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The board of directors (the "Directors") of Chinese People Gas Holdings Company Limited (the "Company") is pleased to present the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2005.

FINANCIAL HIGHLIGHTS

The Group's turnover increased to HK\$139,956,000, representing an increase of 79.8 times from the same period of last year.

Gross profit increased to HK\$85,170,000, representing an increase of 2,504.0 times from the same period of last year.

Profit for the period attributable to the equity holders of the company increased to HK\$60,008,000, representing an increase of 20.8 times from the same period of last year.

BUSINESS REVIEW

Natural Gas Business

Sales of Piped Natural Gas

Income from sales of piped natural gas has become one of the main sources of the Group's income since it underwent business transformation in the previous year. During this reporting period, the Group achieved natural gas sales of 48.70 million cubic meters, of which 5.39 million cubic meters sold to households and 43.31 million cubic meters sold to commercial and industrial customers, realizing sales income of HK\$ 35.014 million, which accounted for 25.0% of the turnover of the reporting period.

Due to the monopolizing nature of natural gas distribution networks and the local governments' permit only one piped natural gas supplier to supply piped natural gas in a specified region, therefore all piped natural gas is supplied by the Group within the regions where the Group has set up natural gas distribution networks. With the increasing rate of gas utilization in cities, the sales of the Group's piped natural gas will increase steadily.

Natural Gas Pipeline Construction

The Group also engaged in construction of gas main pipelines and branches pipelines that connecting households in the cities and supplied piped natural gas to households through its natural gas distribution networks. Installation fee from customers for connecting gas pipelines is another income source of the Group. During the reporting period, the Group has completed installation work for 33,892 households and 3,768 commercial and industrial customers, and income from installation fees was HK\$ 93.397 million, which accounted 66.7% of the Group's turnover for the reporting period. As at end of the reporting period, the accumulated number of customers that have connected to the Group's natural gas distribution networks was 59,806, of which 54,438 were households and 5,368 were commercial and industrial customers. With the increased number of customers and projects, the Group expects income from installation fees in the second half of the year and coming years to be substantial, and installation fees will continue to be the most important income source for the Group.

New Projects

During the reporting period, the Group secured five new natural gas projects, including:

– *The Han Wang Project*

On 31 July 2005, the Group acquired a 100% interest in Han Wang Natural Gas Company Limited (漢旺天然氣有限公司). The project is located in Han Wang Town, Mian Zhu City, Sichuan Province. Han Wang Town is one of the first 57 pilot towns under the National Integrated Reform Program and the key industrial zone of Mian Zhu City. The famous

production base of steam turbine in China, Dongfang Steam Turbine Works (東方汽輪機廠) is located in Han Wang Town. Its consumption of gas for industrial purpose and household consumption of gas of its staff reside nearby will be the focus for our future development. Its total connectable population is 60,000 and the current gas utilization rate is 10% only.

– *The Bei Chuan Project*

On 31 July 2005, the Group acquired the natural gas assets in Bei Chuan County and established the Bei Chuan Chinese People Gas Company Limited (北川中民燃氣有限公司). Bei Chuan County is located in Mian Yang City, Sichuan Province and is in the northwest of Sichuan Basin. Enterprises of, for example, building material and processing industries are the major commercial users of natural gas in Bei Chuan County. Lei Gu Town (擂鼓鎮), which is 8 kilometres from Bei Chuan County, is constructing an industrial zone with an area of more than 400 acres. The industrial zone is striving to introduce high added-valued, low energy-consumption and advanced technology environmental friendly enterprises. These enterprises will help to promote the development of gas consumption in Bei Chuan County. The total connectable population of Bei Chuan County is 160,000 and the gas utilization rate at present is 2% only.

– *The Tong Nan Project*

On 1 August 2005, the Group acquired a 99% interest in Chongqing Tong Nan Tongfa Gas Co. Ltd. (重慶市潼南縣通發燃氣有限責任公司). Tong Nan County, which is located in the linked terrain of Sichuan and Chongqing, is the hometown of Mr. Yang Shang Kun, the Former President of the PRC. It is an important gateway for Chongqing to open to the outside world. The construction of a new city of 10 square kilometers which lies in the north side of Fu River (涪江) in Tong Nan County has found its basic structure. An attractive regional industrial and economic zone that can bring about stimulating effect to the region is under construction. As large number of industrial enterprises in Chongqing urban areas moving into the zone, it will greatly enhance the gas demand for industrial and commercial users and residential users, and the future of natural gas development in Tong Nan is promising. The total population of Tong Nan County is 920,000 and the current gas utilization rate is only 4%.

– *The Fu Ping Project*

On 5 August 2005, the Group acquired a 70% interest in Fu Ping Natural Gas Co. Ltd (富平縣天然氣有限責任公司). Fu Ping County is under Weinan City and is the forth largest county in Shaanxi Province. The population connectable to gas pipelines is 200,000 and the gas utilization rate is only 3%. The Zhuang Li Industrial Zone which located in the northwest of and 12 kilometers away from the county, is the foothold for the industrial development of Fu Ping County.

– *The Yongning Project*

On 24 August 2005, the Group acquired a 50% interest in Yongning Boneng Natural Gas Co. Ltd. (永寧縣博能天然氣有限公司). Yongning County is a suburb county to the south of Yinchuan City, the provincial capital of Ningxia, and a satellite city of Yinchuan City. Wang Yuan Town, which is approximately 10 kilometres north to Yongning County, is constructing an industrial zone which will become the largest production base of antibiotics in the Mainland as well as Asia. A new town area of county is under construction in the north of Yongning County, and the area of Yongning County will be enlarged by 2/3 and the city population will increase by 30,000 upon completion. The total population connectable to gas pipeline of Yongning County is 200,000 and the gas utilization rate is only 4%. As the role of Yongning County as a satellite city of Yinchuan City become increasingly prominent, the future development of natural gas will be of great potential.

With the above new natural gas projects, the operating income and results of the Group increased significantly during the reporting period. The foundation of natural gas business has been further solidified. The directors are confident that income from sales of piped gas and installation fees of these cities will continue to have a significant contribution to the results of the Group.

Property Holdings and Investment

The Group currently has the 24th, 27th and 28th floors of Zhongda Square with a total area of 3,632.2 square meters together with 19 parking spaces in Shanghai, as the reserve for property holdings and investment purpose. During the reporting period, this business contributed an operating profit of HK\$813,000 to the results of the Group.

