



中裕燃氣控股有限公司

ZHONGYU GAS HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock Code : 8070)

**INTERIM REPORT
FOR THE SIX MONTHS ENDED
30TH JUNE, 2007**

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website at www.hkgem.com operated by the Stock Exchange. Listed companies are not generally required to issue paid reports in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

This report, for which the directors of Zhongyu Gas Holdings Limited (the “Company”) collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company and its subsidiaries (collectively the “Group”). The directors of the Company (the “Directors”), having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- During the period under review, the Group's turnover increased approximately 56.2%, to HK\$42,860,000.
- Loss attributable to equity holders of the parent for the period under review increased approximately 69.6%, to HK\$12,593,000.
- The Board does not recommend the payment of any interim dividend for the six months ended 30th June, 2007.

The board of Directors (the “Board”) is pleased to announce the unaudited condensed financial statements of the Group, which are set out as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2007

	Notes	Three months ended		Six months ended	
		30th June,		30th June,	
		2007 HK\$'000 (unaudited)	2006 HK\$'000 (unaudited and restated)	2007 HK\$'000 (unaudited)	2006 HK\$'000 (unaudited and restated)
CONTINUING OPERATIONS					
Turnover	2	22,954	17,382	42,860	27,432
Cost of sales		(14,765)	(13,663)	(27,965)	(21,339)
GROSS PROFIT		8,189	3,719	14,895	6,093
Other income		542	50	579	92
Distribution costs		(732)	(503)	(1,525)	(1,092)
Administrative expenses		(10,131)	(2,757)	(15,227)	(7,973)
Other expenses		(9,051)	(1,581)	(9,051)	(2,408)
Finance costs		(1,371)	(1,359)	(2,449)	(1,882)
LOSS BEFORE TAX		(12,554)	(2,431)	(12,778)	(7,170)
Income tax expenses	4	—	—	—	—
LOSS FOR THE PERIOD FROM CONTINUING OPERATIONS		(12,554)	(2,431)	(12,778)	(7,170)
DISCONTINUED OPERATIONS					
Gain (loss) for the period from discontinued operations		621	(361)	435	(364)
Loss on disposal of subsidiaries		(838)	—	(838)	—
LOSS FOR THE PERIOD		(12,771)	(2,792)	(13,181)	(7,534)
Attributable to:					
Equity holders of the parent		(12,269)	(2,750)	(12,593)	(7,425)
Minority interests		(502)	(42)	(588)	(109)
		(12,771)	(2,792)	(13,181)	(7,534)
Interim dividend	5	—	—	—	—
LOSS PER SHARE					
From continuing and discontinued operations:					
Basic		HK\$(0.6555) cent	HK\$(0.2075) cent	HK\$(0.6728) cent	HK\$(0.5603) cent
Diluted		HK\$(0.6365) cent	HK\$(0.2052) cent	HK\$(0.6629) cent	HK\$(0.5528) cent
From continuing operations					
Basic		HK\$(0.6439) cent	HK\$(0.1803) cent	HK\$(0.6513) cent	HK\$(0.5328) cent
Diluted		HK\$(0.6252) cent	HK\$(0.1783) cent	HK\$(0.6417) cent	HK\$(0.5257) cent

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June, 2007

	NOTES	30th June, 2007 <i>HK\$'000</i> <i>(Unaudited)</i>	31st December, 2006 <i>HK\$'000</i> <i>(Audited)</i>
Non-current assets			
Property, plant and equipment	7	126,725	111,664
Intangible assets		12,057	11,641
Goodwill		732	732
Prepaid lease payments		15,239	15,321
		154,753	139,358
Current assets			
Inventories		11,272	11,066
Trade receivables	8	633	2,598
Deposits, prepayments and other receivables		153,481	24,710
Prepaid lease payments		448	457
Amounts due from customers for contract work		31,857	32,621
Amounts due from related companies		82	3,854
Bank balances and cash		655,534	65,815
		853,307	141,121
Current liabilities			
Deferred income and advance received		3,731	4,339
Trade payables	9	15,540	16,085
Other payables and accrued charges		4,530	7,573
Amounts due to customers for contract work		5,116	1,752
Amounts due to related companies		—	1,038
Bank borrowings		36,567	36,483
		65,484	67,270
Net current assets		787,823	73,851
		942,576	213,209

