



中裕燃氣控股有限公司

ZHONGYU GAS HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8070)

PRELIMINARY ANNOUNCEMENT FOR THE YEAR ENDED 31ST DECEMBER, 2007

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This announcement, for which the directors of Zhongyu Gas Holdings Limited (the “Company”) collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company and its subsidiaries (collectively the “Group”). The directors of the Company (the “Directors”), having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

FINANCIAL HIGHLIGHTS

- The Group's audited turnover in 2007 amounted to approximately HK\$294,518,000, representing an increase of 276.8% as compared with that of approximately HK\$78,159,000 in 2006.
- The Group's gross profit in 2007 was approximately HK\$102,686,000, representing an increase of 287.3% as compared with that of approximately HK\$26,510,000 in 2006.
- The Group's EBITDAF in 2007 was approximately HK\$32,523,000, representing an increase of 104.9% as compared with that of approximately HK\$15,873,000 in 2006.
- The Group's loss attributable to equity holders of the Company in 2007 was approximately HK\$26,183,000.
- The Board does not recommend the payment of any dividend for the year ended 31st December, 2007.

CHAIRMAN'S STATEMENT

The Group's natural gas operations continued to develop rapidly in 2007. Turnover for the year amounted to approximately HK\$294,518,000, representing a growth of 276.8% as compared to HK\$78,159,000 in 2006. This tremendous growth is mainly attributable to the sustained expansion of the Group's downstream gas distribution in the People's Republic of China (the "PRC"), including sales of natural gas and connection fee income.

Riding on the booming natural gas market in the PRC, the Group had proactively strengthened both its upstream and downstream capabilities in 2007. With continuous efforts paid to the downstream natural gas operation, the Group currently has two downstream projects underway in Shandong province (Linyi Zhongyu, Linyi China Gas) and seven in Henan province (Sanmenxia, Yongcheng, Xinmi, Yanshi, Jiaozuo, Luohe and Jiyuan) under operation. The projects have brought satisfactory revenue to the Group, with total natural gas sales of 75,320,000 m³ in 2007. In terms of upstream development, the joint venture, Henan Zhongyu Coalbed Methane Development and Utilization Company Limited, with Henan Provincial government has been running smoothly, and the Coal-bed methane ("CBM") extraction process is on schedule. The first two phases of CBM extraction, drilling and fracturing, were completed last year; and the final phases of de-watering gas releasing process had been commenced in the end of 2007. The Group is satisfied with the progress of CBM extraction, and anticipates commercial gas production in September 2008.

Future prospects of the Group remain promising as the natural gas market in China continues to flourish. In view of the energy problem that China is now facing, along with the rapid economic development which drives up the demand for natural gas and the growing consciousness of environmental protection in the country, we anticipate that CBM, as an alternative clean energy, will be well-received by the market. With the satisfactory progress in CBM extraction, the vertically integrated value chain of the Group will be completed. It ensures sufficient and cost-effective gas supply for the Group's downstream projects and will further enhance the profitability of the Group. Going forward, the Group will continue to enhance its upstream resources by expanding geographically to the Group's CBM blocks other than Jiaozuo City. Meanwhile, the Group will also expand the downstream business by increasing the number of gas refuelling stations, with the aim to achieve economies of scale and hence enhance our profit margin. The favorable and growing macro-environment in the PRC, together with the excellent policy execution and corporate management of the Group, will render the investments highly rewarding. The Group will maintain the parallel run in expanding its upstream and downstream businesses, so as to enhance its market position and improve its financial performance.

In order to improve the Group's operating results, we will continue to seek cooperation opportunities with promising peers in the industry. We believe that forming strategic alliances will bring synergy to existing businesses and improve the cost efficiency of the Group.

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

Wang Wenliang

Chairman

Zhengzhou, the PRC

27th March, 2008

The board of Directors (the “Board”) is pleased to announce the audited results of the Group for the year ended 31st December, 2007, together with the comparative audited figures for the year ended 31st December, 2006, which are set out as follows:

**CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER, 2007**

	<i>NOTES</i>	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i> <i>(re-presented)</i>
Continuing operations			
Turnover	4	294,518	78,159
Cost of sales		<u>(191,832)</u>	<u>(51,649)</u>
Gross profit		102,686	26,510
Other income	6	11,256	8,020
Selling and distribution costs		(7,663)	(2,797)
Administrative expenses		(58,105)	(18,060)
Other expenses		(9,657)	(2,408)
Finance costs	7	(27,548)	(3,529)
Impairment loss recognised on amounts due from customers for contract work		(21,551)	—
Change in fair value of derivative financial instruments		<u>(7,617)</u>	<u>—</u>
(Loss) profit before tax		(18,199)	7,736
Income tax expenses	8	<u>(4,109)</u>	<u>—</u>
(Loss) profit for the year from continuing operations		<u>(22,308)</u>	<u>7,736</u>
Discontinued operations			
Loss for the year from discontinued operations		<u>(403)</u>	<u>(638)</u>
(Loss) profit for the year	9	<u><u>(22,711)</u></u>	<u><u>7,098</u></u>