Glass Products

The Group, through Mian Zhu City Hong Sen Natural Gas Co., Ltd. (綿竹市紅森天然氣有限責任公司), indirectly owned 70% interests in Mian Zhu City Hongsen Glass Products Company Limited (綿竹市紅森玻璃製品有限公司). The company is primarily engaged in supplying glass products to the producer of the famous Chinese wine-“Jian Nan Chun”. During the reporting period, such business contributed HK\$11,545,000 to the Group’s turnover and brought about operating profit of HK\$2,292,000.

Employees

As at 30 September 2005, the Group had 491 employees, 489 of whom were based in the Mainland.

The remuneration policy and package of the Group’s employees are reviewed and approved by the directors. Apart from pension funds, discretionary bonus and share options are linked to individual performance as recognition of and reward for value creation.

Liquidity and Capital Resources

As at 30 September 2005, the Group had total assets of HK\$403,827,000 and current liabilities, long term liabilities, shareholders' equity and minority interests of HK\$163,088,000, HK\$2,478,000, HK\$232,675,000 and HK\$5,586,000, respectively.

The Group continued to maintain a low gearing ratio, at 1%. It was calculated based on the long term borrowings of HK\$2,417,000 and long term capital of HK\$232,675,000.

Capital Structure

The Group's long-term capital mainly comprised of shareholders' equity which is confirmed with the low gearing ratio as discussed in the section "Liquidity and capital resources" above.

Foreign Exchange Risk

The Group's receivables and payables were denominated mainly in US dollar, Hong Kong dollar and Renminbi. Since Hong Kong dollar is linked to US dollar, and Renminbi is relatively stable, we consider the exchange risk is not significant.

Capital Commitments

As at 30 September 2005, the Group had no significant capital commitments.

Contingent Liabilities

As at 30 September 2005, the Group had no significant contingent liabilities.

Post Balance Sheet Event

On 8 September 2005, the Company entered into a subscription agreement with an independent third party for the issue of US\$20,000,000 (equivalent to approximately HK\$155,600,000) 2% convertible bonds due 2008 ("Subscription Agreement"). Pursuant to the terms of the Subscription Agreement, the convertible bonds shall be redeemed by the Company at 100% of their principal amount at the third anniversary of the date of issue. Details of the terms of the convertible bonds was set out in the circular dated 12 October 2005 issued by the Company. The convertible bonds were issued on 28 October 2005.

PROSPECTS

Natural Gas Business

In recent years, as the economy in the Mainland has been developing at a high speed. The speed of civilization, especially in some small and medium cities, was especially high. There is an increasing need for energy in the market, especially there is a keen demand for different forms of energy. Meanwhile, as the Chinese government enhanced its awareness of environmental protection and sustainable development gradually, natural gas becomes an ideal energy for reducing environmental pollution and a supplement to shortage of petroleum supply. According to the forecast from Energy Study Institute of State Development and Reform Commission, the demand for natural gas in 2005 was approximately 48 billion cubic meters. Consumption of natural gas accounted for approximately 4% of one-off consumed energy, and the increasing speed for demand of natural gas will obviously outpace that of coal and petroleum in the next 20 years. By 2010, consumption of natural gas as a percentage of one-off consumed energy will be increased to approximately 6%, and to further increase to approximately 10% by 2020. The demand for natural gas will reach 93.8 billion cubic meters and 203.7 billion cubic meters respectively by that time. With the full completion of West to East Natural Gas Pipeline Project and the implementation of specific projects like Natural Gas Supply from Sichuan to Eastern Part of China, Shaanxi to Beijing Gas Supply, East Ocean Gas Supply Onshore, Importation of Liquefied Natural Gas (LNG) for Southern China, and the construction work of Russia Gas Supply to China to commence, natural gas market will develop rapidly all over the country. The Directors believed that there is a huge room for future development of natural gas business.

In February, 2005, the State Council issued the State Council's Certain Opinion about Encouraging, Supporting and Guiding the Development of Privately-Owned Non State-Owned Economy (國務院關於鼓勵支持和引導個體私營等非公有制經濟發展的若干意見), which permitted non state-owned capital invest into the utilities industries, including supply of natural gas in the cities, and support non state-owned capital actively participate in the investment, construction and operation of municipal public utilities businesses, such as supply of gas in cities and towns.

Looking forward, under the backdrop of rapid development of natural gas market and the favorable policies implemented by the central government, the Group will enhance its investment in city gas supply and integrate its effort in this area, which will bring more benefits and enhance return to shareholders.

Property Holdings and Investment

In recent years, China's economy was developing rapidly, especially in Shanghai. Directors believed that the property holdings and investment in Zhongda Square, Shanghai will bring substantial cash inflow to the Group in next few years.

Lottery Operating System Supply and Ancillary Services

On 14 October, 2005, the Group entered into an agreement with an independent third party, pursuant to which the Group proposed to invest RMB15,000,000, representing 30% interest, into Chinese People On Line (Beijing) Technology Development Limited ("Chinese People On Line") (中民在線(北京)科技發展有限公司). The capital contribution into the joint venture which intended to operate lottery pooling system supply and ancillary services business will involve the operation of video lottery business (福利視頻彩票業務) in the Mainland. Chinese People On Line has submitted the test-run application to the relevant government authority Chinese Benefit Lottery Issue Center (中國福利彩票發行中心) regarding the supply lottery pooling system and ancillary services business to the Hainan Province real time on-line pooling project which is co-developed by Chinese Benefit Lottery Issue Center and Hainan Province Benefit Lottery Issue Center (海南省福利彩票發行中心).

Real time on-line pooling is under the supervision of the PRC government authority and is for the purposes of public welfares. Since the official lottery issue in 1987, the sales of lottery in the Mainland has increased by 1000 times in more than 10 years. Up to October 2005, the sales of lottery the Mainland for the year was over RMB54 billion. It is expected that at the end of 2005, the sales of lottery market in the Mainland will reach approximately RMB65 billion. In view of the continuous economic development in China that stimulates the consumption power of the Chinese citizens, the Directors expected that lottery market in the Mainland will develop rapidly and bring about huge demand for the lottery pooling system which Chinese People On Line proposed to engaged in. Once the application being approved by the relevant authority, the lottery pooling system will bring sizable profit and cash flow to the Group.