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June, 2007

	<i>NOTES</i>	30th June, 2007 <i>HK\$'000</i> <i>(Unaudited)</i>	31st December, 2006 <i>HK\$'000</i> <i>(Audited)</i>
Capital and reserves			
Share capital		18,717	13,252
Reserves		582,255	170,072
Equity attributable to equity holders of the parent		600,972	183,324
Minority interests		7,584	8,172
Total equity		608,556	191,496
Non-current liabilities			
Provision for long service payment		—	213
Convertible bonds	10	312,520	—
Bank borrowings		21,500	21,500
		334,020	21,713
		942,576	213,209

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2007

	Attributable to equity holders of the parent									
	Share capital	Share premium	Share			Other reserve	Translation reserve	Accumulated profits losses	Minority interests	Total equity
			Option reserve	Merger reserve						
			HK\$'000	HK\$'000	HK\$'000					
At 1st January, 2006	13,252	145,901	2,408	3,740	7,607	607	(6,284)	7,922	175,153	
Recognition of equity-settled share based payment	–	–	2,408	–	–	–	–	–	2,408	
Exchange differences arising on translation of foreign operations recognised directly in equity	–	–	–	–	–	68	–	–	68	
Loss for the period	–	–	–	–	–	–	(7,425)	(109)	(7,534)	
At 30th June, 2006	13,252	145,901	4,816	3,740	7,607	675	(13,709)	7,813	170,095	
At 1st January, 2007	13,252	145,901	4,816	3,740	7,607	7,436	572	8,172	191,496	
Issue of shares	5,440	430,895	–	–	–	–	–	–	436,335	
Share issue expenses	–	(14,873)	–	–	–	–	–	–	(14,873)	
Issue of shares on exercise of share options	25	948	(199)	–	–	–	–	–	774	
Recognition of equity-settled share based payment	–	–	9,051	–	–	–	–	–	9,051	
Disposal of subsidiaries	–	–	–	(3,740)	–	–	3,740	–	–	
Exchange differences arising on translation of foreign operations recognised directly in equity	–	–	–	–	–	(1,046)	–	–	(1,046)	
Loss for the period	–	–	–	–	–	–	(12,593)	(588)	(13,181)	
At 30th June, 2007	18,717	562,871	13,668	–	7,607	6,390	(8,281)	7,584	608,556	

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June, 2007

	Six months ended 30th June,	
	2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)
NET CASH INFLOW FROM OPERATING ACTIVITIES	23,500	1,914
NET CASH (OUTFLOW) FROM INVESTING ACTIVITIES	(161,031)	(18,447)
NET CASH INFLOW(OUTFLOW) FROM FINANCING ACTIVITIES	<u>727,250</u>	<u>(1,100)</u>
NET INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS	589,719	(17,633)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	<u>65,815</u>	<u>92,805</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	<u><u>655,534</u></u>	<u><u>75,172</u></u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD Bank balances and cash	<u><u>655,534</u></u>	<u><u>75,172</u></u>

Notes:

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The unaudited condensed financial statements have been prepared under the historical cost basis and in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. In addition, the unaudited condensed financial statements include applicable disclosures required by the GEM Listing Rules and by the Hong Kong Companies Ordinance. The principal policies adopted are the same as those adopted in the audited consolidated financial statements of the Company for the year ended 31st December, 2006.

