中裕燃气

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

(Stock Code 股份代號：8070)

06

年報 ANNUAL REPORT

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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.

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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

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British West Indies

AUDITOR

Deloitte Touche Tohmatsu

PRINCIPAL BANKER

Standard Chartered Bank

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Secretaries Limited
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28 Queen's Road East
Wanchai, Hong Kong

STOCK CODE

8070

The Group's business continued to develop rapidly in 2006. Profit attributable to equity holders of the parent for the year amounted to approximately HK$6,856,000. This was approximately HK$4,710,000 over a profit attributable to equity holders of the parent of approximately HK$2,146,000, exclusive of an extraordinary gain on disposal of a subsidiary, in 2005. The growth is mainly attributable to the continual expansion of the Group's gas businesses in People's Republic of China (the "PRC"), including gas supply business and gas pipeline construction business.

The Group continues to focus on the exploration and development of gas related business in the PRC. After years of expansion and operation, the Group's gas business is now fully developed. The construction of gas operations' infrastructure including pipelines, processing stations and other ancillary facilities were completed. We anticipate the Group is not necessary to invest huge amount of capital expenditure in its existing gas operations in the near future. As to the future prospect of the Group, We are still positive about the boom of the natural gas market in the 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, we 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.

On 22nd January, 2007, the Group signed an agreement (the "JV Agreement") for establishing a joint venture company in Zhengzhou City, Henan Province, the PRC. Such joint venture company will be engaged principally in the exploration, development and production of coalbed methane in Jiaozuo City, Henan Province, the PRC and the sale of coalbed methane. As the PRC is now facing the problem of energy, including but not limited to the shortage of oil and gas resulting from the rapid development of its economy, we consider that there will be more demand for alternative energy source and the JV Agreement offers the Group a good business opportunity to allow the Group to tap into the upper stream coalbed methane supply market in the PRC. Taking into account that coalbed methane can be used as an alternative energy source to natural gas and sold to third parties by the Group, we believe investing in this project could help to safeguard sufficient source of gas supply to the Group's gas operations located in Henan Province and enlarge the Group's source of income as well as to greatly alleviate the PRC's energy problem. The Group will strive to obtain more exclusive coalbed methane operations in the PRC to enhance its market position and to improve its financial performance.

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

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.

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
Zhengzhou, the PRC
26th March, 2007

BUSINESS REVIEW

Overall

During the year under review, the Group continued to focus on the exploration and the development of gas related business and 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 parties.

Gas Businesses

The Group's gas businesses primarily comprises gas pipeline construction and provision of gas. As at 31st December, 2006, the Group secured six exclusive gas operations, two in Linyi City, Shandong Province, the PRC and four in Sanmenxia City, Xinmi City, Yanshi City and Yongcheng City, Henan Province, the PRC respectively. 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 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. The businesses of such six gas operations have been fully developed since the second quarter of 2006, on which the construction of their infrastructure, including pipelines, processing stations and other ancillary facilities were completed.

Gas Pipeline Construction

The Group commenced to engage in gas pipeline construction activities in 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 29,304 households and 80 customers respectively. As at 31st December, 2006, the accumulated number of residential households and commercial/industrial customers reached 41,378 households and 97 customers respectively.

Provision of Gas

The Group commenced to provide liquefied petroleum gas and natural gas to customers from 2004 and 2005 respectively. Of the six gas operations of the Group, Linyi China Gas, Xinmi and Yongcheng currently provide piped natural gas, Linyi Zhongyu JV and Sanmenxia currently provide piped natural gas and liquefied petroleum gas and Yanshi currently provide piped 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 12,323,000 m^3 and approximately 36,080,000 tons 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 36 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 parties during the year under review.

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 parties since early 2005.

Acquisitions, Disposal and Significant Investments

On 10th February, 2006, China Gas Construction Expansion Company Limited (中國天然氣建設發展有限公司) ("CGCE"), a non-wholly owned subsidiary of the Company, Zhongyu Gas Investment Limited ("Zhongyu Gas Inv"), a wholly owned subsidiary of the Company and Mr. Zheng Gang (鄭剛) ("Mr. Zheng") entered into the share subscription agreement ("Share Subscription Agreement") in relation to the subscription of a total of 1,280,000 new shares ("New Shares") of CGCE of HK$7.80 each by Zhongyu Gas Inv and Mr. Zheng in proportion to their then respective shareholdings in CGCE. Immediately before completion of the Share Subscription Agreement, Zhongyu Gas Inv and Mr. Zheng was interested in 97% and 3% of the entire equity capital of CGCE respectively. Pursuant to the Share Subscription Agreement, Zhongyu Gas Inv and Mr. Zheng would be entitled to subscribe for 1,241,600 New Shares and 38,400 New Shares with a total consideration of HK$9,684,480 and HK$299,520 respectively. In addition, should Mr. Zheng fail to subscribe for his 38,400 New Shares, Zhongyu Gas Inv was entitled to subscribe for the said 38,400 New Shares for a total consideration of HK$299,520.

On 17th February, 2006, being the latest date to lodge the application letter to subscribe for the New Share pursuant to the Share Subscription Agreement, CGCE received the application letter with respective payment attached from Zhongyu Gas Inv for subscription for 1,280,000 New Shares and Mr. Zheng failed to subscribe for his 38,400 New Shares. Accordingly, CGCE allotted and issued 1,280,000 New Shares with a total consideration of HK$9,984,000 to Zhongyu Gas Inv on 21st February, 2006. Zhongyu Gas Inv fully paid the said consideration on 17th February, 2006.

Upon completion of the Share Subscription Agreement, Zhongyu Gas Inv and Mr. Zheng are interested in approximately 99.89% and approximately 0.11% of the enlarged entire equity capital of CGCE respectively.

CGCE was incorporated in the British Virgin Islands on 12th May, 2003. It is an investment holding company interested in the entire registered capital of Linyi China Gas, a wholly-foreign owned enterprise established in the PRC on 18 July, 2003. Linyi China Gas is principally engaged in design and construction of natural gas pipeline network and ancillary facilities, distribution and sale of natural gas in the Linyi Economic Development District, Linyi City, Shandong Province, the PRC. Linyi China Gas entered into a purchase contract with PetroChina Company Limited（中國石油天然氣股份有限公司）("PetroChina") on 31st July, 2005 pursuant to which PetroChina agreed to supply natural gas to Linyi China Gas for the period from 31st July, 2005 to 31st July, 2025.

The proceeds from the subscription for the New Shares were used to fund further investment in Linyi China Gas which used the proceeds to fund the construction of its natural gas pipeline network and ancillary facilities in Linyi City.

The construction of the west-east branch pipeline to reach Linyi City was completed in July 2006 and the piped natural gas supply from PetroChina is now available in Linyi City. The Directors believe that securing a sufficient piped natural gas supply would facilitate Linyi China Gas to develop its natural gas business in Linyi City and lower the Linyi China Gas's cost of sales and thus the turnover and results of Linyi China Gas would increase substantially in the second half of 2006. Having considered the expected increase in the turnover and results of Linyi China Gas in the near future, the Directors are of the view that the entering into of the Share Subscription Agreement would increase the Company's portion of the profits sharing from Linyi China Gas and thus improve the results of the Group.

The entering into of the Share Subscription Agreement and the transaction in relation to the further investment in Linyi China Gas did not constitute discloseable transactions under Chapters 19 and 20 of the GEM Listing Rules.

On 23rd July, 2006, Linyi ZhongYu JV, a joint venture of the Company, and Linyi China Gas entered into a temporary contract ("Supply Contract") pursuant to which Linyi ZhongYu JV agreed to purchase and Linyi China Gas agreed to supply piped natural gas at market price offered by Linyi China Gas to party(ies) which is/are independent of and not connected with the Company, any director, chief executive and substantial shareholder or management shareholder of the Company or any of its subsidiaries or any of their respective associates.