INDEPENDENT AUDITORS' REVIEW REPORT

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**TO THE BOARD OF DIRECTORS OF
CHINESE PEOPLE GAS HOLDINGS COMPANY LIMITED**

中民燃氣控股有限公司

(Incorporated in the Bermuda with limited liability)

INTRODUCTION

We have been instructed by the directors of the Company to review the interim financial report set out on pages 11 to 28.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

REVIEW WORK PERFORMED

We conducted our review in accordance with the Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the HKICPA. A review consists principally of making enquiries of management and applying analytical procedures to the interim financial report, and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 September 2005.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

23 December 2005

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2005

	Notes	Six months ended	
		30.9.2005 HK\$'000 (Unaudited)	30.9.2004 <i>HK\$'000</i> (Unaudited)
Turnover	5	139,956	1,732
Cost of sales		(54,786)	(1,698)
Gross profit		85,170	34
Other income	6	15,152	8,485
Administrative expenses		(22,000)	(4,681)
Finance costs		(580)	(226)
Share of results of associates		476	(758)
Share of result of a jointly controlled entity		–	(1)
Profit before taxation		78,218	2,853
Taxation	8	(17,635)	(96)
Profit for the period		60,583	2,757
Attributable to:			
Equity holders of the Company		60,008	2,758
Minority interests		575	(1)
		60,583	2,757
Dividends	9	–	–
Earnings per share			
– basic	10	2.30 cents	0.11 cents
– diluted		2.09 cents	0.10 cents

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 september 2005

	<i>Notes</i>	30.9.2005 HK\$'000 (Unaudited)	31.3.2005 <i>HK\$'000</i> (Audited and restated)
Non-current assets			
Property, plant and equipment	11	223,779	114,174
Prepaid lease payments		8,659	4,921
Goodwill	12	47,177	38,895
Interest in an associate		3,352	–
Available-for-sale investment		190	–
Investment in securities		–	190
		<hr/> 283,157 <hr/>	<hr/> 158,180 <hr/>
Current assets			
Inventories		2,978	1,366
Prepaid lease payments		193	103
Properties held for sale		48,138	48,138
Trade and other receivables	13	45,285	42,441
Pledged bank deposit		–	130
Bank balances and cash		24,076	9,993
		<hr/> 120,670 <hr/>	<hr/> 102,171 <hr/>
Current liabilities			
Trade and other payables	14	106,146	60,025
Provision for scheme debts		–	1,047
Taxation payable		27,968	10,812
Bank borrowings, secured – due within one year	15	28,974	9,922
		<hr/> 163,088 <hr/>	<hr/> 81,806 <hr/>

	<i>Notes</i>	30.9.2005 HK\$'000 (Unaudited)	31.3.2005 HK\$'000 (Audited and restated)
Net current (liabilities) assets		<u>(42,418)</u>	<u>20,365</u>
		<u>240,739</u>	<u>178,545</u>
Non-current liabilities			
Bank borrowings, secured – due after one year	15	2,417	11,085
Deferred tax liabilities		<u>61</u>	<u>61</u>
		<u>2,478</u>	<u>11,146</u>
		<u>238,261</u>	<u>167,399</u>
Capital and reserves			
Share capital	16	183,030	183,030
Reserves		<u>55,231</u>	<u>(15,631)</u>
		<u>238,261</u>	<u>167,399</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2005

	Share capital	Share premium	Capital reserve	Contributed surplus	Statutory surplus reserve fund	Discretionary surplus reserve fund	Employee share-based compensation reserve	Capital contribution	Translation reserve	Accumulated losses	Attributable to equity holders of the Company	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2004	106,380	9	-	89,800	-	-	-	-	-	(163,121)	33,068	274	33,342
Profit for the period, representing total recognised income and expense for the period	-	-	-	-	-	-	-	-	-	2,758	2,758	(1)	2,757
Issue of shares for acquisition of a subsidiary and associates	25,900	11,100	-	-	-	-	-	-	-	-	37,000	-	37,000
Placement of shares	28,000	12,000	-	-	-	-	-	-	-	-	40,000	-	40,000
Subscription of shares	22,750	9,750	-	-	-	-	-	-	-	-	32,500	-	32,500
Disposal of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(273)	(273)
Expenses incurred in connection with issue of shares	-	(2,003)	-	-	-	-	-	-	-	-	(2,003)	-	(2,003)
At 30 September 2004	183,030	30,856	-	89,800	-	-	-	-	-	(160,363)	143,323	-	143,323
Share of reserve of associates	-	-	2,182	-	-	-	-	-	-	-	2,182	-	2,182
Net income and expense recognised directly in equity	-	-	2,182	-	-	-	-	-	-	-	2,182	-	2,182
Profit for the period	-	-	-	-	-	-	-	-	-	12,578	12,578	497	13,075
Total recognised income and expenses for the period	-	-	2,182	-	-	-	-	-	-	12,578	14,760	497	15,257
Appropriation for the period	-	-	-	-	546	547	-	-	-	(1,093)	-	-	-
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	3,169	3,169
Repayment to minority shareholders	-	-	-	-	-	-	-	-	-	-	-	(1,832)	(1,832)
Capital contribution through disposal of subsidiaries	-	-	-	-	-	-	-	7,482	-	-	7,482	-	7,482
At 31 March 2005	183,030	30,856	2,182	89,800	546	547	-	7,482	-	(148,878)	165,565	1,834	167,399
Exchange difference arising on translation of financial statements of subsidiaries operates outside Hong Kong and recognised directly in equity	-	-	-	-	-	-	-	-	225	-	225	13	238
Profit for the period	-	-	-	-	-	-	-	-	-	60,008	60,008	575	60,583
Total recognised income and expense for the period	-	-	-	-	-	-	-	-	225	60,008	60,233	588	60,821
Capital contribution from minority interests	-	-	-	-	-	-	-	-	-	-	-	3,164	3,164
Recognition of equity-settled share based payment	-	-	-	-	-	-	6,877	-	-	-	6,877	-	6,877
At 30 September 2005	183,030	30,856	2,182	89,800	546	547	6,877	7,482	225	(88,870)	232,675	5,586	238,261

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2005

	Six months ended	
	30.9.2005	30.9.2004
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	24,666	(10,310)
INVESTING ACTIVITIES		
Purchase of property, plant and machinery	(8,673)	–
Other investing cash flow	5,816	10,571
NET CASH (USED IN) FROM INVESTMENT ACTIVITIES	(2,857)	10,571
FINANCING ACTIVITIES		
New bank borrowings raised	8,852	939
Repayment of bank borrowings	(13,397)	(338)
Other financing cash flow	(3,181)	70,416
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(7,726)	71,017
NET INCREASE IN CASH AND CASH EQUIVALENTS	14,083	71,278
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	9,993	(2,781)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	24,076	68,497
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	24,076	68,497

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 September 2005

Notes:

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") and the Hong Kong Accounting Standard (the "HKAS") 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

2. BASIS OF PREPARATION OF THE INTERIM FINANCIAL REPORT

The interim financial report has been prepared on a going concern basis because the Company has issued convertible bonds of US\$20,000,000 (equivalent to HK\$155,600,000) on 28 October 2005. In the opinion of the directors, the Group has sufficient funds to meet its financial obligations in the foreseeable future, taking into account the proceeds from the issue of the convertible bonds (Note 19a).

3. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared on the historical cost convention except for certain financial instruments, which are measured at fair value.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the annual financial statements of the Group for the year ended 31 March 2005 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), HKASs and Interpretations ("INT") (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented:

Business combinations

In the current period, the Group has applied the transitional provision of HKFRS 3 “Business Combinations” to goodwill acquired in business combinations for which the agreement date was before 1 January 2005. HKFRS 3 is applicable to business combinations for which the agreement date is on or after 1 January 2005. The Group has not entered into any business combination for which the agreement date for the period from 1 January 2005 to 31 March 2005. The principal effects of the application of the transitional provisions of HKFRS 3 to the Group are summarised below:

Goodwill

In previous periods, goodwill arising on acquisition after 1 April 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously capitalised on the consolidated balance sheet, the Group has discontinued amortising such goodwill from 1 April 2005 onwards and goodwill will be tested for impairment at least annually and in the financial year in which the acquisition takes place. Goodwill arising on acquisition after 1 April 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period. Comparative figures for 2004 have not been restated.

Excess of Group’s interest in the net fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over cost (previously known as “negative goodwill”).

In accordance with HKFRS 3, any excess of the Group’s interest in the net fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over the cost of acquisition (“discount on acquisition”) is recognised immediately in profit or loss in the period in which the acquisition takes place. The effect of the adoption of HKFRS 3 is set out in note 4.

Financial instruments

In the current period, the Group has applied HKAS 32 “Financial instruments: disclosure and presentation” and HKAS 39 “Financial instruments: recognition and measurement” HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The adoption of HKAS 32 did not have any financial impact to the Group. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31 March 2005, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of the Statement of Standard Accounting Practice 24 “Accounting for investments in securities” (“SSAP 24”). Under SSAP 24, investments in debt or equity securities are classified as “investment securities”, “other investments” or “held-to-maturity investments” as appropriate. “Investment securities” are carried at cost less impairment losses (if any) while “other investments” are measured at fair value, with unrealised gains or losses included in the profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1 April 2005 onwards, the Group classifies and measures its investment in securities in accordance with HKAS

39, financial assets are classified as “financial assets at fair value through profit or loss”; “available-for-sale financial assets”; “loans and receivables”; or “held-to-maturity financial assets”. The classification depends on the purpose for which the assets acquired. “Financial assets at fair value through profit or loss” and “available-for-sale financial assets” are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively except for unquoted equity investments for which fair values cannot be measured reliably, such investments are stated at cost less impairment. “Loans and receivables” and “held-to-maturity financial assets” are measured at amortised cost using the effective interest method.

On 1 April 2005, the Group classified and measured its equity securities in accordance with the requirements of HKAS 39. As a result of the adoption of HKAS 39, the Group classified “investment in securities” recorded in the consolidated balance sheet at 1 April 2005 amounting to HK\$ 190,000 as “available-for-sale investments”. However, the adoption of HKAS 39 did not have material financial impact to the Group.

Financial assets and financial liabilities other than debt and equity securities

From 1 April 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as “financial assets at fair value through profit or loss”; “available-for-sale financial assets”; “loans and receivables” or “held-to-maturity financial assets”. Financial liabilities are generally classified as “financial liabilities at fair value through profit or loss” or “financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)”. “Other financial liabilities” are carried at amortised cost using the effective interest method. These requirements of HKAS 39 did not have any material financial impact to the Group.

Owner-occupied leasehold interest in land

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current period, the Group has applied HKAS 17 “Leases”. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight line basis. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment. All the leasehold interests in land of the Group have been classified as prepaid lease payments under operating leases.

Share-based payment

In the current period, the Group has applied HKFRS 2 “Share-based payment” which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares (“equity-settled transactions”), or in exchange for other assets equivalent in value to a given number of shares or rights over shares (“cash-settled transactions”). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors’ and employees’ share

options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1 April 2005. In relation to share options granted before 1 April 2005, the Group has not applied HKFRS 2 to share options granted on or before 7 November 2002 and share options that were granted after 7 November 2002 and had vested before 1 April 2005 in accordance with the relevant transitional provisions. However, the Group is still required to apply HKFRS 2 retrospectively to share options that were granted after 7 November 2002 and had not yet vested on 1 April 2005. The effect on the adoption of HKFRS 2 for the current period is set out in note 4.

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

The effects of the changes in the accounting policies described above on the results for the current and prior period are as follows:

	Six months ended	
	30.9.2005	30.9.2004
	HK\$'000	HK\$'000
Decrease in amortisation of goodwill	2,055	–
Recognition of share-based payment as expenses	(6,877)	–
Recognition of discount on acquisition of subsidiaries	2,304	–
	<hr/>	<hr/>
Decrease in profit for the period	(2,518)	–
	<hr/> <hr/>	<hr/> <hr/>

An analysis of the decrease in profit for the period by line items presented according to their function is as follows:

	Six months ended	
	30.9.2005	30.9.2004
	HK\$'000	HK\$'000
Increase in other income	2,304	–
Increase in administrative expenses	(4,822)	–
	<hr/>	<hr/>
	(2,518)	–
	<hr/> <hr/>	<hr/> <hr/>

The cumulative effects of the application of the new HKFRSs as at 31 March 2005 and 1 April 2005 are summarised below:

	At			At		At
	31 March	Effect of	Effect of	31 March	Effect of	1 April
	2005	HKAS 1	HKAS 17	2005	HKAS 39	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Originally stated)			(Restated)		(Restated)
Balance sheet items affected:						
Property, plant and equipment	119,198	–	(5,024)	114,174	–	114,174
Prepaid lease payments – non-current	–	–	4,921	4,921	–	4,921
Goodwill	38,895	–	–	38,895	–	38,895
Investments in securities	190	–	–	190	(190)	–
Available-for-sale investments	–	–	–	–	190	190
Prepaid lease payments – current	–	–	103	103	–	103
Other assets and liabilities	9,116	–	–	9,116	–	9,116
	<u>167,399</u>	<u>–</u>	<u>–</u>	<u>167,399</u>	<u>–</u>	<u>167,399</u>
Total effects on assets and liabilities						
Share capital and other reserves	283,587	–	–	283,587	–	283,587
Share premium	30,856	–	–	30,856	–	30,856
Accumulated losses	(148,878)	–	–	(148,878)	–	(148,878)
Minority interests	–	1,834	–	1,834	–	1,834
	<u>165,565</u>	<u>1,834</u>	<u>–</u>	<u>167,399</u>	<u>–</u>	<u>167,399</u>
Total effects on equity						
Minority interests	1,834	(1,834)	–	–	–	–
	<u>167,399</u>	<u>–</u>	<u>–</u>	<u>167,399</u>	<u>–</u>	<u>167,399</u>