	<i>NOTES</i>	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i> <i>(re-presented)</i>
Attributable to:			
Equity holders of the Company		(26,183)	6,856
Minority interests		<u>3,472</u>	<u>242</u>
		<u>(22,711)</u>	<u>7,098</u>
Dividends	10	<u>—</u>	<u>—</u>
(Loss) earnings per share	11		
From continuing and discontinued operations:			
Basic		<u>(1.52) cent</u>	<u>0.52 cent</u>
Diluted		<u>N/A</u>	<u>0.51 cent</u>
From continuing operations:			
Basic		<u>(1.49) cent</u>	<u>0.57 cent</u>
Diluted		<u>N/A</u>	<u>0.56 cent</u>

**CONSOLIDATED BALANCE SHEET
AS AT 31ST DECEMBER, 2007**

	<i>NOTES</i>	2007 HK\$'000	2006 HK\$'000
Non-current assets			
Investment properties		4,074	—
Property, plant and equipment	12	457,175	111,664
Goodwill		94,512	732
Other intangible assets		213,899	11,641
Deposits paid for acquisition of property, plant and equipment		40,440	—
Prepaid lease payments		44,133	15,321
		<u>854,233</u>	<u>139,358</u>
Current assets			
Inventories	13	34,000	11,066
Trade receivables	14	27,478	2,598
Deposits, prepayments and other receivables		29,922	24,710
Prepaid lease payments		1,076	457
Amounts due from customers for contract work	15	26,348	32,621
Loan receivables		133,190	—
Trust monies placed with a financial institution		42,964	—
Amounts due from related companies		118	3,854
Pledge bank deposit		1,171	—
Bank balances and cash		365,545	65,815
		<u>661,812</u>	<u>141,121</u>
Current liabilities			
Deferred income and advance received		31,499	4,339
Derivative financial instruments		130,036	—
Trade payables	16	59,398	16,085
Other payables and accrued charges		47,608	7,573
Amounts due to customers for contract work	15	1,348	1,752
Amounts due to related companies		1,105	1,038
Bank borrowings		201,091	36,483
Tax payables		3,579	—
		<u>475,664</u>	<u>67,270</u>
Net current assets		<u>186,148</u>	<u>73,851</u>
Total assets less current liabilities		<u>1,040,381</u>	<u>213,209</u>

	<i>NOTES</i>	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Capital and reserves			
Share capital	17	19,440	13,252
Reserves		<u>677,157</u>	<u>170,072</u>
Equity attributable to equity holders of the parent		696,597	183,324
Minority interests		<u>65,249</u>	<u>8,172</u>
Total equity		<u>761,846</u>	<u>191,496</u>
Non-current liabilities			
Provision for long service payment		—	213
Bank borrowings		58,521	21,500
Convertible bonds		203,358	—
Deferred taxation		<u>16,656</u>	<u>—</u>
		<u>278,535</u>	<u>21,713</u>
		<u>1,040,381</u>	<u>213,209</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31ST DECEMBER, 2007

	Attributable to equity holders of the parent										
	Share capital	Share premium	Share option reserve	Merger reserve	Property revaluation reserve	Other reserve	Translation reserve	Accumulated (losses) profits	Minority Total interests	Total	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Note a)		(Note b)					
At 1st January, 2006	13,252	145,901	2,408	3,740	—	7,607	607	(6,284)	167,231	7,922	175,153
Exchange differences arising on translation to presentation currency	—	—	—	—	—	—	6,829	—	6,829	8	6,837
Profit for the year	—	—	—	—	—	—	—	6,856	6,856	242	7,098
Total recognised income for the year	—	—	—	—	—	—	6,829	6,856	13,685	250	13,935
Recognition of equity-settled share-based payments	—	—	2,408	—	—	—	—	—	2,408	—	2,408
At 31st December, 2006	13,252	145,901	4,816	3,740	—	7,607	7,436	572	183,324	8,172	191,496
Exchange differences arising on translation to presentation currency	—	—	—	—	—	—	44,866	—	44,866	581	45,447
Revaluation upon change of intended use of properties	—	—	—	—	1,747	—	—	—	1,747	—	1,747
Share of valuation surplus by minority shareholders	—	—	—	—	(182)	—	—	—	(182)	182	—
Deferred taxation liability on revaluation of buildings	—	—	—	—	(437)	—	—	—	(437)	—	(437)
Net income recognised directly in equity	—	—	—	—	1,128	—	44,866	—	45,994	763	46,757
(Loss)/profit for the year	—	—	—	—	—	—	—	(26,183)	(26,183)	3,472	(22,711)
Total recognised income for the year	—	—	—	—	1,128	—	44,866	(26,183)	19,811	4,235	24,046

