



**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, 2009**

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

**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

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*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.*

**FINANCIAL HIGHLIGHTS**

	<b>For the six months ended 30th June</b>		
	<b>2009</b> <i><b>HK\$'000</b></i>	<b>2008</b> <i><b>HK\$'000</b></i>	<b>% of</b> <b>changes</b>
Turnover	<b>347,913</b>	269,338	29.2%
Sales of piped gas	<b>229,142</b>	176,057	30.2%
Connection revenue from gas pipeline construction	<b>76,730</b>	66,871	14.7%
Gross profit (Gross margin)	<b>98,631</b> <b>(28.3%)</b>	68,503 (25.4%)	44.0%
Profit (loss) attributable to equity holders of the Company	<b>35,087</b>	(31,739)	N/A
EBITDA	<b>54,737</b>	24,685	121.7%

The board of Directors (the “Board”) is pleased to announce the unaudited condensed consolidated results of the Group for the six months ended 30th June, 2009, together with the comparative figures for the corresponding period in 2008, which are set out as follows:

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE SIX MONTHS ENDED 30TH JUNE, 2009  
(UNAUDITED)**

	Notes	Three months ended 30th June,		Six months ended 30th June,	
		2009 HK\$'000	2008 HK\$'000 (re-presented)	2009 HK\$'000	2008 HK\$'000 (re-presented)
Turnover	3	187,218	146,764	347,913	269,338
Cost of sales		(124,921)	(106,991)	(249,282)	(200,835)
Gross profit		62,297	39,773	98,631	68,503
Other income		1,407	3,588	3,697	7,559
Other gains and losses	4	13,164	(18,752)	43,778	(19,213)
Selling and distribution costs		(5,123)	(3,755)	(10,332)	(8,550)
Administrative expenses		(23,007)	(20,683)	(48,725)	(44,849)
Share-based payment		(1,891)	(4,570)	(3,782)	(4,570)
Finance costs	5	(8,748)	(12,303)	(24,147)	(25,866)
Profit (loss) before tax		38,099	(16,702)	59,120	(26,986)
Income tax charge	6	(8,165)	(1,644)	(14,312)	(2,348)
Profit (loss) for the period	7	29,934	(18,346)	44,808	(29,334)
<b>Other comprehensive income</b>					
Exchange differences arising on translation of foreign operations		41	5,759	63	58,060
Total comprehensive income (loss) for the period		29,975	(12,587)	44,871	28,726
Profit (loss) for the period attributable to:					
Equity holders of the Company		22,835	(20,136)	35,087	(31,739)
Minority interests		7,099	1,790	9,721	2,405
		29,934	(18,346)	44,808	(29,334)
Total comprehensive income (loss) attributable to:					
Equity holders of the Company		22,876	(14,377)	35,150	26,321
Minority interests		7,099	1,790	9,721	2,405
		29,975	(12,587)	44,871	28,726
<b>Earnings (loss) per share</b>	8				
Basic (HK cent per share)		1.1807	(1.0370)	1.8141	(1.6335)
Diluted (HK cent per share)		1.1745	N/A	1.8015	N/A

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AT 30TH JUNE, 2009**

	<i>Notes</i>	<b>30/6/09 (unaudited) HK\$'000</b>	<b>31/12/08 (audited) HK\$'000</b>
<b>Non-current assets</b>			
Investment properties		4,607	4,617
Property, plant and equipment	10	614,909	564,478
Goodwill		99,312	99,312
Other intangible assets		123,429	120,161
Deposits paid		42,494	42,494
Prepaid lease payments		57,840	59,069
		<u>942,591</u>	<u>890,131</u>
<b>Current assets</b>			
Inventories		42,281	38,960
Trade receivables	11	39,379	57,417
Deposits, prepayments and other receivables		48,366	29,751
Prepaid lease payments		1,524	1,527
Amounts due from customers for contract work		22,722	15,737
Bank balances and cash		478,743	488,159
		<u>633,015</u>	<u>631,551</u>
<b>Current liabilities</b>			
Deferred income and advance received		33,596	46,670
Derivative financial instrument	12	21,080	101,961
Trade payables	13	69,497	68,725
Other payables and accrued charges		85,121	55,634
Amounts due to customers for contract work		79,302	10,872
Bank borrowings		211,847	114,675
Convertible bonds		—	233,141
Taxes payables		15,560	11,586
		<u>516,003</u>	<u>643,264</u>
<b>Net current assets (liabilities)</b>		<u>117,012</u>	<u>(11,713)</u>
<b>Total assets less current liabilities</b>		<u><u>1,059,603</u></u>	<u><u>878,418</u></u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AT 30TH JUNE, 2009 - continued**

	<i>Notes</i>	<b>30/6/09 (unaudited) HK\$'000</b>	31/12/08 (audited) HK\$'000
<b>Capital and reserves</b>			
Issued capital		19,333	19,341
Reserves		774,855	751,114
Accumulated loss		<u>(99,785)</u>	<u>(114,668)</u>
Equity attributable to owners of the Company		694,403	655,787
Minority interests		<u>99,787</u>	<u>105,588</u>
Total equity		<u>794,190</u>	<u>761,375</u>
<b>Non-current liabilities</b>			
Borrowings		118,033	99,642
Convertible bonds	12	129,979	—
Deferred tax liabilities		<u>17,401</u>	<u>17,401</u>
		<u>265,413</u>	<u>117,043</u>
<b>Total equity and liabilities</b>		<u><u>1,059,603</u></u>	<u><u>878,418</u></u>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE SIX MONTHS ENDED 30TH JUNE, 2009**