The financial effects of the application of the new HKFRSs to the Group's equity at 1 April 2004 are summarised below:

	As originally stated	Effect of HKAS 1	As restated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Share capital and other reserves	196,180	–	196,180
Share premium	9	–	9
Accumulated losses	(163,121)	–	(163,121)
Minority interests	–	274	274
	<hr/>	<hr/>	<hr/>
Total effects on equity	33,068	274	33,342
Minority interests	274	(274)	–
	<hr/>	<hr/>	<hr/>
	<u>33,342</u>	<u>–</u>	<u>33,342</u>

The Group has commenced considering the potential impact of the following new standards or interpretations that have been issued but are not yet effective. However, the Group is not yet in a position to determine whether these standards or interpretations would have a significant impact on how its results of operations and financial position are prepared and presented. These standards and interpretations may result in changes in the future as to how the results and financial position are prepared and presented.

HKAS 1 (Amendment)	Capital disclosures
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions
HKAS 39 (Amendment)	The fair value option
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts
HKFRS 6	Exploration for and evaluation of mineral resources
HKFRS 7	Financial instruments: disclosures
HK(IFRIC) – Int 4	Determining whether an arrangement contains a lease
HK(IFRIC) – Int 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds
HK(IFRIC) – Int 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment

5. SEGMENTAL INFORMATION

Business segment

For management purposes the Group is currently organised into four operating divisions – sales of property, supply of natural gas, gas pipeline connection and glass product. These divisions are the basis on which the Group reports its primary segment information.

In prior period, the Group was organised into four operating divisions – building services (single-trade), packaged/design and build contracts, environmental engineering services and property holdings and investment. Upon the completion of disposal of the entire interest in Kenworth Group Limited on 30 April 2004, the business of building services (single-trade), packaged/design and build contracts and environmental engineering services were discontinued.

Summarised details of the business segments are as follows:

The following tables present turnover, profit and certain asset, liability and expenditure information for the Group's business segments.

	Discontinued operations															
	Sales of property		Supply of natural gas		Gas pipeline connection		Glass product		Building services (single-trade)		Packaged/design and build contracts		Environmental engineering services		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	-	-	35,014	-	93,397	-	11,545	-	-	309	-	414	-	1,009	139,956	1,732
Other income	1,192	997	25	-	263	-	631	-	-	-	-	-	-	5	2,111	1,002
	<u>1,192</u>	<u>997</u>	<u>35,039</u>	<u>-</u>	<u>93,660</u>	<u>-</u>	<u>12,176</u>	<u>-</u>	<u>-</u>	<u>309</u>	<u>-</u>	<u>414</u>	<u>-</u>	<u>1,014</u>	<u>142,067</u>	<u>2,734</u>
Segment results	<u>813</u>	<u>922</u>	<u>377</u>	<u>-</u>	<u>76,204</u>	<u>-</u>	<u>2,292</u>	<u>-</u>	<u>-</u>	<u>(406)</u>	<u>-</u>	<u>(515)</u>	<u>-</u>	<u>(1,341)</u>	<u>79,686</u>	<u>(1,340)</u>
Unallocated other income															13,041	7,483
Unallocated corporate expenses															(14,405)	(2,305)
Finance costs															(580)	(226)
Share of results of associates	-	-	476	(758)	-	-	-	-	-	-	-	-	-	-	476	(758)
Share of result of a jointly-controlled entity	-	-	-	-	-	-	-	-	-	-	-	-	-	(1)	-	(1)
Profit before taxation															78,218	2,853
Taxation															(17,635)	(96)
Profit for the period															<u>60,583</u>	<u>2,757</u>

6. OTHER INCOME

Pursuant to a Scheme of Arrangement established in prior year pursuant to Section 166 of the Hong Kong Companies Ordinance ("Scheme"), the surplus fund of the Scheme of HK\$10,140,000 was refunded to the Company. The amount is recognised as income because the Group did not have any further obligations to the creditors as upon the termination of the Scheme on 30 May 2005.

During the period, a discount on acquisition of a subsidiary of HK\$2,304,000 is recognised as income (note 17).

7. DEPRECIATION

During the period, depreciation of HK\$3,057,000 (HK\$90,000 for the six months ended 30 September 2004) was provided in respect of the Group's property, plant and equipment.

8. TAXATION

Six months ended	
30.9.2005	30.9.2004
HK\$'000	<i>HK\$'000</i>

The charge comprises:

Current tax

People's Republic of China ("PRC") Enterprise Income Tax	17,635	96
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No provision for Hong Kong Profits Tax has been made in the financial statements as the Group did not have any assessable profit derived in Hong Kong for both periods.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Pursuant to the relevant law and regulations in the PRC, certain Company's PRC subsidiaries are entitled to exemption from PRC Enterprise Income Tax for two years commencing from their first profit-making year of operation and thereafter, they are entitled to a 50% relief from PRC Enterprise Income Tax for the following three years. During the period, Enterprise Income Tax for those PRC subsidiaries has been provided in the financial statements at the income tax rate ranging from 15% to 33% on the taxable profits.

9. DIVIDENDS

No dividends were paid during the period. The directors do not recommend the payment of an interim dividend.

10. EARNINGS PER SHARE

	Six months ended	
	30.9.2005 <i>HK\$'000</i>	30.9.2004 <i>HK\$'000</i>
The calculation of basic and diluted earnings per share attributable to equity holders of the parent is based on the following data:		
Profit for the period attributable to equity holders of the Company	<u>60,008</u>	<u>2,758</u>
	<i>'000</i>	<i>'000</i>
Weighted average number of ordinary shares for the purposes of basic earnings per share	2,614,716	2,435,208
Effect of dilutive potential ordinary shares:		
Share options	<u>262,180</u>	<u>246,639</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>2,876,896</u>	<u>2,681,847</u>

11. MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$8,673,000 (Nil for the six months ended 30 September 2004) on acquisition of property, plant and equipment. In addition, the Group acquired property, plant and equipment of HK\$107,538,000 through acquisition of subsidiaries.