Attributable to equity holders of the parent

	Share capital		Share option reserve		Merger reserve		Property revaluation reserve		Other reserve		Translation reserve		Accumulated (losses) profits		Minority interests		Total				
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
Recognition of equity-settled share-based payments	—	—	9,657	—	—	—	—	—	—	—	—	—	9,657	—	—	—	—	9,657	—	9,657	
Acquisition of subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	28,675	—	—	—	28,675	
Issue of shares	6,165	509,898	—	—	—	—	—	—	—	—	—	—	—	516,063	—	—	—	—	—	516,063	
Disposal of subsidiaries	—	—	—	(3,740)	—	—	—	—	—	—	—	—	3,740	—	—	—	—	—	—	—	
Exercise of share options	50	1,911	(402)	—	—	—	—	—	—	—	—	—	—	1,559	—	—	—	—	—	1,559	
Shares repurchased and cancelled	(27)	(2,578)	—	—	—	—	—	—	—	—	—	—	—	(2,605)	—	—	—	—	—	(2,605)	
Transaction costs attributable to issue of shares	—	(31,212)	—	—	—	—	—	—	—	—	—	—	—	(31,212)	—	—	—	—	—	(31,212)	
Contributions from minority shareholders upon incorporation of subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	24,167	24,167
At 31st December, 2007	<u>19,440</u>	<u>623,920</u>	<u>14,071</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,128</u>	<u>7,607</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(21,871)</u>	<u>696,597</u>	<u>65,249</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>761,846</u>	

Notes:

- (a) The merger reserve of the Group represents the difference between the nominal value of the share capital of a subsidiary acquired pursuant to the group reorganisation completed on 21st May, 2001 and the nominal value of the share capital of the Company issued in exchange thereof.
- (b) Other reserve represents the discount on acquisition arising from the acquisition of China City Gas Construction Explore Company Limited and China City Gas Construction Holdings Company Limited from the ultimate holding company accounted for by the Group as a deemed contribution which was credited to the other reserve.

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER, 2007**

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Operating activities		
(Loss) profit before tax	(18,602)	7,098
Adjustments for:		
Depreciation of property, plant and equipment	13,220	3,772
Share-based payment expense	9,657	2,408
Amortisation of intangible assets	1,611	406
Amortisation of prepaid lease payments	726	430
Loss on disposal of a subsidiary	839	—
Loss on disposal of property, plant and equipment	1,067	259
Allowance for doubtful debts	148	211
Impairment loss recognised for amounts due from customers for contract work	21,551	—
Interest income	(8,882)	(126)
Finance costs	27,548	3,529
Change in fair value of derivative financial instruments	7,617	—
Operating cash flows before movements in working capital	56,500	17,987
Decrease (increase) in inventories	463	(2,526)
(Increase) decrease in trade receivables	(19,810)	424
Decrease (increase) in deposits, prepayments and other receivables	71,071	(2,852)
Increase in amounts due from customers for contract work	(4,087)	(17,413)
Decrease in loan to an officer	—	4
Decrease in deferred income and advance received	(8,359)	(2,727)
Increase in trade payables	7,157	6,308
Decrease in other payables and accrued charges	(41,656)	(9,721)
(Decrease) increase in amounts due to customers for contract work	(3,535)	1,175
Cash generated from (used in) operations	57,744	(9,341)
Interest received	4,624	126
Income taxes (paid) refunded	(1,263)	133
Net cash from (used in) operating activities	61,105	(9,082)

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Investing activities		
Purchases of property, plant and equipment	(82,138)	(27,503)
Increase in loan receivables	(133,190)	—
Proceeds on disposal of property, plant and equipment	1,252	1,808
Acquisition of subsidiaries, net of cash and cash equivalents acquired	(174,344)	—
Disposal of subsidiaries, net of cash and cash equivalents disposed	(393)	—
Repayments from related companies	3,736	5,240
Advance to related companies	—	(319)
Increase in pledged bank deposits	(1,171)	—
Addition of prepaid lease payments	(4,201)	—
Development costs paid	(40,065)	—
Interest received	<u>4,258</u>	<u>—</u>
Net cash used in investing activities	<u>(426,256)</u>	<u>(20,774)</u>
Financing activities		
New loans raised	48,075	18,296
Contributions from minority shareholders upon incorporation of subsidiaries	24,167	—
Interest paid	(18,123)	(4,909)
Repayments of borrowings	(86,766)	(12,509)
Advance from related companies	943	403
Repayments to related companies	(876)	—
Proceed from issue of ordinary shares	437,894	—
Shares issue expenses	(31,212)	—
Proceed on issue of convertible bonds	312,000	—
Payment on repurchase of shares	<u>(2,605)</u>	<u>—</u>
Net cash from financing activities	<u>683,497</u>	<u>1,281</u>
Net increase (decrease) in cash and cash equivalents	318,346	(28,575)
Cash and cash equivalents at 1st January	65,815	92,805
Effect of foreign exchange rate changes	<u>24,348</u>	<u>1,585</u>
	<u>408,509</u>	<u>65,815</u>
Cash and cash equivalents at 31st December, represented by		
Bank balances and cash	365,545	65,815
Trust monies placed with a financial institution	<u>42,964</u>	<u>—</u>
	<u>408,509</u>	<u>65,815</u>

Notes:

1. PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

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

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

In the current year, the Group has applied, for the first time, a number of new standard, amendment and interpretations (“new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are effective for the Group’s financial year beginning 1st January, 2007.

