



**中裕燃气**

**中裕燃气控股有限公司**

**ZHONGYU GAS HOLDINGS LIMITED**

*(incorporated in the Cayman Islands with limited liability)*

(Stock Code: 8070)

**PRELIMINARY ANNOUNCEMENT  
FOR THE YEAR ENDED 31ST DECEMBER, 2005**

**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.

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*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, 2005 amounted to approximately HK\$43,161,000, representing an increase of 182.7% as compared with that of approximately HK\$15,267,000 for the eighteen months ended 31st December, 2004.
- The Group's profit attributable to equity holders of the parent for the year ended 31st December, 2005 amounted to approximately HK\$3,436,000. This was approximately HK\$1,231,000, exclusive of an extraordinary gain on disposal of a subsidiary, over a net profit attributable to equity holders of the parent of approximately HK\$915,000 for the eighteen months ended 31st December, 2004.
- The Board does not recommend the payment of any dividend for the year ended 31st December, 2005.

## **CHAIRMAN'S STATEMENT**

The past twelve months is a busy year for the Group in terms of the expansion of its gas business. In January 2005, the Group formed Linyi Zhongyu Gas Company Limited. In October 2005, the Group successfully acquired four additional gas projects, including Sanmenxia China-Gas Gas Development Co., Ltd., Xinmi Zhongyu Gas Co., Ltd., Yanshi Zhongyu Gas Co., Ltd. and Yongcheng China-Gas Gas Heating Explore Co., Ltd.. Currently, the Group secured six exclusive gas operations in the PRC.

During the year, the Group's gas business achieve an encouraging operating results. For the year ended 31st December, 2005, the turnover derived from such business amounted to approximately HK\$35,901,000, equivalent to approximately 18 times over that of approximately HK\$2,012,000 for the eighteen months ended 31st December, 2004.

For the year ended 31st December, 2005, the Group recorded a net profit attributable to equity holders of the parent of approximately HK\$3,436,000. This was approximately HK\$1,231,000, exclusive of an extraordinary gain on disposal of a subsidiary, over a net profit attributable to equity holders of the parent of approximately HK\$915,000 for the eighteen months ended 31st December, 2004. The growth is mainly attributable to the expansion of the Group's gas business in the PRC and the enhancement of quality sales force as well as the implementation of the stringent cost control measures.

As to the future prospect of the Group, I am positive about the boom of the natural gas market in the People's Republic of China ("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, I 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.

In order to benefit further from the sustained growth of the natural gas industry in the PRC, the Group will strive to obtain more exclusive gas projects in the PRC to enhance its market position and to improve its financial performance.

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

With the continues improvement of the economies in the PRC and Hong Kong, the business environment in both the PRC and Hong Kong becomes more favourable. I believe that the demand for the Group's human resource management software would increase. Nevertheless, 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*

Hong Kong, 28th March, 2006

## CONSOLIDATED INCOME STATEMENT

The board of Directors (the “Board”) is pleased to announce the audited results of the Group for the year ended 31st December, 2005, together with the comparative audited figures for the eighteen months ended 31st December, 2004, which are set out as follows:

		<b>1.1.2005 to 31.12.2005 HK\$'000</b>	1.7.2003 to 31.12.2004 HK\$'000
	<i>NOTES</i>		
Turnover	5	<b>43,161</b>	15,267
Cost of sales		<b>(28,088)</b>	(4,758)
Gross profit		<b>15,073</b>	10,509
Other income	7	<b>12,658</b>	10,131
Distribution costs		<b>(1,947)</b>	(2,378)
Administrative expenses		<b>(17,631)</b>	(13,925)
Other expenses		<b>(2,926)</b>	(2,646)
Gain on disposal of a subsidiary		<b>1,290</b>	–
Finance costs	8	<b>(2,131)</b>	–
Profit before tax		<b>4,386</b>	1,691
Income tax expenses	9	–	–
Profit for the year/period	10	<b><u>4,386</u></b>	<b><u>1,691</u></b>
Attributable to:			
Equity holders of the parent		<b>3,436</b>	915
Minority interests		<b>950</b>	776
		<b><u>4,386</u></b>	<b><u>1,691</u></b>
Dividend	11	–	–
Earnings per share			
Basic	12	<b><u>0.31 cent</u></b>	<b><u>0.11 cent</u></b>
Diluted		<b><u>0.30 cent</u></b>	<b><u>N/A</u></b>

## CONSOLIDATED BALANCE SHEET

	<i>NOTES</i>	<b>2005</b> <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment	<i>13</i>	<b>84,395</b>	10,431
Intangible assets	<i>14</i>	<b>11,594</b>	–
Deposit for investment in a jointly controlled entity	<i>15</i>	–	20,210
Deposit for acquisition of property, plant and equipment		<b>11,539</b>	–
Goodwill	<i>16</i>	<b>732</b>	732
Prepaid lease payments	<i>18</i>	<b>15,229</b>	–
		<hr/> <b>123,489</b>	<hr/> 31,373
Current assets			
Inventories	<i>20</i>	<b>8,540</b>	3,083
Trade receivables	<i>21</i>	<b>3,233</b>	4,821
Deposits, prepayments and other receivables		<b>10,319</b>	5,925
Prepaid lease payments	<i>18</i>	<b>405</b>	–
Tax recoverable		<b>133</b>	–
Amounts due from customers for contract work	<i>22</i>	<b>15,208</b>	–
Amounts due from a director and loan to an officer	<i>23</i>	<b>4</b>	112
Amounts due from related companies	<i>24</i>	<b>8,775</b>	–
Bank balances and cash	<i>25</i>	<b>92,805</b>	22,919
		<hr/> <b>139,422</b>	<hr/> 36,860
Current liabilities			
Deferred income and advance received		<b>7,066</b>	1,578
Trade payables	<i>27</i>	<b>9,777</b>	2,462
Other payables and accrued charges		<b>17,294</b>	3,750
Amounts due to customers for contract work	<i>22</i>	<b>577</b>	111
Amounts due to related companies	<i>24</i>	<b>635</b>	5,742
Bank borrowings	<i>28</i>	<b>26,234</b>	–
		<hr/> <b>61,583</b>	<hr/> 13,643
Net current assets		<hr/> <b>77,839</b>	<hr/> 23,217
		<hr/> <b>201,328</b>	<hr/> <b>54,590</b>

