liabilities.

As at 31st December, 2005, it was estimated that 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 had a total connectable residential households of approximately 237,000. During the year under review, the total number of newly connected piped gas households and industrial/commercial customers amounted to 3,318 households and 7 customers respectively. As at 31st December, 2005, the accumulated connected piped gas households and industrial/commercial customers amounted to 34,845 households and 35 customers respectively.

During the year under review, Linyi ZhongYu JV sold and distributed liquefied petroleum gas to its customers due to the lack of natural gas supply resulting from the fact that the west-east branch pipeline to reach Linyi City was still under construction. It is anticipated that such construction will be completed in around June 2006 and then sales of liquefied petroleum gas in Linyi ZhongYu JV will be replaced by piped natural gas gradually.

On 29th 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 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 shareholder's 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$108,900,000 ("Acquisition"), the details of which were set out in the announcement of the Company dated 29th July, 2005 and the circular of the Company dated 12th September, 2005. The Acquisition was completed on 3rd 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 British Virgin Islands ("BVI") on 16th August, 2002. It is an investment holding company and has no other business save for the holding of Sanmenxia, Xinmi and Yanshi.

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

Sanmenxia was established on 24th July, 2003 in Sanmenxia City, Henan Province, the PRC. It is mainly engaged in the gas pipeline network development and sale of gas in Sanmenxia City, as well as sale and maintenance of 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).

Management Discussion and Analysis

As at 31st December, 2005, it was estimated that Sanmenxia City had a total connectable residential households of approximately 93,000. For the period from 3rd October, 2005 to 31st December, 2005, the total number of newly connected piped gas households amounted to 5,144 households. As at 31st December, 2005, the accumulated connected piped gas households and industrial/commercial customers amounted to 8,144 households and 20 customers respectively.

During the year under review, Sanmenxia sold and distributed piped natural gas and liquefied petroleum gas and bottled liquefied petroleum gas to its customers.

Xinmi was established on 13th October 2003, in Xinmi City, Henan Province, the 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).

As at 31st December, 2005, it was estimated that Xinmi City had a total connectable residential households of approximately 49,000. For the period from 3rd October, 2005 to 31st December, 2005, the total number of newly connected households and industrial/commercial customers amounted to 1,407 households and 4 customers respectively. As at 31st December, 2005, the accumulated connected piped gas households and industrial/commercial customers amounted to 1,407 households and 4 customers respectively.

During the year under review, Xinmi sold and distributed bottled liquefied natural gas to its customers.

Yanshi was established on 28th May, 2003 in Yanshi City, Henan Province, the PRC. It is mainly engaged in the design and construction of gas projects in Yanshi City, sale of gas, as well as maintenance of 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).

As at 31st December, 2005, it was estimated that Yanshi City had a total connectable residential households of approximately 34,000. For the period from 3rd October, 2005 to 31st December, 2005, the total number of newly connected piped gas households amounted to 3 households. As at 31st December, 2005, the accumulated connected piped gas households and industrial/commercial customers amounted to 11,000 households and 15 customers respectively.

During the year under review, Yanshi sold and distributed bottled liquefied petroleum gas to its customers.

CCGC Explore was incorporated in the BVI on 9th 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 6th March, 2003.

Management Discussion and Analysis

Yongcheng is a Chinese-foreign cooperative joint venture and to the best of the knowledge of the directors of the Company (the "Directors"), information and believes, having made all reasonable enquiries, its minority shareholder and its ultimate beneficial owner are independent third parties of the Company. The details of Yongcheng are as follows:

Yongcheng was established on 17th June, 2003 in Yongcheng City, Henan Province, the 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 the production, 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).

As at 31st December, 2005, it was estimated that Yongcheng City had a total connectable residential households of approximately 57,000. For the period from 3rd October, 2005 to 31st December, 2005, the total number of newly connected households and industrial/commercial customers amounted to 1,567 households and 8 customers respectively. As at 31st December, 2005, the accumulated connected piped gas households and industrial/commercial customers amounted to 1,669 households and 12 customers respectively.

During the year under review, Yongcheng sold and distributed piped natural gas to its customers.

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.

Taking into account the expected growing demand for gas in the four cities, the Directors believe that Sanmenxia, Yanshi, Xinmi and Yongcheng will contribute much turnover and profit to the Group in coming years.

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.

On 16th December, 2005, the Company, Kong Rise Holdings Limited ("Kong Rise") and Mr. Ding Runhua, an independent third party of the Company entered into the sale and purchase agreement ("S&P Agreement"), pursuant to which the Company agreed to sell and Kong Rise agreed to purchase the entire interests in Zhongyu Investment Management Limited ("ZIM") and the outstanding balance of shareholder's loan owned by ZIM to the Company as at 21st December, 2005 for a total consideration of HK$8,500,000 payable in cash, the details of which were set out in the announcement of the Company dated 16th December, 2005 and the circular of the Company dated 6th January, 2006. The said transaction was completed on 21st December, 2005. The Group recorded a gain of approximately HK$1,290,000 as a result of such disposal.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the operator of the west-east pipeline had recently delayed its plan to construct branch pipelines to reach Hanzhong City, the PRC at which the Hanzhong China-Gas City Gas Development Company Limited ("Hanzhong JV"), a subsidiary of ZIM operated. As such, Hanzhong JV had been out of natural gas supply and therefore no turnover derived from sales of natural gas had been recorded so far.

Management Discussion and Analysis

In view of the lack of natural gas supply in Hanzhong City which was beyond the original anticipation of the board of Directors (the "Board") and outside the Group's control, and the uncertainty as to when such construction of pipeline would commence or complete, the Board expected this undesirable situation would last for a long time. On the other hand, the Board had been approached by Kong Rise willing to acquire ZIM at a fair price. The Board believed that the entering into of the S&P Agreement could provide the Company an opportunity to realize its investments in ZIM and to focus on its other existing investment business.

In view of the above, the Board considered that the terms of the S&P Agreement were entered into upon normal commercial terms following arm's length negotiations among the parties and that the terms of the S&P Agreement are fair and reasonable and are in the interests of the Company and its shareholders as a whole.

FINANCIAL REVIEW

Overall

During the year under review, the Group is principally engaged in (i) the development, construction and operation of gas projects in the PRC, which principally include design and construction of gas pipeline network and ancillary facilities and sale of gas, as well as sale and maintenance of 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.

Since Sanmenxia, Yanshi, Xinmi and Yongcheng were acquired by the Group on 3rd October, 2005, only their results of operations for the period from 3rd October, 2005 to 31st December, 2005 were absorbed by the Group during the year under review.

The Group's turnover for the year ended 31st December, 2005 reached approximately HK$43,161,000, representing an increase of 182.7% as compared with that of approximately HK$15,267,000 for the eighteen months ended 31st December, 2004. The growth was mainly attributable to the Group's gas business expanded by forming and acquiring a total of five gas operations. Of the Group's total turnover, approximately 51.8% was derived from the gas connection fees, approximately 22.7% was derived from sales of liquefied petroleum gas, approximately 10.8% was derived from development and sale of software, approximately 8.7% was derived from sales of natural gas, approximately 5.1% was derived from render of software maintenance services and the remaining approximately 0.9% was derived from others operations.

For the year ended 31st December, 2005, the Group's overall gross profit margin was approximately 34.9%. As compared to that of 68.8% for the eighteen months ended 31st December, 2004, the decrease was mainly attributable to the shift of major component of the Group's turnover derived from software business to gas business which has a relatively low gross profit margin.

Management Discussion and Analysis

For the year ended 31st December, 2005, the Group recorded other operating income of approximately HK$12,658,000, comprising management fee income of approximately HK$8,500,000, being the service fee paid by Hezhong to the Group for the year under review pursuant to the Service Agreement, compensation income of approximately HK$3,774,000, being a one-off compensation from CNGE to subsidise liquefied petroleum gas operation of Linyi ZhongYu JV for the year under review, bank interest income of approximately HK$173,000 and others of approximately HK$211,000.

For the year ended 31st December, 2005, the Group's distribution costs and average distribution costs per month amounted to approximately HK$1,947,000 and HK$162,000 respectively. As compared to that of approximately HK$132,000 for the eighteen months ended 31st December, 2004, the increase in average distribution costs was mainly attributable to the Group's gas business expanded by forming and acquiring a total of five gas operations.

For the year ended 31st December, 2005, the Group's administrative expenses and average administrative expenses per month amounted to approximately HK$17,631,000 and HK$1,469,000 respectively. As compared to that of approximately HK$774,000 for the eighteen months ended 31st December, 2004, the increase in the Group's average administrative expenses per month was mainly attributable to the growth in the Group's gas business by forming and acquiring a total of five gas operations.

The Group's other operating expenses and average other operating expenses per month for the year ended 31st December, 2005 amounted to approximately HK$2,926,000 and HK$244,000 respectively. As compared to that of approximately HK$147,000 for the eighteen months ended 31st December, 2004, the increase in other operating expenses per month was mainly attributable to the increase in share based payment expenses of approximately HK$2,408,000 resulting from the issuance of share options by the Company in July 2005.

During the year under review, the Group recorded an extraordinary gain on disposal of ZIM of approximately HK$1,290,000.

For the year ended 31st December, 2005, the Group's finance costs amounted to approximately HK$2,131,000. As compared to that of nil for the eighteen months ended 31st December, 2004, the increase in the Group's finance costs was mainly attributable to the bank borrowings newly borrowed by the Group mainly for the construction of gas pipeline networks, including pipelines, processing stations and other ancillary facilities during the year under review.

As a result from the above, the Group's net profit attributable to equity holders of the parent for the year ended 31st December, 2005 amounted to approximately HK$3,436,000. This was approximately HK$1,231,000, exclusive of an extraordinary gain on disposal of a subsidiary, over a net profit attributable to equity holders of the parent of approximately HK$915,000 for the eighteen months ended 31st December, 2004.

The Board does not recommend the payment of any dividend for the year ended 31st December, 2005.

Management Discussion and Analysis

Basic and diluted earnings per share for the year ended 31st December, 2005 amounted to approximately HK$0.31 cent and HK$0.30 cent respectively.

Gas Business

Gas Pipeline Construction

For the year ended 31st December, 2005, the turnover of the Group derived from the gas connection fees reached approximately HK$22,347,000, representing an increase of approximately 1,010.7% from that of approximately HK$2,012,000 for the eighteen months ended 31st December, 2004. The increase was mainly attributable to the increase in the number of households connected to the Group's pipeline networks.

Sales of Natural Gas

The Group has commenced to provide natural gas to its customers since March 2005. For the year ended 31st December, 2005, the Group's turnover derived from sales of natural gas amounted to approximately HK$3,748,000. No such turnover was recorded for the eighteen months ended 31st December, 2004.

Sales of Liquefied Petroleum Gas

The Group has commenced to supply liquefied petroleum gas to its customers since January 2005. For the year ended 31st December, 2005, the Group's turnover derived from sales of liquefied petroleum gas amounted to approximately HK$9,806,000. No such turnover was recorded for the eighteen months ended 31st December, 2004.

Software Business

Development and sale of HRM software

For the year ended 31st December, 2005, the Group's turnover and average turnover per month derived from development and sale of software amounted to approximately HK$4,650,000 and HK$388,000 respectively. As compared to that of approximately HK$453,000 for the eighteen months ended 31st December, 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.

Software maintenance services

For the year ended 31st December, 2005, the turnover and the average turnover per month of the Group derived from the provision of software maintenance services amounted to approximately HK$2,209,000 and HK$184,000 respectively. As compared that of approximately HK$253,000 for the eighteen months ended 31st December, 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 agreements with the Group relating to the provision of software maintenance services.

Management Discussion and Analysis

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31st December, 2005, the Group had net current assets of approximately HK$77,839,000. It represented the Group had a healthy financial position to meet its short-term liabilities.

The current assets of the Group as at 31st December, 2005 amounted to approximately HK$139,422,000, comprising inventories of approximately HK$8,540,000, trade receivables of approximately HK$3,233,000, deposits, prepayments and other receivables of approximately HK$10,319,000, prepaid lease payments of approximately HK$405,000, tax recoverable of approximately HK$133,000, amount due from customers for contract work of approximately HK$15,208,000, amount due from a director and loan to an officer of approximately HK$4,000, amount due from related companies of approximately HK$8,775,000 and bank balances and cash of approximately HK$92,805,000.

As at 31st December, 2005, the current liabilities of the Group amounted to approximately HK$61,583,000, comprising deferred income and advance received of approximately HK$7,066,000, trade payables of approximately HK$9,777,000, other payables and accrued charges of approximately HK$17,294,000, amounts due to customers for contract work of approximately HK$577,000, amounts due to related companies of approximately HK$635,000 and bank borrowings of approximately HK$26,234,000. The amounts due to related companies are unsecured, interest-free and have no fixed repayments terms.

As at 31st December, 2005, the Group's current ratio, represented by a ratio of total current assets to total current liabilities, was approximately 2.3 (31st December, 2004: 2.7).

As at 31st December, 2005, the Group had long-term bank borrowings of approximately HK$25,962,000 and the Group's gearing ratio, represented by a ratio of total bank borrowings to total shareholders' equity, was 0.31 (As at 31st December, 2004: nil).

Financial resources

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

Directors' opinion on sufficiency of working capital

In view of the Group's current financial and liquidity positions 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 year 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.

Management Discussion and Analysis

EMPLOYEE INFORMATION

As at 31st December, 2005, the Group had 482 employees (31st December, 2004: 120) in Hong Kong and the PRC, and the total remuneration for the year under review was approximately HK$10,043,000 (For the eighteen months ended 31st December, 2004: HK$10,057,000). The increase of number of staff in the Group was mainly attributable to the Group's gas business expanded by forming and acquiring a total of five gas operations during the year under review.

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

The emoluments of the Directors are decided by the Remuneration Committee of the Company, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme whereby certain employees of the Group and other individuals providing similar services may be granted options to acquire shares.