HKAS 1 (Amendment)	Capital disclosures
HKFRS 7	Financial instruments: Disclosures
HK(IFRIC) - INT 7	Applying the restatement approach under HKAS 29 financial reporting in hyperinflationary economies
HK(IFRIC) - INT 8	Scope of HKFRS 2
HK(IFRIC) - INT 9	Reassessment of embedded derivatives
HK(IFRIC) - INT 10	Interim financial reporting and impairment

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

The Group has not early applied the following new and revised standards or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of financial statements ¹
HKAS 23 (Revised)	Borrowing costs ¹
HKFRS 8	Operating segments ¹
HK(IFRIC) - INT 11	HKFRS 2 - Group and treasury share transactions ²
HK(IFRIC) - INT 12	Service concession arrangements ³
HK(IFRIC) - INT 13	Customer loyalty programmes ⁴
HK(IFRIC) - INT 14	HKAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction ³

¹ Effective for accounting periods beginning on or after 1st January, 2009.

² Effective for accounting periods beginning on or after 1st March, 2007.

³ Effective for accounting periods beginning on or after 1st January, 2008.

⁴ Effective for accounting periods beginning on or after 1st July, 2008.

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments, which are measured at revalued amounts or fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on GEM of the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

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

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

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

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

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

4. 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 year, for both continuing and discontinued operations is as follows:

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Continuing operations		
Sales of piped gas	143,547	17,833
Connection revenue from gas pipeline construction	123,693	39,139
Sales of liquefied petroleum gas	25,415	20,866
Sales of stoves and related equipment	<u>1,863</u>	<u>321</u>
	<u>294,518</u>	<u>78,159</u>
Discontinued operations		
Software project income	1,213	3,156
Software maintenance service income	603	1,460
Sales of computer hardware	<u>136</u>	<u>96</u>
	<u>1,952</u>	<u>4,712</u>
	<u>296,470</u>	<u>82,871</u>

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purpose, the Group is currently organised into three major operating divisions: Connection revenue from gas pipeline construction, sales of piped gas and sales of liquefied petroleum gas. These divisions are the basis on which the Group reports its primary segment information. On 3rd May, 2007, the Group completed the discontinuation of development and sale of software maintenance services and sales of computer hardware operations.

Segment information about these business is presented below:

Income statement for the year ended 31st December, 2007

	Continuing operations					Discontinued operations				
	Connection revenue from gas pipeline construction 2007	Sales of piped gas 2007	Sales of liquefied petroleum gas 2007	Other operations 2007	Total 2007	Development and sale of software 2007	Software maintenance services 2007	Sales of computer hardware 2007	Total 2007	Consolidated 2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<u>123,693</u>	<u>143,547</u>	<u>25,415</u>	<u>1,863</u>	<u>294,518</u>	<u>1,213</u>	<u>603</u>	<u>136</u>	<u>1,952</u>	<u>296,470</u>
Segment results	<u>35,157</u>	<u>12,522</u>	<u>(2,524)</u>	<u>237</u>	45,392	<u>172</u>	<u>192</u>	<u>136</u>	500	45,892
Unallocated corporate income					8,881				1	8,882
Unallocated corporate expenses					(37,307)				(65)	(37,372)
Finance costs					(27,548)				—	(27,548)
Change in fair value of derivative financial instruments					<u>(7,617)</u>				—	<u>(7,617)</u>
(Loss) profit before tax					(18,199)				436	(17,763)
Income tax expense					(4,109)				—	(4,109)
Loss on disposal of discontinued operation, net of tax					—				(839)	(839)
Loss for the year					<u>(22,308)</u>				<u>(403)</u>	<u>(22,711)</u>

Income statement for the year ended 31st December, 2006

	Continuing operations					Discontinued operations				
	Connection revenue from gas pipeline construction 2006	Sales of piped gas 2006	Sales of liquefied petroleum gas 2006	Other operations 2006	Total 2006	Development and sale of software 2006	Software maintenance services 2006	Sales of computer hardware 2006	Total 2006	Consolidated 2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<u>39,139</u>	<u>17,833</u>	<u>20,866</u>	<u>321</u>	<u>78,159</u>	<u>3,156</u>	<u>1,460</u>	<u>96</u>	<u>4,712</u>	<u>82,871</u>
Segment results	<u>21,301</u>	<u>463</u>	<u>(2,995)</u>	<u>7</u>	18,776	<u>(393)</u>	<u>(115)</u>	—	(508)	18,268
Unallocated corporate income					3,600				26	3,626
Unallocated corporate expenses					(11,111)				(156)	(11,267)
Finance costs					<u>(3,529)</u>				—	<u>(3,529)</u>
Profit (loss) before tax					7,736				(638)	7,098
Income tax expense					—				—	—
Profit (loss) for the year					<u>7,736</u>				<u>(638)</u>	<u>7,098</u>

Balance sheet as at 31st December, 2007

	Continuing operations				Consolidated <i>HK\$'000</i>
	Connection revenue from gas pipeline construction	Sales of piped gas	Sales of liquefied petroleum gas	Other operations	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	
ASSETS					
Segment assets	67,023	854,724	11,351	2,860	935,958
Unallocated corporate assets					<u>580,087</u>
Consolidated total assets					<u><u>1,516,045</u></u>
LIABILITIES					
Segment liabilities	27,143	83,359	17,643	—	128,145
Unallocated corporate liabilities					<u>626,054</u>
Consolidated total liabilities					<u><u>754,199</u></u>