2. 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 six months ended 30th June, 2007 is as follows:

	Three months ended 30th June,		Six months ended 30th June,	
	2007 HK \$'000	2006 HK \$'000	2007 HK \$'000	2006 HK \$'000
Sales of natural gas	7,307	2,172	17,877	4,569
Connection fees from gas pipeline construction	11,548	8,543	16,118	11,538
Sales of liquefied petroleum gas	3,972	6,599	8,667	11,193
Sales of stoves and related equipment	127	68	198	132
	<u>22,954</u>	<u>17,382</u>	<u>42,860</u>	<u>27,432</u>

3. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purpose, the Group is currently organised into three major operating divisions: Sales of natural gas, gas pipeline construction and sales of liquefied petroleum gas. These divisions are the basis on which the Group reports its primary segment information. The Group's software business including development and sale of software and software maintenance services has permanently ceased since 10th May, 2007.

Segment information about these divisions is presented below:

Income statement for the six months ended 30th June, 2007

	Continuing operations				Discontinued operations		Consolidated
	Sales of natural gas	Gas pipeline construction	Sales of liquefied petroleum gas	Other operations	Total	Software business	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	17,877	16,118	8,667	198	42,860	1,952	44,812
Segment results	4,275	9,382	1,189	49	14,895	1,022	15,917
Unallocated corporate income							591
Unallocated corporate expenses							(27,240)
Finance costs							(2,449)
Loss before tax							(13,181)
Income tax expense							—
Loss for the period							(13,181)

3. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Income statement for the six months ended 30th June, 2006

	Continuing operations				Discontinued operations		Consolidated
	Sales of natural gas	Gas pipeline construction	Sales of liquefied petroleum gas	Other operations	Total	Software business	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	4,569	11,538	11,193	132	27,432	2,169	29,601
Segment results	(592)	6,936	(1,276)	26	5,094	843	5,937
Unallocated corporate income							94
Unallocated corporate expenses							(11,683)
Finance costs							(1,882)
Loss before tax							(7,534)
Income tax expense							—
Loss for the period							(7,534)

4. INCOME TAX EXPENSES

The statutory tax rates for Hong Kong Profits Tax and the PRC Enterprise Income Tax are 17.5% (2006: 17.5%) and 33% (2006: 33%) respectively.

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profits arising in Hong Kong during the periods.

Pursuant to the relevant laws and regulations in the PRC, the Group's PRC subsidiaries and 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 as all of the Group's PRC subsidiaries and jointly controlled entity either had no assessable profits arising in the PRC or were exempted from PRC income tax during the periods.

5. INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30th June, 2007 (2006: Nil).

6. LOSS PER SHARE

From continuing and discontinued operations

The calculation of the basic and diluted loss per share from continuing and discontinued operations attributable to the ordinary equity holders of the parent is based on the following data:

	Three months ended 30th June,		Six months ended 30th June,	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Loss for the period from continuing and discontinued operations attributable to equity holders of the parent	<u>(12,269)</u>	<u>(2,750)</u>	<u>(12,593)</u>	<u>(7,425)</u>
Number of shares				
Weighted average number of ordinary shares for the purposes of basic loss per share	1,871,682	1,325,186	1,871,682	1,325,186
Effect of dilutive potential ordinary shares				
Share options	<u>55,949</u>	<u>14,928</u>	<u>27,958</u>	<u>18,004</u>
Weighted average number of ordinary shares for the purposes of diluted loss per share	<u>1,927,631</u>	<u>1,340,114</u>	<u>1,899,640</u>	<u>1,343,190</u>

6. **LOSS PER SHARE** (Continued)

From continuing operations

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

	Three months ended 30th June,		Six months ended 30th June,	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Loss for the period attributable to equity holders of the parent	(12,269)	(2,750)	(12,293)	(7,425)
Less: Loss for the period from discontinued operations	(217)	(361)	(403)	(364)
Less for the period from continuing operations attributable to equity holders of the parent	<u>(12,052)</u>	<u>(2,389)</u>	<u>(12,190)</u>	<u>(7,061)</u>
	2007 '000	2006 '000	2007 '000	2006 '000
Number of shares				
Weighted average number of ordinary shares for the purposes of basic loss per share	1,871,682	1,325,186	1,871,682	1,325,186
Effect of dilutive potential ordinary shares				
Share options	<u>55,949</u>	<u>14,928</u>	<u>27,958</u>	<u>18,004</u>
Weighted average number of ordinary shares for the purposes of diluted loss per share	<u>1,927,631</u>	<u>1,340,114</u>	<u>1,899,640</u>	<u>1,343,190</u>