Linyi ZhongYu JV was a Chinese-foreign equity joint venture company and established on 28th January, 2005. It is owned as to 51% by the Group and the remaining 49% by 臨沂市城市燃氣工程籌建處 (the Department of City Natural Gas Engineering of Linyi City) ("CNGE"), 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 (Lan Shan Qu)) 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.

Taking into account the operation of Linyi ZhongYu JV and Linyi China Gas are located in the same city, the Directors are of the view that the entering into of the Supply Contract would minimize the Group's cost in construction of its network of gas pipelines connecting to the gas fields of its suppliers for natural gas.

The Directors confirmed that the terms of the Supply Contract have been determined after arm's length negotiations between the parties thereto and will be no less favourable than terms the Group can otherwise obtain in the market. The Directors are of the view that the terms of the Supply Contract are fair and reasonable and are in the interests of the Company and its shareholders as a whole.

Save as disclosed above, the Group had no acquisitions, disposals nor significant investments for the year ended 31st December, 2006.

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.

During the year under review, the Group's turnover increased approximately 92.0%, to HK$82,871,000 from approximately HK$43,161,000 in 2005. The upsurge in the Group's turnover was mainly attributable to the continual expansion of the Group's gas businesses, including gas supply business and gas pipeline construction business. Of the Group's total turnover, approximately 47.2% was derived from connection fees from gas pipeline construction, approximately 25.2% was derived from sales of liquefied petroleum gas, approximately 21.5% was derived from sales of natural gas, approximately 3.8% was derived from software project income, approximately 1.8% was derived from software maintenance services income, and the remaining approximately 0.5% was derived from sales of stoves and related equipment.

The Group's overall gross profit margin amounted to approximately 35.6% for the year under review which was similar to approximately 34.9% in 2005.

For the year under review, the Group recorded other income of approximately HK$8,046,000, which mainly comprised management fee income of HK$3,402,000 paid by Hezhong pursuant to the Service Agreement, the details of which was set out in the paragraph headed "Ongoing connected transaction" in this announcement and compensation income of approximately HK$3,306,000 from CNGE as a compensation to subsidise liquefied petroleum gas operation of Liuyi Zhongyu JV for the year under review.

For the year under review, the Group recorded distribution costs of approximately HK$3,702,000, or approximately 4.5% of the Group's turnover, which was as same as that in 2005.

During the year under review, the Group's administrative expenses increased approximately 15.9%, to HK20,441,000 from approximately HK$17,631,000 in 2005. The increase was mainly attributable to the increase in salaries and wages as the number of the Group operating subsidiaries increased and rent and rates paid for an office located in Hong Kong.

During the year under review, the Group's other expenses amounted to approximately HK$2,778,000 which was similar to approximately HK$2,926,000 last year. Other expenses for the year under review mainly comprised recognition of equity-settled share based payments 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 did not record any gain on disposal of a subsidiary.

The Group's finance costs for the year under review increased approximately 65.6%, to HK$3,529,000 from approximately HK$2,131,000 in 2005. The increase was mainly attributable to the increase in interest expenses resulting from the rise in average interest rate and the increase in the average outstanding bank borrowings which were mainly used to fund the construction of the Group's pipeline networks.

As a result of the above, the Group's profit attributable to equity holders of the parent for the year under review was approximately HK$6,856,000. This was approximately HK$4,710,000 over a profit attributable to equity holders of the parent of approximately HK$2,146,000, exclusive of an extraordinary gain on disposal of a subsidiary, for the year ended 31st December, 2005.

Gas Business

Gas Pipeline Construction

For the year under review, the turnover of the Group derived from the connection fees from gas pipeline construction increased approximately 75.1%, to HK$39,139,000 from HK$22,347,000 in 2005. The substantial increase was mainly attributable to the increase in the number of households connected to the Group's existing gas pipeline networks resulting from the efforts of the Group's sales and marketing teams and the increase in the number of the Group's gas pipeline projects acquired by the Group in October 2005.

Sales of Liquefied Petroleum Gas

For the year under review, the turnover of the Group derived from sale of liquefied petroleum gas increased approximately 112.8% to HK$20,866,000 from HK$9,806,000 in 2005. This type of turnover was generated from the old business of the Group's operating subsidiaries acquired by the Group in October 2005. Only such type of turnover for three months ended 31st December, 2005 was absorbed by the Group in 2005. The households are the main users for consumption of liquefied petroleum gas.

Sales of Natural Gas

For the year under review, the turnover of the Group derived from sale of natural gas increased approximately 375.8%, to HK$17,833,000 from approximately HK$3,748,000 in 2005. The increase was mainly attributable to the increase in the number of households and industrial/commercial users connected as well as the increase in the total gas consumption.

Software Business

Development and sales of HRM Software

For the year under review, the Group's turnover derived from software project income decreased approximately 32.1%, to HK$3,156,000 from approximately HK$4,650,000 in 2005. The decrease was mainly attributable to the result of the concentration of the Group's resources on the exploration and development of the gas related businesses.

Software Maintenance Services

For the year under review, the Group's turnover derived from software maintenance service income decreased approximately 33.9%, to HK$1,460,000 from approximately HK$2,209,000 in 2005. The decrease was mainly attributable to the decrease in number of customers using the software maintenance service rendered by the Group.

LIQUIDITY, FINANCIAL RESOURCES AND WORKING CAPITAL

Liquidity

As at 31st December, 2006, the Group had net current assets of approximately HK$73,851,000. 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, 2006 amounted to approximately HK$141,121,000, comprising inventories of approximately HK$11,066,000, trade receivables of approximately HK$2,598,000, deposits, prepayments and other receivables of approximately HK$24,710,000, prepaid lease payments of approximately HK$457,000, amounts due from customers for contract work of approximately HK$32,621,000, amounts due from related companies of approximately HK$3,854,000 and bank balances and cash of approximately HK$65,815,000.

As at 31st December, 2006, the current liabilities of the Group amounted to approximately HK$67,270,000, comprising deferred income and advance received of approximately HK$4,339,000, trade payables of approximately HK$16,085,000, other payables and accrued charges of approximately HK$7,573,000, amounts due to customers for contract work of approximately HK$1,752,000, amounts due to related companies of approximately HK$1,038,000 and bank borrowings of approximately HK$36,483,000. Amounts due to related companies are unsecured, interest-free and repayable on demand terms.

As at 31st December, 2006, the Group's current ratio, represented by a ratio of total current assets to total current liabilities, was approximately 2.1 (2005: 2.3).

As at 31st December, 2006, the Group's gearing ratio, represented by a ratio of total bank borrowings to equity attributable to equity holders of the parent, was 0.32 (2005: 0.31).

Financial resources

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

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.

EMPLOYEE INFORMATION

As at 31st December, 2006, the Group had a total of 550 employees (2005: 482) in Hong Kong and the PRC, and the total remuneration for the year under review was approximately HK$10,220,000 (2005: HK$10,043,000).

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, 2006, 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, 2006, the Directors did not have any future plans for material investment or capital assets.

CAPITAL COMMITMENTS

As at 31st December, 2006, the Group did not have any significant capital commitments.

CONTINGENT LIABILITIES

As at 31st December, 2006, the Group did not have any contingent liabilities.

EXECUTIVE DIRECTORS

Mr. Wang Wenliang, aged 36, is the Chairman of Zhongyu Gas Holdings Limited (the "Company"). He joined the Company in July 2003. Mr. Wang is responsible for the overall strategic development of the Company and its subsidiaries (collectively 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 and director of Hezhong Investment Holding Company Limited ("Hezhong").