Balance sheet as at 31st December, 2006

	Continuing operations				Discontinued operations			Consolidated <i>HK\$'000</i>
	Connection revenue from gas pipeline construction	Sales of piped gas	Sales of liquefied petroleum gas	Other operations	Total	Development and sale of software	Software maintenance services	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	
ASSETS								
Segment assets	41,343	157,493	5,817	796	205,449	1,360	613	207,422
Unallocated corporate assets								<u>73,057</u>
Consolidated total assets								<u><u>280,479</u></u>
LIABILITIES								
Segment liabilities	19,382	2,104	—	—	21,486	214	852	22,552
Unallocated corporate liabilities								<u>66,431</u>
Consolidated total liabilities								<u><u>88,983</u></u>

Other information for the year ended 31st December, 2007

	Continuing operations					Discontinued operations	
	Connection revenue from gas pipeline construction	Sales of piped gas	Sales of liquefied petroleum gas	Other operations	Unallocated	Development and sales of software	Consolidated
	2007	2007	2007	2007	2007	2007	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Capital additions	173,307	310,914	—	—	159,198	—	643,419
Loss on disposal of property, plant and equipment	—	1,067	—	—	—	—	1,067
Amortisation of prepaid lease payment	—	726	—	—	—	—	726
Depreciation of property, plant and equipment	—	10,392	2,806	—	—	22	13,220
Amortisation of intangible assets	—	1,611	—	—	—	—	1,611
Allowance for doubtful debts	—	148	—	—	—	—	148
Impairment loss recognised on amounts due from customers for contract work	21,551	—	—	—	—	—	21,551

Other information for the year ended 31st December, 2006

	Continuing operations					Discontinued operations			
	Connection revenue from gas pipeline construction	Sales of piped gas	Sales of liquefied petroleum gas	Other operations	Unallocated	Total	Development and sale of software	Software maintenance services	Consolidated
	2006	2006	2006	2006	2006	2006	2006	2006	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Capital additions	—	28,268	549	—	—	28,817	66	—	28,883
Loss on disposal of property, plant and equipment	—	259	—	—	—	259	—	—	259
Amortisation of prepaid lease payments	—	430	—	—	—	430	—	—	430
Depreciation of property, plant and equipment	—	2,989	706	—	3	3,698	74	—	3,772
Amortisation of intangible assets	—	406	—	—	—	406	—	—	406
Allowance for doubtful debts	—	—	—	—	—	—	211	—	211

Geographical segments

Sales revenue from Group's continuing operations are derived from the PRC (2007: HK\$294,518,000, 2006: HK\$78,159,000) and revenue from the Group's discontinued operations are derived from Hong Kong (2007: HK\$1,952,000, 2006: HK\$4,712,000).

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

	Carrying amount of segment assets		Additions to property, plant and equipment, goodwill and intangible assets	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
The PRC	934,095	205,449	642,346	28,817
Hong Kong	<u>—</u>	<u>1,973</u>	<u>1,073</u>	<u>66</u>
	<u>934,095</u>	<u>207,422</u>	<u>643,419</u>	<u>28,883</u>

6. OTHER INCOME

	2007 HK\$'000	2006 HK\$'000 (re-presented)
Continuing operations		
Bank interest income	4,623	124
Interest income from loan receivables	4,258	—
Sundry income	2,375	4,494
Management fee income	<u>—</u>	<u>3,402</u>
	<u>11,256</u>	<u>8,020</u>
Discontinued operations		
Bank interest income	1	2
Sundry income	<u>11</u>	<u>24</u>
	<u>12</u>	<u>26</u>

7. FINANCE COSTS

	2007 HK\$'000	2006 HK\$'000
Continuing operations		
Interest on		
Bank borrowings:		
— wholly repayable within five years	16,563	4,909
— not wholly repayable within five years	<u>—</u>	<u>—</u>
Effective interest expense on convertible loan notes	<u>15,337</u>	<u>—</u>
Total borrowing costs	31,900	4,909
Less: Amounts capitalised in construction in progress	<u>(4,352)</u>	<u>(1,380)</u>
	<u>27,548</u>	<u>3,529</u>

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 8.7% (2006: 8.2%) to expenditure on qualifying assets.

8. INCOME TAX EXPENSES

	Continuing operations	
	2007	2006
	HK\$'000	HK\$'000
Current tax:		
PRC Enterprise Income Tax	4,118	—
Deferred tax:		
Current year	<u>(9)</u>	<u>—</u>
	<u>4,109</u>	<u>—</u>

PRC Enterprise Income Tax is calculated at a tax rate of 33%, which is the prevailing tax rate in the PRC. Hong Kong Profits Tax is calculated at 17.5% (2006: 17.5%) of the estimated assessable profit for the year. During the year, the Group has disposed of all of its subsidiaries operated in Hong Kong, except for certain investment holding companies.

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 in the consolidated financial statements as the Company and its subsidiaries had no assessable profits arising in Hong Kong.