7. **PROPERTY, PLANT AND EQUIPMENT**

During the period under review, the addition to property, plant and equipment was approximately HK\$18,034,000 (2006: HK\$24,319,00).

8. TRADE RECEIVABLES

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

	30th June, 2007 HK\$'000	31st December, 2006 HK\$'000
Within 1 month	399	1,111
Over 1 month but within 3 months	32	211
Over 3 months but within 6 months	24	517
Over 6 months	178	1,923
	<hr/>	<hr/>
	633	3,762
Less: Provision for bad and doubtful debts	—	(1,164)
	<hr/>	<hr/>
	633	2,598
	<hr/> <hr/>	<hr/> <hr/>

9. TRADE PAYABLES

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

	30th June, 2007 HK\$'000	31st December, 2006 HK\$'000
0 - 30 days	1,006	7,723
31 - 90 days	2,459	3,450
91 - 180 days	1,246	1,379
Over 180 days	10,829	3,533
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	15,540	16,085
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10. CONVERTIBLE BONDS

Convertible bonds (the “Convertible Bonds”) of the Group were issued on 26th June, 2007. The convertible Bonds are convertible into shares of the Company at the initial price of HK\$1.456 per share (subject to adjustment) and will be matured on 25th June, 2012.

The Convertible Bonds bear interest on the outstanding principal from the date of issue to the date of redemption or conversion at a rate of 1% per annum payable in arrears semi-annually.

11. ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENTS

Save as disclosed in the section headed "Acquisitions, disposals, significant investments and fund raising activities" in this report, the Group had no acquisitions, disposals nor significant investments for the six months ended 30th June, 2007.

12. CAPITAL COMMITMENTS

As at 30th June, 2007, the Group did not have any significant capital commitments.

13. CONTINGENT LIABILITIES

As at 30th June, 2007, the Group did not have any contingent liabilities.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Liquidity

As at 30th June, 2007, the Group had consolidated current assets of approximately HK\$853,307,000 and its current ratio was approximately 13.0. As at 30th June, 2007, the Group had a gearing ratio of approximately 36.8%, measured as total consolidated interest borrowings of approximately HK\$370,587,000 to consolidated total assets of approximately HK\$1,008,060,000. For the six months ended 30th June, 2007, the Group had been supported by a combination of equity funding and debt finance. As at 30th June, 2007, the Group had consolidated bank balances and cash of approximately HK\$655,534,000. The consolidated trade receivables amounted to approximately HK\$633,000 while consolidated trade payables amounted to approximately HK\$15,540,000.

Financial resources

During the six months ended 30th June, 2007, the Group generally financed its operations with internally generated resources and borrowings. As at 30th June, 2007, all of the borrowings were secured or unsecured and on normal commercial basis.

Directors' opinion on sufficiency of working capital

The Directors are of the opinion that, after taking into account the current financial resources, the Group has sufficient working capital for its present requirements.

EXPOSURE TO EXCHANGE RATE FLUCTUATIONS

For the six months ended 30th June, 2007, the Group's business in gas projects and borrowings were transacted only in RMB and US dollars. The Directors consider that the Group did not have any exposure to foreign exchange fluctuation as all transactions and borrowings were denominated in RMB and US dollars.

EMPLOYEE INFORMATION

As at 30th June, 2007, the Group had 660 employees (2006: 503) in Hong Kong and the PRC, and the total remuneration for the period under review was approximately HK\$5,628,000 (2006: HK\$4,936,000). The increase in number of staff in the Group was mainly attributable to the business expansion.