Mr. Hao Yu, aged 34, is the Chief Executive Officer of the Company. He joined the Company 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 planning. Mr. Hao is a director of Hezhong.

Mr. Lu Zhaoheng, aged 42, 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 twenty-two 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 Company in June 2004.

NON-EXECUTIVE DIRECTORS

Mr. Xu Yongxuan, aged 61, the Vice Chairman of the Company. 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 Company in March 2004.

Mr. Wang Lei, aged 44, 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 Company in June 2004.

Mr. Nicholas John Ashley Rigg, aged 48, 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 Company in January 2005.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wang Shunlong, aged 42, is the Chairman of the Audit Committee and Remuneration Committee of the Company. He is an executive director of Hony Capital, a member 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 twelve years of experience in corporate management and investment planning. He joined the Company in July 2003.

Mr. Luo Yongtai, aged 60, 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 41, 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 executive director of China Shineway Pharmaceutical Group Limited (Stock Code: 2877). Mr. Hung is also 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 Company in September 2004.

SENIOR MANAGEMENT

Mr. Lui Siu Keung, aged 35, is the Chief Financial Officer, Company Secretary and Qualified Accountant of the Company. He joined the Company in June 2003 and is responsible for the financial and accounting operation of the Group. Mr. Lui has approximately ten 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. Currently, Mr. Lui is an independent non-executive director of Co-Prosperity Holdings Limited (Stock Code: 707).

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, 2006. 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, 2006, 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.

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 11 to 12 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 in advance 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.

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, 2006, the Board held five board meetings. The attendance records of all board meetings are set out below:

Executive Directors		
Mr. Wang Wenliang *(Chairman)*	5	100%
Mr. Hao Yu *(Chief Executive Officer)*	5	100%
Mr. Lu Zhaoheng	5	100%
Non-executive Directors		
Mr. Xu Yongxuan *(Vice-Chairman)*	5	100%
Mr. Wang Lei	5	100%
Mr. Nicholas John Ashley Rigg	5	100%
Independent Non-executive Directors		
Mr. Wang Shunlong	5	100%
Dr. Luo Yongtai	5	100%
Mr. Hung, Randy King Kuen	5	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.

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 Director 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.

At the 2005 AGM, Mr. Wang Shunlong, Dr. Luo Yongtai and Mr. Hung, Randy King Kuen, three of the nine Directors subject to retirement by rotation, retired and re-elected to the Board by the shareholders of the Company.

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.

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.

One remuneration meeting has been held on 27th March, 2006 to review the remuneration packages of Directors which are nominal by market standards. The Remuneration Committee also 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	100%
Dr. Luo Yongtai	1	100%
Mr. Hung, Randy King Kuen	1	100%

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 three 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.

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.

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 2006, the Audit Committee held four 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)*	4	100%
Dr. Luo Yongtai	4	100%
Mr. Hung, Randy King Kuen	4	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 2006 amounted to HK$916,000 and HK$34,000 respectively. Non-audit services provided by Deloitte Touche Tohmatsu include (i) review of the continuing connected transaction pursuant to the service agreement entered into between the Company and Hezhong on 15 November 2004; and (ii) review of the Company's annual preliminary announcement of results as well as the financial statements.

The directors present their annual report and the audited consolidated financial statements of the Company for the year ended 31st December, 2006.

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 and a jointly controlled entity are set out in notes 39 and 20 respectively to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2006 are set out in the consolidated income statement on page 30.

The directors do not recommend the payment of a dividend and propose that the profit for the year be retained.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements during the year in property, plant and equipment of the Group are set out in note 16 to the consolidated financial statements.

SHARE CAPITAL

Details of share capital of the Company are set out in note 29 to the consolidated 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, 2006, the Company's reserves available for distribution amounted to HK$130,399,000 which consisted of share premium of HK$145,901,000 less accumulated losses of HK$15,502,000.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

DIRECTORS

The directors of the Company during the year 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

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 Wenliang, Mr. Hao Yu and Mr. Lu Zhaoheng retire by rotation and, being eligible, offer themselves for re-election.

DIRECTORS SERVICE CONTRACTS

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.

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 transaction is regarded as connected transaction pursuant to Chapter 20 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM Listing Rules"). 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 payable by Hezhong to the Group for the year ended 31st December, 2006 was HK$3,402,480.

Pursuant to Rule 20.38 of the GEM Listing Rules, the Board of Directors engaged the auditor of the Company to perform certain agreed-upon procedures in respect of the continuing connected transaction of the Group whether the connection transaction:

(a) has received the approval of the Board of Directors;

(b) has been entered into in accordance with the terms of the relevant agreement governing such transaction; and

(c) has not exceeded the relevant cap amount for the financial year ended 31st December, 2006 as set out in the circular of the Company dated 7th December, 2004.

The auditor has reported its factual findings on these procedures to the Board of Directors. The independent non-executive directors have reviewed the continuing connected transaction and confirmed that the 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 agreement governing such transaction that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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 a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DISCLOSURE OF INTERESTS

(a) *Interests of Directors*

As at 31st December, 2006, 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 Part XV of the 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 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	Number of Shares held	Approximate percentage of issued share capital of the Company *(%)*
Mr. Wang Wenliang	Personal *(Note 1)*	10,002,000	
("Mr. Wang")	Corporate *(Note 2)*	872,505,542	
		882,507,542	66.59%

Note:

1. Mr. Wang is interested in the underlying Shares of the 10,002,000 option held by him as stated in (a)(ii) below.

2. Hezhong is the beneficial owner of 875,505,542 Shares. Mr. Wang is deemed to be interested in these Shares through his 52% interest in the issued share capital of Hezhong.

(ii) Share options:

Name of Directors	Nature of interest	Number of options held	Number of underlying Shares	Approximate percentage of issued share capital of the Company
Mr. Wang	Personal *(Notes 1 and 2)*	10,002,000	10,002,000	0.75%
Mr. Hao Yu	Personal *(Note 1)*	8,004,000	8,004,000	0.60%
Mr. Lu Zhaoheng	Personal *(Note 1)*	5,004,000	5,004,000	0.38%
Mr. Xu Yongxuan	Personal *(Note 1)*	5,004,000	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$0.310 per Share during the period from 4th July, 2006 to 3rd June, 2016.

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 section 308 of the SFO.

Save as disclosed above, as at 31st December, 2006, 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 or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the SFO) (a) where were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 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, 2006, the following person (not being Directors or chief executive of the Company) had, or was deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 5% 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	Nature of interest	Number of Shares held	Approximate percentage of issued share capital of the Company
Hezhong	Beneficial	872,505,542	65.84%

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.

Save as disclosed above, as at 31st December, 2006, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 5% 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.

SHARE OPTIONS

Particulars of the Company's share option schemes are set out in note 30 to the consolidated financial statements.

The following table discloses the Company's share options during the year.

	Number of share options outstanding at 1st January, 2006 and 31st December, 2006
Directors	
Wang Wenliang	10,002,000
Hao Yu	8,004,000
Lu Zhaoheng	5,004,000
Xu Yongxuan	5,004,000
	28,014,000
Employees	17,532,000
Others	15,024,000
	60,570,000

Save as disclosed above, at no time during the year 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 of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2006, the aggregate amount of turnover and purchase attributable to the Group's five largest customers and suppliers respectively accounted for less than 30% of the Group's total turnover and purchases.

At no time during the year did a Director, an associate of a Director or a shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) have 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.

EMOLUMENT POLICY

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

The Company has adopted a share option scheme as an incentive to Directors and eligible employees, details of the scheme are set out in note 30 to the consolidated financial statements.

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.