	<i>NOTE</i>	<b>2005</b> <b>HK\$'000</b>	2004 <i>HK\$'000</i>
Capital and reserves			
Share capital	30	<b>13,252</b>	10,628
Reserves		<b>153,979</b>	42,837
		<hr/>	<hr/>
Equity attributable to equity holders of the parent		<b>167,231</b>	53,465
Minority interests		<b>7,922</b>	912
		<hr/>	<hr/>
Total equity		<b>175,153</b>	54,377
		<hr/>	<hr/>
Non-current liabilities			
Provision for long service payment		<b>213</b>	213
Bank borrowings	28	<b>25,962</b>	–
		<hr/>	<hr/>
		<b>26,175</b>	213
		<hr/>	<hr/>
		<b>201,328</b>	54,590
		<hr/> <hr/>	<hr/> <hr/>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent									
	Share capital	Share premium	Share option reserve	Merger reserve	Other reserve	Translation reserve	Accumulated losses	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 July, 2004	4,054	4,378	-	3,740	-	-	(10,635)	1,537	(864)	673
Profit for the period representing total recognised income for the period	-	-	-	-	-	-	915	915	776	1,691
Issue of shares on rights issue	4,054	16,216	-	-	-	-	-	20,270	-	20,270
Issue of shares for acquisition of a subsidiary	1,500	11,732	-	-	-	-	-	13,232	-	13,232
Issue of shares on placement	1,020	17,340	-	-	-	-	-	18,360	-	18,360
Contribution from a minority shareholder of a subsidiary	-	-	-	-	-	-	-	-	1,000	1,000
Share issue expenses	-	(849)	-	-	-	-	-	(849)	-	(849)
At 31st December, 2004	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 acquisitions 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	<u>13,252</u>	<u>145,901</u>	<u>2,408</u>	<u>3,740</u>	<u>7,607</u>	<u>607</u>	<u>(6,284)</u>	<u>167,231</u>	<u>7,922</u>	<u>175,153</u>

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. BASIS OF PREPARATION OF FINANCIAL STATEMENTS**

The consolidated financial statements for the current year cover the 12 months and ended on 31st December, 2005. The corresponding comparative amounts shown for the consolidated income statement, consolidated statement of changes in equity and related notes cover a 18 months period from 1st July, 2003 to 31st December, 2004 and therefore may not be comparable with amounts shown for the current year. The period covered by the 2004 consolidated financial statements was greater than 12 months because the directors of the Company determined to bring the balance sheet date in line with that of the subsidiaries established in the PRC.

## **2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS**

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (“HKFRS(s)”), Hong Kong Accounting Standards (“HKAS(s)”) and Interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has had no material effect on how the results for the prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required. 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 year are prepared and presented:

### **Business combinations**

In the current year, the Group has applied HKFRS 3 Business Combinations which is effective for business combinations for which the agreement date is on or after 1st January, 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

#### *Goodwill*

In previous periods, goodwill arising on acquisitions after 1st January, 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 balance sheet of the Group, it was eliminated against the carrying amount of the related accumulated amortisation of HK\$39,000 on 1 January, 2005 with a corresponding decrease in the cost of goodwill. The Group has discontinued amortising such goodwill from 1st January, 2005 onwards and such goodwill will be tested for impairment at least annually. Goodwill arising on acquisitions after 1st January, 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 year. Comparative figures for 2004 have not been restated (see note 3 for the financial impact).

In the current year, the Group has also applied HKAS 21 The Effects of Changes in Foreign Exchange Rates which requires goodwill to be treated as assets and liabilities of the foreign operation and translated at closing rate at each balance sheet date. Previously, goodwill arising on acquisitions of foreign operations was reported at the historical rate at each balance sheet date. In accordance with the relevant transitional provisions in HKAS 21, goodwill arising on acquisitions prior to 1st January, 2005 is treated as a non-monetary foreign currency item. Therefore, no prior period adjustment has been made.



*Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost.*

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.

### **Share-based payments**

In the current year, the Group has applied HKFRS 2 Share-based Payments 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 share options granted to employees of the Group and other individuals providing similar services 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 1st January, 2005. Because all the share options granted before 1st January, 2005 had been forfeited, the adoption of HKFRS 2 has had no impact on the Group's result for prior accounting periods.

### **Financial instruments**

In the current year, 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 1st January, 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 and HKAS 39 had no material impact to the Group's financial position, results and on how financial instruments of the Group are presented for current and prior accounting periods.

## **3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES**

The application of the new HKFRSs has had no material effect on the equity of the Group as at 1st July, 2003 and 31st December, 2004. The effects of the changes in the accounting policies described above on the results for the current year are as follows:

	<b>1.1.2005</b>	1.7.2003
	<b>to</b>	to
	<b>31.12.2005</b>	31.12.2004
	<b>HK\$'000</b>	HK\$'000
Non-amortisation of goodwill	<b>39</b>	–
Recognition of share-based payments as expenses	<b>(2,408)</b>	–
	<hr/>	<hr/>
Increase in administrative expenses and decrease in profit for the year	<b>(2,369)</b>	–
	<hr/> <hr/>	<hr/> <hr/>

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these Standards or Interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosures <sup>1</sup>
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures <sup>2</sup>
HKAS 21 (Amendment)	Net investment in a foreign operation <sup>2</sup>
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions <sup>2</sup>
HKAS 39 (Amendment)	The fair value option <sup>2</sup>
HKAS 39 and HKFRS 4 (Amendments)	Financial guarantee contracts <sup>2</sup>
HKFRS 6	Exploration for and evaluation of mineral resources <sup>2</sup>
HKFRS 7	Financial instruments: Disclosures <sup>1</sup>
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease <sup>2</sup>
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds <sup>2</sup>
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market- waste electrical and electronic equipment <sup>3</sup>
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1st January, 2007.

<sup>2</sup> Effective for annual periods beginning on or after 1st January, 2006.

<sup>3</sup> Effective for annual periods beginning on or after 1st December, 2005.

<sup>4</sup> Effective for annual periods beginning on or after 1st March, 2006.

#### 4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost basis and in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

#### 5. 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:

	<b>1.1.2005</b>	1.7.2003
	<b>to</b>	to
	<b>31.12.2005</b>	31.12.2004
	<b>HK\$'000</b>	<b>HK\$'000</b>
Connection fees from gas pipeline construction	22,347	2,012
Sales of liquefied petroleum gas	9,806	–
Software project income	4,650	8,099
Sales of natural gas	3,748	–
Software maintenance service income	2,209	4,546
Sales of stoves and related equipment	370	215
Sales of computer hardware	31	304
Software consultancy income	–	63
Rental income of software	–	28
	<b>43,161</b>	<b>15,267</b>

## 6. BUSINESS AND GEOGRAPHICAL SEGMENTS

### Business segments

For management purpose, the Group is currently organised into five major operating divisions: 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. The Group began its business in sales of natural gas and liquefied petroleum gas for the year ended 31st December, 2005.