On 16th March, 2007, the People's Republic of China promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China. On 6th December, 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate from 33% to 25% for certain subsidiaries from 1st January, 2008. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

Pursuant to the relevant laws and regulations in the PRC, certain PRC subsidiaries of the Group and the jointly controlled entity 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 2009 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 tax charge for the year can be reconciled to the (loss) profit per the consolidated income statement as follows:

	Hong Kong		PRC		Total	
	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Loss) profit before tax						
Continuing operations	(41,944)	(7,752)	23,745	15,488	(18,199)	7,736
Discontinued operations	(341)	(377)	(62)	(261)	(403)	(638)
	<u>(42,285)</u>	<u>(8,129)</u>	<u>23,683</u>	<u>15,227</u>	<u>(18,602)</u>	<u>7,098</u>
Taxation at the statutory income tax rate	(7,400)	(1,423)	7,815	5,025	415	3,602
Tax effect of expenses not deductible for tax purpose	7,454	1,550	—	—	7,454	1,550
Tax effect of income not taxable for tax purpose	(497)	(628)	—	—	(497)	(628)
Tax effect of estimated tax losses not recognised	533	501	8,039	87	8,572	588
Utilisation of estimated tax losses previously not recognised	(90)	—	—	(1,387)	(90)	(1,387)
Effect of tax exemptions granted to PRC subsidiaries and a jointly controlled entity	—	—	(7,654)	(3,725)	(7,654)	(3,725)
Income tax on concessionary rate	—	—	(4,091)	—	(4,091)	—
Tax charge for the year	<u>—</u>	<u>—</u>	<u>4,109</u>	<u>—</u>	<u>4,109</u>	<u>—</u>

9. (LOSS) PROFIT FOR THE YEAR

	Continuing operations		Discontinued operations		Consolidated	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
(Loss) profit for the year has been arrived at after charging (crediting):						
Auditor's remuneration	1,600	950	—	—	1,600	950
Amortisation of other intangible assets (included in cost of sales)	1,611	406	—	—	1,611	406
Amortisation of prepaid lease payments	726	430	—	—	726	430
Depreciation of property, plant and equipment	13,198	3,695	22	77	13,220	3,772
Loss on disposal of property, plant and equipment	1,067	259	—	—	1,067	259
Loss on disposal of subsidiaries	—	—	839	—	839	—
Allowance for doubtful debts	148	211	—	—	148	211
Employee benefits expenses, other than directors (including contributions to retirement benefits schemes of HK\$4,284,000 (2006: HK\$497,000))	27,932	7,563	1,150	2,657	29,082	10,220
Employee share option benefits other than directors	1,915	1,294	—	—	1,915	1,294
Operating lease rentals in respect of rented premises	1,171	1,569	157	505	1,328	2,074
Cost of inventories recognised as expense	<u>138,232</u>	<u>53,369</u>	<u>—</u>	<u>—</u>	<u>138,232</u>	<u>41,442</u>

10. DIVIDENDS

No dividend was paid or proposed during 2007, nor has any dividend been proposed since the balance sheet date (2006: nil).

11. (LOSS) EARNINGS PER SHARE

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

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
For continuing and discontinued operations		
<u>(Loss) earnings</u>		
(Loss) earnings for the purposes of basic and diluted earnings per share	<u>(26,183)</u>	<u>6,856</u>
 <u>Number of shares</u>		
Weighted average number of shares for the purpose of basic earnings per share	1,727,476	1,325,186
Effect of dilutive potential ordinary shares:		
Share options (notes a and b)	N/A	17,737
Convertible bonds (note c)	<u>N/A</u>	<u>—</u>
Weighted average number of shares for the purpose of diluted earnings per share	<u>N/A</u>	<u>1,342,923</u>

From continuing operations

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

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
<u>(Loss) earnings</u>		
(Loss) earnings for the year attributable to equity holders of the Company	(26,183)	6,856
Add: Loss for the year from discontinued operations	<u>403</u>	<u>638</u>
(Loss) profit for the purposes of basic and diluted earnings per share from continuing operations	<u>(25,780)</u>	<u>7,494</u>

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

From discontinued operations

Basic loss per share for discontinued operations for the year ended 31st December, 2007 is HK0.02 cent (2006: HK0.05 cent), and diluted loss per share for the discontinued operation is nil (2006: HK\$0.05 cent) based on the calculation of the loss for the year from discontinued operations of HK\$403,000 (2006: HK\$638,000) and the same denominators detailed above for the basic and diluted earnings per share.

Notes:

- (a) The computation of diluted loss per share for the year ended 31st December, 2007 does not assume the exercise of the Company's outstanding share options as since their exercise would result in a decrease in loss per share from continuing operations.
- (b) Weighted average number of ordinary shares for the purpose of the computation of diluted earnings per share for the year ended 31st December, 2006 has been accounted for the effect of the options with a dilutive effect.
- (c) The computation of diluted earnings per share for the year ended 31st December, 2007 did not assume the conversion of the Company's outstanding convertible bonds, since their conversion would decrease the loss per share, after taking into account of the effect of interest and change in fair value of conversion/redemption option derivatives components of the convertible bonds.