	Issued capital	Share premium	Share options reserve	Property revaluation options reserve	Other reserve	Translation reserve	Accumulated losses	Attributable to equity holders of the Company	Minority interests	Total
	<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>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Balance at 1st January, 2008</b> <b>(audited)</b>	19,440	623,920	14,071	1,128	7,607	52,302	(21,871 )	696,597	65,249	761,846
Loss for the period	-	-	-	-	-	-	(31,739 )	(31,739 )	2,404	(29,335 )
Exchange differences arising on translation of foreign operations	-	-	-	-	-	58,060	-	58,060	-	58,060
Total comprehensive income for the period	-	-	-	-	-	58,060	(31,739 )	26,321	2,404	28,725
Shares repurchased and cancelled	(82 )	(4,793 )	-	-	-	-	-	(4,875 )	-	(4,875 )
Equity-settled share-based payments	-	-	4,421	-	-	-	-	4,421	-	4,421
<b>Balance at 30th June, 2008</b> <b>(unaudited)</b>	<u>19,358</u>	<u>619,127</u>	<u>18,492</u>	<u>1,128</u>	<u>7,607</u>	<u>110,362</u>	<u>(53,610 )</u>	<u>722,464</u>	<u>67,653</u>	<u>790,117</u>
<b>Balance at 1st January, 2009</b> <b>(as restated)</b>	<u>19,341</u>	<u>617,376</u>	<u>20,971</u>	<u>1,128</u>	<u>7,607</u>	<u>104,032</u>	<u>(114,668 )</u>	<u>655,787</u>	<u>105,588</u>	<u>761,375</u>
Profit for the period	-	-	-	-	-	-	35,087	35,087	9,721	44,808
Exchange differences arising on translation of foreign operations	-	-	-	-	-	65	-	65	-	65
Total comprehensive income for the period	-	-	-	-	-	65	35,087	35,150	9,721	44,871
Exercise of share option	3	114	(25 )	-	-	-	-	92	-	92
Shares repurchased and cancelled	(11 )	(397 )	-	-	-	-	-	(408 )	-	(408 )
Equity-settled share-based payments	-	-	3,782	-	-	-	-	3,782	-	3,782
Transfer	-	-	-	-	20,204	-	(20,204 )	-	-	-
Dividends paid by subsidiaries to its minority shareholders	-	-	-	-	-	-	-	-	(20,600 )	(20,600 )
Minority interests arising on the acquisition	-	-	-	-	-	-	-	-	5,078	5,078
<b>Balance at 30th June, 2009</b> <b>(unaudited)</b>	<u>19,333</u>	<u>617,093</u>	<u>24,728</u>	<u>1,128</u>	<u>27,811</u>	<u>104,095</u>	<u>(99,785 )</u>	<u>694,403</u>	<u>99,787</u>	<u>794,190</u>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE SIX MONTHS ENDED 30TH JUNE, 2009**

	<b>Six months ended</b>	
	<b>30/6/09</b>	<b>30/6/08</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Net cash from operating activities</b>	<b>58,651</b>	<b>21,456</b>
<b>Net cash used in investing activities</b>	<b>(69,540)</b>	<b>(126,518)</b>
<b>Net cash from (used in) financing activities</b>	<b>1,473</b>	<b>(45,918)</b>
	<hr/>	<hr/>
<b>Net decrease in cash and cash equivalents</b>	<b>(9,416)</b>	<b>(150,980)</b>
<b>Cash and cash equivalents at 1st January</b>	<b>488,159</b>	<b>655,534</b>
	<hr/>	<hr/>
<b>Cash and cash equivalents at 30th June</b>		
Bank balances and cash	<b>478,743</b>	<b>504,554</b>
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**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 30TH JUNE, 2009**

**1. BASIS OF PREPARATION**

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of the GEM Listing Rules and with Hong Kong Accounting Standard 34, *Interim Financial Reporting*.

**2. SIGNIFICANT ACCOUNTING POLICIES**

The condensed consolidated financial statements have been prepared under the historical cost convention, except for certain financial instruments that are measured at revalued amounts of fair values, as appropriate.

A number of new or revised Standards and Interpretations are effective for the financial year beginning on 1st January, 2009. Except as described below, the same accounting policies, presentation and methods of computation have been followed in these condensed consolidated financial statements as were applied in the preparation of the Group's financial statements for the year ended 31st December, 2008.

**HKFRS 8 *Operating Segments***

(effective for annual periods beginning on or after 1st January, 2009)

HKFRS 8 is a disclosure Standard that has resulted in a redesignating of the Group's reportable segments, but has had no impact on the reported results of financial position of the Group.

**HKAS 1 (revised 2007) *Presentation of Financial Statements***

(effective for annual periods beginning on or after 1st January, 2009)

HKAS 1 (revised 2007) has introduced a number of terminology changes (including revised titles for the condensed consolidated financial statements) and has resulted in a number of changes in presentation and disclosure. However, HKAS 1 (revised 2007) has had no impact on the reported results or financial position of the Group.

### 3. SEGMENT INFORMATION

The Group has adopted HKFRS 8 *Operating Segments* with effect from 1st January, 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor Standard (HKAS 14 *Segment Reporting*) required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity's system of internal financial reporting to key management personnel serving only as the starting point for the identification of such segments. As a result, following the adoption of HKFRS 8, the identification of the Group's reportable segments has changed.

In prior years, segment information reported externally was analysed on the basis of the types of goods supplied by the Group's operating divisions (ie sales of piped gas, connection revenue from gas pipeline construction, sales of liquified petroleum gas, operation of CMG filling station and sales of coalbed methane ("CBM"). The Group's reportable segments under HKFRS 8 are as follows:

Sales of piped gas

Connection revenue from gas pipeline construction

Operation of CNG filling stations

Sales of liquified petroleum

Sales of CBM

Other operations include the sale of stove.