12. GOODWILL

	<i>HK\$'000</i>
COST	
At beginning of the period	38,895
Arising on acquisition of subsidiaries	<u>8,282</u>
At end of the period	<u><u>47,177</u></u>

13. TRADE AND OTHER RECEIVABLES

An aged analysis of trade receivables as at the balance sheet date, based on invoice date, net of impairment loss, is as follows:

	30.9.2005	31.3.2005
	HK\$'000	HK\$'000
Current to 90 days	10,406	1,276
91 to 180 days	–	398
181 to 360 days	138	132
Over 360 days	54	–
	10,598	1,806
Deposit paid to scheme administrator	–	2,614
Advances to third parties	21,798	23,800
Payment in advance to suppliers	8,256	4,274
Deposit paid for investment	–	2,272
Others	4,633	7,675
Total	45,285	42,441

14. TRADE AND OTHER PAYABLES

An aged analysis of trade payables as at the balance sheet date is as follows:

	THE GROUP	
	30.9.2005	31.3.2005
	HK\$'000	HK\$'000
Current to 90 days	12,353	6,492
91 to 180 days	2,234	361
Over 180 days	4,091	290
	18,678	7,143
Deposits received from customers (Note 1)	51,351	44,199
Rental deposits received	–	350
Accruals	5,178	1,280
Others (Note 2)	30,939	7,053
	106,146	60,025

Notes:

- (1) Deposits received from customers represent the gas pipeline connection fee received but the pipelines have not yet been completed.
- (2) Include in the balance, an amount of HK\$2,770,000 represents the outstanding consideration for the acquisition of subsidiaries/assets and liabilities.

15. BANK BORROWINGS

During the period, the Group obtained and repaid new bank loans of HK\$8,852,000 and HK\$13,397,000 respectively. The loans bear interests at market rates and are repayable in instalments over a period of two years.

16. SHARE CAPITAL

	Number of ordinary shares	Amount HK\$'000
Authorised:		
At 31 March 2005 and 30 September 2005	<u>4,999,999,999</u>	<u>350,000</u>
Issued and fully paid:		
At 31 March 2005 and 30 September 2005	<u>2,614,715,736</u>	<u>183,030</u>

17. ACQUISITIONS

During the period, the Group acquired several subsidiaries/business at an aggregated consideration of HK\$33,371,000. These transactions have been accounted for using the purchase method of accounting.

The net assets acquired, being the fair value, in the transaction, and the goodwill on acquisition or discount arising, are as follows:

	Main Zhu City Han Wang Natural Gas Co. Ltd. HK\$'000	Relevant natural gas assets in Bei Chuan County HK\$'000	Chongqing Tong Nan Tongfa Gas Co. Ltd. HK\$'000	Fu Ping Natural Gas Co. Ltd. HK\$'000	Total HK\$'000
Percentage of equity interests acquired	100%	N/A	99%	70%	N/A
Properties, plant and equipment	12,391	16,231	66,371	12,545	107,538
Inventories	67	73	754	267	1,161
Trade and other receivables	4,497	1,766	14,227	600	21,090
Bank balance and cash	183	19	3,037	90	3,329
Trade and other payables	(13,639)	(9,491)	(61,794)	(2,750)	(87,674)
Tax	(84)	-	83	(21)	(22)
Borrowings	-	(2,877)	(11,796)	(192)	(14,865)
	<u>3,415</u>	<u>5,721</u>	<u>10,882</u>	<u>10,539</u>	<u>30,557</u>
Minority interests	-	-	(2)	(3,162)	(3,164)
Goodwill (discount on acquisition)	<u>2,061</u>	<u>4,638</u>	<u>1,583</u>	<u>(2,304)</u>	<u>5,978</u>
Satisfied by:					
Cash consideration	<u>5,476</u>	<u>10,359</u>	<u>12,463</u>	<u>5,073</u>	<u>33,371</u>

An analysis of the net outflow of cash equivalents in respect of the acquisition of subsidiaries/assets and liabilities is as follows:

	Main Zhu City Han Wang Natural Gas Co. Ltd.	Relevant natural gas assets in Bei Chuan County	Chongqing Tong Nan Tongfa Gas Co. Ltd.	Fu Ping Natural Gas Co. Ltd.	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash consideration	5,476	10,359	12,463	5,073	33,371
Deposit for investment	-	-	-	(2,272)	(2,272)
Bank balance and cash acquired	(183)	(19)	(3,037)	(90)	(3,329)
	<u>5,293</u>	<u>10,340</u>	<u>9,426</u>	<u>2,711</u>	<u>27,770</u>
Net cashflow of cash and cash equivalents in respect of acquisition of subsidiaries/assets and liabilities	<u>5,293</u>	<u>10,340</u>	<u>9,426</u>	<u>2,711</u>	<u>27,770</u>

The goodwill arising on the acquisition of Main Zhu City Han Wang Natural Gas Co. Ltd. (綿州市漢旺天然氣有限公司), relevant natural gas assets in Bei Chuan County (北川縣相關天然氣輸配資產) and Chongqing Tong Nan Tongfa Gas Co. Ltd. (重慶市潼南縣通發天然氣有限責任公司) is attributable to the anticipated profitability of the gas pipeline connection business of the subsidiaries/business.

For Fu Ping Natural Gas Co. Ltd. (富平縣天然氣有限責任公司), the management of the Group has re-assessed the fair values of the assets and liabilities at the date of acquisition and the discount on acquisition represented the better bargaining position of the Group.

The subsidiaries acquired during the period contributed HK\$60,131,000 to the Group's turnover and a profit of HK\$45,512,000 to the Group's profit before tax for the period between the date of acquisition and the balance sheet date. If the acquisition had been completed on 1 April 2005, total group revenue for the period would have been HK\$150,821,000 and profit for the period would have been HK\$60,407,000. The proforma information is for illustrative purpose only and is not necessarily an indicative revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 April 2005, nor is it intended to be a projection of future results.