CHARGE ON THE GROUP'S ASSETS

As at 31st December, 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 31st December, 2005, the Directors did not have any future plans for material investment or capital assets.

ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENTS

Save as disclosed under the sub-paragraph headed "Acquisitions, Disposal and Significant Investments" of the paragraph headed "Business Review" in this section, the Group had no acquisitions, disposals nor significant investments for the year ended 31st December, 2005.

CAPITAL COMMITMENTS

As at 31st December, 2005, the Group did not have any significant capital commitments.

CONTINGENT LIABILITIES

As at 31st December, 2005, the Group did not have any contingent liabilities.

Biographical Information of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Wang Wenliang, aged 35, is the Chairman of Zhongyu Gas Holdings Limited and its subsidiaries (collectively the "Group"). He joined the Group in July 2003. Mr. Wang is responsible for the overall strategic development of the Group. Mr. Wang has held investments in various industries in the PRC including aluminium, property, and information technology. Mr. Wang has been a deputy general manager of a company in Zhengzhou, People's Republic of China (the "PRC") (whose principal business is the manufacture and sale of aluminium products) since 1996 and has been a deputy general manager of a company in Henan Province, the PRC (whose principal business is property management and rental) since 1997. Mr. Wang also has been a president of a company in Henan Province, the PRC since 2000, the principal business of which is the provision of software development, networking engineering services, sale of computer and peripheral products, and provision of Internet services. Mr. Wang completed his postgraduate course in Finance in the Chinese Academy of Social Science in the PRC in 2001. Mr. Wang is a chairman of Hezhong Investment Holding Company Limited ("Hezhong").

Mr. Hao Yu, aged 33, is the Chief Executive Officer of the Group. He joined the Group in July 2003. Mr. Hao is responsible for supervising the implementation of the Group's strategic plans and managing the day-to-day operation of the Group. He received his master degree in Enterprise Management from the Tianjin University of Finance and Economics in the PRC in 2001 and doctorate degree in Managerial Science and Engineering from the University of Tianjin, the PRC in 2005. Mr. Hao has about eight years' working experience in the securities industry in the PRC, holding various positions with responsibilities in daily operations and business planing. Mr. Hao is a director of Hezhong.

Mr. Lu Zhaoheng, aged 41, graduated from 重慶建築工程學院 (The Architecture and Engineering Institute of Chongqing) in 1984, specialising in City Natural Gas Heat Energy Engineering. Mr. Lu has accumulated about nine years of experience in the development and commercialisation of natural gas in the PRC. Mr. Lu held various positions in 河南省城鄉規劃設計院 (The City Planning Design Institute of Henan Province) and 鄭州市市政規劃設計院 (The Planning Design Institute of Zhengzhou City) and was mainly responsible for the planning, design and consultation regarding natural gas projects. Mr. Lu is mainly responsible for the management of the Group's piped natural gas projects. Mr. Lu joined the Group in June 2004.

NON-EXECUTIVE DIRECTORS

Mr. Xu Yongxuan, aged 60, the Vice Chairman of the Group. He graduated from the Beijing Institute of Petroleum, specialising in Geophysics in 1965. Mr. Xu had been an executive director of Greater China Sci-Tech Holdings Limited, the issued shares of which are listed on the main board of The Stock Exchange of Hong Kong Limited, for the period from October 2001 to January 2004. Mr. Xu joined the Group in March 2004.

Biographical Information of Directors and Senior Management

Mr. Wang Lei, aged 43, graduated from 北京經濟學院 (The Economics Institution of Beijing) in 1984 with a degree in economics. From 1988 to the beginning of 1993, Mr. Wang worked for the State Economic System Reform Commission, PRC as an economist. Mr. Wang gained approximately 6 years of management experience as a Vice Chairman in a private company which is principally engaged in the property investment in the PRC. Currently, Mr. Wang is a Vice-chairman of board of directors of 北京金融學院 (The Finance Institution of Beijing). Mr. Wang joined the Group in June 2004.

Mr. Nicholas John Ashley Rigg, aged 47, holds a degree of bachelor of arts and degree of master of arts from the University of Oxford. Mr. Rigg has over 26 years of experience in the commercial field and held a position of chief executive officer of various unlisted companies. Mr. Rigg joined the Group in January 2005.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wang Shunlong, aged 41, is the Chairman of the Audit Committee and Remuneration Committee of the Company. He is the director of Legend Holdings Limited. He graduated from Tsinghua University in the PRC with a doctoral degree in engineering and was employed by the Eindhoven University of Technology in The Netherlands as a researcher for three years. Mr. Wang has over eleven years of experience in corporate management and investment planning. He joined the Group in July 2003.

Mr. Luo Yongtai, aged 59, is a member of the Audit Committee and Remuneration Committee of the Company. He is a professor in management of Tianjin University of Finance and Economics, the head of the Microeconomic Institute of Tianjin University of Finance and Economics, a member of the committee of the Tianjin City People's Political Consultative Conference, the deputy supervisor of the People's Republic of China System Engineering Committee and also held positions in various professional organisations. Mr. Luo is a beneficiary of the Expert Special Subsidy granted by the State Council of the PRC and has been engaged in various national and provincial projects in recent years. Mr. Luo is also an independent director of two companies listed on the Shanghai Stock Exchange. He joined the Group in July 2003.

Mr. Randy, Hung King Kuen, aged 40, is a member of the Audit Committee and Remuneration Committee of the Company. He holds a bachelor's degree of accounting and a certificate of programming and data processing from the University of Southern California, a certificate of China Accounting, Finance, Taxation and Law from the Chinese University of Hong Kong, and a Hong Kong Securities Institute Specialist Certificate in corporate finance. Mr. Hung is a fellow certified public accountant in Hong Kong and a certified public accountant in the United States. Currently, Mr. Hung is an independent non-executive director of Zhongtian International Limited (Stock Code: 2379) and ZZNode Holdings Company Limited (Stock Code: 2371). Mr. Hung is a member of the American Institute of Certified Public Accountants, a fellow of the Hong Kong Institute of Certified Public Accountants, deputy chairman of training committee of the Hong Kong Institute of Directors and a member of the Hong Kong Securities Institute. Mr. Hung joined the Group in September 2004.

Biographical Information of Directors and Senior Management

SENIOR MANAGEMENT

Mr. Lui Siu Keung, aged 34, is the Chief Financial Officer of the Group and the company secretary and qualified accountant of the Company. He joined the Group in June 2003 and is responsible for the financial and accounting operation of the Group. Mr. Lui has approximately nine years of experience in corporate finance, accounting and auditing fields. He graduated from The Hong Kong Polytechnic University with a bachelor of arts degree in accountancy. Mr. Lui is an associate member of the Hong Kong Institutes of Certified Public Accountants.

Corporate Governance Report

The board of directors (the "Directors") and the management of Zhongyu Gas Holdings Limited (the "Company") are committed to high standards of corporate governance. Corporate governance system is set up to achieve a balance of the interests of different participants in the corporation, to direct and manage corporate affairs and to monitor corporate performance. The Company is dedicated to continue improving its corporate governance practices to ensure accountable, transparent and efficient management.

Save as disclosed herein, the Company has fully complied with all requirements of the Code (the "Code") on Corporate Governance Practices, as set out in Appendix 15 of the rules governing the listing of securities on the Growth Enterprise Market operated by the Stock Exchange of Hong Kong Limited ("GEM Listing Rules") for the year ended 31st December, 2005. The following summarizes the corporate governance practices of the Company and the reasons for deviations, if any, from the Code.

A. BOARD OF DIRECTORS

The board of Directors (the "Board"), holds responsibility for leadership and control of the corporation. By directing and supervising corporate affairs, the Board plays an important role in protecting and enhancing long-term shareholder value.

A.1 Board composition

As at 31st December, 2005, the Board included nine Directors, of which three are executive Directors, three are non-executive Directors and the remaining three are independent non-executive Directors. The composition of the Board is as follows:

Executive Directors:	Mr. Wang Wenliang *(Chairman)*
	Mr. Hao Yu *(Chief Executive Officer)*
	Mr. Lu Zhaoheng
Non-executive Directors:	Mr. Xu Yongxuan *(Vice-Chairman)*
	Mr. Wang Lei
	Mr. Nicholas John Ashley Rigg
Independent Non-executive Directors:	Mr. Wang Shunlong
	Dr. Luo Yongtai
	Mr. Hung, Randy King Kuen

The Company received a written annual confirmation of independence from each of the independent non-executive Directors pursuant to the Rule 5.09 of the GEM Listing Rules. The Company considered each non-executive Director is independent.

Corporate Governance Report

With a balanced Board consisting of one-third members of independent non-executive Directors, the Board considered that the Company can effectively exercise independent judgment.

Given the business nature, the Board members have distinct skills and experience in a variety of business range, which includes city gas network design and operation, organizational management, financial and securities trading market, etc. The relevant biographies and the respective roles of all Directors in the Board are set out on pages 15 to 16 in this report.

The primary roles of the Board are to set the corporate strategy by determining business objectives, development plan and strategic policies; to make day-to-day operations delegated to the management then to monitor their operating and financial performance; to avoid risks and oversee corporate affairs.

A.2 Board meetings and information supply

The Board meets regularly and board meetings were held quarterly and additional meetings would be arranged, if and when required. All Directors can attend meetings in person or through other electronic means of communication.

The Company Secretary assists the Chairman in establishing the meeting agenda and each Director may request inclusion of matters in the agenda.

Notice of at least 14 days is given of a regular board meeting to give all Directors an opportunity to attend.

The management of the Company has supply the Board with adequate information in a timely manner to enable it to make informed decisions. In addition, the management are invited, if and when requested, to attend board meetings to make presentation and answer the queries raised by the Board.

All Directors have access to the advice and services of the Company Secretary with a view to ensuring that board procedures, and all applicable rules and regulations, are followed.

Minutes of board meetings are kept by the Company Secretary and such minutes are open for inspection at any reasonable time on reasonable notice by any Director.

Minutes of board meetings are recorded in sufficient detail and draft and final versions of minutes of board meetings are sent to all Directors for their comment and records respectively, in both cases within a reasonable time after the board meeting is held.

Corporate Governance Report

If and when a substantial shareholder of the Company or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter would not be dealt with by way of circulation but a board meeting would be held. Independent non-executive Directors who and whose associates, have no material interest in the transaction are present at such board meeting.

For the year ended 31st December, 2005, the Board held 13 board meetings. The attendance records of all board meetings are set out below:

Executive Directors		
Mr. Wang Wenliang *(Chairman)*	13/13	100%
Mr. Hao Yu *(Chief Executive Officer)*	13/13	100%
Mr. Lu Zhaoheng	13/13	100%
Non-executive Directors		
Mr. Xu Yongxuan *(Vice-Chairman)*	13/13	100%
Mr. Wang Lei	13/13	100%
Mr. Nicholas John Ashley Rigg	13/13	100%
Independent Non-executive Directors		
Mr. Wang Shunlong	13/13	100%
Dr. Luo Yongtai	13/13	100%
Mr. Hung, Randy King Kuen	13/13	100%

A.3 Chairman and Chief executive officer

The roles and responsibilities of the Chairman of the Board and the Chief Executive Officer of the Company are separate and are performed by two different Directors. The Chairman is responsible for offering leadership and effectiveness for the Board, arranging all key and appropriate issues are discussed by the Board in a timely manner, and ensuring the Board acts in the best interests of the Company and its subsidiaries (collectively the "Group") by establishing constructive relations between executive and non-executive Directors and providing effective communication with shareholders; whereas the Chief Executive Officer is responsible for running the Group's business, supervising the implementation of the Group's strategy in achieving the overall commercial objectives and managing the day-to-day operation of the Group.

Corporate Governance Report

A.4 Appointments and re-election

According to the Company's articles of association, the Company may by ordinary resolution elect any person to be a Director either to fill a casual vacancy on the Board, or as an addition to the existing Board and the Directors shall have the power from time to time and at any time to appoint any person to be a Director either to fill a casual vacancy on the Board, or as an addition to the existing Board. Any Director so appointed by the Board shall hold office only until the next following annual general meeting of the company and shall then be eligible for re-election.

Each non-executive Director of the Company is appointed by the Board with no specific terms but he shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. The details of procedure for retirement of Directors are as follows:

According to the Company's articles of association, exclusive for the Directors holding office of the Chairman and the Chief executive officer which are not subject to retirement by rotation or to be taken into account in determining the number of Directors to retire in each year, one-third of the Directors shall retire from office by rotation at the annual general meeting. The Directors to retire by rotation shall include any Director who wishes to retire and not to offer himself for re-election. Any further Directors so to retire shall be those of the other Directors subject to retirement by rotation who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected Directors on the same day those to retire shall be determined by lot. Any Director appointed pursuant to the Company's articles of association as stated in the paragraph one under the heading "A4. Appointment and re-election" shall not be taken into account in determining which particular Directors or the number of Directors who are to retire by rotation.

On 1st January, 2005, the Board nominated and appointed Mr. Nicholas John Ashley Rigg ("Mr. Rigg") as a non-executive Director with no specific terms but he shall hold office only until the next following annual general meeting of the company and shall then be eligible for re-election. Mr. Rigg was re-elected to the Board by the shareholders of the Company at the annual general meeting ("2004 AGM") of the Company held on 25th April, 2005.

At the 2004 AGM, Mr. Lu Zhaoheng, Mr. Xu Yongxuan, Mr. Wang Lei and Mr. Hung, Randy King Kuen, four of the six Directors subject to retirement by rotation, retired and re-elected to the Board by the shareholders of the Company.