Information regarding these segments is presented below. Amounts reported for the prior period have been restated to conform to the requirements of HKFRS 8.

### 3. SEGMENT INFORMATION - continued

The following is an analysis of the Group's turnover and results by operating segment for the periods under review:

#### For the six months ended 30th June, 2009

	Sales of piped gas	Connection revenue from gas pipeline construction	Operation of CNG filling stations	Sales of liquefied petroleum gas	Sales of CBM	Other operations	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	229,142	76,730	22,635	14,195	—	5,211	347,913
Segment results	10,324	40,171	5,146	219	(2,208)	2,727	56,379
Unallocated corporate income							3,696
Unallocated corporate expenses							(20,586)
Finance costs							(24,147)
Change in fair value of derivative financial instruments							40,041
Gain on the repurchase of convertible bonds							3,737
Profit before tax							59,120
Income tax charge							(14,312)
Profit for the period							44,808

### 3. SEGMENT INFORMATION - continued

For the six months ended 30th June, 2008

	Sales of piped gas <i>HK\$'000</i>	Connection revenue from gas pipeline construction <i>HK\$'000</i>	Operation of CNG filling stations <i>HK\$'000</i>	Sales of liquefied petroleum gas <i>HK\$'000</i>	Sales of CBM <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Total <i>HK\$'000</i>
Turnover	176,057	66,871	6,664	18,114	—	1,632	269,338
Segment results	9,419	30,717	2,122	(483)	(11,829)	107	30,053
Unallocated corporate income							7,559
Unallocated corporate expenses							(19,519)
Finance costs							(25,866)
Change in fair value of derivative financial instruments							(19,213)
Gain on the repurchase of convertible bonds							—
Loss before tax							(26,986)
Income tax charge							(2,348)
Loss for the period							(29,334)

4. OTHER GAINS AND LOSSES

	<b>Six months ended 30th June,</b>	
	<b>2009</b>	2008
	<b>HK\$'000</b>	<b>HK\$'000</b>
Change in fair value of derivative financial instruments	<b>40,041</b>	(19,213)
Gain on the repurchase of convertible bonds ( <i>Note</i> )	<b>3,737</b>	—
	<b>43,778</b>	(19,213)

*Note:*

On 11th March, 2009, the Group entered into a purchase agreement with one of the holders ("Bond Holder A") of the convertible bonds ("Bonds") in an aggregate principal amount of US\$40,000,000 due 2012 issued by the Company to five institutional subscribers on 25th June, 2007 pursuant to which the Company agreed to repurchase and the Bond Holder A agreed to sell an aggregate outstanding principal amount of the Bond amounting to US\$5,000,000 at 80% of the principal amount. In addition, the Company paid all the accrued interest to Bond Holder A up to the date of completion of the said agreement. The aforesaid transaction was completed on 14th March, 2009.

On 25th March, 2009, the Group entered into a conditional agreement ("Amendment Agreement") with the holders ("Bond Holders B") of the Bonds pursuant to which the Company and the Bond Holders B had conditionally agreed to alter the existing terms and conditions of the Bonds in an aggregate principal amount of US\$35 million due 2012 issued by the Company to the Bond Holders B on 25th June, 2007 in accordance with the bond subscription agreement dated 28th May, 2007 in exchange for the repurchase by the Company of the 40% of the outstanding Bonds in an aggregate principal amount of US\$14 million (the "Repurchase Bonds") from the Bond Holders B at a purchase price representing 110% of the principal amount of the Repurchase Bonds, together with all accrued and unpaid interest on the Repurchase Bonds up to 18th May, 2009 and the payment of the fee in an aggregate amount of US\$150,000 to the Bond Holders B. For details of the aforesaid transaction, please refer to the Company's circular ("Circular") dated 15th April, 2009.

On 4th May, 2009, an ordinary resolution approving the Amendment Agreement was duly passed by the independent Shareholders by way of poll at an extraordinary general meeting of the Company. The aforesaid connected transaction was completed on 18th May, 2009.

## 5. FINANCE COSTS

	<b>Six months ended 30th June,</b>	
	<b>2009</b>	2008
	<b>HK\$'000</b>	HK\$'000
Interest on bank borrowings	9,457	10,529
Effective interest expense on convertible bonds	<u>14,690</u>	<u>15,337</u>
	<u><u>24,147</u></u>	<u><u>25,866</u></u>

## 6. INCOME TAX CHARGE

	<b>Six months ended 30th June,</b>	
	<b>2009</b>	2008
	<b>HK\$'000</b>	HK\$'000
PRC Enterprise Income Tax	7,673	2,348
Dividend Withholding Tax	<u>6,639</u>	<u>—</u>
	<u><u>14,312</u></u>	<u><u>2,348</u></u>

On 26th June, 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the year.

On 16th March, 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6th December, 2007, the State Council of the PRC issued Implementation Regulation of the New Law. Under the New Law and Implementation Regulation, the Enterprise Income Tax of the Group's subsidiaries in the PRC was reduced from 33% to 25% from 1st January, 2008 onwards. Therefore, the PRC Enterprise Income Tax is calculated at a tax rate of 25%, which is the prevailing tax rate in the PRC.