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 38 to the consolidated financial statements.

AUDITOR

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

On behalf of the Board

Wang Wenliang
Chairman

Zhengzhou, the People's Republic of China
26th March, 2007

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 (collectively referred to as the "Group") set out on pages 30 to 74 which comprise the consolidated balance sheet as at 31st December, 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards 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
26th March, 2007

Consolidated Income Statement

For year ended 31st December, 2006

	NOTES	2006 HK$'000	2005 HK$'000
Turnover	6	**82,871**	43,161
Cost of sales		**(53,369)**	(28,088)
Gross profit		**29,502**	15,073
Other income	8	**8,046**	12,658
Distribution costs		**(3,702)**	(1,947)
Administrative expenses		**(20,441)**	(17,631)
Other expenses		**(2,778)**	(2,926)
Gain on disposal of a subsidiary		**—**	1,290
Finance costs	9	**(3,529)**	(2,131)
Profit before tax		**7,098**	4,386
Income tax expenses	10	**—**	—
Profit for the year	11	**7,098**	4,386
Attributable to:			
Equity holders of the parent		**6,856**	3,436
Minority interests		**242**	950
		7,098	4,386
Dividends	14	**—**	—
Earnings per share	15		
Basic		**0.52 cent**	0.31 cent
Diluted		**0.51 cent**	0.30 cent

Consolidated Balance Sheet

As at 31st December, 2006

	NOTES	2006 HK$'000	2005 HK$'000
Non-current assets			
Property, plant and equipment	16	**111,664**	84,395
Intangible assets	17	**11,641**	11,594
Deposit for acquisition of property, plant and equipment		**—**	11,539
Goodwill	18	**732**	732
Prepaid lease payments	19	**15,321**	15,229
		139,358	123,489
Current assets			
Inventories	21	**11,066**	8,540
Trade receivables	22	**2,598**	3,233
Deposits, prepayments and other receivables		**24,710**	10,319
Prepaid lease payments	19	**457**	405
Tax recoverable		**—**	133
Amounts due from customers for contract work	23	**32,621**	15,208
Loan to an officer	24	**—**	4
Amounts due from related companies	25	**3,854**	8,775
Bank balances and cash	26	**65,815**	92,805
		141,121	139,422
Current liabilities			
Deferred income and advance received		**4,339**	7,066
Trade payables	27	**16,085**	9,777
Other payables and accrued charges		**7,573**	17,294
Amounts due to customers for contract work	23	**1,752**	577
Amounts due to related companies	25	**1,038**	635
Bank borrowings	28	**36,483**	26,234
		67,270	61,583
Net current assets		**73,851**	77,839
Total assets less current liabilities		**213,209**	201,328

Consolidated Balance Sheet

As at 31st December, 2006

	NOTES	2006 HK$'000	2005 HK$'000
Capital and reserves			
Share capital	29	**13,252**	13,252
Reserves		**170,072**	153,979
Equity attributable to equity holders of the parent		**183,324**	167,231
Minority interests		**8,172**	7,922
Total equity		**191,496**	175,153
Non-current liabilities			
Provision for long service payment		**213**	213
Bank borrowings	28	**21,500**	25,962
		21,713	26,175
		213,209	201,328

The consolidated financial statements on pages 30 to 74 were approved and authorised for issue by the Board of Directors on 26th March, 2007 and are signed on its behalf by:

DIRECTOR *DIRECTOR*

Consolidated Statement of Changes in Equity

For year ended 31st December, 2006

	Attributable to equity holders of the parent									
	Share capital	Share premium	Share option reserve	Merger reserve	Other reserve	Translation reserve	Accumulated (losses)/ profits	Total	Minority interests	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1st January, 2005	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 31)	—	—	—	—	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
Exchange differences arising on translation of foreign operations recognised directly in equity	—	—	—	—	—	6,829	—	6,829	8	6,837
Profit for the year	—	—	—	—	—	—	6,856	6,856	242	7,098
Total recognised income for the year	—	—	—	—	—	6,829	6,856	13,685	250	13,935
Recognition of equity - settled share - based payments	—	—	2,408	—	—	—	—	2,408	—	2,408
At 31st December, 2006	13,252	145,901	4,816	3,740	7,607	7,436	572	183,324	8,172	191,496

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 year ended 31st December, 2006

	NOTES	2006 HK$'000	2005 HK$'000
Operating activities			
Profit before tax		**7,098**	4,386
Adjustments for:			
Depreciation		**3,772**	3,021
Share-based payment expense		**2,408**	2,408
Amortisation of intangible assets		**406**	410
Amortisation of prepaid lease payments		**430**	275
Gain on disposal of a subsidiary		**—**	(1,290)
Loss on disposal of property, plant and equipment		**259**	—
Allowance for doubtful debts		**211**	514
Interest income		**(126)**	(173)
Finance costs		**3,529**	2,131
Operating cash flows before movements in working capital		**17,987**	11,682
Increase in inventories		**(2,526)**	(3,266)
Decrease in trade receivables		**424**	4,153
(Increase) decrease in deposits, prepayments and other receivables		**(2,852)**	38,268
Increase in amounts due from customers for contract work		**(17,413)**	(15,208)
Decrease in loan to an officer		**4**	108
Decrease (increase) in amounts due from related companies		**4,921**	(8,775)
(Decrease) increase in deferred income and advance received		**(2,727)**	5,488
Increase in trade payables		**6,308**	716
Decrease in other payables and accrued charges		**(9,721)**	(4,641)
Increase in amounts due to customers for contract work		**1,175**	466
Cash (used in) generated from operations		**(4,420)**	28,991
Interest received		**126**	173
Hong Kong Profits Tax refunded (paid)		**133**	(133)
Net cash (used in) from operating activities		**(4,161)**	29,031
Investing activities			
Deposit for acquisition of property, plant and equipment		**—**	(11,539)
Purchases of property, plant and equipment		**(27,503)**	(24,063)
Proceeds on disposal of property, plant and equipment		**1,808**	—
Acquisition of subsidiaries	31	**—**	70,571
Formation of a jointly controlled entity	32	**—**	10,920
Disposal of a subsidiary	33	**—**	3,169
Payment of costs directly attributable to acquisition of subsidiaries	31	**—**	(1,324)
Net cash (used in) from investing activities		**(25,695)**	47,734

For year ended 31st December, 2006

	2006	2005
	HK$'000	HK$'000
Financing activities		
New loans raised	**18,296**	1,839
Interest paid	**(4,909)**	(3,298)
Repayments of borrowings	**(12,509)**	(333)
Increase (decrease) in amounts due to related companies	**403**	(5,107)
Net cash from (used in) financing activities	**1,281**	(6,899)
Net (decrease) increase in cash and cash equivalents	**(28,575)**	69,866
Cash and cash equivalents at 1 January	**92,805**	22,919
Effect of foreign exchange rate changes	**1,585**	20
Cash and cash equivalents at 31 December, represented by		
Bank balances and cash	**65,815**	92,805

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 the British Virgin Islands. The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Corporate Information" of the Group's annual report.

The functional currency of the Company is Renminbi.