Corporate Governance Report

A.5 Responsibilities of directors

Directors are provided sufficient and appropriate information by management periodically to ensure they have a proper understanding of the operations and business of the Group, and to enable them to be fully aware of their responsibilities. When a new Director is appointed, he is offered some briefings and other induction materials to familiarize with the Group promptly. Besides every Director is required to disclose his interests, potential conflict of interests, and changes in a timely manner referred to the written responsibilities guideline, the non-executive Directors are ensured to participating in board meetings and serve on relevant committees, to make an independent judgment on corporate affairs and to develop a balanced understanding of the view of shareholders. Individual Directors may also seek independent professional advice outside, at the Company's expense, to provide advice on any specific matter. The Company also encourages all Directors to join in kinds of programs of continuous professional development to develop and refresh their knowledge and skills, in order to discharge their responsibilities positively and constructively.

A.6 Directors' securities transaction

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM listing rules. Having made specific enquiry of all Directors, they all confirmed having complied with the required standard of dealings and the code of conduct regarding securities transactions by Directors adopted by the Group.

Corporate Governance Report

B. REMUNERATION MATTERS

The Board has established a Remuneration Committee comprising three independent non-executive Directors. The Remuneration Committee is held once a year and its primary responsibilities are after consulting with the Chairman and the Chief Executive Officer in respect of their recommendations, for executive Directors and senior managements, on a formal and transparent procedure to set policy and structure on their remuneration and recommend to the Board in order to attract and retain them; to determine their specific remuneration packages including benefits in kind, pension rights and compensation policy; to review and approve their performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time; to ensure no Director and his associate can decide their own remuneration.

In 2005, no remuneration meeting has been held to review the remuneration packages of Directors which are nominal by market standards. On 27th March 2006, the Remuneration Committee held a meeting to consider and approve (i) the remuneration of the Directors for the year ending 31st December, 2006; (ii) salary increase of the management of the Group; and (iii) range of salary increase of employees of the Group. The attendance record of the remuneration committee meeting is set out below:

Independent Non-executive Directors		
Mr. Wang Shunlong *(Chairman)*	1/1	100%
Dr. Luo Yongtai	1/1	100%
Mr. Hung, Randy King Kuen	1/1	100%

Corporate Governance Report

C. ACCOUNTABILITY AND AUDIT

C.1 Financial reporting

Since 1st January, 2005, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1st January, 2005 in the financial statements and selected suitable accounting policies and applied them consistently. Generally, Directors acknowledge their responsibilities for preparing accounts with sufficient and reliable financial information in each financial period, while the auditors appointed by the Group provide auditors' report on financial statements. To present a balanced, clear and comprehensible assessment of the Group's performance, position, and prospects, the Company publishes its results of operations on a quarterly basis, and in accordance with the GEM Listing Rules, the relevant annual and interim and quarterly results are announced in the limits of 3 months and 45 days respectively after the each financial period.

C.2 Internal controls

The internal control system has a key role in the management of risks that are significant to the fulfillment of corporation business objectives. Internal control is designed to facilitate the effectiveness and efficiency of operations, to help ensure the reliability of internal and external reporting, to assist compliance with laws and regulations, and to manage and control risk appropriately rather than to eliminate it.

Directors are responsible for the Group's internal control system, and through the Company's Audit Committee, conduct a review of the effectiveness of the system annually. Management is accountable to the Board for ongoing monitoring the system of internal control. By covering financial, operational, and compliance controls and risk management, the Board takes the following procedures to achieve business objectives:

- A distinct organizational structure exists with defined lines of authority and control responsibilities. As the Board sets up corporate strategy and delegates daily operation power to senior management, both senior managers in administration headquarter and heads in divisions or projects are involved in the strategic plan and resource allocation to achieve their annual operational and financial targets.

- A comprehensive performance assessment system is implemented to provide financial and operational performance evaluation for both the management and employees once a year. When there are variances against targets or quality requirements, to find the reasons and take appropriate actions to eliminate gaps.

Corporate Governance Report

According to business nature and management structure, the Company has established different departments in two levels. The administration headquarter has major responsibilities to prepare and accomplish the Group's business development plan, to conduct day-to-day operation and report to senior management directly, to appoint and direct administrative officers in gas project divisions then to assess their business performances, to implement internal control and avoid operational and financial risks. Compared with headquarter offices, the gas project divisions hold very similar duties except that all their daily jobs are done in a lower level and they have to report to the accordance administration departments respectively on different operational matters.

In order to realize effective financial controls, through maintenance of proper accounting records, the upper and lower financial departments both ensure the Group is not unnecessarily exposed to avoidable financial risks and the financial information can be used only within the business and for publication is reliable. They also contribute to pre-setting annual financial budgets, saving expenses and safeguarding of assets, including the prevention and detection of fraud.

The operational control is the other important part of the whole internal control system. To achieve effective result and avoid operational risks, human resource department employs motivation plan to attract employees with necessary knowledge, skills and information, while administrative and engineering departments in two levels pay more attention to ensure efficient operational management and construct high quality city gas projects. In addition, all employees have some responsibility for internal control as part of their accountability for achieving Group's objectives. With delegated authority, they are allowed to establish, operate and monitor the system of internal control, and are required to have an understanding of the Group, its objectives, the energy industries and gas markets, and the risks it faces.

In 2005, after applied in reviews of the effectiveness of internal control system through the Company's Audit Committee, the Board believes no suspected frauds and irregularities, internal control deficiencies or suspected infringement of laws, rules and regulations exist in the Group, which illustrates the system of internal controls is inadequate. The Board is also satisfied that the Group has fully complied with the code provisions on internal controls as set forth in the Code.

Corporate Governance Report

C.3 Audit committee

The Company has established the 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 independently review and supervise the financial reporting process and internal control systems, to ensure good communications among Directors and the Company's auditors, to recommend the appointment of external auditors on an annual basis and approval of the audit fees, to assist the Board in oversight of the independence, qualifications, performance and compensation of the independent accountant, to review quarterly, interim and annual results announcements as well as the financial statements prior to their approval by the Board, to provide audit report, advice, accounting policies and comments to all Directors.

The Audit Committee comprises three independent non-executive Directors who have extensive experience in financial matters, including Mr. Wang Shunlong, Dr. Luo Yongtai and Mr. Hung, Randy King Kuen. Mr. Wang Shunlong is the chairman of the Audit Committee. In 2005, the Audit Committee held five meetings to check the effectiveness of the internal control system; to review all draft annual, quarterly and interim financial reports, circulars and announcements; and know about the external auditors' statutory audit plan and the Letters of Representation, and to consider and approve the audit fees. The attendance records of the audit committee meetings are set out below:

Independent Non-executive Directors		
Mr. Wang Shunlong *(Chairman)*	5/5	100%
Dr. Luo Yongtai	5/5	100%
Mr. Hung, Randy King Kuen	5/5	100%

C.4 Auditors' remuneration

The remuneration in respect of audit and non-audit services provided by Deloitte Touche Tohmatsu, being the Company's auditors during the year 2005 amounted to HK$880,000 and HK$514,000 respectively. Non-audit services provided by Deloitte Touche Tohmatsu include (i) in relation to the acquisition ("Acquisition") of the entire issued share capital of China City Gas Construction Explore Company Limited ("CCGC Explore") and China City Gas Construction Holdings Limited ("CCGC Holdings") respectively and the outstanding shareholder's loans owed by CCGC Holdings and CCGC Explore to Hezhong Investment Company Limited ("Hezhong") as at 29 July 2005 pursuant to the sale and purchase agreement ("S&P Agreement") dated 29 July 2005 entered into between Zhongyu Gas Investment Limited, a wholly owned subsidiary of the Company and Hezhong, preparation of an Accountants' Report on each of CCGC Holdings and CCGC Explore respectively and an report on Pro Forma Financial Information on the Group as enlarged by the Acquisitions ("Enlarged Group") and review of the cash flow projections and the indebtedness statement of the Enlarged Group; (ii) review of the continuing connected transaction pursuant to the service agreement entered into between the Company and Hezhong on 15 November 2004; and (iii) review of the Company's annual preliminary announcement of results as well as the financial statements.

Report of the Directors

The directors of Zhongyu Gas Holdings Limited (the "Company") present their annual report and the audited consolidated financial statements of the Company for the year ended 31st December, 2005.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company and provides corporate management services to its subsidiaries. The activities of the Company's subsidiaries are set out in note 45 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Company and its subsidiaries (collectively known as the "Group") for the year ended 31st December, 2005 are set out in the consolidated income statement on page 38.

The directors of the Company (the "Directors") do not recommend the payment of a dividend and propose that the profit for the year of HK$3,436,000 be retained.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 18 to the financial statements.

DISTRIBUTABLE RESERVES

Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Articles of Association and provided that immediately following the distribution or dividend, the Company is able to pay its debts as they fall due in the ordinary course of business. In the opinion of the Directors, as at 31st December, 2005, the Company's reserves available for distribution amounted to HK$135,685,000 (2004: HK$43,183,000) which consisted of share premium of HK$145,901,000 (2004: HK$48,817,000) less accumulated losses of HK$10,216,000 (2004: HK$5,634,000).

SHARE CAPITAL

Details of the movements in share capital are set out in note 35 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the year under review. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year under review.

Report of the Directors

DIRECTORS

The Directors during the year under review and up to the date of this report were:

Executive Directors

Mr. Wang Wenliang *(Chairman)*
Mr. Hao Yu *(Chief Executive Officer)*
Mr. Lu Zhaoheng

Non-executive Directors

Mr. Xu Yongxuan *(Vice Chairman)*
Mr. Wang Lei
Mr. Nicholas John Ashley Rigg (appointed on 1st January, 2005)

Independent non-executive Directors

Mr. Wang Shunlong
Dr. Luo Yongtai
Mr. Hung, Randy King Kuen

In accordance with the provisions of the Company's Articles of Association, Mr. Wang Shunlong, Dr. Luo Yongtai and Mr. Hung, Randy King Kuen retire by rotation and, being eligible, offer themselves for re-election.

No Director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

The term of office of each non-executive Director is the period up to his retirement by rotation in accordance with the Company's Articles of Association.

Report of the Directors

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE AND CONNECTED TRANSACTIONS

On 15th November, 2004, the Company and Hezhong Investment Holding Company Limited ("Hezhong"), being a controlling shareholder of the Company and a company of which Mr. Wang Wenliang and Mr. Hao Yu have equity interests, entered into a service agreement (the "Service Agreement") pursuant to which the Group agreed to provide Hezhong and its subsidiaries with natural gas projects management services, financial management services and human resources management services (collectively the "Management Services") for the period from 15th November, 2004 to 31st December, 2006 in return for a service fee, the details of which were set out in the announcement of the Company dated 15th November, 2004 and the circular of the Company dated 7th December, 2004. The service fee paid by Hezhong is equal to 120% of the notional time costs incurred by the Group. The ordinary resolution in respect of the provision of the Management Services to Hezhong and its subsidiaries by the Group was passed at the extraordinary general meeting of the Company on 23rd December, 2004. The said service fee paid by Hezhong to the Group for the year ended 31st December, 2005 was HK$8,500,000 (For the eighteen months ended 31st December, 2004: HK$9,600,000).

The independent non-executive Directors, comprising Mr. Wang Shunlong, Dr. Luo Yongtai and Mr. Hung, Randy King Kuen confirm that the aforesaid transaction has been entered into by the Company in the ordinary course of its business, on normal commercial terms, and in accordance with the terms of the Service Agreement and the terms of the Service Agreement are fair and reasonable so far as the independent shareholders (the "Independent Shareholders") of the Company are concerned and are in the interests of the Company and the Independent Shareholders as a whole.

On 29th July, 2005, the Group entered into a sale and purchase agreement with Hezhong, pursuant to which the Group agreed to acquire the entire share capital and outstanding shareholder's loan of China City Gas Construction Holdings Company Limited and China City Gas Construction Explore Company Limited, satisfied by issuance of 262,385,542 ordinary shares of the Company with par value of HK$0.01 each. The transaction was approved in an extraordinary general meeting held on 29th September, 2005. Details of the acquisition is set out in note 37 to the financial statements.

Save as disclosed above, no contracts of significance to which the Company, its subsidiaries, its ultimate holding company or any subsidiaries of its ultimate holding company was a party and in which the Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year under review.

Report of the Directors

DISCLOSURE OF INTERESTS

(a) Interests of Directors

As at 31st December, 2005, the interests and short positions of the Directors and the Chief Executive of the Company and their associates in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of the Part XV of Securities and Future Ordinance (the "SFO")) (a) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("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 Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules") relating to securities transactions by Directors, were as follows:

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

Name of Director		**Nature of interest**	**Total**	**Approximate percentage or attributable percentage of shareholders**
Mr. Wang Wenliang ("Mr. Wang")	*Note*	Personal	10,002,000	
		Corporate	872,505,542	
			882,507,542	66.59

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

Report of the Directors

DISCLOSURE OF INTERESTS *(Continued)*

(a) Interests of Directors *(Continued)*

(ii) Share options:

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

Notes:

1. These options were granted under the share option scheme adopted by the Company on 24th October, 2003 and entitle the holders thereof to subscribe for Shares at an exercise price of HK$0.31 per Share during the period from 4th July, 2006 to 3rd July, 2015.

2. The underlying Shares of these 10,002,000 options held by Mr. Wang duplicates his shareholding stated in section (a)(i) above.

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

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

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

Report of the Directors

DISCLOSURE OF INTERESTS *(Continued)*

(a) Interests of Directors *(Continued)*

Save as disclosed above, as at 31st December, 2005, none of the directors nor the chief executive of the Company nor their associates had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (a) 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.

(b) Interests of substantial shareholders of the Company

So far as is known to the Directors, as at 31st December, 2005, the following person (not being a director or Chief Executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

Long positions in the Shares

Name of shareholder	Type of interest	Number of Shares	Approximate percentage of interests
Hezhong *(Note)*	Beneficial	872,505,542	65.84%

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

Save as disclosed above, as at 31st December, 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, interest or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group.

Report of the Directors

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 36 to the financial statements.

The following table discloses movements in the Company's share options during the year under review.