Segment information about these business is presented below:

### Income statement for the year ended 31st December, 2005

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

**Balance sheet as at 31st December, 2005**

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

**Other information for the year ended 31st December, 2005**

	Gas pipeline construction <i>HK\$'000</i>	Sales of natural gas <i>HK\$'000</i>	Sales of liquefied petroleum gas <i>HK\$'000</i>	Development and sale of software <i>HK\$'000</i>	Software maintenance services <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Capital expenditure	-	57,418	36,035	59	-	-	-	93,512
Depreciation	-	455	2,311	76	-	-	179	3,021
Amortisation of intangible assets	-	410	-	-	-	-	-	410
Allowance for doubtful debts	-	-	-	514	-	-	-	514
Amortisation of prepaid lease payments	-	275	-	-	-	-	-	<u>275</u>

**Income statement for the period from 1st July, 2003 to 31st December, 2004**

	Gas pipeline construction <i>HK\$'000</i>	Development and sale of software <i>HK\$'000</i>	Software maintenance services <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Turnover	<u>2,012</u>	<u>8,162</u>	<u>4,546</u>	<u>547</u>	<u>15,267</u>
Segment results	<u>(2,769)</u>	<u>1,508</u>	<u>620</u>	<u>(19)</u>	(660)
Unallocated corporate income					9,675
Unallocated corporate expenses					(7,324)
Finance costs					<u>–</u>
Profit before tax					1,691
Taxation					<u>–</u>
Profit for the period					<u>1,691</u>

**Balance sheet as at 31st December, 2004**

	Gas pipeline construction <i>HK\$'000</i>	Development and sale of software <i>HK\$'000</i>	Software maintenance services <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>ASSETS</b>					
Segment assets	15,161	4,448	806	27	20,442
Goodwill	732	–	–	–	732
Unallocated corporate assets					<u>47,059</u>
Consolidated total assets					<u>68,233</u>
<b>LIABILITIES</b>					
Segment liabilities	3,992	287	1,307	–	5,586
Unallocated corporate liabilities					<u>8,270</u>
Consolidated total liabilities					<u>13,856</u>

**Other information for the period from 1st July, 2003 to 31st December, 2004**

	Gas pipeline construction <i>HK\$'000</i>	Sales of natural gas <i>HK\$'000</i>	Development and sale of software <i>HK\$'000</i>	Software maintenance services <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Addition of goodwill	-	771	-	-	-	-	771
Capital expenditure	-	10,299	71	-	-	689	11,059
Depreciation	-	295	504	-	-	393	1,192
Amortisation of intangible assets	-	-	656	-	-	-	656
Amortisation of goodwill	-	39	-	-	-	-	39
	<u>-</u>	<u>10,615</u>	<u>627</u>	<u>-</u>	<u>-</u>	<u>1,082</u>	<u>12,334</u>

**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	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Hong Kong	6,817	12,764
The PRC	36,344	2,503
	<u>43,161</u>	<u>15,267</u>

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	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Hong Kong	25,084	40,151	59	771
The PRC	237,827	28,082	93,453	11,059
	<u>262,911</u>	<u>68,233</u>	<u>93,512</u>	<u>11,830</u>

## 7. OTHER INCOME

	1.1.2005 to 31.12.2005 <i>HK\$'000</i>	1.7.2003 to 31.12.2004 <i>HK\$'000</i>
Management fee income	8,500	9,600
Bank interest income	173	47
Sundry income	3,985	484
	<u>12,658</u>	<u>10,131</u>

## 8. FINANCE COSTS

	1.1.2005 to 31.12.2005 <i>HK\$'000</i>	1.7.2003 to 31.12.2004 <i>HK\$'000</i>
Interest on bank borrowings:		
– wholly repayable within five years	2,128	–
– not wholly repayable within five years	1,170	–
	<u>3,298</u>	–
Less: Amounts capitalised in construction in progress	<u>(1,167)</u>	–
	<u>2,131</u>	<u>–</u>

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 7.9% to expenditure on qualifying assets.

## 9. INCOME TAX EXPENSES

The statutory tax rates for Hong Kong Profits Tax and the PRC Enterprise Income Tax are 17.5% (2004: 17.5%) and 33% (2004: 33%) respectively.

No provision for Hong Kong Profits Tax has been made in the financial statements as the Company and its subsidiaries either had no assessable profits arising in Hong Kong or the assessable profits were wholly absorbed by estimated tax losses brought forward.

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

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

	Hong Kong		PRC		Total	
	1.1.2005 to 31.12.2005 HK\$'000	1.7.2003 to 31.12.2004 HK\$'000	1.1.2005 to 31.12.2005 HK\$'000	1.7.2003 to 31.12.2004 HK\$'000	1.1.2005 to 31.12.2005 HK\$'000	1.7.2003 to 31.12.2004 HK\$'000
(Loss) Profit before tax	<u>(2,908)</u>	<u>3,481</u>	<u>7,294</u>	<u>(1,790)</u>	<u>4,386</u>	<u>1,691</u>
Taxation at the domestic income tax rate	(509)	609	2,407	(591)	1,898	18
Tax effect of expenses not deductible for tax purpose	2,137	330	92	–	2,229	330
Tax effect of income not taxable for tax purpose	(1,747)	(602)	–	–	(1,747)	(602)
Tax effect of estimated tax losses not recognised	119	225	1,002	591	1,121	816
Utilisation of estimated tax losses	–	(562)	(1,010)	–	(1,010)	(562)
Effect of tax exemptions granted to PRC subsidiaries	–	–	(2,491)	–	(2,491)	–
Tax charge for the year/period	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

At 31st December, 2005, the Group had unused estimated tax losses of HK\$15,384,000 (2004: HK\$11,621,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unrecognised estimated tax losses due to unpredictability of future profit stream. Included in unrecognised tax losses are losses of HK\$5,869,000 (2004: HK\$7,088,000) that will expire in various dates up to 2010. Other losses may be carried forward indefinitely.



## 10. PROFIT FOR THE YEAR/PERIOD

<b>1.1.2005</b>	1.7.2003
<b>to</b>	to
<b>31.12.2005</b>	31.12.2004
<b>HK\$'000</b>	<b>HK\$'000</b>

Profit for the year/period has been arrived at after charging (crediting):

Auditors' remuneration	<b>880</b>	480
Amortisation of intangible assets (included in other expenses)	<b>410</b>	656
Amortisation of prepaid lease payments	<b>275</b>	–
Depreciation	<b>3,021</b>	1,192
Amortisation of goodwill (included in administrative expenses)	<b>–</b>	39
Allowance for (reversal of) doubtful debts	<b>514</b>	(268)
Employee benefits expenses, other than directors (including contributions to retirement benefits schemes of HK\$477,000 (1.7.2003 to 31.12.2004: HK\$258,000))	<b>10,043</b>	10,057
Employee share option benefits, other than directors	<b>1,294</b>	–
Operating lease rentals in respect of rented premises	<b>1,259</b>	828
Cost of inventories recognised as expense	<b>22,208</b>	1,075
Reversal of provision for long service payment	<b>–</b>	(359)
Reversal of provision for annual leave	<b>–</b>	(307)
	<b><u>          </u></b>	<b><u>          </u></b>

## 11. DIVIDEND

No dividend was paid or proposed during 2005, nor has any dividend been proposed since the balance sheet date (2004: nil).

## 12. 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:

	<b>2005</b>	2004
	<b>HK\$'000</b>	<b>HK\$'000</b>
Earnings		
Profit for the year attributable to equity holders of the parent	<b><u>          3,436</u></b>	<b><u>          915</u></b>
	<b>2005</b>	2004
	<b>'000</b>	<b>'000</b>
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	<b>1,126,060</b>	<b><u>863,867</u></b>
Effect of dilutive potential ordinary shares Share options	<b><u>          4,331</u></b>	
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<b><u>          1,130,391</u></b>	

No diluted earnings per share for the period from 1st July, 2003 to 31st December, 2004 has been presented because the exercise price of the Company's share options was higher than the average market price of the Company's shares for the period.