18. RELATED PARTY TRANSACTIONS

The remuneration of directors and other members of key management during the period was as follows:

	Six months ended	
	30.9.2005	30.9.2004
	HK\$'000	HK\$'000
Short-term benefits	1,577	280
Post-employment benefits	8	-
Share-based payments	6,498	-
	<u>8,083</u>	<u>280</u>

19. POST BALANCE SHEET EVENT

- (a) On 8 September 2005, the Company entered into a subscription agreement with an independent third party for the issue of US\$20,000,000 (equivalent to approximately HK\$155,600,000) 2% convertible bonds due 2008 ("Subscription Agreement"). Pursuant to the terms of the Subscription Agreement, the convertible bonds shall be redeemed by the Company at 100% of their principal amount at the third anniversary of the date of issue. Details of the terms of the convertible bonds was set out in the circular dated 12 October 2005 issued by the Company. The convertible bonds were issued on 28 October 2005.
- (b) On 14 October 2005, Beijing Zhong Min Gas Co., Ltd. ("Zhong Min"), a wholly-owned subsidiary of the Company, 公益時報社 ("Public Welfare Times"), a PRC entity whose principal activity is the publication of 公益時報 in the PRC, Lu Lin, a PRC citizen and Global Reach Investment Corp. ("Global Reach"), a company incorporated in the British Virgin Islands, entered into an agreement for the contribution to the capital of 中民在線(北京)科技發展有限公司 ("Joint Venture"), a limited company established in the PRC ("Agreement"). Pursuant to the terms of Agreement, Zhong Min will contributed an aggregate amount of RMB15,000,000 to the Joint Venture for the purpose of contributing as to RMB9,000,000 for the capital and as to RMB6,000,000 towards the capital reserve of the Joint Venture. Upon the completion of the Agreement, Zhong Min owns 30% equity interest of the Joint Venture. The Joint Venture has submitted an application to 中國福利彩票發行中心 China Welfare Lottery Centre, a PRC government authority, for the trial provision of lottery operating systems and ancillary services to an online instant lottery operations located in Hainan, the PRC. Details of the terms of the Agreement are set out in the circular dated 8 November 2005 issued by the Company. The transaction is not yet completed as at the date of the report.

OTHER INFORMATION

DIRECTORS' INTERESTS IN SHARES AND SHARE OPTIONS

As at 30 September 2005, the interests of the directors and their associates in the shares and share options of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

(a) Issued shares

Name	Capacity	Number of shares	Approximate percentage of the Company's issued share capital
Asian Allied Limited ("Asian Allied")	Through a controlled corporation (Note 1)	1,336,798,538	51.13%
Super Win Development Limited ("Super Win")	Beneficial owner	1,336,798,538	51.13%
Mr. Yuan Yakang	Beneficial owner and through controlled corporations (Note 1 and 2)	1,386,798,538	53.04%
Mr. Mo Shikang	Through controlled corporations (Note 1 and 3)	1,336,798,538	51.13%

Notes:

1. Asian Allied is interested in the same block of 1,336,798,538 shares registered under the name of Super Win, its wholly-owned subsidiary.
2. Mr. Yuan Yakang is the beneficial owner of 34.86% of the issued share capital of Asian Allied and is a party acting in concert with it. Pursuant to Part XV of the SFO, Mr. Yuan Yakang is deemed to be interested in the same block of 1,336,798,538 shares in which Asian Allied has an attributable interest. Mr. Yuan Yakang is the beneficial owner of 50,000,000 shares in the Company.
3. Mr. Mo Shikang is the beneficial owner of 65.14% of the issued share capital of Asian Allied. Pursuant to the provisions of Part XV of the SFO, Mr. Mo Shikang is deemed to be interested in the same block of 1,336,798,538 shares in which Asian Allied has an attributable interest.

(b) Shares Options

Name	Capacity	Number of Options	Exercise period
Liu Jing	Beneficial owner	26,000,000	12 October 2005 to 3 April 2007
Zhu Peifeng	Beneficial owner	2,600,000	12 October 2005 to 3 April 2007
Zhang Hesheng	Beneficial owner	2,600,000	12 October 2005 to 3 April 2007
Mo Shikang	Beneficial owner	2,600,000	12 October 2005 to 3 April 2007
Jin Song	Beneficial owner	26,000,000	12 October 2005 to 3 April 2007

Notes: The exercise price of the Options is HK\$0.365 per new share.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2005, according to the register maintained by the Company pursuant to Section 336 of the SFO, the following persons were, directly or indirectly, beneficially interested in 5% or more of the issued share capital and share options of the Company.

Name of shareholder	Capacity and nature of interest	Number of shares held	Percentage of the Company's issued share capital
Super Win	Directly beneficially owned	1,336,798,538	51.13%
Asian Allied	Through a controlled corporation (<i>Note 1</i>)	1,336,798,538	51.13%
Mr. Yuan Yakang	Beneficial owner and through controlled corporations (<i>Note 1 and 2</i>)	1,386,798,538	53.04%
Mr. Mo Shikang	Through controlled corporations (<i>Note 1 and 3</i>)	1,336,798,538	51.13%

Name of shareholder	Capacity and nature of interest	Number of shares held	Percentage of the Company's issued share capital
Deson Development Holdings Limited	Security interest <i>(Note 4)</i>	1,336,724,256	51.12%
Deson Development International Holdings Limited ("Deson")	Through a controlled corporation <i>(Note 5)</i>	1,336,724,256	51.12%
Sparta Assets Limited ("Sparta Assets")	Through controlled corporations <i>(Note 6)</i>	1,336,724,256	51.12%
Mr. Tjia Boen Sien	Through controlled corporations <i>(Note 7)</i>	1,336,724,256	51.12%
Equator View Capital ("Equator View")	Directly beneficially owned <i>(Note 8)</i>	453,247,888	17.33%
DKR Soundshore Oasis Holding Fund Limited ("DKR Soundshore")	Through a controlled corporation <i>(Note 9)</i>	453,247,888	17.33%
DKR Oasis Management Co. LP ("DKR Oasis Management")	Investment Manager	453,247,888	17.33%
DKR Capital Partners LP ("DKR Capital")	Through controlled corporations <i>(Note 10)</i>	453,247,888	17.33%
DKR Management Co. Inc. ("DKR Management")	Through controlled corporations <i>(Note 10)</i>	453,247,888	17.33%
DKR Capital Inc.	Through controlled corporations <i>(Note 10)</i>	453,247,888	17.33%
Oasis Management Holdings LLC ("Oasis Management")	Through controlled corporations <i>(note 11)</i>	453,247,888	17.33%

Notes:

