



# 中裕燃氣控股有限公司

## ZHONGYU GAS HOLDINGS LIMITED

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

**(Stock Code: 8070)**

### INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30TH JUNE, 2010

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

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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

	For the six months ended 30th June		
	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>	% of <i>changes</i>
Turnover	<b>476,717</b>	347,913	37.0%
Sales of piped gas	<b>329,183</b>	229,142	43.7%
Connection revenue from gas pipeline construction	<b>88,236</b>	76,730	15.0%
Gross profit (Gross margin)	<b>118,184</b> <b>(24.8%)</b>	98,631 (28.3%)	19.8%
Profit attributable to owners of the Company	<b>2,376</b>	35,087	(93.2%)
EBITDA	<b>60,458</b>	54,737	10.5%

The board of Directors (the “Board”) is pleased to announce the unaudited condensed consolidated results of the Group for the six months ended 30th June, 2010, together with the comparative figures for the corresponding period in 2009, which are set out as follows:

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30TH JUNE, 2010 (UNAUDITED)**

	Notes	Three months ended 30th June,		Six months ended 30th June,	
		2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Turnover	3	<b>257,995</b>	187,218	<b>476,717</b>	347,913
Cost of sales		<b>(188,673)</b>	(124,921)	<b>(358,533)</b>	(249,282)
Gross profit		<b>69,322</b>	62,297	<b>118,184</b>	98,631
Other income		<b>138</b>	1,407	<b>3,077</b>	3,697
Other gains and losses	5	<b>11,840</b>	13,164	<b>14,203</b>	43,778
Selling and distribution costs		<b>(6,849)</b>	(5,123)	<b>(13,472)</b>	(10,332)
Administrative expenses		<b>(29,388)</b>	(23,007)	<b>(66,119)</b>	(48,725)
Share-based payment		<b>(783)</b>	(1,891)	<b>(2,077)</b>	(3,782)
Finance costs	6	<b>(17,384)</b>	(8,748)	<b>(25,130)</b>	(24,147)
Profit before tax		<b>26,896</b>	38,099	<b>28,666</b>	59,120
Income tax expenses	7	<b>(13,084)</b>	(8,165)	<b>(16,517)</b>	(14,312)
Profit for the period	8	<b>13,812</b>	29,934	<b>12,149</b>	44,808
<b>Other comprehensive income</b>					
Exchange differences arising on translation		<b>5,749</b>	41	<b>5,749</b>	63
Total comprehensive income for the period		<b>19,561</b>	29,975	<b>17,898</b>	44,871
Profit for the period attributable to:					
Owners of the Company		<b>7,281</b>	22,835	<b>2,376</b>	35,087
Minority interests		<b>6,531</b>	7,099	<b>9,773</b>	9,721
		<b>13,812</b>	29,934	<b>12,149</b>	44,808
Total comprehensive income attributable to:					
Owners of the Company		<b>13,030</b>	22,876	<b>8,125</b>	35,150
Minority interests		<b>6,531</b>	7,099	<b>9,773</b>	9,721
		<b>19,561</b>	29,975	<b>17,898</b>	44,871
<b>Earnings per share</b>	9				
Basic (HK cent per share)		<b>0.3688</b>	1.1807	<b>0.1206</b>	1.8141
Diluted (HK cent per share)		<b>0.3688</b>	1.1745	<b>0.1194</b>	1.8015

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 30TH JUNE, 2010

	<i>Notes</i>	<b>30/6/10</b> <b>(unaudited)</b> <b>HK\$'000</b>	31/12/09 (audited) HK\$'000
<b>Non-current assets</b>			
Investment properties		5,618	5,574
Property, plant and equipment	11	910,943	696,702
Goodwill		100,793	100,793
Other intangible assets		181,806	183,999
Deposits paid for acquisition of property, plant and equipment		45,467	46,097
Prepaid lease payments		59,642	57,973
Available-for-sale investment		2,870	2,847
		<b>1,307,139</b>	1,093,985
<b>Current assets</b>			
Inventories		49,971	36,217
Trade receivables	12	48,044	29,527
Deposits, prepayments and other receivables		97,038	36,173
Prepaid lease payments		1,630	1,617
Amounts due from customers for contract work		7,202	6,081
Pledged bank deposit		23,179	13,474
Bank balances and cash		495,979	413,779
		<b>723,043</b>	536,868
<b>Current liabilities</b>			
Deferred income and advance received		135,500	108,421
Derivative financial instrument	13	4,995	2,986
Trade payables	14	121,097	101,887
Other payables and accrued charges		97,258	63,666
Amounts due to customers for contract work		18,289	12,022
Bank borrowings		242,637	243,146
Convertible bonds	13	29,869	14,265
Tax payables		13,062	17,143
		<b>662,707</b>	563,536
<b>Net current assets (liabilities)</b>		<b>60,336</b>	(26,668)
<b>Total assets less current liabilities</b>		<b>1,367,475</b>	1,067,317