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, certain PRC subsidiaries of the Group and the jointly controlled entity are exempted from PRC Enterprise Income Tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years. The tax concession arrangement of the aforesaid PRC subsidiaries will be expired from 2009 to 2011. According to New Law, the tax concession arrangement will not be granted to all new applicants incorporated after 16th March, 2007. As for the existing group entities entitle such tax concession but have not commenced their first profit-making year will be exempted from PRC Enterprise Income Tax for two years, followed by a 50% reduction for the next three years regardless of its reported results commencing from 1st January, 2008 and the charge of PRC Enterprise Income Tax for the year has been provided for after taking these tax incentive into account.

7. **PROFIT (LOSS) FOR THE PERIOD**

	<b>Six months ended 30th June,</b>	
	<b>2009</b> <i>HK\$'000</i>	<b>2008</b> <i>HK\$'000</i>
Profit (loss) for the period has been arrived at after charging:		
Depreciation of property, plant and equipment	14,844	11,957
Amortisation of intangible assets	4,101	2,194
	<u>18,945</u>	<u>14,151</u>
Total depreciation and amortisation	<u>18,945</u>	<u>14,151</u>

8. **EARNINGS (LOSS) PER SHARE**

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

	<b>Three months ended</b> <b>30th June,</b>		<b>Six months ended</b> <b>30th June,</b>	
	<b>2009</b> <i>HK\$'000</i>	<b>2008</b> <i>HK\$'000</i>	<b>2009</b> <i>HK\$'000</i>	<b>2008</b> <i>HK\$'000</i>
<b>Earnings (Loss)</b>				
Earnings (Loss) for the purposes of basic earnings(loss) per share	<u>22,835</u>	<u>(20,136)</u>	<u>35,087</u>	<u>(31,739)</u>
	<b>As at 30th June,</b>		<b>As at 30th June,</b>	
	<b>2009</b> <i>'000</i>	<b>2008</b> <i>'000</i>	<b>2009</b> <i>'000</i>	<b>2008</b> <i>'000</i>
<b>Number of shares</b>				
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	1,934,009	1,941,663	1,934,107	1,943,030
Effect of dilutive potential ordinary shares:				
Share options issued by the Company	<u>10,264</u>	—	<u>13,520</u>	—
Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share	<u>1,944,273</u>	<u>1,941,663</u>	<u>1,947,627</u>	<u>1,943,030</u>

The denominators used are the same as those detailed above for both basis earnings (loss) per share and diluted earnings per share.

## 8. EARNINGS (LOSS) PER SHARE - continued

*Notes:*

Diluted loss per share has not been presented for the six months ended 30th June, 2008 because:

- (a) The exercise of the Company's outstanding share options would result in a decrease in loss per share from continuing operations.
- (b) The conversion of the Company's outstanding convertible bonds would decrease the loss per share, after taking into account of the effect of interest and change in fair value of conversion/redemption option derivative components of the convertible bonds.

## 9. DIVIDENDS

No dividend was paid or proposed during the six months ended 30th June, 2009, nor has any dividend been proposed since 30th June, 2009 (2008: nil).

## 10. PROPERTY, PLANT AND EQUIPMENT

During the period under review, the addition to property, plant and equipment was approximately HK\$46,231,000 (2008: HK\$44,501,000).

## 11. TRADE RECEIVABLES

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

	<b>30/6/2009</b> <b>HK\$'000</b>	31/12/2008 <i>HK\$'000</i>
Within 1 month	31,756	46,154
Over 1 month but within 3 months	2,020	4,457
Over 3 months but within 6 months	2,248	3,534
Over 6 months	3,355	3,272
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	<b>39,379</b>	57,417
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## 12. CONVERTIBLE BONDS

The movement of embedded derivative of the convertible bonds during the six months ended 30th June, 2009 is set out below:

	<b>Liability</b>	<b>Embedded derivatives</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1st January, 2009	233,141	101,961	335,102
Repurchased during the period, net of cost incurred	(116,513)	(40,840)	(157,353)
Interest charged	14,690	—	14,690
Interest paid	(1,339)	—	(1,339)
Gain arising on change in fair value	—	(40,041)	(40,041)
	<u>129,979</u>	<u>21,080</u>	<u>151,059</u>

## 13. TRADE PAYABLES

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

	<b>30/6/2009</b>	<b>31/12/2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 - 30 days	<b>35,551</b>	44,620
31 - 90 days	<b>11,973</b>	7,085
91 - 180 days	<b>4,953</b>	2,886
Over 180 days	<b>17,020</b>	14,134
	<u><b>69,497</b></u>	<u>68,725</u>

## 14. ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENTS

Save as disclosed herein, the Group had no acquisitions, disposals nor significant investments for the six months ended 30th June, 2009.

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

### **Liquidity**

As at 30th June, 2009, the Group had consolidated current assets of approximately HK\$633,015,000 and its current ratio was approximately 1.2. As at 30th June, 2009, the Group had a gearing ratio of approximately 29.2%, measured as total consolidated interest borrowings of approximately HK\$459,859,000 to consolidated total assets of approximately HK\$1,575,606,000. As at 30th June, 2009, the Group had consolidated bank balances and cash of approximately HK\$478,743,000. The consolidated trade receivables amounted to approximately HK\$39,379,000 while consolidated trade payables amounted to approximately HK\$69,497,000.

### **Financial resources**

During the six months ended 30th June, 2009, the Group generally financed its operations with internally generated resources and borrowings. As at 30th June, 2009, all of the borrowings were secured or unsecured and on normal commercial basis.

### **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 Renminbi or the United States dollars and the Group conducted its business transactions principally in Renminbi. The Group expects that the appreciation of Renminbi against the United States dollars will continue in the foreseeable future. Accordingly, 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 30th June, 2009, the Group had a total of 1,930 employees (2008: 1,700) in Hong Kong and the PRC, and the total remuneration for the period under review was approximately HK\$36,681,000 (2008: HK\$20,946,000). More than 99.7% of the Group's employees are located in the PRC.