	Number of share options			
	Outstanding at 1st January, 2005	**Granted during the year**	**Forfeited during the year**	**Outstanding at 31st December, 2005**
Directors				
Wang Wenliang	-	10,002,000	–	10,002,000
Hao Yu	–	8,004,000	–	8,004,000
Lu Zhaoheng	–	5,004,000	–	5,004,000
Xu Yongxuan	–	5,004,000	–	5,004,000
	–	28,014,000	–	28,014,000
Employees	–	19,536,000	(2,004,000)	17,532,000
Others	–	15,024,000	–	15,024,000
	–	62,574,000	(2,004,000)	60,570,000

Save as disclosed above, at no time during the year under review was the Company, its subsidiaries, its ultimate holding company or any subsidiaries of its ultimate holding company a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate.

Report of the Directors

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of sales and purchases for the year under review attributable to the Group's major suppliers were as follows:

–	the largest supplier	28.6%
–	five largest suppliers combined	57.6%

For the year ended 31st December, 2005, the aggregate amount of turnover attributable to the Group's five largest customers accounted for less than 30% of the Group's total turnover.

At no time during the year under review did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 10% of the Company's share capital) had an interest in any of the Group's five largest suppliers or customers.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers all of the independent non-executive Directors are independent.

COMPETING BUSINESS

During the year 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.

Report of the Directors

AUDITORS

Messrs. Fan, Mitchell & Co. acted as auditors of the Company for the year ended 30th June, 2003. Messrs. Deloitte Touche Tohmatsu acted as auditors of the Company for the period from 1st July, 2003 to 31st December, 2004 and year ended 31st December, 2005.

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Wang Wenliang
Chairman

Hong Kong, 28th March, 2006

Report of the Auditors

Deloitte.
德勤

TO THE MEMBERS OF ZHONGYU GAS HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Zhongyu Gas Holdings Limited (the "Company") and its subsidiaries (the "Group") from pages 38 to 96 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of consolidated financial statements which give a true and fair view. In preparing consolidated financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIC OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the consolidated financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

Report of the Auditors

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st December, 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
28th March, 2006

Consolidated Income Statement

For the year ended 31 December 2005

	NOTES	**1.1.2005 to 31.12.2005 HK$'000**	1.7.2003 to 31.12.2004 HK$'000
Turnover	8	**43,161**	15,267
Cost of sales		**(28,088)**	(4,758)
Gross profit		**15,073**	10,509
Other income	10	**12,658**	10,131
Distribution costs		**(1,947)**	(2,378)
Administrative expenses		**(17,631)**	(13,925)
Other expenses		**(2,926)**	(2,646)
Gain on disposal of a subsidiary		**1,290**	–
Finance costs	11	**(2,131)**	–
Profit before tax		**4,386**	1,691
Income tax expenses	12	**–**	–
Profit for the year/period	13	**4,386**	1,691
Attributable to:			
Equity holders of the parent		**3,436**	915
Minority interests		**950**	776
		4,386	1,691
Dividend	16	**–**	–
Earnings per share			
Basic	17	**0.31 cent**	0.11 cent
Diluted		**0.30 cent**	N/A

Consolidated Balance Sheet

As at 31st December, 2005

	NOTES	2005 HK$'000	2004 HK$'000
Non-current assets			
Property, plant and equipment	18	**84,395**	10,431
Intangible assets	19	**11,594**	–
Deposit for investment in a jointly controlled entity	20	**–**	20,210
Deposit for acquisition of property, plant and equipment		**11,539**	–
Goodwill	21	**732**	732
Prepaid lease payments	23	**15,229**	–
		123,489	31,373
Current assets			
Inventories	25	**8,540**	3,083
Trade receivables	26	**3,233**	4,821
Deposits, prepayments and other receivables		**10,319**	5,925
Prepaid lease payments	23	**405**	–
Tax recoverable		**133**	–
Amounts due from customers for contract work	27	**15,208**	–
Amounts due from a director and loan to an officer	28	**4**	112
Amounts due from related companies	29	**8,775**	–
Bank balances and cash	30	**92,805**	22,919
		139,422	36,860
Current liabilities			
Deferred income and advance received		**7,066**	1,578
Trade payables	32	**9,777**	2,462
Other payables and accrued charges		**17,294**	3,750
Amounts due to customers for contract work	27	**577**	111
Amounts due to related companies	29	**635**	5,742
Bank borrowings	33	**26,234**	–
		61,583	13,643
Net current assets		**77,839**	23,217
		201,328	54,590

Consolidated Balance Sheet

As at 31st December, 2005

	NOTES	2005 HK$'000	2004 HK$'000
Capital and reserves			
Share capital	35	**13,252**	10,628
Reserves		**153,979**	42,837
Equity attributable to equity holders of the parent		**167,231**	53,465
Minority interests		**7,922**	912
Total equity		**175,153**	54,377
Non-current liabilities			
Provision for long service payment		**213**	213
Bank borrowings	33	**25,962**	–
		26,175	213
		201,328	54,590

The financial statements on pages 38 to 96 were approved and authorised for issue by the Board of Directors on 28th March, 2006 and are signed on its behalf by:

DIRECTOR

DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2005

	Attributable to equity holders of the parent									
	Share capital HK$'000	Share premium HK$'000	Share option reserve HK$'000	Merger reserve HK$'000	Other reserve HK$'000	Translation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1st July, 2003	4,054	4,378	–	3,740	–	–	(10,635)	1,537	(864)	673
Profit for the period, representing total recognised income for the period	–	–	–	–	–	–	915	915	776	1,691
Issue of shares on rights issue	4,054	16,216	–	–	–	–	–	20,270		20,270
Issue of shares for acquisition of a subsidiary	1,500	11,732	–	–	–	–	–	13,232		13,232
Issue of shares on placement	1,020	17,340	–	–	–	–	–	18,360		18,360
Contribution from a minority shareholder of a subsidiary	–	–	–	–	–	–	–	–	1,000	1,000
Share issue expenses	–	(849)	–	–	–	–	–	(849)		(849)
At 31st December, 2004	10,628	48,817	–	3,740	–	–	(9,720)	53,465	912	54,377
Exchange differences arising on translation of foreign operations recognised directly in equity	–	–	–	–	–	607	–	607	–	607
Profit for the year	–	–	–	–	–	–	3,436	3,436	950	4,386
Total recognised income for the year	–	–	–	–	–	607	3,436	4,043	950	4,993
Issue of shares for acquisition of subsidiaries	2,624	97,084	–	–	–	–	–	99,708	–	99,708
Discount on acquisition of subsidiaries *(Note 37)*	–	–	–	–	7,607	–	–	7,607	–	7,607
Disposal of a subsidiary	–	–	–	–	–	–	–	–	(794)	(794)
Acquisition of non-wholly owned subsidiaries	–	–	–	–	–	–	–	–	6,854	6,854
Recognition of equity – settled share based payments	–	–	2,408	–	–	–	–	2,408	–	2,408
At 31st December, 2005	13,252	145,901	2,408	3,740	7,607	607	(6,284)	167,231	7,922	175,153

The merger reserve of the Group represents the difference between the nominal value of the share capital of a subsidiary acquired pursuant to the group reorganisation completed on 21st May, 2001 and the nominal value of the share capital of the Company issued in exchange thereof.

Consolidated Cash Flow Statement

For the year ended 31 December 2005

	1.1.2005 to 31.12.2005 HK$'000	1.7.2003 to 31.12.2004 HK$'000
Operating activities		
Profit before tax	**4,386**	1,691
Adjustments for:		
Depreciation	**3,021**	1,192
Share-base payment expense	**2,408**	–
Amortisation of intangible assets	**410**	656
Amortisation of goodwill	**–**	39
Amortisation of prepaid lease payments	**275**	–
Gain on disposal of a subsidiary	**(1,290)**	–
Allowance for (reversal of) doubtful debts	**514**	(268)
Interest income	**(173)**	(47)
Finance costs	**2,131**	–
Operating cash flows before movements in working capital	**11,682**	3,263
Increase in inventories	**(3,266)**	(91)
Decrease (increase) in trade receivables	**4,153**	(4,173)
Decrease (increase) in deposits, prepayments and other receivables	**38,268**	(780)
Increase in amounts due from customers for contract work	**(15,208)**	–
Decrease in amount due from a director and loan to an officer	**108**	32
(Increase) decrease in amounts due from related companies	**(8,775)**	172
Increase in deferred income and advance received	**5,488**	574
Increase in trade payables	**716**	195
(Decrease) increase in other payables and accrued charges	**(4,641)**	1,122
Increase in amounts due to customers for contract work	**466**	111
Decrease in amount due to a director	**–**	(63)
Decrease in provision for long service payment	**–**	(359)
Cash generated from operations	**28,991**	3
Interest received	**173**	47
Interest paid	**(3,298)**	–
Income tax paid	**(133)**	–
Net cash from operating activities	**25,733**	50

Consolidated Cash Flow Statement

For the year ended 31 December 2005

	NOTES	**1.1.2005 to 31.12.2005 HK$'000**	1.7.2003 to 31.12.2004 HK$'000
Investing activities			
Deposit paid for investment		**–**	(20,210)
Deposit for acquisition of property, plant and equipment		**(11,539)**	–
Purchases of property, plant and equipment		**(24,063)**	(6,351)
Acquisition of subsidiaries	37	**70,571**	8,494
Formation of a jointly controlled entity	38	**10,920**	–
Acquisition of business	39	**–**	381
Disposal of a subsidiary	40	**3,169**	–
Payment of costs directly attributable to acquisition of subsidiaries	37	**(1,324)**	–
Net cash from (used in) investing activities		**47,734**	(17,686)
Financing activities			
New loans raised		**1,839**	–
Repayments of borrowings		**(333)**	–
(Decrease) increase in amounts due to related companies		**(5,107)**	2,330
Proceeds from issue of new shares		**–**	38,630
Share issue expenses		**–**	(849)
Net cash (used in) from financing activities		**(3,601)**	40,111
Net increase in cash and cash equivalents		**69,866**	22,475
Cash and cash equivalents at beginning of the year/period		**22,919**	444
Effect of foreign exchange rate changes		**20**	–
Cash and cash equivalents at end of the year/period, represented by			
Bank balances and cash		**92,805**	22,919

Notes to the Financial Statements

For the year ended 31 December 2005

1. GENERAL

The Company was incorporated in the Cayman Islands on 12th February, 2001 as an exempted company with limited liability under the Companies Law (2001 Revision) of the Cayman Islands. The shares of the Company were listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its parent and ultimate holding company is Hezhong Investment Holding Company Limited ("Hezhong"), incorporated in British Virgin Islands.

The financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

The Company acts as an investment holding company and provides corporate management services to its subsidiaries.

Its subsidiaries are principally engaged in the development, construction and operation of natural gas projects in the People's Republic of China (the "PRC"), development and sales of software and provision of software maintenance services.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The consolidated financial statements for the current year cover the 12 months and ended on 31st December, 2005. The corresponding comparative amounts shown for the consolidated income statement, consolidated statement of changes in equity, consolidated cash flow statement and related notes cover a 18 month period from 1st July, 2003 to 31st December, 2004 and therefore may not be comparable with amounts shown for the current year. The period covered by the 2004 consolidated financial statements was greater than 12 months because the directors of the Company determined to bring the balance sheet date in line with that of the subsidiaries established in the PRC.

Notes to the Financial Statements

For the year ended 31 December 2005

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRS(s)"), Hong Kong Accounting Standards ("HKAS(s)") 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 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated 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 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 year are prepared and presented:

Business combinations

In the current year, the Group has applied HKFRS 3 Business Combinations which is effective for business combinations for which the agreement date is on or after 1st 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 after 1st 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 of the Group, it was eliminated against the carrying amount of the related accumulated amortisation of HK$39,000 on 1st January, 2005 with a corresponding decrease in the cost of goodwill. The Group has discontinued amortising such goodwill from 1st January, 2005 onwards and such goodwill will be tested for impairment at least annually. Goodwill arising on acquisitions after 1st 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 year. Comparative figures for 2004 have not been restated (see note 4 for the financial impact).

In the current year, the Group has also applied HKAS 21 The Effects of Changes in Foreign Exchange Rates which requires goodwill to be treated as assets and liabilities of the foreign operation and translated at closing rate at each balance sheet date. Previously, goodwill arising on acquisitions of foreign operations was reported at the historical rate at each balance sheet date. In accordance with the relevant transitional provisions in HKAS 21, goodwill arising on acquisitions prior to 1st January, 2005 is treated as a non-monetary foreign currency item. Therefore, no prior period adjustment has been made.

Notes to the Financial Statements

For the year ended 31 December 2005

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost.

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place.

Share-based payments

In the current year, the Group has applied HKFRS 2 Share-based Payments which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to employees of the Group and other individuals providing similar services determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1st January, 2005. Because all the share options granted before 1st January, 2005 had been forfeited, the adoption of HKFRS 2 has had no impact on the Group's result for prior accounting periods.

Financial instruments

In the current year, the Group has applied HKAS 32 Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 and HKAS 39 had no material impact to the Group's financial position, results and on how financial instruments of the Group are presented for current and prior accounting periods.

Notes to the Financial Statements

For the year ended 31 December 2005

4. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The application of the new HKFRSs has had no material effect on the equity of the Group as at 1st July, 2003 and 31st December, 2004. The effects of the changes in the accounting policies described above on the results for the current year are as follows:

	1.1.2005 to 31.12.2005	1.7.2003 to 31.12.2004
	HK$'000	*HK$'000*
Non-amortisation of goodwill	**39**	–
Recognition of share-based payments as expenses	**(2,408)**	–
Increase in administrative expenses and decrease in profit for the year	**(2,369)**	–

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these Standards or Interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 and HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market-waste electrical and electronic equipment[3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

[1] *Effective for annual periods beginning on or after 1st January, 2007.*

[2] *Effective for annual periods beginning on or after 1st January, 2006.*

[3] *Effective for annual periods beginning on or after 1st December, 2005.*

[4] *Effective for annual periods beginning on or after 1st March, 2006.*

Notes to the Financial Statements

For the year ended 31 December 2005

5. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost basis and in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

The results of subsidiaries acquired or disposed of during the year/period are included in the consolidated income statement from the effective dates of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Notes to the Financial Statements

For the year ended 31 December 2005

5. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

Goodwill arising on acquisitions prior to 1st January, 2005

Goodwill arising on an acquisition of a subsidiary for which the agreement date is before 1st January, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary at the date of acquisition.