	<i>Notes</i>	<b>30/6/10</b> <b>(unaudited)</b> <b>HK\$'000</b>	31/12/09 (audited) HK\$'000
<b>Capital and reserves</b>			
Issued capital		<b>19,740</b>	19,490
Reserves		<b>822,697</b>	791,301
Accumulated loss		<u><b>(124,363)</b></u>	<u>(116,994)</u>
Equity attributable to owners of the Company		<b>718,074</b>	693,797
Minority interests		<u><b>110,108</b></u>	<u>119,964</u>
Total equity		<u><b>828,182</b></u>	<u>813,761</u>
<b>Non-current liabilities</b>			
Bank Borrowings		<b>414,525</b>	62,610
Convertible bonds	<i>13</i>	<b>86,489</b>	128,382
Derivative financial instruments	<i>13</i>	<b>18,353</b>	42,639
Deferred tax liabilities		<u><b>19,926</b></u>	<u>19,925</u>
		<u><b>539,293</b></u>	<u>253,556</u>
<b>Total equity and liabilities</b>		<u><b>1,367,475</b></u>	<u>1,067,317</u>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30TH JUNE, 2010**

	Attributable to owners of the Company										
	Share Capital HK\$'000	Share premium HK\$'000	Share option reserve HK\$'000	Property revaluation reserve HK\$'000	Other reserve HK\$'000	Statutory surplus reserve HK\$'000	Translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total HK\$'000
Balance at 1st January, 2009 (as restated)	19,341	617,376	20,971	1,128	7,607	-	104,032	(114,668)	655,787	105,588	761,375
Profit for the period	-	-	-	-	-	-	-	35,087	35,087	9,721	44,808
Other comprehensive income for the period	-	-	-	-	-	-	63	-	63	-	63
Total comprehensive income for the period	-	-	-	-	-	-	63	35,087	35,150	9,721	44,871
Exercise of share option	3	114	(25)	-	-	-	-	-	92	-	92
Shares repurchased and cancelled	(11)	(397)	-	-	-	-	-	-	(408)	-	(408)
Equity-settled share-based payments	-	-	3,782	-	-	-	-	-	3,782	-	3,782
Transfer	-	-	-	-	20,204	-	-	(20,204)	-	-	-
Dividends paid by subsidiaries to its minority shareholders	-	-	-	-	-	-	-	-	-	(20,600)	(20,600)
Minority interests arising on the acquisition	-	-	-	-	-	-	-	-	-	5,078	5,078
Balance at 30th June, 2009 (unaudited)	<u>19,333</u>	<u>617,093</u>	<u>24,728</u>	<u>1,128</u>	<u>27,811</u>	<u>-</u>	<u>104,095</u>	<u>(99,785)</u>	<u>694,403</u>	<u>99,787</u>	<u>794,190</u>
Balance at 1st January, 2010 (audited)	19,490	625,142	24,258	1,128	7,607	22,386	110,780	(116,994)	693,797	119,964	813,761
Profit for the period	-	-	-	-	-	-	-	2,376	2,376	9,773	12,149
Other comprehensive income for the period	-	-	-	-	-	-	5,749	-	5,749	-	5,749
Total comprehensive income for the period	-	-	-	-	-	-	5,749	2,376	8,125	9,773	17,898
Transfer to statutory surplus reserve	-	-	-	-	-	9,745	-	(9,745)	-	-	-
Recognition of equity-settled share-based payments	-	-	2,077	-	-	-	-	-	2,077	-	2,077
Exercise of share options	138	4,428	(496)	-	-	-	-	-	4,070	-	4,070
Dividends paid by subsidiaries to its minority shareholders	-	-	-	-	-	-	-	-	-	(19,629)	(19,629)
Shares issued upon conversion of convertible bonds	112	9,893	-	-	-	-	-	-	10,005	-	10,005
Balance at 30th June, 2010 (unaudited)	<u>19,740</u>	<u>639,463</u>	<u>25,839</u>	<u>1,128</u>	<u>7,607</u>	<u>32,131</u>	<u>116,529</u>	<u>(124,363)</u>	<u>718,074</u>	<u>110,108</u>	<u>828,182</u>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30TH JUNE, 2010**

	<b>Six months ended</b>	
	<b>30/6/10</b>	<b>30/6/09</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Net cash from operating activities</b>	<b>33,713</b>	<b>58,651</b>
<b>Net cash used in investing activities</b>	<b>(238,081)</b>	<b>(69,540)</b>
<b>Net cash from financing activities</b>	<b>286,568</b>	<b>1,473</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>82,200</b>	<b>(9,416)</b>
<b>Cash and cash equivalents at 1st January</b>	<b>413,779</b>	<b>488,159</b>
<b>Cash and cash equivalents at 30th June</b>		
Bank balances and cash	<b>495,979</b>	<b>478,743</b>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION

These condensed consolidated financial information for the six months ended 30th June, 2010 has been prepared in accordance with Hong Kong Accounting Standards 34 “Interim financial reporting” issued by the Hong Kong Institute of Certificate Public Accountants (the “HKICPA”) and the applicable disclosures required by the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2009, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

### 2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current period, the Group has adopted all the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for its accounting period beginning on 1st January, 2010. HKFRSs comprise Hong Kong Financial Reporting Standards (“HKFRS”); Hong Kong Accounting Standards (“HKAS”); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group’s accounting policies, presentation of the Group’s financial statements and amounts reported for the current period and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

### 3. TURNOVER

Turnover represents the net amounts received and receivable for goods sold and services rendered by the Group to outside customers, net of discounts and related taxes. An analysis of the Group’s turnover for the six months ended 30th June, 2010:

	Six months ended 30th June,	
	2010	2009
	HK\$’000	HK\$’000
Sales of piped gas	329,183	229,142
Connection revenue from gas pipeline construction	88,236	76,730
Sales of liquefied petroleum gas	19,045	14,195
Operation of compressed natural gas (“CNG”) filling station	34,587	22,635
Sales of stoves and related equipment	5,666	5,211
	<u>476,717</u>	<u>347,913</u>

#### 4. BUSINESS AND GEOGRAPHICAL SEGMENTS

##### Business segments

The Group's executive directors are the chief operating decision makers as they collectively make strategic decisions on resources allocation and performance assessment. The Group is principally engaged in development, construction and operation of natural gas and coalbed gas projects in the PRC. Nearly all identifiable assets of the Group are located in PRC. Information reported to the Group's executive directors for the purpose of resources allocation and assessment of performance focuses on the type of products or services. Each type of product or service is managed by a unique business unit within the Group whose performance is assessed independently. The Group's operating segments under HKFRS 8 are therefore as follows:

- (a) sales of piped gas
- (b) connection revenue from gas pipeline construction
- (c) sales of liquefied petroleum gas
- (d) operation of CNG filling stations
- (e) sales of coalbed methane gas ("CBM")
- (f) Sales of stoves and related equipment

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

Segment information about these businesses is presented below:

##### Income statement for the six months ended 30th June, 2010

	Sales of piped gas <i>HK\$'000</i>	Connection revenue from gas pipeline construction <i>HK\$'000</i>	Sales of liquefied petroleum gas <i>HK\$'000</i>	Operation of CNG filling stations <i>HK\$'000</i>	Sales of CBM <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Total <i>HK\$'000</i>
Turnover	<u>329,183</u>	<u>88,236</u>	<u>19,045</u>	<u>34,587</u>	<u>-</u>	<u>5,666</u>	<u>476,717</u>
Segment results	<u>(1,389)</u>	<u>39,698</u>	<u>(784)</u>	<u>23,633</u>	<u>(2,150)</u>	<u>3,039</u>	62,047
Interests and other income							3,077
Central corporate expenses							(25,531)
Finance costs							(25,130)
Change in fair value of derivative financial instruments							13,652
Gain on repurchase of convertible bonds							<u>551</u>
Profit before tax							28,666
Income tax expenses							<u>(16,517)</u>
Profit for the period							<u>12,149</u>

Income statement for the three months ended 30th June, 2009

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

5. OTHER GAINS AND LOSSES

	<b>Six months ended 30th June,</b>	
	<b>2010</b>	2009
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Change in fair value of derivative financial instruments	<b>13,652</b>	40,041
Gain on the repurchase of convertible bonds ( <i>Note</i> )	<u><b>551</b></u>	<u>3,737</u>
	<u><b>14,203</b></u>	<u>43,778</u>

*Note:*

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

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

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

On 25th June, 2010, according to the Amendment Agreement, the Group made a mandatory redemption of 22% of the outstanding Bonds in an aggregate principal amount of US\$4,400,000 (“the Redeemed Bonds”) from the Bond Holders B at redemption amount representing 110% of the principal amount of the Redeemed Bonds, together with all accrued and unpaid interest on the Redeemed Bonds.

## 6. FINANCE COSTS

	<b>Six months ended 30th June,</b>	
	<b>2010</b>	<b>2009</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Interest on bank borrowings		
– wholly repayable within five years	<b>10,175</b>	9,457
Effective interest expense on convertible bonds	<b>14,955</b>	14,690
	<b><u>25,130</u></b>	<b><u>24,147</u></b>

## 7. INCOME TAX CHARGE

	<b>Six months ended 30th June,</b>	
	<b>2010</b>	<b>2009</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
PRC Enterprise Income Tax	<b>12,186</b>	7,673
Dividend Withholding Tax	<b>4,331</b>	6,639
	<b><u>16,517</u></b>	<b><u>14,312</u></b>

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

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1st January, 2008 onwards.