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Construction in progress	Leasehold improvements	Pipelines	Machinery and equipment	Furniture and fixtures	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
COST								
At 1st January, 2006	8,870	34,643	2,868	26,811	12,506	831	3,266	89,795
Exchange adjustments	450	1,180	62	2,001	477	2	258	4,430
Additions	8	24,796	410	—	2,148	29	1,492	28,883
Disposals	—	—	—	—	(2,183)	—	(94)	(2,277)
Transfer	<u>3,674</u>	<u>(40,838)</u>	<u>—</u>	<u>35,674</u>	<u>1,490</u>	<u>—</u>	<u>—</u>	<u>—</u>
At 31st December, 2006	13,002	19,781	3,340	64,486	14,438	862	4,922	120,831
Acquired on acquisition of subsidiaries	16,517	134,190	296	86,462	17,363	1,086	4,210	260,124
Exchange adjustments	1,529	6,344	132	7,793	1,556	42	676	18,072
Additions	31,539	29,364	1,887	1,207	10,529	874	11,090	86,490
Disposals	(938)	—	(402)	(695)	(528)	—	(231)	(2,794)
Transfer	10,120	(164,944)	—	153,709	1,115	—	—	—
Disposal of subsidiaries	—	—	(296)	—	(1,582)	(374)	—	(2,252)
Transfer to investment properties	<u>(2,545)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(2,545)</u>
At 31st December, 2007	<u>69,224</u>	<u>24,735</u>	<u>4,957</u>	<u>312,962</u>	<u>42,891</u>	<u>2,490</u>	<u>20,667</u>	<u>477,926</u>
DEPRECIATION								
At 1st January, 2006	323	—	495	807	2,587	502	686	5,400
Exchange adjustments	3	—	18	62	67	1	54	205
Provided for the year	352	—	358	1,149	977	33	903	3,772
Eliminated on disposals	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(131)</u>	<u>—</u>	<u>(79)</u>	<u>(210)</u>
At 31st December, 2006	678	—	871	2,018	3,500	536	1,564	9,167
Exchange adjustments	110	—	41	574	245	11	241	1,222
Provided for the year	1,458	—	328	6,525	1,903	200	2,806	13,220
Eliminated on disposals	(61)	—	(50)	(21)	(215)	—	(128)	(475)
Eliminated on disposals of subsidiaries	—	—	(296)	—	(1,503)	(366)	—	(2,165)
Eliminated on transfer to investment properties	<u>(218)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(218)</u>
At 31st December, 2007	<u>1,967</u>	<u>—</u>	<u>894</u>	<u>9,096</u>	<u>3,930</u>	<u>381</u>	<u>4,483</u>	<u>20,751</u>
CARRYING VALUES								
At 31st December, 2007	<u>67,257</u>	<u>24,735</u>	<u>4,063</u>	<u>303,866</u>	<u>38,961</u>	<u>2,109</u>	<u>16,184</u>	<u>457,175</u>
At 31st December, 2006	<u>12,324</u>	<u>19,781</u>	<u>2,469</u>	<u>62,468</u>	<u>10,938</u>	<u>326</u>	<u>3,358</u>	<u>111,664</u>

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

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

Buildings	Over the shorter of 30 years or the remaining terms of leases
Leasehold improvements	Over the remaining term of leases
Pipelines	Over the shorter of 30 years or operation period of the relevant company
Machinery and equipment	6% - 30%
Furniture and fixtures	20%
Motor vehicles	10% - 18%

At 31st December, 2007, the Group is in process of obtaining title deeds from relevant government authority for its buildings in the PRC amounting to HK\$22,993,000 (2006: nil). In the opinion of the directors, the Group is not required to incur additional cost in obtaining the title deeds for its buildings in the PRC.

The Group has pledged certain buildings in the PRC having a net book value of approximately HK\$25,873,000 (2006: nil) to secure certain bank borrowings granted to the Group.

13. INVENTORIES

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Construction materials	28,286	8,045
Finished goods	<u>5,714</u>	<u>3,021</u>
	<u>34,000</u>	<u>11,066</u>

14. TRADE RECEIVABLES

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

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
0 - 30 days	25,301	1,111
31 - 90 days	1,526	211
91 - 180 days	175	517
Over 180 days	<u>476</u>	<u>759</u>
	<u>27,478</u>	<u>2,598</u>

The trade receivables of HK\$25,301,000 (2006: HK\$1,111,000) were neither past due nor impaired. These customers were local reputable real estate developers in certain cities of the PRC and no counterpart default was noted in the past.

As at 31st December 2007, trade receivables of HK\$2,177,000 (2006: HK\$1,487,000) were past due but not provided for as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these trade receivables is 60 days and 180 days as at 31st December, 2007 and 2006, respectively.

Ageing of trade receivables which are past but not impaired

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
31 - 90 days	1,526	211
91 - 180 days	175	517
Over 180 days	<u>476</u>	<u>759</u>
	<u><u>2,177</u></u>	<u><u>1,487</u></u>

Movement in the allowance for doubtful debts

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Balance at beginning of year	1,164	953
Increase in allowance recognised in consolidated income statement	<u>148</u>	<u>211</u>
Balance at the end of year	<u><u>1,312</u></u>	<u><u>1,164</u></u>

Included in the allowance for doubtful debts are individually impaired trade receivables, which were in the severe financial difficulties. The Group has provided fully for these receivables and considered that they are generally not receivable.

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the report date. The trade receivables past due but not provided for were either subsequently settled as at the date of this report or no historical default of payments by the respective customers. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

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

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Contracts in progress at the balance sheet date:		
Contract costs incurred plus recognised profits (including impairment loss)	148,740	45,489
Less: Progress billings	(102,189)	(14,620)
Less: Impairment losses recognised (Note)	<u>(21,551)</u>	<u>—</u>
	<u>25,000</u>	<u>30,869</u>
Analysed for reporting purposes as:		
Amounts due from customers for contract work	26,348	32,621
Amounts due to customers for contract work	<u>(1,348)</u>	<u>(1,752)</u>
	<u>25,000</u>	<u>30,869</u>

At 31st December, 2007, advances received from customers for contract work amounted to HK\$23,952,000 (2006: HK\$2,413,000) which was included in deferred income and advance received.