**Impact of changes in accounting policies**

Changes in the Group's accounting policies during the year are described in note 3. To the extent that those changes have had an impact on results reported for the year ended 31st December, 2005, they have had an impact on the amounts reported for earnings per share. The following table summaries that impact on basic and diluted earnings per share:

	<b>Impact on basic earnings per share</b>	<b>Impact on diluted earnings per share</b>
	<u>cent</u>	<u>cent</u>
Non-amortisation of goodwill	–	–
Recognition of share-based payments as expenses	<u>0.21</u>	<u>0.21</u>
	<u><u>0.21</u></u>	<u><u>0.21</u></u>

### 13. PROPERTY, PLANT AND EQUIPMENT

	Buildings <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Pipelines <i>HK\$'000</i>	Machinery and equipment <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>THE GROUP</b>								
<b>COST</b>								
At 1st July, 2003	-	-	360	-	1,479	363	-	2,202
Additions	-	5,570	356	-	322	103	-	6,351
Acquired on acquisition of a subsidiary	-	-	-	-	-	306	-	306
Acquired on acquisition of business	-	-	-	3,577	4	67	754	4,402
At 1st January, 2005	-	5,570	716	3,577	1,805	839	754	13,261
Exchange realignment	-	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
<b>DEPRECIATION</b>								
At 1st July 2003	-	-	322	-	1,078	238	-	1,638
Provided for the year	-	-	297	90	489	203	113	1,192
At 1st January, 2005	-	-	619	90	1,567	441	113	2,830
Exchange realignment	-	-	12	2	30	8	2	54
Provided for the year	323	-	130	805	1,103	89	571	3,021
Eliminated on disposal of a subsidiary	-	-	(266)	(90)	(113)	(36)	-	(505)
At 31st December, 2005	323	-	495	807	2,587	502	686	5,400
<b>CARRYING VALUES</b>								
At 31st December, 2005	<u>8,547</u>	<u>34,643</u>	<u>2,373</u>	<u>26,004</u>	<u>9,919</u>	<u>329</u>	<u>2,580</u>	<u>84,395</u>
At 31st December, 2004	<u>-</u>	<u>5,570</u>	<u>97</u>	<u>3,487</u>	<u>238</u>	<u>398</u>	<u>641</u>	<u>10,431</u>

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Buildings	Over the shorter of 30 years or the remaining terms of leases of the relevant company
Leasehold improvements	Over the remaining term of lease
Pipelines	Over the shorter of 30 years or operation period of the relevant company
Machinery and equipment	5% – 30%
Furniture and fixtures	20%
Motor vehicles	10% – 20%

#### 14. INTANGIBLE ASSETS

##### THE GROUP

	<b>Deferred development costs</b> <i>HK\$'000</i>	<b>Exclusive rights of operation</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
<b>COST</b>			
At 1st July, 2003 and 1st January, 2005	1,969	–	1,969
Acquired on acquisition of business ( <i>Note</i> )	–	12,004	12,004
	<hr/>	<hr/>	<hr/>
At 31st December, 2005	1,969	12,004	13,973
	<hr/>	<hr/>	<hr/>
<b>AMORTISATION</b>			
At 1st July, 2003	1,313	–	1,313
Charge for the period	656	–	656
	<hr/>	<hr/>	<hr/>
At 31st December, 2004	1,969	–	1,969
Charge for the year	–	410	410
	<hr/>	<hr/>	<hr/>
At 31st December, 2005	1,969	410	2,379
	<hr/>	<hr/>	<hr/>
<b>CARRYING VALUES</b>			
At 31st December, 2005	<u>–</u>	<u>11,594</u>	<u>11,594</u>
At 31st December, 2004	<u>–</u>	<u>–</u>	<u>–</u>

*Note:* The amount arose from the acquisition of exclusive rights to operate in gas pipeline infrastructure and provision of piped gas in Linyi City in the PRC for a period of 30 years. The exclusive rights of operation is amortised on a straight line method over the relevant operation period.

## 15. DEPOSIT FOR INVESTMENT IN A JOINTLY CONTROLLED ENTITY

During the period ended 31st December, 2004, the Group entered into a joint venture arrangement (“JV agreement”) with The Department of City Natural Gas Engineering of Linyi City (“CNGE”), pursuant to which the Group and CNGE agreed to establish Linyi Zhong Yu City Gas Construction Development Company Limited (“Linyi Zhong Yu JV”) to engage in the construction and operation of piped natural gas projects.

The total registered capital of Linyi Zhong Yu JV is HK\$40 millions of which HK\$20 millions is contributed by the Group and HK\$20 millions is contributed by CNGE. Linyi Zhong Yu JV is owned as to 51% by the Group and as to 49% by CNGE. The relevant capital verification was completed on 28th January, 2005. Accordingly, the amount of HK\$20,210,000 was accounted for as a deposit for investment in the consolidated balance sheet at 31st December, 2004.

## 16. GOODWILL

	<i>HK\$'000</i>
<b>COST</b>	
At 1st January, 2004 and 1st January, 2005	771
Elimination of accumulated amortisation upon the application of HKFRS 3 ( <i>Note 3</i> )	(39)
	<hr/>
At 31st December, 2005	<u>732</u>
<b>AMORTISATION</b>	
At 1st January, 2004	–
Provided for the period and balance at 31st December, 2004	39
Elimination of accumulated amortisation upon the application of HKFRS 3	(39)
	<hr/>
At 31st December, 2005	<u>–</u>

Until 31st December, 2004, goodwill had been amortised over its estimated useful life for twenty years.

## 17. IMPAIRMENT TESTING ON GOODWILL

As explained in note 6, the Group presents business segments as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill set out in note 16 have been allocated to an individual cash generating unit, including a subsidiary engaged in gas pipeline construction and sales of piped gas (“Unit S”).

During the year ended 31st December, 2005, management of the Group determines that there are no impairments of Unit S containing goodwill.

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

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 8%. Another key assumption for the value in use calculations is the budgeted gross margin, which is determined based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of Unit S to exceed the aggregate recoverable amount of Unit S.

## 18. PREPAID LEASE PAYMENTS

All the Group's prepaid lease payments comprise property interests in leasehold land outside Hong Kong with medium-term lease and amortised over the term of relevant lease ranged from 30 to 50 years.

## 19. INVESTMENT IN A JOINT VENTURE

As at 31st December 2005, the Group had interest in the following jointly controlled entity:

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

The summarised financial information in respect of the Group's jointly controlled entity which are accounted for using proportionate consolidation with the line-by-line reporting format is set out below:

	2005 HK\$'000	2004 HK\$'000
Current assets	<u>7,984</u>	<u>—</u>
Non-current assets	<u>45,073</u>	<u>—</u>
Current liabilities	<u>33,289</u>	<u>—</u>
Income	<u>11,719</u>	<u>—</u>
Expenses	<u>12,389</u>	<u>—</u>

*Note:* The Group holds 51% of the registered capital of Linyi Zhong Yu JV and controls 57% of the voting power in director's meeting, with the remaining controls owned by CNGE. Pursuant to the shareholder's agreement, the board of directors of Linyi Zhong Yu JV comprised of 7 directors, of which 4 of them were nominated by the Group. All the decisions approved in the director's meeting must obtain approval from a minimum of 5 directors. Therefore, Linyi Zhong Yu JV is classified as a jointly controlled entity of the Group.