1. Super Win holds 1,336,798,538 shares in the Company. By virtue of Super Win being a wholly-owned subsidiary of Asian Allied, Asian Allied is deemed to be interested in the 1,336,798,538 shares held by Super Win.
2. Mr. Yuan Yakang is the beneficial owner of 34.86% of the issued share capital of Asian Allied and is a party acting in concert with it. Pursuant to Part XV of the SFO, Mr. Yuan Yakang is deemed to be interested in the same block of 1,336,798,538 shares in which Asian Allied has an attributable interest. Mr. Yuan Yakang is the beneficial owner of 50,000,000 shares in the Company.
3. Mr. Mo Shikang is the beneficial owner of 65.14% of the issued share capital of Asian Allied. Pursuant to the provisions of Part XV of the SFO, Mr. Mo Shikang is deemed to be interested in the same block of 1,336,798,538 shares in which Asian Allied has an attributable interest.
4. By virtue of the provisions of Part XV of the SFO, Deson Development Holdings Limited is deemed to be interested in the same block of 1,336,724,256 shares held by Super Win by virtue of a share mortgage in favour of it.
5. By virtue of the provisions of Part XV of the SFO, Deson, being the holding company of Deson Development Holdings Limited, is deemed to be interested in the same block of 1,336,724,256 shares in which Deson Development Holdings Limited is interested.
6. Sparta Assets is interested in approximately 45.39% of the entire issued share capital of Deson and is therefore entitled to exercise or control the exercise of one third or more of the voting power at general meetings of Deson. By virtue of the provisions of Part XV of the SFO, Sparta Assets is deemed to be interested in the same block of 1,336,724,256 shares in which Deson is interested.
7. Sparta Assets, a company incorporated in the British Virgin Islands, is wholly-owned by Mr. Tija Boen Sien.
8. Equator View entered into a conditional subscription agreement with the Company on 7 September 2005 to subscribe for US\$20,000,000 convertible bonds (the "Convertible Bonds") from the Company. The Convertible Bonds were issued to Equator View on 28 October 2005.
9. Equator View interests in 453,247,888 shares in the Company. By virtue of Equator View being a 95% owned subsidiary of DKR Soundshore. DKR Soundshore is deemed to be interested in the 453,247,888 shares held by Equator View.
10. DKR Oasis Management controls 453,247,888 shares owned by Equator View. By virtue of DKR Oasis Management being a 51% owned subsidiary of DKR Capital, and DKR Capital being 50% each owned by DKR Management and DKR Capital Inc., and DKR Management is wholly-owned by DKR Capital Inc, each of DKR Capital, DKR Management and DKR Capital Inc. is deemed to be interested in the 453,247,888 shares owned by Equator View.
11. Oasis Management is interested in 49% of the entire issued share capital of DKR Oasis Management and is therefore entitled to exercise or control the exercise of one third or more of the voting power at general meetings of DKR Oasis Management. By virtue of the provisions of Part XV of the SFO, Oasis Management is deemed to be interested in the same block of 453,247,888 shares in which DKR Oasis Management is interested.

Other than as disclosed above, the Company has not been notified of any other relevant interests in the issued share capital of the Company as at 30 September 2005.

SHARE OPTIONS

The Company operates a share option scheme (the “Option Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the Option Scheme include full-time employees (including executive directors) of the Group. The Option Scheme became effective on 4 April 1997 and, unless otherwise amended or altered, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Option Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Option Scheme is limited to 25% of the aggregate number of shares for the time being issued and are issuable under the Option Scheme.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than three years from the date of the offer of the share options or the expiry date of the Option Scheme, if earlier.

The exercise price of the share options is determinable by the directors at their discretion and will be the higher of a price being not less than 80% of the average of the closing price of the shares on the Stock Exchange for the five trading date immediately preceding the offer date, and the nominal value of the shares of the Company.

On 1 September 2001, the Stock Exchange amended Chapter 17 (Share Option Schemes) of the Listing Rules. In accordance with the revised rules, it is possible for the Company to grant further options from its existing scheme only if the options granted are in accordance with the requirements of the new rules of Chapter 17. According to the new rules of Chapter 17, the total number of shares in respect of which options may be granted under the Option Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company’s shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company’s shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company’s share capital or with a value in excess of HK\$5 million must be approved in advance by the Company’s shareholders.

The following share options were granted and outstanding under the Option Scheme during the period:

Name or category of participant	Number of share options outstanding			Date of grant of share options *	Exercise period of share options	Exercise price of share options ** <i>HK\$</i>
	At 1 April 2005	Granted during the period	At 30 September 2005			
Directors						
Liu Jing	-	26,000,000	26,000,000	13 Apr. 05	12 Oct. 05 to 3 Apr. 07	0.365
Zhu Peifeng	-	2,600,000	2,600,000	13 Apr. 05	12 Oct. 05 to 3 Apr. 07	0.365
Zhang Hesheng	-	2,600,000	2,600,000	13 Apr. 05	12 Oct. 05 to 3 Apr. 07	0.365
Mo Shikang	-	2,600,000	2,600,000	13 Apr. 05	12 Oct. 05 to 3 Apr. 07	0.365
Jin Song	-	26,000,000	26,000,000	13 Apr. 05	12 Oct. 05 to 3 Apr. 07	0.365
Sub-total	-	59,800,000	59,800,000			
Other employees						
In aggregate	-	31,000,000	31,000,000	13 Apr. 05	12 Oct. 05 to 3 Apr. 07	0.365
	-	90,800,000	90,800,000			

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

There was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities during the period.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive directors, namely Mr. Liu Junmin, Mr. Tan Qinglian and Mr. Wong Shing Kay, Oliver. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited interim results for the six months ended 30 September 2005.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Company has complied with the Code of Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 September 2005, with the following deviations:

Code Provisions A.4.1

Under Code provision A.4.1 of the Code, non-executive directors should be appointed for a specific term, subject to re-election.

The non-executive directors are not appointed for a specific term. However, all non-executive directors are subject to the retirement and rotation requirements in accordance with the Company's Articles of Association. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

Code Provisions A.4.2

Under Code provision A.4.2 of the Code, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

To comply with the code provision, relevant amendments to the Company's Articles of Association were proposed and approved by the shareholders at the Company's annual general meeting held on 15 September 2005. Under the Company's existing Articles of Association, every director, including those appointed for a specific terms, should be subject to retirement by rotation at least once every three years.

REMUNERATION COMMITTEE

The Company has a remuneration committee which was established in accordance with the requirements of the Code for the purpose of reviewing the remuneration committee currently comprises two executive Directors, namely Mr. Mo Shikang and Mr. Zhang Hesheng and the three independent non-executive Directors, namely Mr. Liu Junmin, Mr. Tan Qinglian and Mr. Wong Shing Kay, Oliver.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors (the "Model Code") set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors on terms no less exactly than the required standard set out in the Model Code. Having made specific enquiry of the Directors, none of the Directors has not complied with, for any part of the accounting period under review, the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions.

By Order of the board of

Mo Shikang

Managing Director

Hong Kong, 23 December 2005