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 30th June, 2009, 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, 2009, the Directors did not have any future plans for material investment or capital assets.

#### **Capital Commitments**

As at 30th June, 2009, the Group did not have any significant capital commitments.

#### **Contingent Liabilities**

As at 30th June, 2009, the Group did not have any contingent liabilities.

### **BUSINESS REVIEW**

#### **Overall**

We are an early mover in developing a vertically integrated gas operation from upstream resource development to downstream distribution in the PRC. During the year under review, we are principally engaged in (i) the exploration, exploitation and development of coalbed methane ("CBM") and (ii) the development, construction of gas pipeline network and sales of piped gas and sales of natural gas from compressed natural gas ("CNG") filling station for vehicles in the People's Republic of China (the "PRC").

#### **Upstream CBM Exploration**

With the aim to ensure sufficient and cost-effective gas supply for the Group's downstream gas projects located in Henan Province, the PRC and enhance the Group's profitability, the Group tapped into the upper stream CBM supply market in the PRC in 2007.

As at 30th June, 2009, the Group secured eight coal blocks, situated at Jiaozuo, Zhengzhou, Pingdingshan (including Yuzhou and Ruzhou), Hebi, Yima, Yongxia, Henan Province, the PRC to explore, exploit, develop and produce CBM.

As at 30th June, 2009, the Group successfully completed drilling of 33 vertical wells in Jiaozuo and all of them have entered into dewatering and releasing process since third quarter 2008 and some are showing positive result until now. In April 2008, the Group has appointed Netherland, Sewell & Associates, Inc. (“NSAI”), a renowned energy research firm, to prepare an independent report confirming the extent of the Group’s CBM deposits. The estimated low, medium and high gas volumes in Jiaozuo CBM block as of 1st April, 2008 were approximately 4,166.9 BCF (approximately 118.0 bln m<sup>3</sup>), 5,916.3 BCF (approximately 167.5 bln m<sup>3</sup>) and 9,275.6 BCF (approximately 262.7 bln m<sup>3</sup>) respectively. The result indicates an enormous CBM reserves located in our Jiaozuo CBM block, and approximates to the preliminary gas volume estimation which was conducted by the related domestic CBM exploration institutions and announced by the Group before. Going onward, the Group will further extend the trial and exploration in Jiaozuo CBM blocks as well as to better master its reserve estimates, with the aim of hastening the commercial production of the CBM.

### **Downstream Natural Gas Distribution**

The Group’ downstream natural gas distribution business primarily comprises sales of piped gas, gas pipeline construction and sales of natural gas from CNG filling stations for vehicles.

On 25th May, 2009, Linyi China Gas City Gas Construction Company Limited (“Linyi China Gas”), a non-wholly owned subsidiary of the Company, entered into an agreement (the “Capital Increase Agreement”) with seven independent third parties in respect of the proposed increase of registered capital of Linyi Shanlin Gas Company Limited (“Linyi Shanlin”). Pursuant to the Capital Increase Agreement, the registered capital of Linyi Shanlin will be increased by RMB10,160,000 to RMB15,160,000. The increase in the registered capital of Linyi Shanlin will be contributed by Linyi China Gas in cash. Linyi China Gas financed such capital contribution from its internal funds. Apart from the contribution towards the increase in registered capital as set out above, there are no further capital commitments that are required to be contributed by the Group to Linyi Shanlin.

Immediately after the increase in the registered capital of Linyi Shanlin, Linyi Shanlin is owned as to 67% by Linyi China Gas and the remaining 33% by the aforesaid seven independent third parties. Linyi Shanlin is to be an indirect non wholly-owned subsidiary of the Company.

Linyi Shanlin was established on 6th January, 2008 by the aforesaid seven independent parties and is engaged in the construction and operation of piped natural gas projects on an exclusive basis in the economic development district located in between the west of 臨沭縣城西一路 (Linshuxianchengxiyilu) and the south of 老 327 國道 (Lao 327 Guodao South), Linyi City, Shandong Province, the PRC. The business activities of Linyi Shanlin include the design and installation of natural gas pipeline network and ancillary facilities and the provision of piped natural gas, as well as sale and maintenance of natural gas appliances. Linyi Shanlin was granted by the Peoples’ Government of Linyi City a 30-year exclusive right to engage in the construction and operation of piped natural gas projects in the areas as mentioned above.

For the period between 6th January, 2008, being the date of establishment of Linyi Shanlin, and 31st December, 2008, the turnover, loss before tax and loss after tax of Linyi Shanlin amounted to RMB2,047,438, RMB(920,194) and RMB(920,194) respectively. For the five months ended 31st May, 2009, the turnover, profits before tax and profits after tax of Linyi Shanlin amounted to RMB18,224,811, RMB318,416 and RMB318,723 respectively.

The Directors are of the view that the entering into of the Capital Increase Agreement could provide an opportunity for the Group to further invest in the natural gas business in the PRC in order to enlarge the geographical coverage of its operations. In addition, having considered that the natural gas project operated by Linyi Shanlin is on an exclusive basis and the increase in demand of natural gas in the PRC, the Directors are of the view that Linyi Shanlin could provide a steady cash inflow to the Group. Besides, since the Linyi Shanlin is accounted for as a non wholly-owned subsidiary of the Company, the Directors consider that the capital contribution to Linyi Shanlin would not have any material adverse impact on the Group's net assets or the Group's net tangible assets.

The entering into of the Capital Increase Agreement does not constitute discloseable transaction on the part of the Company under Chapter 19 of the GEM Listing Rules.