## 20. INVENTORIES

	THE GROUP	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Construction materials	6,882	696
Finished goods	1,658	–
Work-in-progress	–	2,387
	<u>8,540</u>	<u>3,083</u>

## 21. 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 reporting dated:

	THE GROUP	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 30 days	1,272	1,953
31 – 90 days	983	703
91 – 180 days	186	1,242
Over 180 days	1,745	1,362
	<u>4,186</u>	<u>5,260</u>
Less: Allowance for doubtful debts	(953)	(439)
	<u>3,233</u>	<u>4,821</u>

The directors consider that the carrying amount approximates its fair value.

## 22. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	<b>THE GROUP</b>	
	<b>2005</b>	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracts in progress at the balance sheet date:		
Contract costs incurred plus recognised profits	19,082	290
Less: Progress billings	(4,451)	(401)
	<u>14,631</u>	<u>(111)</u>
Analysed for reporting purposes as:		
Amounts due from customers for contract work	15,208	–
Amounts due to customers for contract work	(577)	(111)
	<u>14,631</u>	<u>(111)</u>

Advances received from customers for contract work amounted to HK\$6,387,000 (2004: HK\$602,000) included in deferred income and advance received.

## 23. AMOUNTS DUE FROM A DIRECTOR AND LOAN TO AN OFFICER

The amounts due from a director and loan to an officer disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

Director/officer	Term of loan	At	At	Maximum amount outstanding during the year
		31st December, 2005	31st December, 2004	
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Mr. Hao Yu (Director)	Unsecured, interest-free, repayable on demand	–	82	82
Mr. Alex Ng Tin Lok (Officer)	Unsecured, interest-free, repayable by 50 monthly installments	4	30	30
		<u>4</u>	<u>112</u>	

The directors consider that the carrying amount approximates its fair value.



## 24. AMOUNTS DUE FROM AND TO RELATED COMPANIES

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
Amounts due from related companies:		
Amount due from ultimate holding company	8,500	–
Amount due from a fellow subsidiary	275	–
	<u>8,775</u>	<u>–</u>
Amounts due to related companies:		
Amount due to a fellow subsidiary	635	–
Amount due to ultimate holding company	–	2,572
Amount due to a minority shareholder	–	2,696
Amount due to a related company ( <i>Note</i> )	–	474
	<u>635</u>	<u>5,742</u>

*Note:* The director of Company, Mr. Wang Wenliang, is the director of the related company.

The amounts are unsecured, interest-free. Amount due from/to related companies are repayable within one year/repayable on demand, respectively. The directors consider that the carrying amounts of amounts due from/to related companies approximate its fair value.

## 25. BANK BALANCES AND CASH

The bank balances carried interest at prevailing interest rates. The fair value of bank balances at 31st December, 2005 approximates the corresponding carrying amount. At the balance sheet date, the bank balances and cash of approximately HK\$79,600,000 (2004: HK\$8,603,000) were denominated in Renminbi which is not freely convertible into other currencies.

## 26. OTHER FINANCIAL ASSETS

The directors consider that the carrying amounts of other receivables approximate its fair value.

## 27. TRADE PAYABLES

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

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
0 – 30 days	5,062	240
31 – 90 days	598	2
91 – 180 days	293	237
Over 180 days	3,824	1,983
	<u>9,777</u>	<u>2,462</u>

## 28. BANK BORROWINGS

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Unsecured bank loans	<u>52,196</u>	<u>—</u>
Carrying amount repayable:		
On demand or within one year	26,234	—
More than one year, but not exceeding two years	5,769	—
More than two years but not more than five years	18,270	—
More than five years	<u>1,923</u>	<u>—</u>
	52,196	—
Less: Amounts due within one year shown under current liabilities	<u>(26,234)</u>	<u>—</u>
	<u>25,962</u>	<u>—</u>

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

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Fixed-rate borrowings:		
Within one year	<u>23,474</u>	<u>—</u>

In addition, the Group has variable-rate borrowings which carry interest at 130% of People's Bank of China base rate. Interest is repricing every twelve months.

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2005
Effective interest rate:	
Fixed-rate borrowings	8% to 8.9%
Variable-rate borrowings	7.9%

The fair value of the Group's borrowings estimated by discounting their future cash flows at the prevailing market borrowing rates at the 31st December, 2005 approximates the corresponding carrying amount.

## 29. OTHER FINANCIAL LIABILITIES

The directors consider that the carrying amounts of other payables approximate its fair value.

### 30. SHARE CAPITAL

	Number of shares		Share Capital	
	2005	2004	2005	2004
	'000	'000	HK\$'000	HK\$'000
Ordinary shares of HK\$0.01 each				
Authorised	<u>10,000,000</u>	<u>10,000,000</u>	<u>100,000</u>	<u>100,000</u>
Issued and fully paid				
At beginning of year/period	1,062,800	405,400	10,628	4,054
Issue of shares on rights issue	–	405,400	–	4,054
Issue of shares for acquisition of subsidiaries ( <i>Note</i> )	262,386	150,000	2,624	1,500
Issue of shares on placement	–	102,000	–	1,020
At end of year/period	<u>1,325,186</u>	<u>1,062,800</u>	<u>13,252</u>	<u>10,628</u>

*Note:* On 4th October, 2005, the Group allotted and issued 262,385,542 new shares of HK\$0.01 each as a consideration to acquire the entire issued share capital and outstanding shareholder's loan of China City Gas Construction Holdings Company Limited ("CCGC Holdings") and China City Gas Construction Explore Company Limited ("CCGC Explore"). The consideration for the acquisition was HK\$99,708,000. Details of the acquisitions are set out under the paragraph headed "Business Review" in this announcement.

All the shares issued during the year/period rank pari passu with the existing shares in all respects.

### 31. ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENTS

Save as disclosed under the paragraph headed "Business Review" in this announcement, the Group had no acquisitions, disposals nor significant investments for the year ended 31st December, 2005.

### 32. CAPITAL COMMITMENTS

As at 31st December, 2005, the Group did not have any significant capital commitments.

### 33. CONTINGENT LIABILITIES

As at 31st December, 2005, the Group did not have any contingent liabilities.

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

As at 31st December, 2005, the Group had net current assets of approximately HK\$77,839,000. 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, 2005 amounted to approximately HK\$139,422,000, comprising inventories of approximately HK\$8,540,000, trade receivables of approximately HK\$3,233,000, deposits, prepayments and other receivables of approximately HK\$10,319,000, prepaid lease payments of approximately HK\$405,000, tax recoverable of approximately HK\$133,000, amount due from customers for contract work of approximately HK\$15,208,000, amount due from a director and loan to an officer of approximately HK\$4,000, amount due from related companies of approximately HK\$8,775,000 and bank balances and cash of approximately HK\$92,805,000.