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

The Company's 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. PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The presentation currency of the consolidated financial statements is Hong Kong dollars. The Directors consider this presentation is more appropriate as the Company is listed on the Stock Exchange.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are either effective for accounting periods beginning on or after 1st December, 2005 or 1st January, 2006. The adoption of the new HKFRSs has had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standard, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standard, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKFRS 7	Financial instruments: Disclosures[1]
HKFRS 8	Operating segments[2]
HK(IFRIC) - INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3]
HK(IFRIC) - INT 8	Scope of HKFRS 2[4]
HK(IFRIC) - INT 9	Reassessment of embedded derivatives[5]
HK(IFRIC) - INT 10	Interim financial reporting and impairment[6]
HK(IFRIC) - INT 11	HKFRS 2 - Group and treasury share transactions[7]
HK(IFRIC) - INT 12	Service concession arrangements[8]

1 Effective for accounting periods beginning on or after 1st January, 2007.
2 Effective for accounting periods beginning on or after 1st January, 2009.
3 Effective for accounting periods beginning on or after 1st March, 2006.
4 Effective for accounting periods beginning on or after 1st May, 2006.
5 Effective for accounting periods beginning on or after 1st June, 2006.
6 Effective for accounting periods beginning on or after 1st November, 2006.
7 Effective for accounting periods beginning on or after 1st March, 2007.
8 Effective for accounting periods beginning on or after 1st January, 2008.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis and in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the GEM Listing Rules and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year 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 original business 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.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

4. 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 consolidated 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 consolidated 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.

Jointly controlled entity

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

Connection revenue from gas pipeline construction is 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 consolidated balance sheet.

Management fee income is recognised when the related 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 consolidated income statement in the year in which the item is derecognised.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Construction in progress

Construction in progress represents buildings, machinery and pipelines under construction for the Group's own use purposes and is carried at cost less any impairment loss. Cost comprises direct and indirect costs of acquisition or construction. Completed items are transferred from construction in progress to the relevant 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.

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 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 amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated balance sheet, as a liability, as advance received. Amounts billed for work performed but not yet paid by the customers are included in the consolidated balance sheet under trade 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 operating 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 expense over the lease term on a straight-line basis.

Prepaid lease payments represent the land use rights of leasehold interests in land under operating lease arrangements and are amortised on a straight-line basis over the lease terms.

Leasehold and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, leasehold land which title is not expected to pass to the lessee by the end of the lease term is classified as an operating lease unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is classified as a finance lease.

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 when employees have rendered services entitling them to the contributions.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, 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.

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired (see the accounting policies in respect of impairment losses for tangible and intangible assets below).

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items 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.

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 profit or loss, 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial assets

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

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, deposits, other receivables, loan to an officer, amounts due from customers for contract work, amounts due from related companies 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 trade payables, other payables, accrued charges, amounts due to related companies and bank borrowings 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.

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 the 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 the share option reserve will be transferred to accumulated profits.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange 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 year, 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 (translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

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.

5. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, deposits, other receivables, amounts due from customers for contract work, amounts due from/to related companies, bank balances, trade payables, other payables, accrued charges 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 28 for details of these borrowings). The Group has not used any derivative contracts to hedge its exposure to interest rate risk. The directors of the Company consider that 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 balances and bank borrowings (see note 28 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. However, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

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, 2006 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 over a number of counterparties and customers.

The Group's bank balances are deposited with banks with high credit-ratings and the Group has limited exposure to any single financial institution.

Fair value

The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

6. 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:

	2006 **HK$'000**	2005 HK$'000
Connection revenue from gas pipeline construction	**39,139**	22,347
Sales of liquefied petroleum gas	**20,866**	9,806
Sales of natural gas	**17,833**	3,748
Software project income	**3,156**	4,650
Software maintenance service income	**1,460**	2,209
Sales of stoves and related equipment	**321**	370
Sales of computer hardware	**96**	31
	82,871	43,161

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purpose, the Group is currently organised into five major operating divisions: Connection revenue from 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.

Segment information about these business is presented below:

Income statement for the year ended 31st December, 2006

	Connection revenue from gas pipeline construction HK$'000	Sales of natural gas HK$'000	Sales of liquefied petroleum gas HK$'000	Development and sale of software HK$'000	Software maintenance services HK$'000	Other operations HK$'000	Consolidated HK$'000
Turnover	**39,139**	**17,833**	**20,866**	**3,156**	**1,460**	**417**	**82,871**
Segment results	**21,301**	**463**	**(2,995)**	**(393)**	**(115)**	**7**	**18,268**
Unallocated corporate income							**3,626**
Unallocated corporate expenses							**(11,267)**
Finance costs							**(3,529)**
Profit before tax							**7,098**
Income tax expenses							**—**
Profit for the year							**7,098**

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

Balance sheet as at 31st December, 2006

	Connection revenue from gas pipeline construction HK$'000	Sales of natural gas HK$'000	Sales of liquefied petroleum gas HK$'000	Development and sale of software HK$'000	Software maintenance services HK$'000	Other operations HK$'000	Consolidated HK$'000
ASSETS							
Segment assets	40,611	157,493	5,817	1,360	613	796	206,690
Goodwill	732	—	—	—	—	—	732
Unallocated corporate assets							73,057
Consolidated total assets							280,479
LIABILITIES							
Segment liabilities	19,382	2,104	—	214	852	—	22,552
Unallocated corporate liabilities							66,431
Consolidated total liabilities							88,983

Other information for the year ended 31st December, 2006

	Connection revenue from gas pipeline construction HK$'000	Sales of natural gas HK$'000	Sales of liquefied petroleum gas HK$'000	Development and sale of software HK$'000	Software maintenance services HK$'000	Other operations HK$'000	Unallocated HK$'000	Consolidated HK$'000
Capital expenditure	—	28,268	549	66	—	—	—	28,883
Depreciation	—	2,989	706	74	—	—	3	3,772
Amortisation of intangible assets	—	406	—	—	—	—	—	406
Allowance for doubtful debts	—	—	—	211	—	—	—	211
Amortisation of prepaid lease payments	—	430	—	—	—	—	—	430
Loss on disposal of property, plant and equipment	—	259	—	—	—	—	—	259

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments (Continued)

Income statement for the year ended 31st December, 2005

	Connection revenue from gas pipeline construction HK$'000	Sales of natural gas HK$'000	Sales of liquefied petroleum gas HK$'000	Development and sale of software HK$'000	Software maintenance services HK$'000	Other operations HK$'000	Consolidated 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 expenses							—
Profit for the year							4,386

Balance sheet as at 31st December, 2005

	Connection revenue from gas pipeline construction HK$'000	Sales of natural gas HK$'000	Sales of liquefied petroleum gas HK$'000	Development and sale of software HK$'000	Software maintenance services HK$'000	Other operations HK$'000	Consolidated 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

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments (Continued)

Other information for the year ended 31st December 2005

	Connection revenue from gas pipeline construction HK$'000	Sales of natural gas HK$'000	Sales of liquefied petroleum gas HK$'000	Development and sale of software HK$'000	Software maintenance services HK$'000	Other operations HK$'000	Unallocated HK$'000	Consolidated HK$'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

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	
	2006 HK$'000	2005 HK$'000
The PRC	**78,274**	36,344
Hong Kong	**4,597**	6,817
	82,871	43,161

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Geographical segments (Continued)

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	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
The PRC	**271,269**	237,827	**28,817**	93,453
Hong Kong	**9,210**	25,084	**66**	59
	280,479	262,911	**28,883**	93,512

8. OTHER INCOME

	2006 HK$'000	2005 HK$'000
Management fee income (Note 37(a))	**3,402**	8,500
Bank interest income	**126**	173
Sundry income	**4,518**	3,985
	8,046	12,658

9. FINANCE COSTS

	2006 HK$'000	2005 HK$'000
Interest on bank borrowings:		
- wholly repayable within five years	**4,909**	2,128
- not wholly repayable within five years	**—**	1,170
	4,909	3,298
Less: Amounts capitalised in construction in progress	**(1,380)**	(1,167)
	3,529	2,131

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 8.2% (2005: 7.2%) to expenditure on qualifying assets.

10. INCOME TAX EXPENSES

The statutory tax rates for Hong Kong Profits Tax and the PRC Enterprise Income Tax are 17.5% (2005: 17.5%) and 33% (2005: 33%) respectively.