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

The Group has adopted a share option scheme whereby certain employees of the Group may be granted options to acquire shares.

CHARGE ON THE GROUP'S ASSETS

As at 30th June, 2007, the Group did not have any charges on the Group's assets.

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

As at 30th June, 2007, the Directors did not have any future plans for material investment or capital assets.

COMPETING INTEREST

During the period under review, none of the directors, the management shareholders or substantial shareholders of the Company or their respective associates (as defined in the GEM Listing Rules) had any interest in a business which competed with or might compete with the business of the Group.

ACQUISITIONS, DISPOSALS, SIGNIFICANT INVESTMENTS AND FUND RAISING ACTIVITIES

On 22nd January, 2007, the Group and Henan Province Coalbed Methane Development and Utilisation Company Limited (“Henan Methane”) entered into a joint venture agreement (the “JV Agreement”), pursuant to which河南中裕煤層氣開發利用有限公司 (Henan Zhongyu Coalbed Methane Development and Utilisation Company Limited) (“Zhongyu Coalbed Methane”) is jointly established. Zhongyu Coalbed Methane engages principally in the development and utilisation of coalbed methane in Henan Province, People’s Republic of China (“PRC”). Upon establishment, the Group holds 75% equity interests in Zhongyu Coalbed Methane with the remaining 25% being held by Henan Methane. Zhongyu Coalbed Methane had been accounted for as a non-wholly owned subsidiary of the Company. On 9th April, 2007, a supplementary joint venture agreement (the “Supplementary JV Agreement”) to the JV Agreement was entered into between the Group and Henan Methane, pursuant to which the joint development area of coalbed methane by Zhongyu Coalbed Methane will be extended from Jiaozuo City, Henan Province, the PRC to the mine areas legally owned and controlled by Henan Gas situated at Jiaozuo City, Zhengzhou, Pingdingshan (including Yuzhou and Ruzhou), Hebi, Yima, Yongxia. All of these areas are located at Henan Province, the PRC. According to the Supplementary JV Agreement, the Group will be the exclusive sole joint venture partner of Henan Methane in these areas and without prior written consent from the Group, Henan Methane will not form any joint venture engaging in similar business with other third parties. The details of above had been disclosed in the announcements of the Company dated 22nd January, 2007 and 11th April, 2007 respectively.

On 1st March, 2007, Hezhong Investment Holding Company Limited (“Hezhong”), the substantial shareholder of the Company, entered into the placing and subscription agreement with First Shanghai Securities Limited, the placing agent and the Company, pursuant to which Hezhong agreed to place, through the placing agent, 265,000,000 shares of the Company (the “Shares”) beneficially owned by Hezhong to not less than six places at a price of HK\$0.42 per Share. On the same date, the Company has conditionally agreed to allot and issue, and Hezhong has agreed to subscribe for 265,000,000 new Shares at a price of HK\$0.42 per Share. The placement was completed on 8th March, 2007 and the total proceeds raised as a result of the placement were HK\$111,300,000. The details of above had been disclosed in the announcement of the Company dated 1st March, 2007.

On 30th April, 2007, the Company and an independent third party entered into the sale and purchase agreement, pursuant to which the Company agreed to sell and the purchaser agreed to purchase 10,311 shares of US\$1.00 in the issued share capital of Cyber Dynamic Enterprise Limited and the shareholder’s loan owed by Cyber Dynamic Enterprise Limited and its subsidiaries to the Company for a total consideration of HK\$40,000 payable in cash. The completion of the

aforesaid sale and purchase agreement was held on 10th May, 2007. Upon completion of the aforesaid sale and purchase agreement, the Group ceased to be interested on the software business including the development and distribution of HRM software system and provision of maintenance and consulting service. The details of above had been disclosed in the announcement and the circular of the Company dated 30th April, 2007 and 21st May, 2007 respectively.