As at 31st December, 2005, the current liabilities of the Group amounted to approximately HK\$61,583,000, comprising deferred income and advance received of approximately HK\$7,066,000, trade payables of approximately HK\$9,777,000, other payables and accrued charges of approximately HK\$17,294,000, amounts due to customers for contract work of approximately HK\$577,000, amounts due to related companies of approximately HK\$635,000 and bank borrowings of approximately HK\$26,234,000. The amounts due to related companies are unsecured, interest-free and have no fixed repayments terms.

As at 31st December, 2005, the Group's current ratio, represented by a ratio of total current assets to total current liabilities, was approximately 2.3 (31st December, 2004: 2.7).

As at 31st December, 2005, the Group had long-term bank borrowings of approximately HK\$25,962,000 and the Group's gearing ratio, represented by a ratio of total bank borrowings to total shareholders' equity, was 0.31 (As at 31st December, 2004: nil).

### **Financial resources**

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

### **Directors' opinion on sufficiency of 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, 2005, the Group had 482 employees (31st December, 2004: 120) in Hong Kong and the PRC, and the total remuneration for the period under review was approximately HK\$10,043,000 (For the eighteen months ended 31st December, 2004: HK\$10,057,000). The increase of number of staff in the Group was mainly attributable to the Group's gas business expanded by forming and acquiring a total of five gas operations during the year under review.

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, 2005, 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, 2005, 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 paid by Hezhong to the Group for the year ended 31st December, 2005 was HK\$8,500,000 (For the eighteen months ended 31st December, 2004: HK\$9,600,000).

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 ending 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 mainly focused on the exploration and the development of gas related business. 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 party since the early 2005.

### **Gas Business**

The Group’s gas business primarily comprises gas pipeline construction and provision of gas. As at 31st December, 2005, the Group secured six exclusive gas operations in Linyi City, Shandong Province, Sanmenxia City, Xinmi City, Yanshi City and Yongcheng City, Henan Province, the PRC. 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 details of the formation of Linyi ZhongYu JV and the acquisition of Sanmenxia, Yanshi, Xinmi and Yongcheng were set out under the sub-paragraph headed “Acquisitions, Disposal and Significant Investments” of the paragraph headed “Business Review” in this announcement. 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.

### *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 approved 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 12,293 households and 19 customers respectively. As at 31st December, 2005, the accumulated number of residential households and commercial/industrial customers reached 57,919 households and 87 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, three, including Linyi China Gas, Sanmenxia and Yanshi currently provide piped natural gas and the remaining three, including Linyi Zhongyu JV, Xinmi and Yongcheng currently provide piped and bottled 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 approved 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 1,940,000 m<sup>3</sup> and approximately 2,970,000 m<sup>3</sup> 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 29 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 party since early 2005.

### *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 party since early 2005.

### **Acquisitions, Disposal and Significant Investments**

Pursuant to a joint venture agreement dated 12th November, 2004 entered into between the Company and 臨沂市城市燃氣工程籌建處 (the Department of City Natural Gas Engineering of Linyi City ("CNGE")), the Company and CNGE established Linyi ZhongYu JV in January 2005, the details of which were set out in the announcement of the Company dated 12th November, 2004 and the circular of the Company dated 23rd December, 2004. The 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 (Nan Fang Pian)) 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. The Linyi ZhongYu JV is owned as to 51% by the Company and the remaining 49% by CNGE.

The total registered capital of the Linyi ZhongYu JV is RMB42,000,000 (equivalent to approximately HK\$39,200,000), of which RMB21,420,000 (equivalent to approximately HK\$20,000,000) is contributed by the Group in cash and RMB20,580,000 (equivalent to approximately HK\$19,200,000) is contributed by CNGE by way of contribution in kind, including assets and liabilities.



As at 31st December, 2005, it was estimated that 蘭山區 (Lan Shan Qu) (exclusive of 南坊片 (Nan Fang Pian)) and part of 羅莊區 (Luo Zhuang Qu), Linyi City had a total connectable residential households of approximately 237,000. During the year under review, the total number of newly connected piped gas households and industrial/commercial customers amounted to 3,318 households and 7 customers respectively. As at 31st December, 2005, the accumulated connected piped gas households and industrial/commercial customers amounted to 34,845 households and 35 customers respectively.

During the year under review, the Linyi ZhongYu JV sold and distributed liquefied petroleum gas to its customers due to the lack of natural gas supply resulting from the fact that the west-east branch pipeline to reach Linyi City was still under construction. It is anticipated that such construction will be completed in around June 2006 and then sales of liquefied petroleum gas in the Linyi ZhongYu JV will be replaced by piped natural gas gradually.

On 29th July, 2005, Hezhong, the controlling Shareholder, and Zhongyu Gas Investment Limited (“Zhongyu Gas Investment”), a wholly owned subsidiary of the Company, entered into the sale and purchase agreement (“Sale and Purchase Agreement”) pursuant to which Zhongyu Gas Investment conditionally agreed to purchase and Hezhong conditionally agreed to sell the 100 ordinary shares of US\$1.00 each in the capital of China City Gas Construction Holdings Company Limited (“CCGC Holdings”) (being the entire issued share capital of CCGC Holdings) and 100 ordinary shares of US\$1.00 each in the capital of China City Gas Construction Explore Company Limited (“CCGC Explore”) (being the entire issued share capital of CCGC Explore) and the outstanding shareholder’s loans in an aggregate amount of HK\$112,998,440 owed by CCGC Holdings and CCGC Explore to Hezhong as at the date of the Sale and Purchase Agreement, which are unsecured, interest free and have no fixed terms of repayment for a total consideration of HK\$108,900,000 (“Acquisition”), the details of which were set out in the announcement of the Company dated 29th July, 2005 and the circular of the Company dated 12th September, 2005. The Acquisition was completed on 3rd October, 2005 and the aforesaid consideration was satisfied by the allotment and issue of 262,385,542 new shares of the Company to Hezhong.

CCGC Holdings was incorporated in the BVI on 16th August, 2002. It is an investment holding company and has no other business save for the holding of Sanmenxia, Xinmi and Yanshi.

Sanmenxia, Xinmi and Yanshi are Chinese-foreign cooperative joint ventures, the details of which are as follows:

Sanmenxia was established on 24th July, 2003 in Sanmenxia City, Henan Province, PRC. It is mainly engaged in the gas pipeline network development and sale of gas in Sanmenxia City, as well as sale and maintenance of gas appliances. Sanmenxia is owned as to 90% by CCGC Holdings and as to 10% by Sanmenxia City Gas Co., Ltd. (三門峽市燃氣總公司).

As at 31st December, 2005, it was estimated that Sanmenxia City had a total connectable residential households of approximately 93,000. For the period from 3rd October, 2005 to 31st December, 2005, the total number of newly connected piped gas households amounted to 5,144 households. As at 31st December, 2005, the accumulated connected piped gas households and industrial/commercial customers amounted to 8,144 households and 20 customers respectively.