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Company and its subsidiaries had no assessable profits arising in Hong Kong.

Pursuant to the relevant laws and regulations in the PRC, the Group's PRC subsidiaries and the 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 either has no assessable profits arising in the PRC or were exempted from PRC income tax during the year.

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

	Hong Kong		PRC		Total	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Profit before tax	**(8,129)**	(2,908)	**15,227**	7,294	**7,098**	4,386
Taxation at the domestic income tax rate	**(1,423)**	(509)	**5,025**	2,407	**3,602**	1,898
Tax effect of expenses not deductible for tax purpose	**1,550**	2,137	**—**	92	**1,550**	2,229
Tax effect of income not taxable for tax purpose	**(628)**	(1,747)	**—**	—	**(628)**	(1,747)
Tax effect of estimated tax losses not recognised	**501**	119	**87**	1,002	**588**	1,121
Utilisation of estimated tax losses previously not recognised	**—**	—	**(1,387)**	(1,010)	**(1,387)**	(1,010)
Effect of tax exemptions granted to PRC subsidiaries and a jointly controlled entity	**—**	—	**(3,725)**	(2,491)	**(3,725)**	(2,491)
Tax charge for the year	**—**	—	**—**	—	**—**	—

At 31st December, 2006, the Group had unused estimated tax losses of HK$14,308,000 (2005: HK$15,384,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unrecognised estimated tax losses due to unpredicability of future profit stream. Included in unrecognised tax losses are losses of HK$1,925,000 (2005: HK$5,869,000) that will expire in various dates up to 2010. Other losses may be carried forward indefinitely.

11. PROFIT FOR THE YEAR

	2006 HK$'000	2005 HK$'000
Profit for the year has been arrived at after charging:		
Auditors' remuneration	**950**	880
Amortisation of intangible assets (included in administrative expenses)	**406**	410
Amortisation of prepaid lease payments	**430**	275
Depreciation	**3,772**	3,021
Loss on disposal of property, plant and equipment	**259**	—
Allowance for doubtful debts	**211**	514
Employee benefits expenses, other than directors (including contributions to retirement benefits schemes of HK$497,000 (2005: HK$477,000))	**10,220**	10,043
Employee share option benefits other than directors	**1,294**	1,294
Operating lease rentals in respect of rented premises	**2,074**	1,259
Cost of inventories recognised as expense	**53,369**	28,088

12. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the 9 (2005: 9) directors were as follows:

	2006 HK$'000	2005 HK$'000
Fees	**2,820**	2,870
Other emoluments:		
- Salaries and other benefits	**—**	—
- Contributions to retirement benefits scheme	**—**	—
- Employee share option benefits	**1,114**	1,114
Total emoluments	**3,934**	3,984

12. DIRECTORS' EMOLUMENTS *(Continued)*

The emoluments of directors are analysed as follows:

	2006			2005		
	Employee share option benefits HK$'000	**Fees HK$'000**	**Total HK$'000**	Employee share option benefits HK$'000	Fees HK$'000	Total HK$'000
Wang Wenliang	**398**	**1,300**	**1,698**	398	1,300	1,698
Hao Yu	**318**	**780**	**1,098**	318	780	1,098
Lu Zhaoheng	**199**	**120**	**319**	199	120	319
Xu Yongxuan	**199**	**240**	**439**	199	240	439
Wang Lei	**—**	**—**	**—**	—	—	—
Nicholas John Ashley Rigg	**—**	**100**	**100**	—	150	150
Wang Shunlong	**—**	**100**	**100**	—	100	100
Luo Yongtai	**—**	**100**	**100**	—	100	100
Hung, Randy King Kuen	**—**	**80**	**80**	—	80	80
	1,114	**2,820**	**3,934**	1,114	2,870	3,984

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.

No directors waived any emoluments during the year.

13. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2005: two) were directors of the Company whose emoluments are included in the disclosures in note 12 above . The emoluments of the remaining three (2005: three) individuals were as follows:

	2006 HK$'000	2005 HK$'000
Salaries and other benefits	**1,343**	1,546
Contributions to retirement benefits scheme	**36**	32
	1,379	1,578

Their emoluments were within the following bands:

	Number of individuals	
	2006	2005
Nil to HK$1,000,000	**3**	3

14. DIVIDENDS

No dividend was paid or proposed during 2006, nor has any dividend been proposed since the balance sheet date (2005: nil).

15. 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:

	2006 **HK$'000**	2005 HK$'000
Earnings		
Profit for the year attributable to equity holders of the parent	**6,856**	3,436

	2006 **'000**	2005 '000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**1,325,186**	1,126,060
Effect of dilutive potential ordinary shares		
Share options	**17,737**	4,331
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**1,342,923**	1,130,391

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Construction in progress HK$'000	Leasehold improvements HK$'000	Pipelines HK$'000	Machinery and equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
COST								
At 1st January, 2005	—	5,570	716	3,577	1,805	839	754	13,261
Exchange adjustments	—	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 formation of a jointly controlled entity	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
Exchange adjustments	450	1,180	62	2,001	477	2	258	4,430
Additions	8	24,796	410	—	2,148	29	1,492	28,883
Disposals	—	—	—	—	(2,183)	—	(94)	(2,277)
Transfer	3,674	(40,838)	—	35,674	1,490	—	—	—
At 31st December, 2006	13,002	19,781	3,340	64,486	14,438	862	4,922	120,831
DEPRECIATION								
At 1st January, 2005	—	—	619	90	1,567	441	113	2,830
Exchange adjustments	—	—	12	2	30	8	2	54
Provided for the year	323	—	130	805	1,103	89	571	3,021
Eliminated on disposals	—	—	(266)	(90)	(113)	(36)	—	(505)
At 31st December, 2005	323	—	495	807	2,587	502	686	5,400
Exchange adjustments	3	—	18	62	67	1	54	205
Provided for the year	352	—	358	1,149	977	33	903	3,772
Eliminated on disposals	—	—	—	—	(131)	—	(79)	(210)
At 31st December, 2006	678	—	871	2,018	3,500	536	1,564	9,167
CARRYING VALUES								
At 31st December, 2006	12,324	19,781	2,469	62,468	10,938	326	3,358	111,664
At 31st December, 2005	8,547	34,643	2,373	26,004	9,919	329	2,580	84,395

The buildings of the Group are situated outside Hong Kong with medium-term lease.

16. 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
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	6% - 30%
Furniture and fixtures	20%
Motor vehicles	10% - 18%

17. INTANGIBLE ASSETS

	Deferred development costs HK$'000	**Exclusive rights of operation** HK$'000	**Total** HK$'000
COST			
At 1st January, 2005	1,969	—	1,969
Acquired on formation of a jointly controlled entity (Note)	—	12,004	12,004
At 31st December, 2005	1,969	12,004	13,973
Exchange adjustments	—	480	480
Written off	(1,969)	—	(1,969)
At 31st December, 2006	—	12,484	12,484
AMORTISATION			
At 1st January, 2005	1,969	—	1,969
Charge for the year	—	410	410
At 31st December, 2005	1,969	410	2,379
Exchange adjustments	—	27	27
Charge for the year	—	406	406
Eliminated on written off	(1,969)	—	(1,969)
At 31st December, 2006	—	843	843
CARRYING VALUES			
At 31st December, 2006	—	11,641	11,641
At 31st December, 2005	—	11,594	11,594

Note: The amount arose from the acquisition of exclusive rights to operate in gas pipeline infrastructure and provision of piped gas in Linyi City, Shangdong Province of 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.