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

Pursuant to the relevant laws and regulations in the PRC, certain PRC subsidiaries of the Group are exempted from the EIT Law for two years starting from their first profit-making year, followed by a 50% reduction for the next three years. The tax concession arrangement of the aforesaid PRC subsidiaries will be expired from 2010 to 2011. According to New Law, the tax concession arrangement will not be granted to all new applicants incorporated after 16th March, 2007. As for the existing group entities entitle such tax concession but have not commenced their first profit-making year will be exempted from the EIT Law for two years, followed by a 50% reduction for the next three years regardless of its reported results commencing from 1st January, 2008 and the charge of the EIT Law for the year has been provided for after taking these tax incentive into account.

Under the EIT Law of the PRC, withholding tax is imposed on the dividend declared to non PRC tax residents in respect of profits earned by PRC subsidiaries from 1st January, 2008 onwards. During the year ended 31st December, 2009, withholding tax amounted to HK\$6,640,000 was charged by the PRC tax authority which levied on the dividends paid to overseas group entities.

## 8. PROFIT FOR THE PERIOD

	<b>Six months ended 30th June,</b>	
	<b>2010</b>	<b>2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period has been arrived at after charging:		
Depreciation of property, plant and equipment	<b>17,130</b>	14,844
Amortisation of intangible assets	<b>2,387</b>	4,101
	<u>19,517</u>	<u>18,945</u>
Total depreciation and amortisation	<b>19,517</b>	<b>18,945</b>

## 9. EARNINGS PER SHARE

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

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>30th June,</b>		<b>30th June,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<u>Earnings</u>				
Earnings for the purposes of basic earnings per share	<b>7,281</b>	22,835	<b>2,376</b>	35,087

	As at 30th June,		As at 30th June,	
	2010	2009	2010	2009
	'000	'000	'000	'000
<u>Number of shares</u>				
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,974,008	1,934,009	1,970,965	1,934,107
Effect of dilutive potential ordinary shares:				
Share options issued by the Company	<u>–</u>	<u>10,264</u>	<u>19,373</u>	<u>13,520</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>1,974,008</u>	<u>1,944,273</u>	<u>1,990,338</u>	<u>1,947,627</u>

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

#### 10. DIVIDENDS

No dividend was paid or proposed during the six months ended 30th June, 2010, nor has any dividend been proposed since 30th June, 2010 (2009: nil).

#### 11. PROPERTY, PLANT AND EQUIPMENT

During the period under review, the addition to property, plant and equipment was approximately HK\$226,358,000 (2009: HK\$46,231,000).

#### 12. TRADE RECEIVABLES

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

	30/6/2010	30/12/2009
	HK\$'000	HK\$'000
Within 1 month	34,301	26,925
Over 1 month but within 3 months	4,673	2,594
Over 3 months but within 6 months	101	8
Over 6 months	<u>8,969</u>	<u>–</u>
	<u>48,044</u>	<u>29,527</u>

### 13. CONVERTIBLE BONDS

The movement of embedded derivative of the convertible bonds during the six months ended 30th June, 2010 is set out below:

	<b>Liability</b> <i>HK\$'000</i>	<b>Embedded derivatives</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
At 1st January, 2010	142,647	45,625	188,272
Repurchased during the period, net of cost incurred	(32,819)	(5,484)	(38,303)
Conversion during the period	(6,865)	(3,140)	(10,005)
Interest charged	14,955	–	14,955
Interest paid	(1,560)	–	(1,560)
Gain arising on change in fair value	–	(13,653)	(13,653)
	<u>116,358</u>	<u>23,348</u>	<u>139,706</u>
At 30th June, 2010	<u>116,358</u>	<u>23,348</u>	<u>139,706</u>

### 14. TRADE PAYABLES

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

	<b>30/6/2010</b> <i>HK\$'000</i>	<b>30/12/2009</b> <i>HK\$'000</i>
0 - 30 days	73,639	71,947
31 - 90 days	24,528	7,253
91 - 180 days	5,816	2,544
Over 180 days	17,114	20,143
	<u>121,097</u>	<u>101,887</u>

### 15. ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENTS

Save as disclosed herein, the Group had no acquisitions, disposals nor significant investments for the six months ended 30th June, 2010.

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

### **Liquidity**

As at 30th June, 2010, the Group had consolidated current assets of approximately HK\$723,043,000 and its current ratio was approximately 1.1. As at 30th June, 2010, the Group had a gearing ratio of approximately 93.4%, measured as total consolidated interest borrowings of approximately HK\$773,519,000 to consolidated total equity of approximately HK\$828,182,000. As at 30th June, 2010, the Group had consolidated bank balances and cash of approximately HK\$495,979,000. The consolidated trade receivables amounted to approximately HK\$48,044,000 while consolidated trade payables amounted to approximately HK\$121,097,000.

### **Financial resources**

During the six months ended 30th June, 2010, the Group generally financed its operations with internally generated resources and borrowings. As at 30th June, 2010, all of the borrowings were secured or unsecured and on normal commercial basis.