During the year under review, Sanmenxia sold and distributed piped natural gas and liquefied petroleum gas and bottled liquefied petroleum gas to its customers.

Xinmi was established on 13th October 2003, in Xinmi City, Henan Province, PRC. It is mainly engaged in the construction of natural gas pipeline projects, sale of natural gas, design and installation of gas projects and facilities, as well as the sale and maintenance of natural gas facilities and appliances. Xinmi is owned as to 97% by CCGC Holdings and as to 3% by Xinmi City Qiushi Project Cost Consulting Co., Ltd. (新密市求是工程造價諮詢有限公司).

As at 31st December, 2005, it was estimated that Xinmi City had a total connectable residential households of approximately 49,000. For the period from 3rd October, 2005 to 31st December, 2005, the total number of newly connected households and industrial/commercial customers amounted to 1,407 households and 4 customers respectively. As at 31st December, 2005, the accumulated connected piped gas households and industrial/commercial customers amounted to 1,407 households and 4 customers respectively.

During the year under review, Xinmi sold and distributed bottled liquefied natural gas to its customers.

Yanshi was established on 28th May, 2003 in Yanshi City, Henan Province, PRC. It is mainly engaged in the design and construction of gas projects in Yanshi City, sale of gas, as well as maintenance of gas appliances. Yanshi is owned as to 95% by CCGC Holdings and as to 5% by Yanshi City Gas Co., Ltd. (偃師市燃氣公司).

As at 31st December, 2005, it was estimated that Yanshi City had a total connectable residential households of approximately 34,000. For the period from 3rd October, 2005 to 31st December, 2005, the total number of newly connected piped gas households amounted to 3 households. As at 31st December, 2005, the accumulated connected piped gas households and industrial/commercial customers amounted to 11,000 households and 15 customers respectively.

During the year under review, Yanshi sold and distributed bottled liquefied petroleum gas to its customers.

CCGC Explore was incorporated in the BVI on 9th December, 2002. It is an investment holding company and has no other business save for the holding of Yongcheng China-Gas Heating Explore Co., Ltd. (永城中裕燃氣有限公司) (“Yongcheng”). CCGC Explore’s former name was Goldmax Investment Development Limited (金豐投資發展有限公司) and has been changed to the present one since 6th March, 2003.

Yongcheng is a Chinese-foreign cooperative joint venture and to the best of the Directors' knowledge, information and believes, having made all reasonable enquiries, its minority shareholder and its ultimate beneficial owner are independent third parties of the Company. The details of Yongcheng are as follows:

Yongcheng was established on 17th June, 2003 in Yongcheng City, Henan Province, PRC and is mainly engaged in the transportation, provision and sale of natural gas, as well as the production, sale and maintenance of natural gas facilities and appliances. Yongcheng is owned as the production, CCGC Explore and as to 1% by Yongcheng Jinzhi Gas Consulting Co., Ltd. (永城金智燃氣熱力諮詢服務有限公司).

As at 31st December, 2005, it was estimated that Yongcheng City had a total connectable residential households of approximately 57,000. For the period from 3rd October, 2005 to 31st December, 2005, the total number of newly connected households and industrial/commercial customers amounted to 1,567 households and 8 customers respectively. As at 31st December, 2005, the accumulated connected piped gas households and industrial/commercial customers amounted to 1,669 households and 12 customers respectively

During the year under review, Yongcheng sold and distributed piped natural gas to its customers.

The Directors are of the view that the entering into of the Sale and Purchase Agreement could provide an opportunity for the Group to further invest in the natural gas business in the PRC in order to enlarge the geographical coverage of its operations.

Taking into account the expected growing demand for gas in the four cities, the Directors believe that Sanmenxia, Yanshi, Xinmi and Yongcheng will contribute much turnover and profit to the Group in coming years.

As such, the entering into of the Sale and Purchase Agreement could provide an opportunity for the Group to increase its source of income and improve the earning base of the Group.

On 16th December, 2005, the Company, Kong Rise Holdings Limited ("Kong Rise") and Mr. Ding Runhua, an independent third party of the Company entered into the sale and purchase agreement ("S&P Agreement"), pursuant to which the Company agreed to sell and Kong Rise agreed to purchase the entire interests in Zhongyu Investment Management Limited ("ZIM") and the outstanding balance of shareholder's loan owned by ZIM to the Company as at 21st December, 2005 for a total consideration of HK\$8,500,000 payable in cash, the details of which were set out in the announcement of the Company dated 16th December, 2005 and the circular of the Company dated 6th January, 2006. The said transaction was completed on 21st December, 2005. The Group recorded a gain of approximately HK\$1,290,000 as a result of such disposal.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the operator of the west-east pipeline had recently delayed its plan to construct branch pipelines to reach Hanzhong City, the PRC at which the Hanzhong China-Gas City Gas Development Company Limited, a subsidiary of ZIM operated. As such, Hanzhong JV had been out of natural gas supply and therefore no turnover derived from sales of natural gas had been recorded so far.

In view of the lack of natural gas supply in Hanzhong City which was beyond the Board's original anticipation and outside the Group's control, and the uncertainty as to when such construction of pipeline would commence or complete, the Board expected this undesirable situation would last for a long time. On the other hand, the Board had been approached by Kong Rise willing to acquire ZIM at a fair price. The Board believed that the entering into of the S&P Agreement could provide the Company an opportunity to realize its investments in ZIM and to focus on its other existing investment business.

In view of the above, the Board considered that the terms of the S&P Agreement were entered into upon normal commercial terms following arm's length negotiations among the parties and that the terms of the S&P Agreement are fair and reasonable and are in the interests of the Company and its shareholders as a whole.

## **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.

Since Sanmenxia, Yanshi, Xinmi and Yongcheng were acquired by the Group on 3rd October, 2005, only their results of operations for the period from 3rd October, 2005 to 31st December, 2005 were absorbed by the Group during the year under review.

The Group's turnover for the year ended 31st December, 2005 reached approximately HK\$43,161,000, representing an increase of 182.7% as compared with that of approximately HK\$15,267,000 for the eighteen months ended 31st December, 2004. The growth was mainly attributable to the Group's gas business expanded by forming and acquiring a total of five gas operations. Of the Group's total turnover, approximately 51.8% was derived from the gas connection fees, approximately 22.7% was derived from sales of liquefied petroleum gas, approximately 10.8% was derived from development and sale of software, approximately 8.7% was derived from sales of natural gas, approximately 5.1% was derived from render of software maintenance services and the remaining approximately 0.9% was derived from others operations.

For the year ended 31st December, 2005, the Group's overall gross profit margin was approximately 34.9%. As compared to that of 68.8% for the eighteen months ended 31st December, 2004, the decrease was mainly attributable to the shift of major component of the Group's turnover derived from software business to gas business which has a relatively low gross profit margin.