For previously capitalised goodwill arising on acquisitions after 1st January, 2001, the Group has discontinued amortisation from 1st January, 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisitions")

A discount on acquisition arising on an acquisition of a subsidiary for which an agreement date is on or after 1st January, 2005 represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in profit or loss.

Notes to the Financial Statements

For the year ended 31 December 2005

5. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Jointly controlled entity

Joint venture arrangement that involves the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entity.

The Group recognises its interests in a jointly controlled entity using proportionate consolidation. The Group's share of each of the assets, liabilities, income and expenses of the jointly controlled entities are combined with the Group's similar line items, line by line, in the consolidated financial statements.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Revenue recognition

Gas connection fees are recognised when the outcome of a contract can be estimated reliably and the stage of completion at the balance sheet date can be measured reliably. Revenue from gas connection contracts is recognised on the percentage of completion method, measured by reference to the value of work carried out during the year. When the outcome of a gas connection contract cannot be estimated reliably, revenue is recognised only to the extent of contract cost incurred that it is probable to be recoverable.

Software project income is recognised by reference to the stage of completion of the project at the balance sheet date. Stage of completion is generally determined by reference to the services performed to date as a proportion of total services to be performed.

Sales of goods are recognised when goods are delivered and title has passed.

Software maintenance service income is recognised on a straight-line basis over the life of the maintenance service agreements. The unearned portion of the maintenance service income received is stated as deferred income in the balance sheet.

Notes to the Financial Statements

For the year ended 31 December 2005

5. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Software consultancy income, outsource fee income and management fee income are recognised when the related services are rendered.

Management fee income is recognised when the related management services are rendered.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year/period in which the item is derecognised.

Construction in progress

Construction in progress represents machinery and pipelines under construction for its own use purposes and is stated at cost. Cost comprises direct and indirect costs of acquisition or construction. Completed items are transferred from construction in progress to proper categories of property, plant and equipment when they are ready for their intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for intended use.

Notes to the Financial Statements

For the year ended 31 December 2005

5. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as an amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as an amounts due to customers for contract work. Amounts received before the related work is performed are included in the balance sheet, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the balance sheet under trade and other receivables.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operation leases.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expenses over the lease term on a straight-line basis.

Notes to the Financial Statements

For the year ended 31 December 2005

5. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Retirement benefits costs

Payments to the Mandatory Provident Fund Scheme ("MPF Scheme") and other schemes managed by the PRC government are charged as an expense as they fall due.

Intangible assets

Intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items of income or expense that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Notes to the Financial Statements

For the year ended 31 December 2005

5. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are mainly classified into loans and receivables. The accounting policies adopted in respect of loans and receivables are set out below.

Notes to the Financial Statements

For the year ended 31 December 2005

5. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, receivables (including trade receivables, other receivables, amounts due from related companies, amounts due from a director and loan to an officer and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities other than financial liabilities at fair value through profit or loss. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Other financial liabilities

Other financial liabilities including bank borrowings, trade payables, other payables and amounts due to related companies are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Notes to the Financial Statements

For the year ended 31 December 2005

5. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Equity-settled share-based payment transactions

Share options granted to employees of the Group and other individuals providing similar services.

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated losses.

Inventories

Inventories, including construction materials, gas appliances, consumables and spare parts, are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Notes to the Financial Statements

For the year ended 31 December 2005

5. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment (other than goodwill)

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

6. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet dates, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Allowances for bad and doubtful debts

The provision policy for bad and doubtful debts of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Share-based payment expense

The share-based payment expense in respect of the share options granted to the employees of the Group and other individuals providing similar services assume all the share options outstanding as at 31st December, 2005 will be vested eventually. If significant portion of the share options do not vest because of failure to satisfy the vesting conditions, the share-based payment expense previously charged to the income statement will be reversed in the following reporting period based on the actual number of share options eventually vested on 4th July, 2006 (Note 36).

Notes to the Financial Statements

For the year ended 31 December 2005

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade receivables, other receivables, amounts due from/to related companies, amounts due from a director and loan to an officer, bank balances and cash, trade payables and other payables and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risks

Fair value interest rate risk

The Group's fair value interest rate risk relates primarily to certain fixed rate bank borrowings (see note 33 for details of these borrowings). The Group has not used any derivative contracts to hedge its exposure to interest rate risk. The directors consider the Group's exposure to interest rate risk is not significant as the fixed rate bank borrowings are within short maturity period.

Cash flow interest rate risk

The Group's cash flow interest rate risk primarily relates to variable-rate bank loan (see note 33 for details of these borrowings). The Group has not used any interest rate swaps in order to mitigate its exposure associated with fluctuations relating to interest cash flows.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December, 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced. The Group has no significant concentration of credit risk, with exposure spread ever a number of counterparties and customers.

Notes to the Financial Statements

For the year ended 31 December 2005

8. TURNOVER

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

	1.1.2005 to 31.12.2005	1.7.2003 to 31.12.2004
	HK$'000	*HK$'000*
Connection fees from gas pipeline construction	**22,347**	2,012
Sales of liquefied petroleum gas	**9,806**	–
Software project income	**4,650**	8,099
Sales of natural gas	**3,748**	–
Software maintenance service income	**2,209**	4,546
Sales of stoves and related equipment	**370**	215
Sales of computer hardware	**31**	304
Software consultancy income	**–**	63
Rental income of software	**–**	28
	43,161	15,267

Notes to the Financial Statements

For the year ended 31 December 2005

9. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purpose, the Group is currently organised into five major operating divisions: Gas pipeline construction, sales of natural gas, sales of liquefied petroleum gas, development and sale of software and software maintenance services. These divisions are the basis on which the Group reports its primary segment information. The Group begun its business in sales of natural gas and liquefied petroleum gas for the year ended 31st December, 2005.

Segment information about these business is presented below:

Income statement for the year ended 31st December, 2005

	Gas pipeline construction	Sales of natural gas	Sales of liquefied petroleum gas	Development and sale of software	Software maintenance services	Other operations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	22,347	3,748	9,806	4,650	2,209	401	43,161
Segment results	11,275	135	(725)	(2,378)	843	(555)	8,595
Unallocated corporate income							8,884
Unallocated corporate expenses							(10,962)
Finance costs							(2,131)
Profit before tax							4,386
Income tax expense							–
Profit for the year							4,386

Notes to the Financial Statements

For the year ended 31 December 2005

9. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

Balance sheet as at 31st December, 2005

	Gas pipeline construction	Sales of natural gas	Sales of liquefied petroleum gas	Development and sale of software	Software maintenance services	Other operations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS							
Segment assets	22,090	78,585	49,366	1,533	1,040	605	153,219
Goodwill	732	–	–	–	–	–	732
Unallocated corporate assets							108,960
Consolidated total assets							262,911
LIABILITIES							
Segment liabilities	11,485	1,013	10,612	–	680	–	23,790
Unallocated corporate liabilities							63,968
Consolidated total liabilities							87,758

Notes to the Financial Statements

For the year ended 31 December 2005

9. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

Other information for the year ended 31st December, 2005

	Gas pipeline construction	Sales of natural gas	Sales of liquefied petroleum gas	Development and sale of software	Software maintenance services	Other operations	Unallocated	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Capital expenditure	–	57,418	36,035	59	–	–	–	93,512
Depreciation	–	455	2,311	76	–	–	179	3,021
Amortisation of intangible assets	–	410	–	–	–	–	–	410
Allowance for doubtful debts	–	–	–	514	–	–	–	514
Amortisation of prepaid lease payments	–	275	–	–	–	–	–	275

Income statement for the period from 1st July, 2003 to 31st December, 2004

	Gas pipeline construction	Development and sale of software	Software maintenance services	Other operations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	2,012	8,162	4,546	547	15,267
Segment results	(2,769)	1,508	620	(19)	(660)
Unallocated corporate income					9,675
Unallocated corporate expenses					(7,324)
Finance costs					–
Profit before tax					1,691
Taxation					–
Profit for the period					1,691

Notes to the Financial Statements

For the year ended 31 December 2005

9. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

Balance sheet as at 31st December, 2004

	Gas pipeline construction	Development and sale of software	Software maintenance services	Other operations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS					
Segment assets	15,161	4,448	806	27	20,442
Goodwill	732	–	–	–	732
Unallocated corporate assets					47,059
Consolidated total assets					68,233
LIABILITIES					
Segment liabilities	3,992	287	1,307	–	5,586
Unallocated corporate liabilities					8,270
Consolidated total liabilities					13,856

Notes to the Financial Statements

For the year ended 31 December 2005

9. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

Other information for the period from 1st July, 2003 to 31st December, 2004

	Gas pipeline construction	Sales of natural gas	Development and sale of software	Software maintenance services	Other operations	Unallocated	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Addition of goodwill	–	771	–	–	–	–	771
Capital expenditure	–	10,299	71	–	–	689	11,059
Depreciation	–	295	504	–	–	393	1,192
Amortisation of intangible assets	–	–	656	–	–	–	656
Amortisation of goodwill	–	39	–	–	–	–	39

Notes to the Financial Statements

For the year ended 31 December 2005

9. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Geographical segments

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

	Sales revenue by geographical market	
	1.1.2005 to 31.12.2005	1.7.2003 to 31.12.2004
	HK$'000	*HK$'000*
Hong Kong	**6,817**	12,764
The PRC	**36,344**	2,503
	43,161	15,267

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, goodwill and intangible assets, analysed by the geographical area in which the assets are located.

	Carrying amount of segment assets		Additions to property, plant and equipment, goodwill and intangible assets	
	2005	2004	**1.1.2005 to 31.12.2005**	1.7.2003 to 31.12.2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**25,084**	40,151	**59**	771
The PRC	**237,827**	28,082	**93,453**	11,059
	262,911	68,233	**93,512**	11,830

Notes to the Financial Statements

For the year ended 31 December 2005

10. OTHER INCOME

	1.1.2005 to 31.12.2005 HK$'000	1.7.2003 to 31.12.2004 HK$'000
Management fee income	**8,500**	9,600
Bank interest income	**173**	47
Sundry income	**3,985**	484
	12,658	10,131

11. FINANCE COSTS

	1.1.2005 to 31.12.2005 HK$'000	1.7.2003 to 31.12.2004 HK$'000
Interest on bank borrowings:		
– wholly repayable within five years	**2,128**	–
– not wholly repayable within five years	**1,170**	–
	3,298	–
Less: Amounts capitalised in construction in progress	**(1,167)**	–
	2,131	–

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 7.9% to expenditure on qualifying assets.

Notes to the Financial Statements

For the year ended 31 December 2005

12. INCOME TAX EXPENSES

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

The tax charge for the year/period can be reconciled to the profit before tax per the income statement as follows:

	Hong Kong		**PRC**		**Total**	
	1.1.2005 to 31.12.2005	1.7.2003 to 31.12.2004	**1.1.2005 to 31.12.2005**	1.7.2003 to 31.12.2004	**1.1.2005 to 31.12.2005**	1.7.2003 to 31.12.2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
(Loss) Profit before tax	**(2,908)**	3,481	**7,294**	(1,790)	**4,386**	1,691
Taxation at the domestic income tax rate	**(509)**	609	**2,407**	(591)	**1,898**	18
Tax effect of expenses not deductible for tax purpose	**2,137**	330	**92**	–	**2,229**	330
Tax effect of income not taxable for tax purpose	**(1,747)**	(602)	**–**	–	**(1,747)**	(602)
Tax effect of estimated tax losses not recognised	**119**	225	**1,002**	591	**1,121**	816
Utilisation of estimated tax losses	**–**	(562)	**(1,010)**	–	**(1,010)**	(562)
Effect of tax exemptions granted to PRC subsidiaries	**–**	–	**(2,491)**	–	**(2,491)**	–
Tax charge for the year/period	**–**	–	**–**	–	**–**	–

At 31st December, 2005, the Group had unused estimated tax losses of HK$15,384,000 (2004: HK$11,621,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unrecognised estimated tax losses due to unpredictability of future profit stream. Included in unrecognised tax losses are losses of HK$5,869,000 (2004: HK$7,088,000) that will expire in various dates up to 2010. Other losses may be carried forward indefinitely.