18. GOODWILL

	2006 HK$'000	2005 HK$'000
Cost and carrying amount	**732**	732

The Group tests goodwill annually or more frequently if there are indications that goodwill might be impaired.

As explained in note 7, the Group presents business segments as its primary segment for reporting segment information. For the purposes of impairment testing, the carrying amount of goodwill has 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, 2006, management of the Group determines that there is no impairment of Unit S.

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

The recoverable amount of Unit S 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 calculation 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.

19. PREPAID LEASE PAYMENTS

All the Group's prepaid lease payments comprise property interests in leasehold land in the PRC with medium-term lease and amortised over the terms of relevant leases ranging from 30 to 50 years.

20. INVESTMENT IN A JOINT VENTURE

As at 31st December 2006, the Group had interest in the following jointly controlled entity:

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

20. INVESTMENT IN A JOINT VENTURE *(Continued)*

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:

	2006 **HK$'000**	2005 HK$'000
Current assets	**7,232**	7,984
Non-current assets	**48,045**	45,073
Current liabilities	**29,432**	33,289
Income	**21,575**	11,719
Expenses	**16,475**	12,389

Note: The Group holds 51% of the registered capital of Linyi Zhong Yu JV and controls 57% of the voting power in directors' meetings, with the remaining held by The Department of City Natural Gas Engineering of Linyi City ("CNGE"). Pursuant to the shareholders' agreement, the board of directors of Linyi Zhong Yu JV comprised 7 directors, of which 4 of them were nominated by the Group. For all the decisions approved in the directors' meetings, approval from a minimum of 5 directors must be obtained. Therefore, Linyi Zhong Yu JV is classified as a jointly controlled entity of the Group.

21. INVENTORIES

	2006 **HK$'000**	2005 HK$'000
Construction materials	**8,045**	6,882
Finished goods	**3,021**	1,658
	11,066	8,540

22. 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 balance sheet date:

	2006 **HK$'000**	2005 HK$'000
0 - 30 days	**1,111**	1,272
31 - 90 days	**211**	983
91 - 180 days	**517**	186
Over 180 days	**1,923**	1,745
	3,762	4,186
Less: Allowance for doubtful debts	**(1,164)**	(953)
	2,598	3,233

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

	2006 **HK$'000**	2005 HK$'000
Contracts in progress at the balance sheet date:		
Contract costs incurred plus recognised profits	**45,489**	19,082
Less: Progress billings	**(14,620)**	(4,451)
	30,869	14,631
Analysed for reporting purposes as:		
Amounts due from customers for contract work	**32,621**	15,208
Amounts due to customers for contract work	**(1,752)**	(577)
	30,869	14,631

At 31st December, 2006, advances received from customers for contract work amounted to HK$2,413,000 (2005: HK$6,387,000) which was included in deferred income and advance received.

24. LOAN TO AN OFFICER

Particulars of the loan to an officer disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

Officer	Term of loan	At 31st December, 2006 HK$'000	At 31st December, 2005 HK$'000	Maximum amount outstanding during the year HK$'000
Mr. Alex Ng Tin Lok (Officer)	Unsecured, interest-free, repayable by 50 monthly installments	—	4	4

25. AMOUNTS DUE FROM (TO) RELATED COMPANIES

	2006 HK$'000	2005 HK$'000
Amounts due from related companies:		
Amount due from ultimate holding company	**3,500**	8,500
Amount due from a fellow subsidiary	**35**	275
Amount due from jointly controlled entity	**319**	—
	3,854	8,775
Amounts due to related companies:		
Amount due to a fellow subsidiary	**876**	635
Amount due to jointly controlled entity	**162**	—
	1,038	635

The amounts are unsecured and interest-free. The amounts due from/to related companies are repayable within one year/repayable on demand, respectively.

26. BANK BALANCES AND CASH

The bank balances carried interest at market rates which range from 0.72% to 2.75% per annum. At 31st December, 2006, the bank balances and cash of approximately HK$62,518,000 (2005: HK$79,600,000) were denominated in Renminbi which is not freely convertible into other currencies.

27. TRADE PAYABLES

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

	2006	2005
	HK$'000	HK$'000
0 - 30 days	**7,723**	5,062
31 - 90 days	**3,450**	598
91 - 180 days	**1,379**	293
Over 180 days	**3,533**	3,824
	16,085	9,777

28. BANK BORROWINGS

	2006	2005
	HK$'000	HK$'000
Unsecured bank loans	**57,983**	52,196
Carrying amount repayable:		
On demand or within one year	**36,483**	26,234
More than one year, but not exceeding two years	**15,500**	5,769
More than two years but not exceeding five years	**6,000**	18,270
More than five years	**—**	1,923
	57,983	52,196
Less: Amounts due within one year shown under current liabilities	**(36,483)**	(26,234)
	21,500	25,962

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

	2006	2005
	HK$'000	HK$'000
Fixed-rate borrowings:		
Within one year	**26,580**	23,474

28. 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:

	2006	2005
Effective interest rate:		
Fixed-rate borrowings	**8% - 11.2%**	8% to 8.9%
Variable-rate borrowings	**8% - 9.5%**	7.9%

29. SHARE CAPITAL

	Number of shares		**Amount**	
	2006 '000	2005 '000	**2006 HK$'000**	2005 HK$'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	**1,325,186**	1,062,800	**13,252**	10,628
Issue of shares for acquisition of subsidiaries (note)	**—**	262,386	**—**	2,624
At end of year	**1,325,186**	1,325,186	**13,252**	13,252

Note: On 4th October, 2005, the Group allotted and issued 262,385,542 new shares of HK$0.01 each as consideration to acquire the entire issued share capital and outstanding shareholder's loan of China City Gas Construction Holdings Company Limited and China City Gas Construction Explore Company Limited. The consideration for the acquisition was HK$99,708,000. Details of the acquisitions are set out in note 31.

All the share issued for the year ended 31st December, 2005 rank pari passu with the then existing share in all respects.

30. 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 of the Company 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. The purpose of the New Share Option Scheme is to enable the Company to grant option to eligible participants in order to reward or provide incentives to its employees or any person who has contributed or will contribute to the Group. The New Share Option Scheme shall continue in force for the period commencing from 30th September, 2003 and expiring at the close of business on the tenth anniversary thereof, after such period no further options will be granted but the provisions of the New Share Option Scheme shall remain in full force and effect in respect of any options granted before its expiry or termination but not yet exercised.

Under the New Share Option Scheme, the directors of the Company may offer to any employees or any person who has contributions to the Group 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 shares 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 represents 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 (excluding those outstanding, cancelled, lapsed in accordance with the New Share Option Scheme or any other share option schemes and exercised the 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 shall 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 shares.

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

Equity-settled share option schemes (Continued)

In July 2003, all the holders of share options under the Old Share Option Scheme accepted the mandatory unconditional cash offer made by Hezhong to cancel all the outstanding share options.

On 13th June, 2005, the Company granted 62,574,000 share options to its directors, employees and certain third parties 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 grantees. 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.

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

Category of grantee	Exercise price per share	Exercisable period	Number of share options: At 1st January, 2005	Granted during year	Forfeited during year	At 31st December, 2005 and 2006
	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						—
Exercisable at 31st December, 2006						60,570,000

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.

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

Equity-settled share option schemes (Continued)

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 were granted was HK$0.30. The fair value was calculated using the Black-Scholes pricing model (the "Model"). The inputs into the model were as follows:

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 year
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 ended 31st December, 2005. 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, 2006 (2005: HK$2,408,000) in relation to share options granted by the Company.

31. 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 date of acquisition and the discount on acquisitions arising, are as follows:

	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 credited to the other reserve.

The subsidiaries acquired during the year ended 31st December, 2005 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 31st December, 2005.