For the year ended 31st December, 2005, the Group recorded other operating income of approximately HK\$12,658,000, comprising management fee income of approximately HK\$8,500,000, being the service fee paid by Hezhong to the Group for the year under review pursuant to the Service Agreement, compensation income of approximately HK\$3,774,000, being a one-off compensation from CNGE to subsidise liquefied petroleum gas operation of Linyi ZhongYu JV for the year under review, bank interest income of approximately HK\$173,000 and others of approximately HK\$211,000.

For the year ended 31st December, 2005, the Group's distribution costs and average distribution costs per month amounted to approximately HK\$1,947,000 and HK\$162,000 respectively. As compared to that of approximately HK\$132,000 for the eighteen months ended 31st December, 2004, the increase in average distribution costs was mainly attributable to the Group's gas business expanded by forming and acquiring a total of five gas operations.

For the year ended 31st December, 2005, the Group's administrative expenses and average administrative expenses per month amounted to approximately HK\$17,631,000 and HK\$1,469,000 respectively. As compared to that of approximately HK\$774,000 for the eighteen months ended 31st December, 2004, the increase in the Group's average administrative expenses per month was mainly attributable to the growth in the Group's gas business by forming and acquiring a total of five gas operations.

The Group's other operating expenses and average other operating expenses per month for the year ended 31st December, 2005 amounted to approximately HK\$2,926,000 and HK\$244,000 respectively. As compared to that of approximately HK\$147,000 for the eighteen months ended 31st December, 2005, the increase in other operating expenses per month was mainly attributable to the increase in share based payment expenses 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 recorded an extraordinary gain on disposal of ZIM of approximately HK\$1,290,000.

For the year ended 31st December, 2005, the Group's finance costs amounted to approximately HK\$2,131,000. As compared to that of nil for the eighteen months ended 31st December, 2004, the increase in the Group's finance costs was mainly attributable to the bank borrowings newly borrowed by the Group mainly for the construction of gas pipeline networks, including pipelines, processing stations and other ancillary facilities during the year under review.

As a result from the above, the Group's net profit attributable to equity holders of the parent for the year ended 31st December, 2005 amounted to approximately HK\$3,436,000. This was approximately HK\$1,231,000, exclusive of an extraordinary gain on disposal of a subsidiary, over a net profit attributable to equity holders of the parent of approximately HK\$915,000 for the eighteen months ended 31st December, 2004.

The Board does not recommend the payment of any dividend for the year ended 31st December, 2005.

Basic and diluted earnings per share for the year ended 31st December, 2005 amounted to approximately HK\$0.31 cent and HK\$0.30 cent respectively.

## **Gas Business**

### *Gas Pipeline Construction*

For the year ended 31st December, 2005, the turnover of the Group derived from the gas connection fees reached approximately HK\$22,347,000, representing an increase of approximately 1,010.7% from that of approximately HK\$2,012,000 for the eighteen months ended 31st December, 2004. The increase was mainly attributable to the increase in the number of households connected to the Group's pipeline networks.

### *Sales of Natural Gas*

The Group has commenced to provide natural gas to its customers since March 2005. For the year ended 31st December, 2005, the Group's turnover derived from sales of natural gas amounted to approximately HK\$3,748,000. No such turnover was recorded for the eighteen months ended 31st December, 2004.

### *Sales of Liquefied Petroleum Gas*

The Group has commenced to supply liquefied petroleum gas to its customers since January 2005. For the year ended 31st December, 2005, the Group's turnover derived from sales of liquefied petroleum gas amounted to approximately HK\$9,806,000. No such turnover was recorded for the eighteen months ended 31st December, 2004.



## **Software Business**

### *Development and sale of HRM software*

For the year ended 31st December, 2005, the Group's turnover and average turnover per month derived from development and sale of software amounted to approximately HK\$4,650,000 and HK\$388,000 respectively. As compared to that of approximately HK\$453,000 for the eighteen months ended 31st December, 2004, the decrease in average turnover derived from development and sale of software was mainly attributable to the result of intensive pricing competition and the concentration of the Group's resources to explore and develop the natural gas related business.

### *Software maintenance services*

For the year ended 31st December, 2005, the turnover and the average turnover per month of the Group derived from the provision of software maintenance services amounted to approximately HK\$2,209,000 and HK\$184,000 respectively. As compared that of approximately HK\$253,000 for the eighteen months ended 31st December, 2004, the decrease in average turnover per month derived from the provision of software maintenance services was mainly due to the fact that some customers ceased to renew the agreements with the Group relating to the provision of software maintenance services.

## DISCLOSURE OF INTERESTS

### (a) Interests of Directors

As at 31st December, 2005, 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	Total	Approximate percentage or attributable percentage of shareholdings (%)
Mr. Wang Wenliang (“Mr. Wang”)	<i>Note</i>	Personal	10,002,000	
		Corporate	872,505,542	
			<u>882,507,542</u>	<u>66.59</u>

*Note:* Mr. Wang is interested in the underlying Shares of the 10,002,000 option held by him as stated in (a)(ii) below. Hezhong Investment Holding Company Limited (“Hezhong”) is the beneficial owner of 882,507,542 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:*

<b>Name of Directors</b>	<b>Number of options held</b>	<b>Nature of interest</b>	<b>Number of underlying Shares</b>	<b>Approximate percentage of the issued share capital of the Company (%)</b>
Mr. Wang	10,002,000 <i>(Notes 1 and 2)</i>	Personal	10,002,000	0.75%
Mr. Hao Yu	8,004,000 <i>(Note 1)</i>	Personal	8,004,000	0.60%
Mr. Lu Zhaoheng	5,004,000 <i>(Note 1)</i>	Personal	5,004,000	0.38%
Mr. Xu Yongxuan	5,004,000 <i>(Note 1)</i>	Personal	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 12th June, 2015.
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:*

<b>Name of Directors</b>	<b>Nature of interest</b>	<b>Associated corporation</b>	<b>Percentage of shareholding</b>
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 s.308 of the SFO.

Save as disclosed above, as at 31st December, 2005, 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, underlying shares or debentures 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, 2005, the following person (not being directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

*Long positions in the Shares*

<b>Name of Shareholder</b>	<b>Type of interests</b>	<b>Number of Shares</b>	<b>Approximate percentage of interests</b>
Hezhong ( <i>Note 1</i> )	Beneficial	872,505,542	65.84%

*Note:*

1. Mr. Wang Wenliang is deemed to be interested in the Shares through his 52% interest in the issued share capital of Hezhong.

Save as disclosed above, as at 31st December, 2005, 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, interest 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 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any 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 (“CG Code”) contained in Appendix 15 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“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, 2005.

## **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, 2005.

## **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, 2005.

## **PRELIMINARY ANNOUNCEMENT OF THE RESULTS AGREED BY AUDITORS**

The figures in respect of the Group’s consolidated income statement, consolidated balance sheet and the related notes thereto for the year ended 31st December, 2005 as set out in this announcement have been agreed by the Group’s auditors, 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 Hong Kong Institute of Certified Public Accountants 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*

Hong Kong, 28th March, 2006

*This announcement will remain on the GEM website at [www.hkgem.com](http://www.hkgem.com) on the "Latest Company Announcements" page for at least 7 days from the date of its posting.*