### **Working capital**

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

## **EXPOSURE TO EXCHANGE RATE FLUCTUATIONS**

During the year under review, the Group experienced only immaterial exchange rates fluctuations as most of the Group's monetary assets and liabilities were denominated in either Renminbi or the United States dollars and the Group conducted its business transactions principally in Renminbi. The Group expects that the appreciation of Renminbi against the United States dollars will continue in the foreseeable future. Accordingly, the Group considered that as the exchange rate risk of the Group is considered to be minimal, the Group did not employ any financial instruments for hedging purposes.

## **EMPLOYEE INFORMATION**

As at 30th June, 2010, the Group had a total of 1,958 employees (2009: 1,930) in Hong Kong and the PRC, and the total remuneration for the period under review was approximately HK\$46,487,000 (2009: HK\$36,681,000). More than 99.7% of the Group's employees are located in the PRC. The Group's remuneration and bonus policies are basically determined by the performance of individual employees.

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

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

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

As at 30th June, 2010, 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, 2010, the Directors did not have any future plans for material investment or capital assets.

## **Capital Commitments**

As at 30th June, 2010, the Group did not have any significant capital commitments.

## **Contingent Liabilities**

As at 30th June, 2010, the Group did not have any contingent liabilities.

## **BUSINESS REVIEW**

### **Overall**

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

### **Upstream CBM Exploration**

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

As at 30th June, 2010, the Group secured eight coal blocks, situated at Jiaozuo, Zhengzhou, Pingdingshan (including Yuzhou and Ruzhou), Hebi, Yima, Yongxia, Henan Province, the PRC to explore, exploit, develop and produce CBM.

As at 30th June, 2010, the Group successfully completed drilling of 33 vertical wells in Jiaozuo and all of them have entered into dewatering and releasing process since third quarter 2008 and some are showing positive result until now. In April 2008, the Group has appointed Netherland, Sewell & Associates, Inc. (“NSAI”), a renowned energy research firm, to prepare an independent report confirming the extent of the Group’s CBM deposits. The estimated low, medium and high gas volumes in Jiaozuo CBM block as of 1st April, 2008 were approximately 4,166.9 BCF (approximately 118.0 bln m<sup>3</sup>), 5,916.3 BCF (approximately 167.5 bln m<sup>3</sup>) and 9,275.6 BCF (approximately 262.7 bln m<sup>3</sup>) respectively. The result indicates an enormous CBM reserves located in our Jiaozuo CBM block, and approximates to the preliminary gas volume estimation which was conducted by the related domestic CBM exploration institutions and announced by the Group before. Going onward, the Group will further extend the trial and exploration in Jiaozuo CBM blocks as well as to better master its reserve estimates, with the aim of hastening the commercial production of the CBM.

### **Downstream Natural Gas Distribution**

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

As at 30th June, 2010, the Group secured eleven exclusive gas projects, three in Shandong Province, the PRC and eight in Henan Province, the PRC.

The cities in which the Group’s gas projects operate currently have a total connectable urban population of approximately 3,284,000. It is estimated that there are an aggregate of approximately 925,200 connectable residential households in such cities.

With the aim to enhance the Group’s turnover and results, the Group has commenced to develop CNG vehicle gas filling business in the PRC since September 2007. Two CNG filling stations erected and commenced its operation in Linyi City, Shandong Province and Luohe City, Henan Province, the PRC. In March 2009, the Group has completed the construction of a new CNG filling station in Jiyuan City, Henan Province, the PRC, and such CNG filling station commenced commercial operation on 1st April, 2009. In December 2009, one CNG filling station has been completed construction and commenced its operation in Sanmenxia City, Henan Province, the PRC.

On 7th September, 2009, the group acquired the entire equity interest of 南京裕聯壓縮氣有限公司 (Nanjing Yulian Compressed Gas Company Limited) (“Nanjing Yulian”), a company established in the PRC with limited liability. Nanjing Yulian is an investment holding company and has no other business save for the holding of 70% equity interests in 南京裕聯天然氣加氣有限公司 (Nanjing Yulian Natural Gas Filling Company Limited) (“Nanjing Yulian NG Filling”). Nanjing Yulian obtained approval from local authorities of Nanjing, the PRC to construct a total of eight CNG filling stations in Nanjing. Nanjing Yulian NG Filling has erected one CNG filling station and commenced its operation in Nanjing, the PRC during the year. In future, the Group plans to erect two new CNG filling stations in Luohe City and Nanjing respectively by 2010 in order to increase the Group’s market share.

In order to ease shortage of the natural gas supply and to meet robust demand for clean energy, the construction works for building of West-East natural gas transmission project second pipeline progresses were projected to be completed by the end of 2010 and the commercial operation was planned to be commenced in early 2011. With the aim to secure the Group's future natural gas supply and further develop the Group's downstream natural gas distribution business in Luohe City, Jiyuan City and Sanmenxia City, where West-East natural gas pipeline branch networks will cover, the Group has entered into 3 outline agreements of natural gas sales and transportation with the local natural gas suppliers respectively.

