中裕燃气

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)

PRELIMINARY ANNOUNCEMENT FOR THE YEAR ENDED 31ST DECEMBER, 2006

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

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

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

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

This announcement, 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 announcement 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 announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

FINANCIAL HIGHLIGHTS

— The Group's audited turnover for the year ended 31st December, 2006 amounted to approximately HK$82,871,000, representing an increase of 92.0% as compared with that of approximately HK$43,161,000 for the year ended 31st December, 2005.

— The Group's profit attributable to equity holders of the parent for the year ended 31st December, 2006 was approximately HK$6,856,000. This was approximately HK$4,710,000 over a profit attributable to equity holders of the parent of approximately HK$2,146,000, exclusive of an extraordinary gain on disposal of a subsidiary, for the year ended 31st December, 2005.

— The Board does not recommend the payment of any dividend for the year ended 31st December, 2006.

CHAIRMAN'S STATEMENT

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

The Group continues to focus on the exploration and development of gas related business in the PRC. After years of expansion and operation, the Group's gas business is now fully developed. The construction of gas operations' infrastructure including pipelines, processing stations and other ancillary facilities were completed. We anticipate the Group is not necessary to invest huge amount of capital expenditure in its existing gas operations in the near future. As to the future prospect of the Group, We are still positive about the boom of the natural gas market in the PRC. Due to the growing prosperity, population and annual gross domestic production per capita in the PRC as well as the increasing awareness of environment protection in the PRC, we believe that the demand for the natural gas in the PRC would increase as natural gas is considered to be an environmentally clean source of energy.

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

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

The prospects for the IT industry is still challenging due to keen competition from local and overseas competitors. As such, the Group would stay vigilant over the market environment and would maintain a prudent and conservative approach to its software business.

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

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

Wang Wenliang
Chairman

Zhengzhou, the PRC
26th March, 2007

The board of Directors (the "Board") is pleased to announce the audited results of the Group for the year ended 31st December, 2006, together with the comparative audited figures for the year ended 31st December, 2005, which are set out as follows:

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER, 2006

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

CONSOLIDATED BALANCE SHEET
AS AT 31ST DECEMBER, 2006

	NOTES	**2006** *HK$'000*	2005 *HK$'000*
Non-current assets			
Property, plant and equipment	12	**111,664**	84,395
Intangible assets		**11,641**	11,594
Deposit for acquisition of property, plant and equipment		**—**	11,539
Goodwill		**732**	732
Prepaid lease payments		**15,321**	15,229
		139,358	123,489
Current assets			
Inventories	13	**11,066**	8,540
Trade receivables	14	**2,598**	3,233
Deposits, prepayments and other receivables		**24,710**	10,319
Prepaid lease payments		**457**	405
Tax recoverable		**—**	133
Amounts due from customers for contract work	15	**32,621**	15,208
Loan to an officer		**—**	4
Amounts due from related companies		**3,854**	8,775
Bank balances and cash		**65,815**	92,805
		141,121	139,422
Current liabilities			
Deferred income and advance received		**4,339**	7,066
Trade payables	16	**16,085**	9,777
Other payables and accrued charges		**7,573**	17,294
Amounts due to customers for contract work	15	**1,752**	577
Amounts due to related companies		**1,038**	635
Bank borrowings		**36,483**	26,234
		67,270	61,583
Net current assets		**73,851**	77,839
Total assets less current liabilities		**213,209**	201,328

	NOTES	2006 HK$'000	2005 HK$'000
Capital and reserves			
Share capital	17	**13,252**	13,252
Reserves		**170,072**	153,979
Equity attributable to equity holders of the parent		**183,324**	167,231
Minority interests		**8,172**	7,922
Total equity		**191,496**	175,153
Non-current liabilities			
Provision for long service payment		**213**	213
Bank borrowings		**21,500**	25,962
		21,713	26,175
		213,209	201,328