Notes to the Financial Statements

For the year ended 31 December 2005

13. PROFIT FOR THE YEAR/PERIOD

	1.1.2005 to 31.12.2005	1.7.2003 to 31.12.2004
	HK$'000	*HK$'000*
Profit for the year/period has been arrived at after charging (crediting):		
Auditors' remuneration	**880**	480
Amortisation of intangible assets (included in other expenses)	**410**	656
Amortisation of prepaid lease payments	**275**	–
Depreciation	**3,021**	1,192
Amortisation of goodwill (included in administrative expenses)	**–**	39
Allowance for (reversal of) doubtful debts	**514**	(268)
Employee benefits expenses, other than directors (including contributions to retirement benefits schemes of HK$477,000 (1.7.2003 to 31.12.2004: HK$258,000))	**10,043**	10,057
Employee share option benefits, other than directors	**1,294**	–
Operating lease rentals in respect of rented premises	**1,259**	828
Cost of inventories recognised as expense	**22,208**	1,075
Reversal of provision for long service payment	**–**	(359)
Reversal of provision for annual leave	**–**	(307)

14. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the 9 (2004: 17) directors were as follows:

	1.1.2005 to 31.12.2005	1.7.2003 to 31.12.2004
	HK$'000	*HK$'000*
Fees	**2,870**	2,527
Other emoluments:		
– Salaries and other benefits	**–**	–
– Contributions to retirement benefits scheme	**–**	–
– Employee share option benefits	**1,114**	–
Total emoluments	**3,984**	2,527

Notes to the Financial Statements

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14. DIRECTORS' EMOLUMENTS *(Continued)*

The emoluments of directors are analysed as follows:

	1.1.2005 to 31.12.2005			1.7.2003 to 31.12.2004
	Employee share option benefits	**Fees**	**Total**	**Fees**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Wang Wenliang	398	1,300	1,698	1,100
Hao Yu	318	780	1,098	660
Lu Zhaoheng	199	120	319	60
Xu Yongxuan	199	240	439	191
Wang Lei	–	–	–	–
Nicholas John Ashley Rigg	–	150	150	–
Wang Shunlong	–	100	100	50
Luo Yongtai	–	100	100	50
Hung, Randy King Kuen	–	80	80	20
Li Weisong	–	–	–	132
Yang Jianguo	–	–	–	132
Li Zifeng	–	–	–	132
Chan Kin Wai	–	–	–	–
Ting Wai Cheung, Bernie	–	–	–	–
Ho Kwok Kin	–	–	–	–
Peter David Hilling	–	–	–	–
Lau Yuk Cheong	–	–	–	–
	1,114	2,870	3,984	2,527

No emoluments were paid by the Group to the directors as a discretionary bonus or an inducement to join or upon joining the Group or as a compensation for loss of office for the year/period.

No directors waived any emoluments during the year/period.

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15. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2004: two) were directors of the Company whose emoluments are included in the disclosures in note 14 above. The emoluments of the remaining three (2004: three) individuals were as follows:

	1.1.2005 to 31.12.2005	1.7.2003 to 31.12.2004
	HK$'000	*HK$'000*
Salaries and other benefits	**1,546**	2,465
Contributions to retirement benefits scheme	**32**	48
	1,578	2,513

Their emoluments were within the following bands:

	Number of individuals	
	1.1.2005 to 31.12.2005	1.7.2003 to 31.12.2004
Nil to HK$1,000,000	3	3

16. DIVIDEND

No dividend was paid or proposed during 2005, nor has any dividend been proposed since the balance sheet date (2004: nil).

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17. EARNINGS PER SHARE

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

	2005	2004
	HK$'000	*HK$'000*
Earnings		
Profit for the year attributable to equity holders of the parent	**3,436**	915

	2005	2004
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**1,126,060**	863,867
Effect of dilutive potential ordinary shares:		
Share options	**4,331**	
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**1,130,391**	

No diluted earnings per share for the period from 1st July, 2003 to 31st December, 2004 has been presented because the exercise price of the Company's share options was higher than the average market price of the Company's shares for the period.

Impact of changes in accounting policies

Changes in the Group's accounting policies during the year are described in note 4. To the extent that those changes have had an impact on results reported for the year ended 31st December, 2005, they have had an impact on the amounts reported for earnings per share. The following table summaries that impact on basic and diluted earnings per share:

	Impact on basic earnings per share	**Impact on diluted earnings per share**
	cent	***cent***
Non-amortisation of goodwill	–	–
Recognition of share-based payments as expenses	0.21	0.21
	0.21	0.21

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18. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Construction in progress	Leasehold improvements	Pipelines	Machinery and equipment	Furniture and fixtures	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
THE GROUP								
COST								
At 1st July, 2003	–	–	360	–	1,479	363	–	2,202
Additions	–	5,570	356	–	322	103	–	6,351
Acquired on acquisition of a subsidiary	–	–	–	–	–	306	–	306
Acquired on acquisition of business	–	–	–	3,577	4	67	754	4,402
At 1st January, 2005	–	5,570	716	3,577	1,805	839	754	13,261
Exchange realignment	–	107	14	69	34	16	15	255
Additions	–	23,937	–	–	448	–	845	25,230
Acquired on acquisition of subsidiaries	3,210	6,513	1,839	5,616	8,144	329	1,339	26,990
Acquired on acquisition of business	5,660	–	989	18,457	3,869	–	313	29,288
Disposal of a subsidiary	–	(1,484)	(690)	(908)	(1,794)	(353)	–	(5,229)
At 31st December, 2005	8,870	34,643	2,868	26,811	12,506	831	3,266	89,795
DEPRECIATION								
At 1st July 2003	–	–	322	–	1,078	238	–	1,638
Provided for the year	–	–	297	90	489	203	113	1,192
At 1st January, 2005	–	–	619	90	1,567	441	113	2,830
Exchange realignment	–	–	12	2	30	8	2	54
Provided for the year	323	–	130	805	1,103	89	571	3,021
Eliminated on disposal of a subsidiary	–	–	(266)	(90)	(113)	(36)	–	(505)
At 31st December, 2005	323	–	495	807	2,587	502	686	5,400
CARRYING VALUES								
At 31st December, 2005	8,547	34,643	2,373	26,004	9,919	329	2,580	84,395
At 31st December, 2004	–	5,570	97	3,487	238	398	641	10,431

Notes to the Financial Statements

For the year ended 31 December 2005

18. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Buildings	Over the shorter of 30 years or the remaining terms of leases of the relevant company
Leasehold improvements	Over the remaining term of lease
Pipelines	Over the shorter of 30 years or operation period of the relevant company
Machinery and equipment	5% – 30%
Furniture and fixtures	20%
Motor vehicles	10% – 20%

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For the year ended 31 December 2005

19. INTANGIBLE ASSETS

THE GROUP

	Deferred development costs *HK$'000*	Exclusive rights of operation *HK$'000*	Total *HK$'000*
COST			
At 1st July, 2003 and 1st January, 2005	1,969	–	1,969
Acquired on acquisition of business *(Note)*	–	12,004	12,004
At 31st December, 2005	1,969	12,004	13,973
AMORTISATION			
At 1st July, 2003	1,313	–	1,313
Charge for the period	656	–	656
At 31st December, 2004	1,969	–	1,969
Charge for the year	–	410	410
At 31st December, 2005	1,969	410	2,379
CARRYING VALUES			
At 31st December, 2005	–	11,594	11,594
At 31st December, 2004	–	–	–

Note: The amount arose from the acquisition of exclusive rights to operate in gas pipeline infrastructure and provision of piped gas in Linyi City in the PRC for a period of 30 years. The exclusive rights of operation is amortised on a straight line method over the relevant operation period.

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20. DEPOSIT FOR INVESTMENT IN A JOINTLY CONTROLLED ENTITY

During the period ended 31st December, 2004, the Group entered into a joint venture arrangement ("JV agreement') with The Department of City Natural Gas Engineering of Linyi City ("CNGE"), pursuant to which the Group and CNGE agreed to establish Linyi Zhong Yu City Gas Construction Development Company Limited ("Linyi Zhong Yu JV") to engage in the construction and operation of piped natural gas projects.

The total registered capital of Linyi Zhong Yu JV is HK$40 millions of which HK$20 millions is contributed by the Group and HK$20 millions is contributed by CNGE. Linyi Zhong Yu JV is owned as to 51% by the Group and as to 49% by CNGE. The relevant capital verification was completed on 28th January, 2005. Accordingly, the amount of HK$20,210,000 was accounted for as a deposit for investment in the consolidated balance sheet at 31st December, 2004.

21. GOODWILL

	HK$'000
COST	
Arising on acquisition of a subsidiary and at 31st December, 2004	771
Elimination of accumulated amortisation upon the application of HKFRS 3 *(Note 4)*	(39)
At 31st December, 2005	732
AMORTISATION	
Provided for the period and balance at 31st December, 2004	39
Elimination of accumulated amortisation upon the application of HKFRS 3	(39)
At 31st December, 2005	–

Until 31st December, 2004, goodwill had been amortised over its estimated useful life for twenty years.

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22. IMPAIRMENT TESTING ON GOODWILL

As explained in note 9, the Group presents business segments as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill set out in note 21 have been allocated to an individual cash generating unit, including a subsidiary engaged in gas pipeline construction and sales of piped gas ("Unit S").

During the year ended 31st December, 2005, management of the Group determines that there are no impairments of Unit S containing goodwill.

The basis of the recoverable amount of Unit S and its major underlying assumptions are summarised below:

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 8%. Another key assumption for the value in use calculations is the budgeted gross margin, which is determined based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of Unit S to exceed the aggregate recoverable amount of Unit S.

23. PREPAID LEASE PAYMENTS

All the Group's prepaid lease payments comprise property interests in leasehold land outside Hong Kong with medium-term lease and amortised over the term of relevant lease ranged from 30 to 50 years.

Notes to the Financial Statements

For the year ended 31 December 2005

24. INVESTMENT IN A JOINT VENTURE

As at 31st December 2005, the Group had interest in the following jointly controlled entity:

Name of entity	Form of business structure	Country of registration/principal place of operation	Registered a capital	Proportion of nominal value of registered capital held by the Group	Proportion of voting power held	Principal activities
Linyi Zhong Yu JV	Sino-foreign joint venture	PRC	RMB42,000,000	51%	57% *(Note)*	Trading of natural and gas pipeline construction

The summarised financial information in respect of the Group's jointly controlled entity which are accounted for using proportionate consolidation with the line-by-line reporting format is set out below:

	2005	2004
	HK$'000	*HK$'000*
Current assets	**7,984**	–
Non-current assets	**45,073**	–
Current liabilities	**33,289**	–
Income	**11,719**	–
Expenses	**12,389**	–

Note: The Group holds 51% of the registered capital of Linyi Zhong Yu JV and controls 57% of the voting power in director's meeting, with the remaining controls owned by CNGE. Pursuant to the shareholder's agreement, the board of directors of Linyi Zhong Yu JV comprised of 7 directors, of which 4 of them were nominated by the Group. All the decisions approved in the director's meeting must obtain approval from a minimum of 5 directors. Therefore, Linyi Zhong Yu JV is classified as a jointly controlled entity of the Group.

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For the year ended 31 December 2005

25. INVENTORIES

	The Group	
	2005	2004
	HK$'000	*HK$'000*
Construction materials	**6,882**	696
Finished goods	**1,658**	–
Work-in-progress	**–**	2,387
	8,540	3,083

26. TRADE RECEIVABLES

The Group allows an average credit period of 30 days to its trade customers. The following is an aged analysis of trade receivables at the reporting dated:

	The Group	
	2005	2004
	HK$'000	*HK$'000*
0 – 30 days	**1,272**	1,953
31 – 90 days	**983**	703
91 – 180 days	**186**	1,242
Over 180 days	**1,745**	1,362
	4,186	5,260
Less: Allowance for doubtful debts	**(953)**	(439)
	3,233	4,821

The directors consider that the carrying amount approximates its fair value.

Notes to the Financial Statements

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27. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	The Group	
	2005	2004
	HK$'000	*HK$'000*
Contracts in progress at the balance sheet date:		
Contract costs incurred plus recognised profits	**19,082**	290
Less: Progress billings	**(4,451)**	(401)
	14,631	(111)
Analysed for reporting purposes as:		
Amounts due from customers for contract work	**15,208**	–
Amounts due to customers for contract work	**(577)**	(111)
	14,631	(111)

Advances received from customers for contract work amounted to HK$6,387,000 (2004: HK$602,000) included in deferred income and advance received.

Notes to the Financial Statements

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28. AMOUNTS DUE FROM A DIRECTOR AND LOAN TO AN OFFICER

The amounts due from a director and loan to an officer disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

Director/officer	**Term of loan**	**At 31st December, 2005** *HK$'000*	**At 31st December, 2004** *HK$'000*	**Maximum amount outstanding during the year** *HK$'000*
Mr. Hao Yu (Director)	Unsecured, interest-free, repayable on demand	–	82	82
Mr. Alex Ng Tin Lok (Officer)	Unsecured, interest-free, repayable by 50 monthly installments	4	30	30
		4	112	

The directors consider that the carrying amount approximates its fair value.

29. AMOUNTS DUE FROM AND TO RELATED COMPANIES

	2005 *HK$'000*	2004 *HK$'000*
Amounts due from related companies:		
Amount due from ultimate holding company	**8,500**	–
Amount due from a fellow subsidiary	**275**	–
	8,775	–
Amounts due to related companies:		
Amount due to a fellow subsidiary	**635**	–
Amount due to ultimate holding company	**–**	2,572
Amount due to a minority shareholder	**–**	2,696
Amount due to a related company *(Note)*	**–**	474
	635	5,742

Note: The director of Company, Mr. Wang Wenliang, is the director of the related company.

The amounts are unsecured, interest-free. Amounts due from/to related companies are repayable within one year/repayable on demand, respectively. The directors consider that the carrying amounts of amounts due from/to related companies approximate its fair value.

Notes to the Financial Statements

For the year ended 31 December 2005

30. BANK BALANCES AND CASH

The bank balances carried interest at prevailing interest rates. The fair value of bank balances at 31st December, 2005 approximates the corresponding carrying amount. At 31st December, 2005, the bank balances and cash of approximately HK$79,600,000 (2004: HK$8,603,000) were demoniated in Renminbi which is not freely convertible into other currencies.

31. OTHER FINANCIAL ASSETS

The directors consider that the carrying amounts of other receivables approximate its fair value.

32. TRADE PAYABLES

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

	The Group	
	2005	2004
	HK$'000	*HK$'000*
0 – 30 days	**5,062**	240
31 – 90 days	**598**	2
91 – 180 days	**293**	237
Over 180 days	**3,824**	1,983
	9,777	2,462

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For the year ended 31 December 2005

33. BANK BORROWINGS

	2005	2004
	HK$'000	*HK$'000*
Unsecured bank loans	**52,196**	–
Carrying amount repayable:		
On demand or within one year	**26,234**	–
More than one year, but not exceeding two years	**5,769**	–
More than two years but not more than five years	**18,270**	–
More than five years	**1,923**	–
	52,196	–
Less: Amounts due within one year shown under current liabilities	**(26,234)**	–
	25,962	–

The exposure of the Group's fixed-rate borrowings are as follows:

	2005	2004
	HK$'000	*HK$'000*
Fixed-rate borrowings:		
Within one year	**23,474**	–

In addition, the Group has variable-rate borrowings which carry interest at 130% of People's Bank of China base rate. Interest is repricing every twelve months.