On 7th May, 2007 and 16th May, 2007, the Group and Hezhong entered into the sale and purchase agreement and supplement deed, pursuant to which Hezhong agreed to sell and the Group agreed to purchase five gas projects, namely Jiazuo China-Gas City Gas Development Co. Ltd., Jiaozuo China-Gas Gas Project Install Co. Ltd., Jiyuan Zhongyu Gas Co. Ltd., Luohe Zhongyu Gas Co. Ltd. and Luohe Zhongyu Gas Project Install Co. Ltd. for a total consideration of RMB300,000,000 payable by cash and by allotment and issue of Shares. Out of the total consideration for the aforesaid acquisition, the Company decided that approximately RMB222,504,384 will be paid by cash and the remaining approximately RMB77,495,616 will be settled by allotment and issue of 72,480,000 Shares at a price of HK\$1.08 each. The aforesaid sale and purchase agreement and the transactions contemplated thereunder was approved by the independent shareholders of the Company on 9th August, 2007 at the extraordinary general meeting of the Company. It is expected that the completion of the aforesaid sale and purchase agreement will be held by 17th August, 2007. The details of above had been disclosed in the announcements and the circular of the Company dated 7th May, 2007, 16th May, 2007, 9th August, 2007 and 24th July, 2007 respectively.

On 25th May, 2007, Hezhong, the substantial shareholder of the Company, entered into the placing and subscription agreement with Morgan Stanley & Co. International plc, the placing agent and the Company, pursuant to which Hezhong agreed to place, through the placing agent, 279,000,000 Shares beneficially owned by Hezhong to not less than six places at a price of HK\$1.165 per Share. On the same date, the Company has conditionally agreed to allot and issue, and Hezhong has agreed to subscribe for 279,000,000 new Shares at a price of HK\$1.165 per Share. The placement was completed on 7th June, 2007 and the total proceeds raised as a result of the placement were HK\$325,035,000. The details of above had been disclosed in the announcements of the Company dated 28th May, 2007 and 7th June, 2007.

On 28th May, 2007, the Company entered into a bond subscription agreement with five independent subscribers who have conditionally agreed to subscribe and pay for convertible bonds issued by the Company in an aggregate principal amount of US\$40,000,000. The issuance was completed on 26th June, 2007. The details of above had been disclosed in the announcements and the circular of the Company dated 28th May, 2007, 26th June, 2007 and 4th June, 2007 respectively.

OPERATIONAL AND FINANCIAL REVIEW

Continuing Operations

Turnover

Turnover increased by 56.2% to approximately HK\$42,860,000 for the six months ended 30th June, 2007 from approximately HK\$27,432,000 in the corresponding period in 2006. The increase in turnover was mainly attributable to an increase in (i) Connection revenue from gas pipeline construction; and (ii) Sales of piped natural gas. The increase in Connection revenue from gas pipeline construction was mainly attributable to the increase in the number of households connected to the existing gas pipeline networks resulting from the efforts of the sales and marketing terms. During the period under review, the number of new gas pipeline connection made to residential households and industrial/commercial customers was 5,378 households and 12 customers respectively. The increase in Sales of piped natural gas 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. During the period under review, the total unit of piped gas and liquified petroleum gas provided by the Group to its customers was approximately 9,179,000m³ and approximately 1,680 tons respectively.

Gross profit margin

The overall gross profit margin amounted to approximately 34.8% for the six months ended 30th June, 2007 from approximately 22.2% in the corresponding period in 2006. The increase was mainly attributable to the increase in the proportion of turnover derived from connection revenue from gas pipeline construction which has a relatively high gross profit margin, partially offset by the increase in proportion of the turnover derived from Sales of piped natural gas which has a relatively low gross profit margin.

Other income

Other income increased to approximately HK\$579,000 for the six months ended 30th June, 2007 from approximately HK\$92,000 in the corresponding period in 2006. The increase in other income was mainly attributable to the increase in (i) other interest income from interest bearing loan granted to independent third parties and (ii) bank interest income.