### ***Sales of Piped Gas***

Approximately 89% of total sales of piped gas for the six months ended 30th June, 2010 was derived from provision of natural gas. During the period under review, the total unit of natural gas provided by the Group to its customers was approximately 141,565,900 m<sup>3</sup> (2009: 103,675,200 m<sup>3</sup>).

### ***Gas Pipeline Construction***

During the six months ended 30th June, 2010, the Group made new gas pipeline connection for 26,636 residential households (2009: 24,815 residential households) and 129 industrial/commercial customers (2009: 93 industrial/commercial customers). As at 30th June, 2010, the Group have the accumulated number of residential households of 370,406 (2009: 258,377 residential households) and industrial/commercial customers of 1,449 (2009: 1,191 industrial/commercial customers). As at 30th June, 2010, the Group's penetration rate reached 40% (2009: 29%) (represented by the percentage of accumulated number of residential households to estimated an aggregate of connectable residential households).

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

During the period under review, the total unit of CNG provided by the Group to its customers was approximately 14,547,340 m<sup>3</sup> (2009: 6,601,000 m<sup>3</sup>).

### ***Sales of LPG***

Sales of LPG are not a core business of the Group. During the period under review, the Group sold approximately 3,103 tons of bottled LPG (2009: 3,200 tons).

## **FINANCIAL REVIEW**

For the six months ended 30th June, 2010, turnover increased by 37.0% to approximately HK\$476,717,000 from approximately HK\$347,913,000 for the corresponding period in 2009. The growth in turnover was mainly attributable to the robust growth in sales of piped gas and connection revenue from gas pipeline construction.

Sales of piped gas for the six months ended 30th June, 2010 amounted to approximately HK\$329,183,000, representing an increase of approximately 43.7% over the corresponding period in 2009. The rapid growth in sales of piped gas was mainly attributable to the increase in the number of households and industrial/ commercial users connected as well as the increase in the total gas consumption.

Connection revenue from gas pipeline construction for the six months ended 30th June, 2010 amounted to approximately HK\$88,236,000, representing an increase of approximately 15.0% over the corresponding period in 2009. The increase in connection revenue from gas pipeline construction was mainly attributable to the increase in construction work of gas pipeline connection completed for residential households during the period under review.

### **Gross profit margin**

The overall gross profit margin for the six months ended 30th June, 2010 amounted to approximately 24.8% (2009: 28.3%). The decrease was mainly due to the increase in the proportion of turnover derived from sales of piped gas, which in general has a relatively low profit margin, in the Group's total turnover to approximately 69.1% for the year ended 30th June, 2010 from approximately 65.9% for the corresponding period in 2009.

### **Other gains and loss**

The Group recorded a non-cash gain arising on change in fair value of derivative financial instruments which was issued by the Company in June 2007 of approximately HK\$13,652,000 for the six months ended 30th June, 2010 (2009: HK\$40,041,000). Also the Group recorded a gain of approximately HK\$551,000 on the repurchase of Bonds of USD4,400,000 during the period under review.

### **Operating expenses**

Operating expenses, including selling and distribution costs and administrative expenses increased by 34.8% to approximately HK\$79,591,000 for the six months ended 30th June, 2010 from approximately HK\$59,057,000 for the corresponding period in 2009. The increase was mainly attributable to the increase in PRC staff salary cost resulting from the salary and bonus increment.

### **Share-based payment**

The Group recorded a share-based payment expense of approximately HK\$2,077,000 for the share options granted on 3rd April, 2008 for the six months ended 30th June, 2010 (2009: HK\$3,782,000).

### **Finance costs**

Finance costs increased by 4.1% to approximately HK\$25,130,000 for the six months ended 30th June, 2010 from approximately HK\$24,147,000 for the corresponding period in 2009. The increase was mainly attributable to the increase in interest on bank borrowings to approximately HK\$10,175,000 for the six months ended 30th June, 2010 (2009: HK\$9,457,000) resulting from the increase in the average borrowings.

## **Income tax expenses**

No provision of Hong Kong Profits Tax has been made as the Group had no assessable profits arising in Hong Kong for the six months period ended 2010 and 2009.

Pursuant to the relevant laws and regulations in the PRC, certain PRC subsidiaries of the Group are exempted from PRC Enterprise Income Tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years. The tax concession arrangement of the aforesaid PRC subsidiaries will be expired from 2010 to 2011. According to New Law, the tax concession arrangement will not be granted to all new applicants incorporated after 16th March, 2007. As for the existing group entities entitle such tax concession but have not commenced their first profit-making year will be exempted from PRC Enterprise Income Tax for two years, followed by a 50% reduction for the next three years regardless of its reported results commencing from 1st January, 2008 and the charge of PRC Enterprise Income Tax for the year has been provided for after taking these tax incentive into account.

The Group paid dividend withholding tax of approximately HK\$4,331,000 in the event of inter-group dividend distribution during the six months ended 30th June, 2010 (2009: HK\$6,639,000).