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31ST DECEMBER, 2006

	Attributable to equity holders of the parent									
	Share capital	Share premium	Share option reserve	Merger reserve	Other reserve	Translation reserve	Accumulated (losses)/ profits	Total	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January, 2005	10,628	48,817	—	3,740	—	—	(9,720)	53,465	912	54,377
Exchange differences arising on translation of foreign operations recognised directly in equity	—	—	—	—	—	607	—	607	—	607
Profit for the year	—	—	—	—	—	—	3,436	3,436	950	4,386
Total recognised income for the year	—	—	—	—	—	607	3,436	4,043	950	4,993
Issue of shares for acquisition of subsidiaries	2,624	97,084	—	—	—	—	—	99,708	—	99,708
Discount on acquisition of subsidiaries	—	—	—	—	7,607	—	—	7,607	—	7,607
Disposal of a subsidiary	—	—	—	—	—	—	—	—	(794)	(794)
Acquisition of non-wholly owned subsidiaries	—	—	—	—	—	—	—	—	6,854	6,854
Recognition of equity - settled share - based payments	—	—	2,408	—	—	—	—	2,408	—	2,408
At 31st December, 2005	13,252	145,901	2,408	3,740	7,607	607	(6,284)	167,231	7,922	175,153
Exchange differences arising on translation of foreign operations recognised directly in equity	—	—	—	—	—	6,829	—	6,829	8	6,837
Profit for the year	—	—	—	—	—	—	6,856	6,856	242	7,098
Total recognised income for the year	—	—	—	—	—	6,829	6,856	13,685	250	13,935
Recognition of equity - settled share - based payments	—	—	2,408	—	—	—	—	2,408	—	2,408
At 31st December, 2006	13,252	145,901	4,816	3,740	7,607	7,436	572	183,324	8,172	191,496

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

Notes:

1. PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

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

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

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

4. TURNOVER

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

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

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purpose, the Group is currently organised into five major operating divisions: Connection revenue from gas pipeline construction, sales of natural gas, sales of liquefied petroleum gas, development and sale of software and software maintenance services. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these business is presented below:

Income statement for the year ended 31st December, 2006

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

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (CON'T)

Balance sheet as at 31st December, 2006

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

Other information for the year ended 31st December, 2006

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

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (CON'T)

Income statement for the year ended 31st December, 2005

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

Balance sheet as at 31st December, 2005

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

5. **BUSINESS AND GEOGRAPHICAL SEGMENTS (CON'T)**

Other information for the year ended 31st December 2005

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

Geographical segments

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

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

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (CON'T)

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

	Carrying amount of segment assets		Additions to property, plant and equipment, goodwill and intangible assets	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
The PRC	**271,269**	237,827	**28,817**	93,453
Hong Kong	**9,210**	25,084	**66**	59
	280,479	262,911	**28,883**	93,512

6. OTHER INCOME

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

7. FINANCE COSTS

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

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

8. INCOME TAX EXPENSES

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

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

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

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

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

9. PROFIT FOR THE YEAR

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

10. DIVIDENDS

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

11. EARNINGS PER SHARE

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

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

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

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Construction in progress	Leasehold improvements	Pipelines	Machinery and equipment	Furniture and fixtures	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST								
At 1st January, 2005	—	5,570	716	3,577	1,805	839	754	13,261
Exchange adjustments	—	107	14	69	34	16	15	255
Additions	—	23,937	—	—	448	—	845	25,230
Acquired on acquisition of subsidiaries	3,210	6,513	1,839	5,616	8,144	329	1,339	26,990
Acquired on acquisition of business	5,660	—	989	18,457	3,869	—	313	29,288
Disposal of a subsidiary	—	(1,484)	(690)	(908)	(1,794)	(353)	—	(5,229)
At 31st December, 2005	8,870	34,643	2,868	26,811	12,506	831	3,266	89,795
Exchange adjustments	450	1,180	62	2,001	477	2	258	4,430
Additions	8	24,796	410	—	2,148	29	1,492	28,883
Disposals	—	—	—	—	(2,183)	—	(94)	(2,277)
Transfer	3,674	(40,838)	—	35,674	1,490	—	—	—
At 31st December, 2006	13,002	19,781	3,340	64,486	14,438	862	4,922	120,831
DEPRECIATION								
At 1st January, 2005	—	—	619	90	1,567	441	113	2,830
Exchange adjustments	—	—	12	2	30	8	2	54
Provided for the year	323	—	130	805	1,103	89	571	3,021
Eliminated on disposals	—	—	(266)	(90)	(113)	(36)	—	(505)
At 31st December, 2005	323	—	495	807	2,587	502	686	5,400
Exchange adjustments	3	—	18	62	67	1	54	205
Provided for the year	352	—	358	1,149	977	33	903	3,772
Eliminated on disposals	—	—	—	—	(131)	—	(79)	(210)
At 31st December, 2006	678	—	871	2,018	3,500	536	1,564	9,167
CARRYING VALUES								
At 31st December, 2006	12,324	19,781	2,469	62,468	10,938	326	3,358	111,664
At 31st December, 2005	8,547	34,643	2,373	26,004	9,919	329	2,580	84,395