Selling and distribution costs

Selling and distribution costs increased by 39.7% to approximately HK\$1,525,000 for the six months ended 30th June, 2007 from approximately HK\$1,092,000 in the corresponding period in 2006. The increase in selling and distribution costs was mainly attributable to the increase in (i) salaries; and (ii) transportation expenses for distribution of gas, both resulting from the expansion of the piped gas business.

Administrative expenses

Administrative expenses increased by 91.0% to approximately HK\$15,227,000 for the six months ended 30th June, 2007 from approximately HK\$7,973,000 in the corresponding period in 2006. The increase in administrative expenses was mainly attributable to the formation of a joint venture company, namely Zhongyu Coalbed Methane and the establishment of a wholly-owned subsidiary, namely Zhongyu (Henan) Energy Holdings Limited (“Zhongyu Energy”) in Henan Province, the PRC in April 2007 respectively. Zhongyu Energy is principally engaged in investment holding and provision of management services to the Group.

Other expenses

Other expenses increased by 275.9% to approximately HK\$9,051,000 for the six months ended 30th June, 2007 from approximately HK\$2,408,000 in the corresponding period in 2006. Other expenses for the period under review was once-off recognition of equity-settled share based payments resulting from the issuance of share options by the Company on 29th March, 2007.

Finance costs

Finance costs increased by 30.1% to approximately HK\$2,449,000 for the six months ended 30th June, 2007 from approximately HK\$1,882,000 for the corresponding period in 2006. The increase was mainly attributable to the increase in interest paid on bank borrowings resulting from the increase in the bank borrowings and the bank interest rate.

Taxation

No provision for the PRC income tax was made for six months ended 30th June, 2006 and 2007. This was because all of the PRC subsidiaries either have no assessable profits arising in the PRC or were exempted from PRC income tax during 2006 and 2007.

Discontinued Operations

In view of the growing business opportunity in relation to the Group's coalbed methane and natural gas businesses, the Directors consider to streamline the principal businesses of the Group to focus mainly on the coalbed methane and natural gas businesses. Further, the Group recorded a consistent unaudited consolidated net losses in relation to its software operations, including development and sale of software and software maintenance services for the two years ended 31 December 2006 of approximately HK\$1,672,000 and HK\$480,000 respectively. Considering that there are no signs of rebound and the software operations not making any significant contribution to the Group, the Directors consider that the disposing of the software operations will cut further losses for the Group. On the other hand, the Board had recently approached by an independent third party who has indicated to the Group that he is willing to acquire software operations. Accordingly, the Group disposed of its software operations on 30th April, 2007. Upon completion of the aforesaid disposal on 10th May, 2007, the software operations has permanently ceased. For the six months ended 30th June, 2007, the Group recorded a profit from discontinued operations of approximately HK\$435,000 and a loss on disposal of subsidiaries of approximately HK\$838,000.

Profit attributable to equity holders

As a result of the above, loss attributable to equity holders of the parent increased to approximately HK\$12,593,000 for six months ended 30th June, 2007 from approximately HK\$7,425,000 for the corresponding period in 2006.

Prospects

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. Accordingly, we are still positive about the boom of the natural gas market in the PRC in the near future. The Group will continue to focus on the exploration and the development of gas related business. The Group will strive to obtain more exclusive gas operations in the PRC in order to enhance its market position and to improve its financial performance. In respect of the Group's gas operations, the Group will devote much effort to connecting more users to the Group's gas pipeline networks in order to increase the Group's turnover derived from connection revenue from gas pipeline construction and sales of piped gas and in turn, improve its financial results.

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.