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For the year ended 31 December 2005

33. BANK BORROWINGS *(Continued)*

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2005
Effective interest rate:	
Fixed-rate borrowings	8% to 8.9%
Variable-rate borrowings	7.9%

The fair value of the Group's borrowings estimated by discounting their future cash flows at the prevailing market borrowing rates at the 31st December, 2005 approximates the corresponding carrying amount.

34. OTHER FINANCIAL LIABILITIES

The directors consider that the carrying amounts of other payables approximate its fair value.

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35. SHARE CAPITAL

	Number of shares		Share Capital	
	2005	2004	**2005**	2004
	'000	*'000*	***HK$'000***	*HK$'000*
Ordinary shares of HK$0.01 each				
Authorised	**10,000,000**	10,000,000	**100,000**	100,000
Issued and fully paid				
At beginning of year/period	**1,062,800**	405,400	**10,628**	4,054
Issue of shares on rights issue	**–**	405,400	**–**	4,054
Issue of shares for acquisition of subsidiaries *(Note)*	**262,386**	150,000	**2,624**	1,500
Issue of shares on placement	**–**	102,000	**–**	1,020
At end of year/period	**1,325,186**	1,062,800	**13,252**	10,628

Note: On 4th October, 2005, the Group allotted and issued 262,385,542 new shares of HK$0.01 each as a consideration to acquire the entire issued share capital and outstanding shareholder's loan of China City Gas Construction Holdings Company Limited ("CCGC Holdings") and China City Gas Construction Explore Company Limited ("CCGC Explore"). The consideration for the acquisition was HK$99,708,000. Details of the acquisitions are set out in note 37.

All the shares issued during the year/period rank pari passu with the existing shares in all respects.

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36. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option schemes

Pursuant to an ordinary resolution passed on 21st May, 2001, the Company adopted a share option scheme ("Old Share Option Scheme") pursuant to which the directors were authorised to grant share options to full-time employees (including executive directors) of the Company or any of its subsidiaries to subscribe for shares in the Company.

On 24th October, 2003, the Old Share Option Scheme was terminated and a new share option scheme ("New Share Option Scheme") was adopted.

Under the New Share Option Scheme of the Company, the directors of the Company may offer to any employees including directors of the Company or any of its subsidiaries share options to subscribe for shares in the Company in accordance with the terms of the New Share Option Scheme.

The maximum number of share in respect of which share options may be granted under the New Share Option Scheme shall not, when aggregated with any shares subject to any other schemes, exceed such number of shares as represent 10% of the issued shares as at the date of approval of the New Share Option Scheme (the "Scheme Mandate Limit") which shall be equivalent to 81,080,000 shares. On 25th April, 2005, the Scheme Mandate Limit was refreshed to 106,280,000 shares. The Company may seek approval from the shareholders in a general meeting to refresh the Scheme Mandate Limit. However, the total number of shares which may be issued upon exercise of all share options to be granted under all of the schemes of the Company or its subsidiaries under the limit as refreshed must not exceed 10% of the shares in issue as at the date of approval of the Scheme Mandate Limit. Share options previously granted under the New Share Option Scheme (including those outstanding, cancelled, lapsed in accordance with the New Share Option Scheme or any other share option schemes and exercised share options) will not be counted for the purpose of calculating the Scheme Mandate Limit.

The total number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the New Share Option Scheme and any other scheme of the Company must not exceed 30% of the total issued shares from time to time.

The total number of shares issued and to be issued on the exercise of share options granted and to be granted in any 12-month period up to the date of grant of each eligible participant shall not exceed 1% of the total issued shares.

The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

Notes to the Financial Statements

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36. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

The following table discloses details of the Company's share options granted under the Old Share Option Schemes and movements in such holdings:

Category of grantee	Exercise price per share	Exercisable period	Number of share options: At 1st July, 2003	Cancelled during the period	At 31st December, 2004
	HK$				
Directors	0.16	8th March, 2002 to 7th March, 2012	8,988	(8,988)	–
Employees	0.16	8th March, 2000 to 7th March, 2012	22,452	(22,452)	–
			31,440	(31,440)	–

Note: In July 2003, all the holders of share options accepted the mandatory unconditional cash offer made by Hezhong to cancel all the outstanding share options. Details of the offer were set out in the Company's circulate dated 19th June, 2003.

On 4th July, 2005, the Company granted 62,574,000 share options to its directors, employees and other individuals providing similar services under the New Share Option Scheme. Options granted must be taken up within 21 days of the date of grant, upon payment of HK$1 by each of the grantee. The options may be exercised at any time after twelve months from the date of grant of the share options to the tenth anniversary of the date of grant.

Notes to the Financial Statements

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36. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

The following table discloses movements of the Company's share options granted under the New Share Option Scheme and movements in such holdings:

			Number of share options			
Category of grantee	Exercise price per share	Exercisable period	At 1st January, 2005	Granted during year	Forfeited during year	At 31st December, 2005
	HK$					
Directors	0.31	4th July, 2006 to 3rd July, 2016	–	28,014,000	–	28,014,000
Employees	0.31	4th July, 2006 to 3rd July, 2016	–	19,536,000	(2,004,000)	17,532,000
Others *(Note)*	0.31	4th July, 2006 to 3rd July, 2016	–	15,024,000	–	15,024,000
			–	62,574,000	(2,004,000)	60,570,000
Exercisable at 31st December 2005						–

Note: These are individuals who rendered consultancy services in respect of management of natural gas projects to the Group without receiving any compensation. The Group granted share options to them for recognising their services similar to those rendered by other employees.

The estimated fair value of each option granted under the New Share Option Scheme on the date of grant was HK$0.08. The closing share price immediately before the date on which the options was granted was HK$0.3. The fair value was calculated using The Black-Scholes pricing model (the "Model"). The inputs into the model were as follows:

	2005
Closing share price at the date of grant	HK$0.30
Exercise price	HK$0.31
Date of grant	13th June, 2005
Expected volatility	36.34%
Expected life	1.2 years
Risk-free rate	3.16%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 15 months. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

The Company has used the Model to value the share options granted during the year. The Model is one of the commonly used models to estimate the fair value of an option. The value of an option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.

The Group recognised the total expense of HK$2,408,000 for the year ended 31st December, 2005 (2004: nil) in relation to share options granted by the Company.

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37. ACQUISITION OF SUBSIDIARIES

On 29th July, 2005, the Group entered into a sale and purchase agreement with Hezhong, pursuant to which the Group agreed to acquire the entire share capital and outstanding shareholder's loan of CCGC Holdings and CCGC Explore, satisfied by issuance of 262,385,542 ordinary shares of the Company with par value of HK$0.01 each. The fair value of the ordinary shares of the Company, determined using the published price available at the date of the acquisition, amounted to HK$99,708,000. This acquisition has been accounted for using the purchase method.

The net assets acquired in the transaction, where the carrying amount before combination approximates fair value at the date of acquisition and the discount on acquisition arising, are as follows:

	1.1.2005 to 31.12.2005 ***HK$'000***
Net assets acquired:	
Property, plant and equipment	26,990
Prepaid lease payments	11,473
Inventories	3,776
Trade receivables	294
Deposits, prepayments and other receivables	42,976
Bank balances and cash	70,571
Trade and other payables	(4,045)
Other payables and accrued charges	(6,929)
Bank borrowings	(29,613)
	115,493
Minority interests	(6,854)
Discount on acquisition	(7,607)
	101,032
Total consideration satisfied by:	
Shares issued	99,708
Costs directly attributable to the acquisition	1,324
	101,032
Net cash inflow arising on acquisition:	
Bank balances and cash acquired	70,571

The amount of discount on acquisition arising from the acquisition of CCGC Holdings and CCGC Explore from the ultimate holding company is considered as a deemed contribution and is credited to other reserve.

The subsidiaries acquired contributed HK$27,053,000 to the turnover and HK$8,376,000 to the Group's profit before tax for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1st January, 2005, total Group's turnover for the year would have been HK$57,194,000, and profit for the year would have been HK$610,000. The proforma information is for illustrative purposes only and is not necessarily an indication of turnover and profit for the year of the Group that actually would have been achieved had the acquisition been completed on 1st January, 2005, nor is it intended to be projection of future results.

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37. ACQUISITION OF SUBSIDIARIES *(Continued)*

On 19th December, 2003 ("Date of Acquisition"), the Group acquired 97% of the issued share capital of CGCE from Mr. Zheng Gang (the "Vendor"). This acquisition has been accounted for by the purchase method of accounting. Pursuant to the agreement entered between the Group and the Vendor, the Vendor has irrevocably undertaken to the Group that should any loss be incurred by CGCE for the year ended 31st December, 2004 (the "Loss"), the Vendor should pay the Group 97% of the sum of HK$2,800,000 and the Loss. The Loss of CGCE amounted to approximately HK$859,000. Accordingly, the total compensation to be received by Group from the Vendor will be approximately HK$3,549,000 ("Loss Compensation").

The closing share price of the Company quoted on the Stock Exchange on the Date of Acquisition is HK$0.16 ("Closing Price"). The directors of the Company consider the Closing Price is not a reliable indicator to measure the fair value of the Company's shares due to undue fluctuation of the share price and thin trading volume of the Company's shares.

The consideration of the acquisition is estimated by reference to the Group's proportionate interest in fair value of CGCE on 18th December, 2003 and amounted to approximately HK$13,232,000. The fair value of CGCE was valued by 河南勤德聯合會計師事務所 on a discounted cash flow basis. Should the Closing Price of the Company's shares was adopted, the market price of the shares being issued for acquisition should be HK$24,000,000.

	1.7.2003 to 31.12.2004 *HK$'000*
Net assets acquired:	
Property, plant and equipment	306
Other receivables	30
Bank balances and cash	8,494
Amount due from a director	82
	8,912
Goodwill	771
Total consideration	9,683
Satisfied by:	
Shares issued	13,232
Less: Loss Compensation	(3,549)
	9,683
Net cash inflow arising on acquisition:	
Bank balances and cash acquired	8,494

The subsidiary acquired during the period from 1st July, 2003 to 31st December, 2004 contributed HK$290,000 to the Group's turnover, and reduced the Group's profit before tax by HK$2,186,000.

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38. FORMATION OF A JOINTLY CONTROLLED ENTITY

During the period ended 31st December, 2004, the Group entered into an agreement with CNGE, pursuant to which the Group and CNGE agreed to establish Linyi Zhong Yu JV to engage in the construction and operation of piped natural gas projects in Linyi city. Linyi Zhong Yu JV was established on 28th January, 2005 and was owned as to 51% by the Group and the remaining 49% by CNGE.

The registered capital of the Linyi Zhong Yu JV is HK$40,384,000 of which HK$20,596,000 was contributed by the Group in cash and the remaining HK$19,788,000 was contributed by CNGE by way of contribution of certain assets and liabilities. The fair value of assets and liabilities of Linyi Zhong Yu JV on its establishment are accounted for using proportionate consolidation with the line-by-line reporting format and is set out below:

	1.1.2005 to 31.12.2005	
	Fair value *HK$'000*	**Attributable to the Group under proportional accounting** *HK$'000*
Contributed by CNGE:		
Property, plant and equipment	57,427	29,288
Prepaid lease payments	8,699	4,436
Intangible asset	23,537	12,004
Inventories	2,440	1,245
Trade receivables	7,023	3,582
Deposits, prepayments and other receivables	1,453	741
Bank balances and cash	815	416
Bank borrowings	(41,327)	(21,077)
Trade payables	(9,874)	(5,036)
Other payables and accrued charges	(30,405)	(15,507)
	19,788	10,092
Cash contributed by the Group	20,596	10,504
Net asset of Linyi Zhong Yu JV	40,384	20,596
Equity interest owned by the Group	51%	
Net asset attributable to the Group	20,596	
Net cash inflow arising on the establishment of Linyi Zhong Yu JV *(Note)*		
Bank balances and cash acquired	815	416
Investment deposits paid	20,596	10,504
	21,411	10,920

The business established during the year contributed HK$7,895,000 to the Group's turnover and reduced the Group's profit before tax by HK$669,000 between the date of establishment and the balance sheet date.

Note: The capital contributed by the Group was paid during the year ended 31st December, 2004. There was an inflow of cash to the Group upon the establishment of Linyi Zhong Yu JV for the year ended 31st December, 2005. Accordingly, the total bank balances and cash acquired by the Group is equal to the sum of investment deposits paid in the previous period and the bank balances contributed by other venture partner.

Notes to the Financial Statements

For the year ended 31 December 2005

39. ACQUISITION OF BUSINESS

On 18th March, 2004, the Group entered into an agreement with Hanzhong City Natural Gas Company Limited ("HCNG"), pursuant to which the Group and HCNG agreed to establish Hanzhong China – Gas City Gas Development Company Limited ("Hanzhong") to engage in the design and construction of natural gas pipeline network and ancillary facilities and sale of natural gas, as well as sale and maintenance of natural gas appliances in Hanzhong city. Hanzhong was owned as to 90% by the Group and the remaining 10% by HCNG.