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

13. INVENTORIES

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

14. TRADE RECEIVABLES

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

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

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

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

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

16. TRADE PAYABLES

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

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

17. SHARE CAPITAL

	Number of shares		**Amount**	
	2006	2005	**2006**	2005
	'000	*'000*	***HK$'000***	*HK$'000*
Ordinary shares of HK$0.01 each				
Authorised	**10,000,000**	10,000,000	**100,000**	100,000
Issued and fully paid				
At beginning of year	**1,325,186**	1,062,800	**13,252**	10,628
Issue of shares for acquisition of subsidiaries (note)	**—**	262,386	**—**	2,624
At end of year	**1,325,186**	1,325,186	**13,252**	13,252

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

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

18. ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENTS

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

19. CAPITAL COMMITMENTS

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

20. CONTINGENT LIABILITIES

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

LIQUIDITY, FINANCIAL RESOURCES AND WORKING CAPITAL

Liquidity

As at 31st December, 2006, the Group had net current assets of approximately HK$73,851,000. It represented the Group had a healthy financial position to meet its short-term liabilities.

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

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

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

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

Financial resources

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

Working capital

In view of the Group's current financial and liquidity positions and in the absence of unforeseen circumstances, the Directors are of the opinion that the Group has sufficient working capital for its present requirements.

EXPOSURE TO EXCHANGE RATE FLUCTUATIONS

During the year under review, the Group experienced only immaterial exchange rates fluctuations as most of the Group's monetary assets and liabilities were denominated in either Hong Kong Dollars or RMB and the Group conducted its business transactions principally in these types of currency. The Group considered that as the exchange rate risk of the Group is considered to be minimal, the Group did not employ any financial instruments for hedging purposes.

EMPLOYEE INFORMATION

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

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

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

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

CHARGE ON THE GROUP'S ASSETS

As at 31st December, 2006, the Group did not have any charges on the Group's assets.

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

As at 31st December, 2006, the Directors did not have any future plans for material investment or capital assets.

COMPETING INTEREST

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

ONGOING CONNECTED TRANSACTION

On 15th November, 2004, the Company and Hezhong Investment Holding Company Limited ("Hezhong"), being a controlling shareholder of the Company entered into the service agreement (the "Service Agreement") pursuant to which the Company agreed to provide Hezhong with natural gas projects management services, financial management services and human resources management services (collectively the "Management Services") for the period from 15th November, 2004 to 31st December, 2006 in return for a service fee which is equal to 120% of the notional time costs incurred by the Group in relation to the provision of the Management Services. The said service fee payable by Hezhong to the Group for the year ended 31st December, 2006 was HK$3,402,480 (2005: HK$8,500,000).

The independent board committee of the Company, comprising Mr. Wang Shunlong, Dr. Luo Yongtai and Mr. Hung, Randy King Kuen, as the independent non-executive Directors, confirms that the terms of the Service Agreement including the maximum aggregate annual value in respect of the provision of the Management Services for each of the three financial years of the Company ended 31st December, 2006 are fair and reasonable so far as the independent shareholders (the "Independent Shareholders") of the Company are concerned and are in the interests of the Company and the Independent Shareholders as a whole.

BUSINESS REVIEW

Overall

During the year under review, the Group continued to focus on the exploration and the development of gas related business and part of implementation of software projects and the provision of software maintenance services originally performed by the Group itself had been subcontracted to independent third parties.