Accordingly, the income tax expenses for the six months ended 30th June, 2010 amounted to approximately HK\$12,186,000 (2009: HK\$7,673,000).

## **Profit attributable to owners of the company**

As a result of the above, profit attributable to equity holders of the parent amounted to approximately HK\$2,376,000 for the six months ended 30th June, 2010 (2009: HK\$35,087,000).

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

For the six months ended 30th June, 2010 excluding other income and other gains and loss, the Group's EBITDA increased by 10.5% to approximately HK\$60,458,000 from approximately HK\$54,737,000 for the corresponding period in 2009.

## **Prospects**

The Group is confident in its future prospects since the steady growth of the natural gas market in China is expected to be maintained due to the favorable domestic business environment and the growing demand for piped gas consumption arising from the progressing urbanization in China. In the future, the Group will expand its downstream natural gas distribution with a focus on high margin commercial and industrial users and gas refueling stations with the goal of increasing its penetration rate in the nine cities it is operating in.

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

On 17th January, 2010, the board of directors of the Company received voluntary conditional cash and securities exchange offer ("Offer") proposed by a wholly owned subsidiary of China Gas Holdings Limited ("China Gas"), a listed company in the Stock Exchange (Stock code: 384), to acquire the entire issued share capital of the Company. The consideration will be satisfied by the cash and ordinary shares of China Gas. According to the joint announcement of the Company and China Gas dated 26th January, 2010, after being takeover by China Gas, the Company will still maintain the public float not less than 25% in compliance with the Listing Rules. Details of the proposed takeover are set out in the joint announcement of the Company and China Gas dated 26th January, 2010, offer document of the China Gas dated 17th May, 2010 and response document of the Company dated on 31st May, 2010.

According to the announcement dated 23rd July, 2010 and 6th August, 2010, as all conditions as set out under the section headed "Conditions of the Offers" in the "Letter from MCSL" of the offer document have been satisfied or waived by the Rich Legend International Limited, a wholly owned subsidiary of China Gas (the "Offeror"), the Offeror announces that the Offers have become unconditional in all respects as at 23rd July, 2010. As at 6th August, 2010, the Offeror has received 56.33% and 98.60% form of acceptance for share offer and option offer respectively. No acceptance for convertible bond offer has been received. The Offeror has not extended or revised the Offer.

However, Hezhong and the Management Owners have not tendered acceptances of the Share Offer in respect of all of the shares held by them, being 946,921,542 shares as stated in the Offer Document and the Response Document, and are consequently in breach of their respective obligations under the Irrevocable Undertaking to accept the Share Offer in respect of all of the shares held by them. The Offeror and China Gas remain in the process of reviewing their options in relation to this breach of the Irrevocable Undertaking and will take such actions, if any, as they may consider appropriate.

Following completion of the transfer of the 1,111,934,142 shares tendered for acceptance by the respective shareholders of the Company in respect the Share Offer to the Offeror, 292,454,000 shares of the Company will be held by the public who are independent of the directors, chief executive or substantial shareholders of the Company or its subsidiaries or any of their respective associates, representing approximately 14.82% of the issued share capital and voting rights of the Company, as at 6th August, 2010. Accordingly, the Company will not fulfill the minimum public float requirement as set out under Rule 11.23 of the Listing Rules. The Company has applied to the Stock Exchange for a temporary waiver from strict compliance with the public float requirement under Rule 11.23 of the Listing Rules for a period of 6 months commencing from 6 August 2010. The directors of the Offeror and the new director(s) of the Company to be appointed to the Board of the Company will take appropriate steps to restore the minimum public float as required under Rule 11.23 of the Listing Rules as soon as possible.

## DISCLOSURE OF INTERESTS

### (a) Interests of Directors

As at 30th June, 2010, the interests and short positions of the Directors and the Chief Executive of the Company and their associates in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the “SFO”)) (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, were as follows:

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

Name of Directors	Notes	Nature of Shares and/or underlying Shares	Type of Interests	Approximate percentage of issued share capital
Mr. Wang Wenliang	1	956,923,542	Beneficial and interest in corporation	49.39%
Mr. Hao Yu	2	1,010,759,542	Beneficial and interest in corporation	51.2%
Mr. Lu Zhaoheng	3	8,004,000	Beneficial	0.41%

#### *Notes:*

1. Among these Shares and/or underlying Shares, 945,755,542 Shares are held by Hezhong Investment Holding Company Limited (“Hezhong”). Mr. Wang Wenliang is beneficially interested in 60% of the issued share capital of Hezhong. 10,002,000 of the remaining 11,168,000 underlying Shares are to be allotted and issued upon exercise the rights attaching to the share options granted at an exercise price of HK\$0.31 per share under the share option scheme adopted by the Company on 24th October, 2003.
2. Among these Shares and/or underlying Shares, 945,755,542 Shares are held by Hezhong. Mr. Hao Yu is interested in 40% of the issue share capital of Hezhong. The remaining 8,004,000 and 57,000,000 underlying Shares are to be allotted and issued upon exercise the rights attaching to the share options granted at an exercise price of HK\$0.31 per share and HK\$0.56 per share respectively under the share option scheme adopted by the Company on 30th September, 2003.