As at 30th June, 2009, the Group secured ten exclusive gas projects, three in Shandong Province, the PRC and seven in Henan Province, the PRC.

The cities in which the Group's gas projects operate currently have a total connectable urban population of approximately 3,084,000. It is estimated that there are an aggregate of approximately 881,000 connectable residential households in such cities.

With the aim to enhance the Group's turnover and results, the Group has commenced to develop CNG vehicle gas filling business in the PRC since September 2007. In September 2007, one CNG filling station has been erected and commenced its operation in Linyi City, Shangdong Province, the PRC. In October 2008, the Group has completed construction of a new CNG filling station in Luohe City, Henan Province, the PRC. The commercial operation of such CNG filling station has been commenced from the end of November 2008. In March 2009, the Group has completed the construction of a new CNG filling station in Jiyuan City, Henan Province, the PRC, and such CNG filling station commenced commercial operation on 1st April, 2009. As at 30th June, 2009, one more CNG filling station located in Sanmenxia City, Henan Province, the PRC is under construction. We anticipate that the construction works of such CNG filling station will be completed by the third quarter at 2009. In future, the Group plans to erect five new CNG filling station in Luohe City, Jiyuan City and Senmenxia respectively by 2010 in order to increase the Group's market share.

In order to ease shortage of the natural gas supply and to meet robust demand for clean energy, the construction works for building of West-East natural gas transmission project Project's second pipeline progresses commenced in 2008. The construction works were projected to be completed at the end of 2009 and the commercial operation was planned to be commenced in early 2010. With the aim to secure the Group's future natural gas supply and further develop the Group's downstream natural gas distribution business in Luohe City, Jiyuan City and Senmenxia City, where West-East natural gas pipeline branch networks will cover, the Group has entered into 3 outline agreements of natural gas sales and transportation with the local natural gas suppliers respectively.

#### *Sales of Piped Gas*

Approximately 90% of total sales of piped gas for the six months ended 30th June, 2009 was derived from provision of natural gas. During the period under review, the total unit of natural gas provided by the Group to its customers was approximately 110,310,000 m<sup>3</sup> (2008: 79,274,000 m<sup>3</sup>).

#### *Gas Pipeline Construction*

During the six months ended 30th June, 2009, the Group made new gas pipeline connection for 26,695 residential households (2008: 22,845 residential households) and 93 industrial/commercial customers (2008: 151 industrial/commercial customers). As at 30th June, 2009, the Group have the accumulated number of residential households of 258,377 (2008: 233,498 residential households) and industrial/commercial customers of 1,191 (2008: 814 industrial/commercial customers). As at 30th June, 2009, the Group's penetration rate reached 29% (2008: 27%) (represented by the percentage of accumulated number of residential households to estimated an aggregate of connectable residential households).

#### *Sales of Natural Gas From CNG Filling Stations*

During the period under review, the total unit of CNG provided by the Group to its customers was approximately 6,601,000 m<sup>3</sup> (2008: 2,037,000 m<sup>3</sup>).

#### *Sales of LPG*

Sales of LPG are not a core business of the Group. During the period under review, the Group sold approximately 3,200 tons of bottled LPG (2008: 2,700 tons).

## **FINANCIAL REVIEW**

For the six months ended 30th June, 2009, turnover increased by 29.2% to approximately HK\$347,913,000 from approximately HK\$269,338,000 for the corresponding period in 2008. The growth in turnover was mainly attributable to the robust growth in sales of piped gas and connection revenue from gas pipeline construction.

Sales of piped gas for the six months ended 30th June, 2009 amounted to approximately HK\$229,142,000, representing an increase of approximately 30.2% over the corresponding period in 2008. The rapid growth in sales of piped 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.

Connection revenue from gas pipeline construction for the six months ended 30th June, 2009 amounted to approximately HK\$76,730,000, representing an increase of approximately 14.7% over the corresponding period in 2008. The increase in connection revenue from gas pipeline construction was mainly attributable to the increase in construction work of gas pipeline connection completed for residential households during the period under review.

### **Gross profit margin**

The overall gross profit margin for the six months ended 30th June, 2009 amounted to approximately 28.3% (2008: 25.4%). The increase was mainly due to the increase in the gross profit margin of connection revenue from gas pipeline construction resulting from the increase in average connection fee charged to each residential household.

### **Other gains and loss**

The Group recorded a non-cash gain arising on change in fair value of derivative financial instruments which was issued by the Company in June 2007 of approximately HK\$40,041,000 for the six months ended 30th June, 2009 (2008: Loss: HK\$19,213,000). Also the Group recorded a gain of approximately HK\$3,737,000 on the repurchase of Bonds of USD19,000,000 during the period under review.

### **Operating expenses**

Operating expenses, including selling and distribution costs and administrative expenses increased by 10.6% to approximately HK\$59,057,000 for the six months ended 30th June, 2009 from approximately HK\$53,399,000 for the corresponding period in 2008. The increase was mainly attributable to the increase in PRC staff salary cost.

### **Share-based payment**

The Group recorded a share-based payment expense of approximately HK\$3,782,000 for the share options granted on 3rd April, 2008 for the six months ended 30th June, 2009 (2008: HK\$4,570,000).

### **Finance costs**

Finance costs decreased by 6.6% to approximately HK\$24,147,000 for the six months ended 30th June, 2009 from approximately HK\$25,866,000 for the corresponding period in 2008. The decrease was mainly attributable to the decrease in (i) non-cash effective interest expense charged on convertible bonds to approximately HK\$14,690,000 for the six months ended 30th June, 2009 (2008: HK\$15,337,000) and (ii) interest on bank borrowings to approximately HK\$9,457,000 for the six months ended 30th June, 2009 (2008: HK\$10,529,000) resulting from the decrease in the average borrowings.