Gas Businesses

The Group's gas businesses primarily comprises gas pipeline construction and provision of gas. As at 31st December, 2006, the Group secured six exclusive gas operations, two in Linyi City, Shandong Province, the PRC and four in Sanmenxia City, Xinmi City, Yanshi City and Yongcheng City, Henan Provice, the PRC respectively. Of the six gas operations of the Group, one, namely Linyi China Gas City Gas Construction Company Limited ("Linyi China Gas") was acquired by the Group in December 2003, one, namely Linyi Zhongyu Gas Company Limited ("Linyi ZhongYu JV"), was formed by the Group in January 2005 and the remaining four, including, Sanmenxia China-Gas Gas Development Co. Ltd. ("Sanmenxia"), Yanshi Zhongyu Gas Co., Ltd. ("Yanshi"), Xinmi Zhongyu Gas Co., Ltd. ("Xinmi") and Yongcheng China-Gas Heating Explore Co., Ltd. ("Yongcheng") were acquired by the Group in October 2005. The Group holds at least 90% interests in Linyi China Gas, Sanmenxia, Yanshi, Xinmi and Yongcheng and 51% interests in Linyi ZhongYu JV. The aforesaid cities currently have a total connectable urban population of approximately 1,800,000. It is estimated there were an aggregate of approximately 510,000 connectable residential households in such cities. The businesses of such six gas operations have been fully developed since the second quarter of 2006, on which the construction of their infrastructure, including pipelines, processing stations and other ancillary facilities were completed.

Gas Pipeline Construction

The Group commenced to engage in gas pipeline construction activities in the PRC from 2004. Currently, all the six gas operations of the Group are principally engaged in the business of gas pipeline construction. Turnover derived from gas pipeline construction is one-off connection fees paid by residential households and industrial/commercial customers for the connection of their premises to the piped gas networks operated by the Group. Connection fees charged by the Group are required to obtain approval from local pricing bureaus. During the year under review, the average connection fees charged to residential households by the Group was RMB2,300. The connection fees charged to industrial/commercial customers by the Group was determined on a case basis. Taking into account the huge volume usage of gas by industrial/commercial customers, the Group normally gives special discount to such customers in order to attract them to connect their premises to the piped gas networks operated by the Group. During the year under review, the number of new gas pipeline connection made to residential households and industrial/commercial customers amounted to 29,304 households and 80 customers respectively. As at 31st December, 2006, the accumulated number of residential households and commercial/industrial customers reached 41,378 households and 97 customers respectively.

Provision of Gas

The Group commenced to provide liquefied petroleum gas and natural gas to customers from 2004 and 2005 respectively. Of the six gas operations of the Group, Linyi China Gas, Xinmi and Yongcheng currently provide piped natural gas, Linyi Zhongyu JV and Sanmenxia currently provide piped natural gas and liquefied petroleum gas and Yanshi currently provide piped liquefied petroleum gas. Sales of liquefied petroleum gas in the cities in which the Group operates is expected to convert to piped natural gas gradually as and when sufficient natural gas supply becomes available. Provision of gas to customers provides the Group with a recurring stream of revenue. Fees charged by the Group for provision of gas are required to obtain approval from local pricing bureaus. During the year under review, the total unit of natural gas and liquefied petroleum gas provided by the Group to its customers was approximately 12,323,000 m^3 and approximately 36,080,000 tons respectively.

Software Business

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

Development and Sale of Software

The Group commenced to engage in the development of and sale of HRM software system from 1991. Turnover derived from the development of and sale of HRM software system is charges paid by customers for the implementation of HRM software projects. Such charges are usually negotiable between the Group and its customers, depending on the complexity of the projects. During the year under review, the HRM software system had been licensed to 36 new customers in Hong Kong. In line with the Group's strategy in focusing its business on the gas business, part of implementation of HRM software projects had been subcontracted to independent third parties during the year under review.

