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# **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)**

### **INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30TH JUNE, 2007**

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

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

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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.*

## **HIGHLIGHTS**

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

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

## CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2007

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

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June, 2007

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

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June, 2007

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

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the six months ended 30th June, 2007*

### Attributable to equity holders of the parent

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

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June, 2007

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

*Notes:*

**1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES**

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

**2. TURNOVER**

Revenue represents the net amounts received and receivable for goods sold and services rendered by the Group to outside customers, less returns and allowances. An analysis of the Group's revenue for the six months ended 30th June, 2007 is as follows:

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



### 3. BUSINESS AND GEOGRAPHICAL SEGMENTS

#### Business segments

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

Segment information about these divisions is presented below:

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

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

### 3. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

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

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

### 4. INCOME TAX EXPENSES

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

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

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

## 5. INTERIM DIVIDEND

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

## 6. LOSS PER SHARE

### From continuing and discontinued operations

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

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

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

**From continuing operations**

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

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

7. **PROPERTY, PLANT AND EQUIPMENT**

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

## 8. TRADE RECEIVABLES

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

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

## 9. TRADE PAYABLES

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

|               | <b>30th June,<br/>2007<br/>HK\$'000</b> | 31st December,<br>2006<br>HK\$'000 |
|---------------|---|------------------------------------|
| 0 - 30 days   | 1,006                                   | 7,723                              |
| 31 - 90 days  | 2,459                                   | 3,450                              |
| 91 - 180 days | 1,246                                   | 1,379                              |
| Over 180 days | 10,829                                  | 3,533                              |
|               | <u>15,540</u>                           | <u>16,085</u>                      |

## 10. CONVERTIBLE BONDS

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

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

## **11. ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENTS**

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

## **12. CAPITAL COMMITMENTS**

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

## **13. CONTINGENT LIABILITIES**

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

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

### **Liquidity**

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

### **Financial resources**

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

### **Directors’ opinion on sufficiency of working capital**

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

## **EXPOSURE TO EXCHANGE RATE FLUCTUATIONS**

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

## **EMPLOYEE INFORMATION**

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

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

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

## **CHARGE ON THE GROUP'S ASSETS**

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

## **DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS**

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

## **COMPETING INTEREST**

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

## ACQUISITIONS, DISPOSALS, SIGNIFICANT INVESTMENTS AND FUND RAISING ACTIVITIES

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

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

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



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

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

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

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

## OPERATIONAL AND FINANCIAL REVIEW

### Continuing Operations

#### *Turnover*

Turnover increased by 56.2% to approximately HK\$42,860,000 for the six months ended 30th June, 2007 from approximately HK\$27,432,000 in the corresponding period in 2006. The increase in turnover was mainly attributable to an increase in (i) Connection revenue from gas pipeline construction; and (ii) Sales of piped natural gas. The increase in Connection revenue from gas pipeline construction was mainly attributable to the increase in the number of households connected to the existing gas pipeline networks resulting from the efforts of the sales and marketing terms. During the period under review, the number of new gas pipeline connection made to residential households and industrial/commercial customers was 5,378 households and 12 customers respectively. The increase in Sales of piped natural gas was mainly attributable to the increase in the number of households and industrial/commercial users connected as well as the increase in the total gas consumption. During the period under review, the total unit of piped gas and liquified petroleum gas provided by the Group to its customers was approximately 9,179,000m<sup>3</sup> and approximately 1,680 tons respectively.

#### *Gross profit margin*

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

#### *Other income*

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

### *Selling and distribution costs*

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

### *Administrative expenses*

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

### *Other expenses*

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

### *Finance costs*

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

### *Taxation*

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

## **Discontinued Operations**

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

### *Profit attributable to equity holders*

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

## **Prospects**

Due to the growing prosperity, population and annual gross domestic production per capita in the PRC as well as the increasing awareness of environment protection in the PRC, we believe that the demand for the natural gas in the PRC would increase as natural gas is considered to be an environmentally clean source of energy. Accordingly, we are still positive about the boom of the natural gas market in the PRC in the near future. The Group will continue to focus on the exploration and the development of gas related business. The Group will strive to obtain more exclusive gas operations in the PRC in order to enhance its market position and to improve its financial performance. In respect of the Group's gas operations, the Group will devote much effort to connecting more users to the Group's gas pipeline networks in order to increase the Group's turnover derived from connection revenue from gas pipeline construction and sales of piped gas and in turn, improve its financial results.

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

## DISCLOSURE OF INTERESTS

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

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

#### *Long positions in the Shares*

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

#### *Notes:*

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

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

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

So far as is known to the Directors and the chief executive of the Company, as at 30th June, 2007, the following person (not being Directors or chief executive of the Company) or corporation had, or was deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

*Long positions in the Shares*

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

Note:

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

Save as disclosed above, as at 30th June, 2007, the Directors and the chief executive of the Company were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the shares or underlying shares of the Company (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

## **CODE OF CORPORATE GOVERNANCE PRACTICES**

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

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

## **AUDIT COMMITTEE**

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

## **BOARD PRACTICE AND PROCEDURES**

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

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

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

## **BOARD OF DIRECTORS**

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

By Order of the Board  
**Wang Wenliang**  
*Chairman*

Hong Kong, 13th August, 2007

*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.*