### **Income tax expenses**

No provision of Hong Kong Profits Tax has been made as the Group had no assessable profits arising in Hong Kong for the year 2009 and 2008.

Pursuant to the relevant laws and regulations in the PRC, certain PRC subsidiaries of the Group and the jointly controlled entity are exempted from PRC Enterprise Income Tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years. The tax concession arrangement of the aforesaid PRC subsidiaries will be expired from 2009 to 2011. According to New Law, the tax concession arrangement will not be granted to all new applicants incorporated after 16th March, 2007. As for the existing group entities entitle such tax concession but have not commenced their first profit-making year will be exempted from PRC Enterprise Income Tax for two years, followed by a 50% reduction for the next three years regardless of its reported results commencing from 1st January, 2008 and the charge of PRC Enterprise Income Tax for the year has been provided for after taking these tax incentive into account.

The Group paid dividend withholding tax of approximately HK\$6,639,000 in the event of inter-group dividend distribution during the six months ended 30th June, 2009 (2008: nil).

Accordingly, the income tax expenses for the six months ended 30th June, 2009 amounted to approximately HK\$7,673,000 (2008: HK\$2,348,000).

### **Profit attributable to equity holders**

As a result of the above, profit attributable to equity holders of the parent amounted to approximately HK\$35,087,000 for the six months ended 30th June, 2009 (2008: Loss HK\$31,739,000).



## **Earnings before interests, taxation, depreciation, amortisation (“EBITDA”)**

For the six months ended 30th June, 2009 excluding other income and other gains and loss, the Group’s EBITDA increased by 121.7% to approximately HK\$54,737,000 from approximately HK\$24,685,000 for the corresponding period in 2008.

## **Connected Transaction**

On 25th March, 2009, the Group entered into a conditional agreement (“Amendment Agreement”) with the holders (“Bond Holders B”) of the Bonds pursuant to which the Company and the Bond Holders B had conditionally agreed to alter the existing terms and conditions of the Bonds in an aggregate principal amount of US\$35 million due 2012 issued by the Company to the Bond Holders B on 25th June, 2007 in accordance with the bond subscription agreement dated 28th May, 2007 in exchange for the repurchase by the Company of the 40% of the outstanding Bonds in an aggregate principal amount of US\$14 million (the “Repurchase Bonds”) from the Bond Holders B at a purchase price representing 110% of the principal amount of the Repurchase Bonds, together with all accrued and unpaid interest on the Repurchase Bonds up to 18th May, 2009 and the payment of the fee in an aggregate amount of US\$150,000 to the Bond Holders B. For details of the aforesaid transaction, please refer to the Company’s circular (“Circular”) dated 15th April, 2009.

One of the Bond Holders B, Perry Capital LLC, is a substantial Shareholder of the Company which, as at 14th April 2009, being the latest practicable date prior to the printing of the Circular, holds 254,298,000 Shares, representing approximately 13.15% of the issued share capital of the Company. As such, the entering into by the Company of the Amendment Agreement with Perry Capital LLC constitutes a connected transaction for the Company under rule 20.13(1)(a) of the GEM Listing Rules and is subject to independent Shareholders’ approval requirement pursuant to rule 20.18 of the GEM Listing Rules.

The terms and conditions of the Bonds outstanding after completion of the Amendment Agreement, in an aggregate principal amount of US\$21,000,000 (the "Outstanding Bonds") held by Bond Holders B have been amended, the coupon rate will be revised to 2% per annum, and will mature on 25th June, 2012. The mandatory redemption option held by the Bond Holders B has been cancelled. The Company must redeem a portion of the outstanding principal amount of the Outstanding Bonds in the amount and at the redemption prices set out below and in one of the following ways:

- a) on 25 June 2010, redeem not less than US\$1,050,000 in principal amount of the Outstanding Bonds, at the redemption price of 110% of the US\$ principal amount of Convertible Bonds so redeemed, together with any accrued and unpaid interest; and
- b) on 25 June 2011,
  - (i) if less than US\$2,100,000 in principal amount of the Outstanding Bonds were redeemed on 25 June 2010, redeem not less than US\$3,150,000 in principal amount of the Outstanding Bonds, at the redemption price of 120% of the US\$ principal amount of Convertible Bonds so redeemed, together with any accrued and unpaid interest; or
  - (ii) if US\$2,100,000 or more in principal amount of the Outstanding Bonds were redeemed on 25 June 2010, redeem not less than US\$2,100,000 in principal amount of the Outstanding Bonds, at the redemption price of 110% of the US\$ principal amount of Convertible Bonds so redeemed, together with any accrued and unpaid interest.

The Bond Holders B can convert the remaining outstanding principal amount of the Outstanding Bonds into ordinary shares of the Company at HK\$0.7 per share from the completion date of the Amendment Agreement to 25th June, 2012.

On 4th May, 2009, an ordinary resolution approving the Amendment Agreement was duly passed by the independent Shareholders by way of poll at an extraordinary general meeting of the Company. The aforesaid connected transaction is completed on 18th May, 2009.