If the acquisition had been completed on 1st January, 2005, total Group's turnover for the year ended 31st December, 2005 would have been HK$57,194,000, and profit for the year ended 31st December, 2005 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.

32. 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:

	2005	
	Fair value	**Attributable to the Group under proportional accounting**
	HK$'000	HK$'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 assets 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 jointly controlled entity established during the year ended 31st December, 2005 contributed HK$7,895,000 to the Group's turnover and reduced the Group's profit before tax by HK$670,000 between the date of establishment and 31st December, 2005.

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 the other venture partner.

33. 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 ended 31st December, 2005 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.

34. 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 this are set out in note 31.

35. 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:

	2006	2005
	HK$'000	HK$'000
Within one year	**1,245**	1,468
In the second to third year inclusive	**222**	1,023
	1,467	2,491

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

36. RETIREMENT BENEFITS PLANS

The Group had joined the Mandatory Provident Fund Scheme under the rules and regulations of the Hong Kong Mandatory Provident Fund Schemes Authority. The Group's employees in Hong Kong are required to join the scheme. The Group and each employee employed in Hong Kong are required to make a contribution of 5% on the employees' monthly relevant income.

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.

37. RELATED PARTY TRANSACTIONS

(a) On 15th November, 2004, the Group entered into a service agreement with Hezhong, a substantial 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, 2006 is HK$3,402,480 (2005: HK$8,500,000).

(b) During the year ended 31st December, 2005, the Group acquired CCGC Holdings and CCGC Explore from Hezhong satisfied by issuance of Company's ordinary shares. Details of this are set out in note 31.

(c) The directors of the Company considered that they are the only key management personnel of the Group. Their emoluments are set out in note 12.

(d) On 23rd July, 2006, Linyi Zhong Yu JV and the Group entered into a contract pursuant to which Linyi Zhong Yu JV agreed to purchase and the Group agreed to supply piped natural gas. During the year, the sales of piped natural gas to Linyi Zhong Yu JV by the Group is HK$4,435,000. Under proportion consolidation applied on Linyi Zhong Yu JV, HK$2,262,000 was eliminated in the Group's consolidation.

38. POST BALANCE EVENTS

(a) On 22nd January, 2007, Zhongyu Coalbed Methane Development Limited ("Zhongyu Coalbed Methane"), a newly set up wholly owned subsidiary of the Company, entered into a joint venture agreement ("JV Agreement") with Henan Province Coalbed Gas Development and Utilization Company Limited ("Henan Gas") to establish Henan Zhongyu Coalbed Methane Development and Utilization Company Limited ("Henan Zhongyu JV"). Henan Zhongyu JV will engage principally in the exploration, development, production and sale of coalbed methane in Jiaozuo City, the Henan Province of the PRC. The registered capital of the Henan Zhongyu JV is RMB60,000,000. RMB45,000,000 will be contributed by Zhongyu Coalbed Methane by way of cash and RMB15,000,000 will be contributed by Henan Gas by way of contribution in kind. Upon establishment, Henan Zhonyu JV will become an indirect non-wholly owned subsidiary of the Company.

(b) On 1st March, 2007, the Company, Hezhong and First Shanghai Securities Limited ("Placing Agent") entered into a placing and subscription agreement, pursuant to which (i) Hezhong agreed to place, through the Placing Agent, 265,000,000 existing ordinary shares of the Company ("Placing Shares") beneficially owned by Hezhong to not less than six placees at a price of HK$0.42 per Placing Share, on a fully-underwritten basis; and (ii) the Company has conditionally agreed to allot and issue, and Hezhong has conditionally agreed to subscribe for 265,000,000 new ordinary shares of the Company of HK$0.01 each ("Subscription Shares") at a price of HK$0.42 per Subscription Share. Details of these are set out in the Company's announcement dated 1st March, 2007.

39. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

At 31st December, 2006

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
Cyber Dynamic Enterprise Limited	British Virgin Islands	Incorporated	10,311 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
China City Gas Construction Holdings Company Limited	British Virgin Islands	Incorporated	100 ordinary shares of US$1 each	—	100	Investment holding
China Gas Construction Expansion Company Limited	British Virgin Islands	Incorporated	1,330,000 ordinary shares of US$1 each	—	99.89	Investment holding

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

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
Linyi China Gas City Gas Construction Company Limited	PRC	Sino-foreign joint venture	Registered capital HK$20,000,000	—	99.89	Trading of natural gas and gas pipeline construction
Manpower Resource Computing (China) Limited	Hong Kong	Incorporated	1,600,000 ordinary shares of HK$1 each	—	70	Investment holding
Manpower Resource Computing Limited	Hong Kong	Incorporated	1,300,000 ordinary shares of HK$1 each	—	100	Development and distribution of human resources management software system and provision of maintenance and consultancy services
MRC Human Capital Services Limited	Hong Kong	Incorporated	675,000 ordinary shares of HK$1 each	—	78	Inactive
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

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

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
Yanshi 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
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
晉興電腦軟體發展（東莞）有限公司	PRC	Wholly-owed foreign enterprise	Registered capital US$200,000	—	70	Development and distribution of human resources software system and provision of maintenance and consultancy services

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

	1.1.2006 to 31.12.2006 HK$'000	1.1.2005 to 31.12.2005 HK$'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
Results					
Turnover	**82,871**	43,161	15,267	8,226	6,281
Profit (loss) for the year attributable to the equity holders of the parent	**6,856**	3,436	915	(5,391)	(7,710)

	31.12.2006 HK$'000	31.12.2005 HK$'000	31.12.2004 HK$'000	30.6.2003 HK$'000	30.6.2002 HK$'000
Assets and liabilities					
Total assets	**280,479**	262,911	68,233	3,593	9,956
Total liabilities	**(88,983)**	(87,758)	(13,856)	(2,920)	(3,407)
	191,496	175,153	54,377	673	6,549
Equity attributable to the equity holders of the parent	**183,324**	167,231	53,465	1,537	6,928
Minority interests	**8,172**	7,922	912	(864)	(379)
	191,496	175,153	54,377	673	6,549

NOTICE IS HEREBY GIVEN that the annual general meeting of Zhongyu Gas Holdings Limited (the "Company") will be held at Suite 3016, 30th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong on Tuesday, 24th April, 2007 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, 2006;

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**

   (i) subject to paragraph (iii) of this resolution, pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("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 of nominal value of HK$0.01 each in the share capital of the Company ("Shares") 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;

   (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 ("Articles") 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)."

5. "**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 on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("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 of Hong Kong Limited 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 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."

6. "**THAT** conditional upon ordinary resolutions numbered 4 and 5 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 5 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 4 set out above."

7. To consider and, if thought fit, pass the following resolution as a special resolution of the Company:

"**That** the Articles be and are hereby amended as follows:

by deleting the existing Article 86(5) in its entirety and substituting therefor the following new Article:

"86(5) Subject to any provision to the contrary in these Articles the Members may, at any general meeting convened and held in accordance with these Articles, by ordinary resolution remove a Director at any time before the expiration of his period of office notwithstanding anything in these Articles or in any agreement between the Company and such Director (but without prejudice to any claim for damages under any such agreement)."

By Order of the Board
Wang Wenliang
Chairman

Zhengzhou, People's Republic of China
30th March, 2007

Registered Office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

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 26th Floor, 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.

BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises Mr. Wang Wenliang, Mr. Hao Yu and Mr. Lu Zhaoheng, as the executive Directors, Mr. Xu Yongxuan, Mr. Wang Lei and Mr. Nicholas John Ashley Rigg, as the non-executive Directors and Mr. Wang Shunlong, Dr. Luo Yongtai and Mr. Hung, Randy King Kuen, as the independent non-executive Directors.

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