- Among these Shares and/or underlying Shares, 1,000,000 Shares are held by Mr. Lu Zhaoheng. 4,004,000 and 3,000,000 underlying Shares are to be allotted and issued upon exercise the rights attaching to the share options granted at an exercise price of HK\$0.31 per share and HK\$0.80 per share respectively under the share option scheme adopted by the Company on 24th October, 2003.

***Short positions in the Shares of the Company:***

<b>Name of Directors</b>	<i>Notes</i>	<b>Nature of Shares and/or underlying Shares</b>	<b>Type of Interests</b>	<b>Approximate percentage of issued share capital</b>
Mr. Hao Yu	1	65,004,000	Beneficial	3.29%
Mr. Xu Yongxuan	2	5,004,000	Beneficial	0.25%
Mr. Lui Siu Keung	3	12,000,000	Beneficial	0.61%
Dr. Luo Yongtai	4	2,000,000	Beneficial	0.10%
Mr. Hung, Randy King Kuen	4	2,000,000	Beneficial	0.10%

*Notes:*

- 8,004,000 and 57,000,000 underlying Shares are to be allotted and issued upon exercise the rights attaching to the share options granted at an exercise price of HK\$0.31 per share and HK\$0.56 per share respectively under the share option scheme adopted by the Company on 24th October, 2003.
- 5,004,000 underlying Shares are to be allotted and issued upon exercise the rights attaching to the share options granted at an exercise price of HK\$0.31 per share under the share option scheme adopted by the Company on 24th October, 2003.
- 9,000,000 and 3,000,000 underlying Shares entitle the holder thereof to subscribe for Shares at an exercise price of HK\$0.56 per share and HK\$0.80 per share respectively under the share option scheme adopted by the Company on 24th October, 2003.
- These underlying Shares entitle the holders thereof to subscribe for Shares at an exercise price of HK\$0.80 per share under the share option scheme adopted by the Company on 24th October, 2003.

Save as disclosed above, as at 30th June, 2010, none of the Directors nor the chief executive of the Company had or was deemed to have any interests and short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) are required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

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

So far as is known to the Directors, as at 30th June, 2010, the following entities (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

*Long positions in the shares*

<b>Name of Shareholder</b>	<b>Type of interests</b>	<b>Number of Shares</b>	<b>Approximate percentage of interests</b>
Hezhong	Beneficial	945,755,542	47.91%
Perry Capital (Asia) Limited	Investment manager	348,254,336	17.64%
Perry Capital LLC	Investment manager	348,254,336	17.64%
Perry Corp.	Investment manager	348,254,336	17.64%
Perry Richard Cayne	Interest in corporation	348,254,336	17.64%
Perry Partners International, Inc.	Beneficial	284,342,899	14.40%

*Notes:*

1. Hezhong is beneficially interested in 945,755,542 shares. Mr. Wang Wenliang and Mr. Hao Yu are beneficially interested in 60% and 40% of the issued share capital of Hezhong respectively.

2. According to the disclosure of interests pages as shown in the website of the Stock Exchange, Perry Richard Cayne holds as to 100% equity interests of Perry Corp. Perry Corp. holds as to 40% equity interest of Perry Capital LLC. Perry Capital LLC holds as to 100% equity interests of Perry Capital (Asia) Limited. Apart from the information ascertained in the disclosure of interests pages as shown in the website of the Stock Exchange, the Company has no further information.

Save as disclosed above, as at 30th June, 2010, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group.

## **CODE OF CORPORATE GOVERNANCE PRACTICES**

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

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

## **AUDIT COMMITTEE**

The Company's Audit Committee, comprising Mr. Wang Shunlong, Dr. Luo Yongtai and Mr. Hung, Randy King Kuen, as the independent non-executive Directors, has reviewed with the Company's management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited results of the Group for the six months ended 30th June, 2010.

## **BOARD PRACTICE AND PROCEDURES**

The Company has complied with the requirement of Board Practices and Procedures as set out in Rules 5.34 of the GEM Listing Rules during the six months ended 30th June, 2010.

## **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, 2010.

## **BOARD OF DIRECTORS**

As at the date of this announcement, the Board comprises Mr. Wang Wenliang (*Chairman and Chief Executive Officer*), Mr. Lu Zhaocheng and Mr. Lui Siu Keung (*Chief Financial Officer*), as the executive Directors, Mr. Xu Yongxuan (*Vice-Chairman*), as the non-executive Director and Mr. Wang Shunlong, Dr. Luo Yongtai and Mr. Hung, Randy King Kuen, as the independent non-executive Directors.

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

Hong Kong, 12th August, 2010