## **Prospects**

The Group is confident in its future prospects since the natural gas market in China will continue to boom amid the global economic downturn. Striving for energy independence, the Chinese government is supporting the exploration and development of domestic energy sources. Along with the rising awareness to environmental protection, the demand for clean energy in China will remain its growth momentum. In order to capture this growing demand, the Group is expanding its downstream natural gas distribution with a focus on high margin commercial and industrial users and compressed natural gas filling stations. It will also increase the number of residential users to further enhance its penetration rate in the nine cities it is operating in. Meanwhile, the Group will hasten the commercialization of its CBM production by advancing the exploration technology as well as extending the exploration of CBM to coal block outside Jiaozuo city, optimizing our vertically integrated value chain and rendering our future prospect promising. The constant revenue growth in the downstream projects coupled with the promising outlook of the upstream resources exploration, we are confident to further enhance our market position as well as our financial performance.

In addition to the abovementioned strategies, the Group is cautiously seeking for suitable investment opportunities. With our healthy financial position, coupled with the constant cash inflow generated by our downstream projects, we believe that we would be able to prudently increase our market penetration. At the same time, we will strive to enhance our operation efficiency by cooperating with promising peers in the industry. We believe that Zhongyu Gas is well-positioned to tackle the challenges imposed by the global economic environment and maximize our shareholders' returns.

## DISCLOSURE OF INTERESTS

### (a) Interests of Directors

As at 30th June, 2009, 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 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:

#### *Long positions in the Shares of the Company:*

Name of Directors	Notes	Nature of Shares and/or underlying Shares	Type of Interests	Approximate percentage of issued share capital
Mr. Wang Wenliang	1	956,923,542	Beneficial and interest in corporation	49.39%
Mr. Hao Yu	2	1,010,759,542	Beneficial and interest in corporation	52.16%
Mr. Lu Zhaoheng	3	8,004,000	Beneficial	0.41%
Mr. Xu Yongxuan	4	5,004,000	Beneficial	0.26%
Mr. Lui Siu Keung	5	12,000,000	Beneficial	0.62%
Dr. Luo Yongtai	6	2,000,000	Beneficial	0.10%
Mr. Hung, Randy King Kuen	6	2,000,000	Beneficial	0.10%

#### *Notes:*

1. Among these Shares and/or underlying Shares, 945,755,542 Shares are held by Hezhong Investment Holding Company Limited (“Hezhong”). Mr. Wang Wenliang is beneficially interested in 60% of the issued share capital of Hezhong. 10,002,000 of the remaining 11,168,000 underlying Shares are to be allotted and issued upon exercise the rights attaching to the share options granted at an exercise price of HK\$0.31 per share under the share option scheme adopted by the Company on 24th October, 2003.

2. Among these Shares and/or underlying Shares, 945,755,542 Shares are held by Hezhong. Mr. Hao Yu is interested in 40% of the issue share capital of Hezhong. The remaining 8,004,000 and 57,000,000 underlying Shares are to be allotted and issued upon exercise the rights attaching to the share options granted at an exercise price of HK\$0.31 per share and HK\$0.56 per share respectively under the share option scheme adopted by the Company on 30th September, 2003.
3. 5,004,000 and 3,000,000 underlying Shares are to be allotted and issued upon exercise the rights attaching to the share options granted at an exercise price of HK\$0.31 per share and HK\$0.80 per share respectively under the share option scheme adopted by the Company on 30th September, 2003.
4. 5,004,000 underlying Shares are to be allotted and issued upon exercise the rights attaching to the share options granted at an exercise price of HK\$0.31 per share under the share option scheme adopted by the Company on 30th September, 2003.
5. 9,000,000 and 3,000,000 underlying Shares entitle the holder thereof to subscribe for Shares at an exercise price of HK\$0.56 per share and HK\$0.80 per share respectively under the share option scheme adopted by the Company on 30th September, 2003.
6. These underlying Shares entitle the holders thereof to subscribe for Shares at an exercise price of HK\$0.80 per share under the share option scheme adopted by the Company on 30th September, 2003.

Save as disclosed above, as at 30th June, 2009, 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) **Interests of substantial shareholders of the Company**

So far as is known to the Directors, as at 30th June, 2009, the following entities (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 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	Type of interests	Number of Shares	Approximate percentage of interests
Hezhong	Beneficial	945,755,542	48.81%
Perry Capital (Asia) Limited	Investment manager	367,794,657	19.01%
Perry Capital LLC	Investment manager	367,794,657	19.01%
Perry Corp.	Investment manager	367,794,657	19.01%
Perry Richard Cayne	Interest in corporation	367,794,657	19.01%
Perry Partners International, Inc.	Beneficial	305,311,668	15.78%

*Notes:*

1. Hezhong is beneficially interested in 945,755,542 shares. Mr. Wang Wenliang and Mr. Hao Yu are beneficially interested in 60% and 40% of the issued share capital of Hezhong respectively.
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 interests of Perry Capital (Asia) Limited. 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, 2009, 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.

## **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, 2009.

## **BOARD PRACTICE AND PROCEDURES**

The Company has complied with the requirement of Board Practices and Procedures as set out in Rules 5.34 of the GEM Listing Rules during the six months ended 30th June, 2009.

## **PURCHASE, SALE OR REDEMPTION OF SHARES**

During the six months ended 30th June, 2009, the Company repurchased a total of 1,050,000 (2008: Nil) shares through the Stock Exchange at a price ranged from HK\$0.38 to HK\$0.39 (2008: NA) per share at as aggregate consideration of HK\$405,750 (2008: NA). All Shares were cancelled.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the shares during the six months ended 30th June, 2009.

## **BOARD OF DIRECTORS**

As at the date of this report, the Board comprises Mr. Wang Wenliang (*Chairman*), Mr. Hao Yu (*Chief Executive Officer*), Mr. Lu Zhaoheng and Mr. Lui Siu Keung (*Chief Financial Officer*), as the executive Directors, Mr. Xu Yongxuan (*Vice-Chairman*), as the non-executive Director 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, 14th August, 2009