Software Maintenance Services

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

Acquisitions, Disposal and Significant Investments

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

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

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

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

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

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

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

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

Linyi ZhongYu JV was a Chinese-foreign equity joint venture company and established on 28th January, 2005. It is owned as to 51% by the Group and the remaining 49% by 臨沂市城市燃氣工程籌建處 (the Department of City Natural Gas Engineering of Linyi City) ("CNGE"), Linyi ZhongYu JV is principally engaged in the construction and operation of natural gas projects in 蘭山區 (Lan Shan Qu) (exclusive of 南坊片 (Lan Shan Qu)) and part of 羅莊區 (Luo Zhuang Qu), Linyi City, Shandong Province, the PRC. Its main business activities include design and construction of natural gas pipeline network and ancillary facilities and sale of gas as well as sale and maintenance of gas appliances.

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

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

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

FINANCIAL REVIEW

Overall

During the year under review, the Group is principally engaged in (i) the development, construction and operation of gas projects in the PRC, which principally include design and construction of gas pipeline network and ancillary facilities and sale of gas, as well as sale and maintenance of gas appliances; and (ii) the business of HRM solution provision in Hong Kong and the PRC, which principally include development and sale of HRM software, as well as provision of related consultancy services including the project management, implementation and maintenance of the HRM system.

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

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

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

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

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

During the year under review, the Group's other expenses amounted to approximately HK$2,778,000 which was similar to approximately HK$2,926,000 last year. Other expenses for the year under review mainly comprised recognition of equity-settled share based payments of approximately HK$2,408,000 resulting from the issuance of share options by the Company in July 2005.

During the year under review, the Group did not record any gain on disposal of a subsidiary.

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

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

Gas Business

Gas Pipeline Construction

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

Sales of Liquefied Petroleum Gas

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

Sales of Natural Gas

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

Software Business

Development and sales of HRM Software

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

Software Maintenance Services

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

DISCLOSURE OF INTERESTS

(a) **Interests of Directors**

As at 31st December, 2006, the interests and short positions of the Directors and the chief executive of the Company and their associates in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of the Part XV of Securities and Future Ordinance (the "SFO")) (a) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules") relating to securities transactions by Directors, were as follows:

(i) *Long positions in the Shares:*

Name of Director	Nature of interest	Number of Shares held	Approximate percentage of issued share capital of the Company *(%)*
Mr. Wang Wenliang	Personal *(Note 1)*	10,002,000	
("Mr. Wang")	Corporate *(Note 2)*	872,505,542	
		882,507,542	66.59

Note:

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

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

(ii) *Share options:*

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

Notes:

1. These options were granted under the share option scheme adopted by the Company on 24th October, 2003 and entitle the holders thereof to subscribe for Shares at an exercise price of HK$0.310 per Share during the period from 4th July, 2006 to 3rd June, 2016.

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

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

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

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

Save as disclosed above, as at 31st December, 2006, none of the Directors nor the chief executive of the Company nor their associates had or was deemed to have any interests or short positions in the shares or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the SFO) (a) where were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors.

(b) **Interests of substantial shareholders of the Company**

So far as is known to the Directors, as at 31st December, 2006, the following person (not being Directors or chief executive of the Company) had, or was deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

Long positions in the Shares

Name of Shareholder	Nature of interest	Number of Shares held	Approximate percentage of issued share capital of the Company
Hezhong	Beneficial	872,505,542	65.84%

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

Save as disclosed above, as at 31st December, 2006, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group.

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 audited results of the Group for the year ended 31st December, 2006.

BOARD PRACTICE AND PROCEDURES

The Company has complied with the requirement of Board Practices and Procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules during the year ended 31st December, 2006.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year ended 31st December, 2006.

PRELIMINARY ANNOUNCEMENT OF THE RESULTS AGREED BY AUDITORS

The figures in respect of the Group's consolidated balance sheet, consolidated income statement and the related notes thereto for the year ended 31st December, 2006 as set out in this announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement."

BOARD OF DIRECTORS

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

By Order of the Board
Wang Wenliang
Chairman

Zhengzhou, the PRC
26th March, 2007

This announcement will remain on the GEM website at www.hkgem.com on the "Latest Company Announcements" page for at least 7 days from the date of its posting.