The registered capital of the Hanzhong is HK$10,000,000 of which HK$9,000,000 was contributed by the Group in cash and the remaining HK$1,000,000 was contributed by HCNG by way of contribution of certain assets and liabilities. The fair value of assets and liabilities of Hanzhong on its establishment are as follows:

	1.7.2003 to 31.12.2004 *HK$'000*
Contributed by HCNG:	
Property, plant and equipment	4,402
Inventories	2,992
Trade receivables	49
Deposits, prepayments and other receivables	202
Bank balances and cash	381
Trade payables	(2,267)
Other payables and accrued charges	(1,347)
Amounts due to related companies	(3,412)
	1,000
Cash contributed by the Group	9,000
Net assets of Hanzhong	10,000
Equity interest owned by the Group	90%
Net asset attributable to the Group	9,000
Net cash inflow arising on the establishment of Hanzhong	
Bank balances and cash	381

The business established during the period contributed HK$2,293,000 to the Group's turnover, and reduced the Group's profit before tax by HK$892,000.

Notes to the Financial Statements

For the year ended 31 December 2005

40. DISPOSAL OF A SUBSIDIARY

On 16th December, 2005 the Group entered into a sale and purchase agreement with a third party, pursuant to which the Group agreed to sell the entire share capital and the outstanding shareholders' loan of Zhongyu Investment Management Limited for an aggregate consideration of HK$8,500,000. The net assets of the subsidiary at the date of disposal were as follows:

	HK$'000
Net assets disposed of:	
Property, plant and equipment	4,724
Trade receivables	797
Deposits, prepayments and other debtors	1,055
Inventories	2,830
Bank balances and cash	5,331
Trade payables	(2,482)
Other payables and accrued charges	(4,251)
	8,004
Minority interests	(794)
Gain on disposal	1,290
Total consideration satisfied by cash	8,500
Net cash inflow arising on disposal:	
Cash consideration	8,500
Bank balances and cash disposed of	(5,331)
	3,169

The subsidiary disposed of during the year contributed HK$1,849,000 to the Group's turnover and reduced the Group's profit before tax by HK$4,719,000 up to the date of disposal.

Notes to the Financial Statements

For the year ended 31 December 2005

41. MAJOR NON-CASH TRANSACTION

On 4th October, 2005, the Group acquired the entire issued share capital of CCGC Holdings and CCGC Explore satisfied by the allotment and issue of the Company's shares. Details of which were set out in *note 37*.

42. OPERATING LEASES

The Group as lessee

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2005	2004
	HK$'000	*HK$'000*
Within one year	**1,468**	430
In the second to fifth year inclusive	**1,023**	14
	2,491	444

Leases for rented premises are negotiated for a period of one to two years with fixed rental.

43. RETIREMENT BENEFITS PLANS

The Group had joined the Mandatory Provident Fund Scheme under the rules and regulations of the Mandatory Provident Fund Schemes Authority. The Group's employees in Hong Kong are required to join the scheme. Both the Group and its employees in Hong Kong has made a contribution at 5% of the employees' monthly relevant income capped at HK$20,000.

The Company's subsidiaries in the PRC, in compliance with the applicable regulations of the PRC, participated in various central pension schemes operated by the relevant municipal and provincial governments. These subsidiaries are required to make defined contributions to these schemes at rates ranging from 14% to 24% of their covered payroll. The Group has no other material obligation for the payment of its staff's retirement and other post-retirement benefits other than the contributions described above.

Notes to the Financial Statements

For the year ended 31 December 2005

44. RELATED PARTY TRANSACTIONS

(a) On 15th November, 2004, the Group entered into a service agreement with Hezhong, a controlling shareholder of the Company, pursuant to which the Company agreed to provide Hezhong with the nature gas projects management services, financial management services and human resources management services in return for a service fee which is equal to 120% of the notional time costs incurred by the Group. The service fee paid by Hezhong to the Group for the year ended 31st December, 2005 is HK$8,500,000 (1.7.2003 to 31.12.2004: HK$9,600,000).

(b) During the year, the Group acquired CCGC Holdings and CCGC Explore from Hezhong satisfied by issuance of Company's ordinary shares. Details of which were set out in note 37.

(c) Mr. Ho Kwok Kin and his wife, Madam So Miu Han, both are directors of Manpower Resources Company Limited ("MRCL"), a subsidiary of the Company leased a property to MRCL and it was used as the director's quarter during the period from 1st July, 2003 to 31st December 2004. The rental was determined on prices agreed between the parties. The rental expenses paid to these directors during such period was HK$53,000.

(d) Mr. Lau Yuk Cheong ("Mr. Lau"), an ex-director of MRCL and the Company who resigned on 10th July, 2003, and Madam Lui Wai Yi, Vinan and Mr. Lui Yuen Hong, the wife and father-in-law of Mr. Lau Yuk Cheong, respectively, leased a property to MRCL. The property was used as the director's quarter during the period from 1st July, 2003 to 31st December, 2004. The rental was determined on prices agreed between the parties. The rental expenses paid to Mr. Lau during such period was HK$40,000.

(e) The directors of the Group considered that they are the only key management personnel of the Group. Their remuneration are set out in note 14.

Notes to the Financial Statements

For the year ended 31 December 2005

45. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

At 31st December, 2005

Name of subsidiary	Place/Country of incorporation/ registration	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company Directly %	Indirectly %	Principal activities
China Gas Construction Expansion Company Limited	British Virgin Islands	Incorporated	50,000 ordinary shares of US$1 each	–	97	Investment holding
Linyi China Gas City Gas Construction Company Limited	PRC	Sino-foreign joint venture	Registered capital HK$1,000,000	–	97	Trading of natural gas and gas pipeline construction
Cyber Dynamic Enterprise Limited	British Virgin Islands	Incorporated	10,311 ordinary shares of US$1 each	100	–	Investment holding
Manpower Resource Computing Limited	Hong Kong	Incorporated	1,300,000 ordinary shares of HK$1 each	–	100	Development and distribution of human resource management software system and provision of maintenance and consultancy services
Manpower Resource Computing (China) Limited	Hong Kong	Incorporated	1,600,000 ordinary shares of HK$1 each	–	70	Investment holding
MRC Human Capital Services Limited	Hong Kong	Incorporated	675,000 ordinary shares of HK$1 each	–	78	Inactive
晉興計算機軟件開發(東莞)有限公司	PRC	Wholly-owed foreign-owed enterprise	Registered capital US$200,000	–	70	Development and distribution of human resource software system and provision of maintenance and consultancy services

Notes to the Financial Statements

For the year ended 31 December 2005

45. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(Continued)*

At 31st December, 2005

Name of subsidiary	Place/Country of incorporation/ registration	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company Directly %	Indirectly %	Principal activities
Sanmenxia China-Gas City Gas Development Co. Ltd.	PRC	Sino-foreign joint venture	Registered capital HK$50,000,000	–	90	Trading of natural gas and liquefied petroleum gas and gas pipeline construction
Xinmi City Zhongyu Gas Co., Ltd.	PRC	Sino-foreign joint venture	Registered capital HK$15,000,000	–	97	Trading of natural gas and gas pipeline construction
Yaushi Zhongyu Gas Co., Ltd.	PRC	Sino-foreign joint venture	Registered capital HK$25,000,000	–	95	Trading of natural gas and liquefied petroleum gas and gas pipeline construction
Yongcheng China-Gas Heating Explore Co., Ltd.	PRC	Sino-foreign joint venture	Registered capital HK$30,000,000	–	99	Trading of natural gas and gas pipeline construction
China City Gas Construction Holdings Company Limited	British Virgin Islands	Incorporated	100 ordinary shares of US$1 each	–	100	Investment holding
China City Gas Construction Explore Company Limited	British Virgin Islands	Incorporated	100 ordinary shares of US$1 each	–	100	Investment holding
Zhongyu Gas Investment Limited	Hong Kong	Incorporated	1 ordinary share of HK$1	100	–	Investment holding
Zhongyu Gas Investment Limited	British Virgin Islands	Incorporated	1 ordinary share of US$1	100	–	Investment holding

None of the subsidiaries had issued any debt securities at the year end.

Financial Summary

	1.1.2005 to 31.12.2005 *HK$'000*	1.7.2003 to 31.12.2004 *HK$'000*	1.7.2002 to 30.6.2003 *HK$'000*	1.7.2001 to 30.6.2002 *HK$'000*	1.7.2000 to 30.6.2001 *HK$'000*
Results					
Turnover	**43,161**	15,267	8,226	6,281	8,753
Profit (loss) for the year/period attributable to the equity holders of the parent	**3,436**	915	(5,391)	(7,710)	3,011

	31.12.2005 *HK$'000*	31.12.2004 *HK$'000*	30.6.2003 *HK$'000*	30.6.2002 *HK$'000*	30.6.2001 *HK$'000*
Assets and liabilities					
Total assets	**262,911**	68,233	3,593	9,956	18,908
Total liabilities	**(87,758)**	(13,856)	(2,920)	(3,407)	(2,222)
	175,153	54,377	673	6,549	16,686
Equity attributable to the equity holders of the parent	**167,231**	53,465	1,537	6,928	16,686
Minority interests	**7,922**	912	(864)	(379)	–
	175,153	54,377	673	6,549	16,686

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the annual general meeting of Zhongyu Gas Holdings Limited (the "Company") will be held at 5/F., Hezhong Commercial Centre, No.37 Jingqi Road, Jinshui District, Zhengzhou City, Henan Province, People's Republic of China on Monday, 24th April, 2006 at 11:00 a.m. for the following purposes:

1. To receive and consider the audited consolidated financial statements and the reports of the directors and auditors of the Company for the year ended 31st December, 2005;

2. To re-elect retiring directors of the Company (the "Directors") and authorise the board of Directors (the "Board") or the Remuneration Committee of the Company to fix the remuneration of the Directors;

3. To re-appoint Messrs. Deloitte Touche Tohmatsu as the Company's auditors and authorise the Board to fix their remuneration;

and, as special business, to consider and, if thought fit, to pass the following resolutions as ordinary resolutions of the Company:

4. "THAT

conditional upon the GEM Listing Committee of The Stock Exchange of Hong Kong Limited ("Stock Exchange") granting approval of the listing of, and permission to deal in, any shares of the Company (the "Shares") which may be issued by the Company pursuant to the exercise of the options ("Share Options") to be granted under the share option scheme of the Company adopted on 24th October, 2003 ("Share Option Scheme"), the Directors be and hereby authorized, at their absolute discretion to grant, in accordance with the terms of the Share Option Scheme and the requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM") of the Stock Exchange ("GEM Listing Rules") as may be amended from time to time, Share Options and to allot and issue Shares pursuant to the exercise of such Share Options up to 10% of the issued share capital of the Company as at the date of passing of this resolution."

5. "THAT

(i) subject to paragraph (iii) of this resolution, pursuant to the GEM Listing Rules, the exercise by the Directors during the Relevant Period (as defined hereinafter) of all the powers of the Company to allot, issue and deal with additional Shares in the capital of the Company and to make or grant offers, agreements and options (including bonds, warrants and debentures convertible into shares) which might require the exercise of such powers be and is hereby generally and unconditionally approved;

(ii) the approval in paragraph (i) of this resolution shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;

Notice of Annual General Meeting

(iii) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to the approval in paragraph (i) of this resolution, otherwise than pursuant to:

(a) a Rights Issue (as defined hereinafter);

(b) the exercise of warrants to subscribe for Shares or the exercise of options granted under any ordinary share option scheme adopted by the Company; or

(c) an issue of Shares in lieu of whole or part of a dividend on Shares in accordance with the articles of association of the Company,

shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution and this approval shall be limited accordingly; and

(iv) for the purpose of this resolution:

"Relevant Period" means the period from the date of this resolution until whichever is the earliest of:

(a) the conclusion of the next annual general meeting of the Company;

(b) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws of the Cayman Islands to be held; and

(c) the date on which the revocation, variation or renewal of the issue mandate by an ordinary resolution of the shareholders of the Company in general meeting.

"Rights Issue" means offer of Shares open for a period fixed by the Directors to holders of Shares on the register of members of the Company on a fixed record date in proportion to their then holdings of such Shares as at that date (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to overseas shareholders or fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in any territory outside Hong Kong)."

Notice of Annual General Meeting

6. "THAT

(i) subject to paragraph (ii) of this resolution, the exercise by the Directors during the Relevant Period (as defined hereinafter) of all powers of the Company to repurchase issued shares in the capital of the Company on GEM or any other stock exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for such purpose, subject to and in connection with all applicable laws and/or the requirements of the GEM Listing Rules or of any other stock exchange as amended from time to time, be and the same is hereby generally and unconditionally approved;

(ii) the aggregate nominal amount of Shares which the Company is authorised to repurchase pursuant to the approval in paragraph (i) of this resolution shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution, and this approval shall be limited accordingly; and

(iii) for the purpose of this resolution:

"Relevant Period" means the period from the passing of this resolution until whichever is the earliest of:

(a) the conclusion of the next annual general meeting of the Company;

(b) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws to be held; and

(c) the date on which the revocation, variation or renewal of the repurchase mandate by an ordinary resolution of the shareholders of the Company in general meeting."

7. "THAT conditional upon ordinary resolutions numbered 5 and 6 set out above being passed, the aggregate nominal amount of Shares which are repurchased by the Company under the authority granted to the Directors as mentioned in ordinary resolution numbered 6 above shall be added to the aggregate nominal amount of share capital that may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to ordinary resolution numbered 5 set out above."

By Order of the Board
Wang Wenliang
Chairman

Hong Kong, 28th March, 2006

Notice of Annual General Meeting

Registered Office:
Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
British West Indies

Head Office and Principal
Place of Business:
Suite 3016, 30th Floor
One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Notes:

(i) A member of the Company entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxy to attend and, on a poll, vote instead of such member. A proxy need not be a member of the Company.

(ii) In order to be valid, the proxy form together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority, must be deposited at the Company's branch share registrar and transfer office in Hong Kong, Secretaries Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for the meeting or any adjourned meeting.

(iii) Where there are joint holders of any share of the Company, any one of such holders may vote at the meeting either personally or by proxy in respect of such share as if he were solely entitled thereto, but if more than one of such holders be present at the meeting personally or by proxy, then the one of such holders whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof. Several executors or administrators of a deceased member in whose name any share stands shall for this purpose be deemed joint holders thereof.