DISCLOSURE OF INTERESTS

(a) Directors' and chief executives' interests and short positions in the securities of the Company and its associated corporations

As at 30th June, 2007, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in the Shares

Name of Director	Notes	Nature of Shares	Type of Interests	Approximate percentage of issued share capital
Mr. Wang Wenliang	1	882,507,542	Beneficial and interested in corporation	47.15%
Mr. Hao Yu	2	65,004,000	Beneficial	3.47%
Mr. Lu Zhaoheng	2	5,004,000	Beneficial	0.27%
Mr. Xu Yongxuan	2	5,004,000	Beneficial	0.27%

Notes:

1. Among these Shares, 872,505,542 Shares are held by Hezhong Investment Holding Company Limited ("Hezhong"). Mr. Wang Wenliang is beneficially interested in 52% of the issued share capital of Hezhong. The remaining 10,002,000 Shares are allotted and issued through share option schemes adopted by the Company on 24 October 2003.
2. The Shares are allotted and issued through share option schemes adopted by the Company on 24 October 2003.

Save as disclosed above, as at 30th June, 2007, none of the Directors nor the chief executive of the Company had or was deemed to have any interests and short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) are required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

(b) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO

So far as is known to the Directors and the chief executive of the Company, as at 30th June, 2007, the following person (not being Directors or chief executive of the Company) or corporation 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 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Long positions in the Shares

Name of Shareholder	Type of interests	Number of Shares	Approximate percentage of interests
Hezhong	Beneficial	872,505,542	46.62%
Perry Capital (Asia) Limited	Deemed/Beneficial	187,145,475	10.01%
Perry Capital LLC	Deemed/Beneficial	187,145,475	10.01%
Perry Corp.	Deemed/Beneficial	187,145,475	10.01%
Perry Richard Cayne	Deemed/Beneficial	187,145,475	10.01%
Perry Partners International, Inc.	Deemed/Beneficial	166,397,475	8.90%

Note:

1. Among these Shares, 872,505,542 are held by Hezhong. Mr. Wang Wenliang is beneficially interested in 52% of the issued share capital of Hezhong. The remaining 10,002,000 Shares are allotted and issued through share option schemes adopted by the Company on 24 October 2003.
2. According to the disclosure of interests pages as shown in the website of the Stock Exchange, Perry Richard Cayne holds as to 100% equity interests of Perry Corp, Perry Corp. holds as to 40% equity interest of Perry capital LLC. Perry Capital LLC holds as to 100% equity interest of Perry Capital (Asia) Limited. These companies, including Perry Partners International, Inc are public Shareholders, apart from the information ascertained in the disclosure of interests pages as shown in the website of the Stock Exchange, the Company has no further information.

Save as disclosed above, as at 30th June, 2007, the Directors and the chief executive of the Company 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 (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

CODE OF CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules with deviation as mentioned below.

Code provision A.4.1 provides that non-executive directors should be appointed for specific term, subject to re-election. The Company has deviated from this provision in that all non-executive Directors are not appointed for specific term. They are, however, subject to retirement by rotation at each annual general meeting of the Company and eligible for re-election according to the Company's articles of association.

AUDIT COMMITTEE

The Company's Audit Committee, comprising Mr. Wang Shunlong, Dr. Luo Yongtai and Mr. Hung, Randy King Kuen, as the independent non-executive Directors, has reviewed with the Company's management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited results of the Group for the six months ended 30th June, 2007.

BOARD PRACTICE AND PROCEDURES

The Company has complied with the requirement of Board Practices and Procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules during the six months ended 30th June, 2007.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Shares during the six months ended 30th June, 2007.

BOARD OF DIRECTORS

As at the date of this report, the Board comprises Mr. Wang Wenliang (*Chairman*), Mr. Hao Yu (*Chief Executive Officer*) and Mr. Lu Zhaoheng, as the executive Directors, Mr. Xu Yongxuan (*Vice-Chairman*), Mr. Wang Lei and Mr. Nicholas John Ashley Rigg, as the non-executive Directors and Mr. Wang Shunlong, Dr. Luo Yongtai and Mr. Hung, Randy King Kuen, as the independent non-executive Directors.

By Order of the Board
Wang Wenliang
Chairman

Hong Kong, 13th August, 2007