Note: During the year, the directors of the Company reviewed the recoverable amounts of the amounts due from customers for contract work and identified certain projects have slow construction progress. In the opinion of the directors, the amounts are unlikely to be recovered from its customers and accordingly, impairment losses are recognised in full.

16. TRADE PAYABLES

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

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
0 - 30 days	15,109	7,723
31 - 90 days	26,709	3,450
91 - 180 days	6,807	1,379
Over 180 days	<u>10,773</u>	<u>3,533</u>
	<u>59,398</u>	<u>16,085</u>

The average credit period on purchase of goods is 90 days. The Group has financial risk management policies in place to ensure that all payables within the credit timeframe.

17. SHARE CAPITAL

	Number of shares		Amount	
	2007 '000	2006 '000	2007 HK\$'000	2006 HK\$'000
Ordinary shares of HK\$0.01 each				
Authorised	<u>10,000,000</u>	<u>10,000,000</u>	<u>100,000</u>	<u>100,000</u>
Issued and fully paid				
At beginning of year	1,325,186	1,325,186	13,252	13,252
Issue of new shares (note a)	265,000	—	2,650	—
Issue of new shares (note b)	279,000	—	2,790	—
Issue of shares for acquisition of subsidiaries (notes c)	72,480	—	725	—
Exercise of share options	5,028	—	50	—
Share repurchased and cancelled (note d)	<u>(2,730)</u>	<u>—</u>	<u>(27)</u>	<u>—</u>
At end of year	<u>1,943,964</u>	<u>1,325,186</u>	<u>19,440</u>	<u>13,252</u>

Notes:

- (a) Pursuant to a placing and subscription agreement dated 1st March, 2007, the substantial shareholder of the Company, Hezhong, agreed to place, through a placing agent, 265,000,000 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.
- (b) Pursuant to a placing and subscription agreement dated 25th May, 2007, the substantial shareholder of the Company, Hezhong, agreed to place, through a 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.
- (c) On 14th August, 2007, the Group allotted and issued 72,480,000 new shares of HK\$0.01 each as a partial consideration to acquire the entire issued share capital and outstanding shareholder's loan of Glory Path Investment Limited ("Glory Path").
- (d) In September 2007, the Company repurchased a total of 2,730,000 shares through the Stock Exchange at a price range from HK\$0.90 to HK\$0.97 at an aggregate consideration of HK\$2,605,000. All shares were cancelled upon repurchase.

All the shares issued during the year ended 31st December, 2007 rank pari passu with the then existing shares in all respects.

18. ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENTS

Save as disclosed herein, the Group had no acquisitions, disposals nor significant investments for the year ended 31st December, 2007.

19. CAPITAL COMMITMENTS

As at 31st December, 2007, the Group did not have any significant capital commitments.

20. CONTINGENT LIABILITIES

As at 31st December, 2007, the Group did not have any contingent liabilities.

LIQUIDITY, FINANCIAL RESOURCES AND WORKING CAPITAL

Liquidity

As at 31st December, 2007, the Group's net current assets rose by approximately HK\$112,297,000 or 152.1% to approximately HK\$186,148,000 (2006: HK\$73,851,000). It represented the Group had a healthy financial position to meet its short-term liabilities.

The increase was mainly attributable to (i) the profit generated during the year and (ii) the net proceeds from placing shares and issuing convertible bonds during the year.

As at 31st December, 2007, the Group's current ratio, represented by a ratio of total current assets to total current liabilities, was approximately 1.4 (2006: 2.1).

The decrease was mainly attributable to the increase in derivative financial instruments resulting from the issue of convertible bonds during the year.

As at 31st December, 2007, the total assets increased by approximately HK\$1,235,566,000 or 440.5% to HK\$1,516,045,000 (2006: HK\$280,479,000). The increase was mainly due to (i) the absorption of total assets of those companies acquired by the Group during the year; (ii) the net proceeds from placing shares and issuing convertible bonds during the year and (iii) the profit generated during the year.

Interest bearing loans and other borrowings represents bank loans and convertible bonds.

As at 31st December, 2007, the total bank loans increased by approximately HK\$201,629,000 or 347.7% to HK\$259,612,000 (2006: HK\$57,983,000). The increase was mainly due to the absorption of bank loans borrowed by those companies acquired by the Group during the year.

As at 31st December, 2007, the convertible bonds amounted to approximately HK\$203,358,000 (2006: Nil).

As at 31st December, 2007, the Group's gearing ratio, represented by a ratio of total interest-bearing loans and other borrowings to total assets, was 0.31 (2006: 0.21).

Financial resources

During the year under review, the Group generally financed its operations with internally generated resources, equity funding and long term and short term debts.

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 31st December, 2007, the Group had a total of 1,867 employees (2005: 550) in Hong Kong and the PRC, and the total remuneration for the year under review was approximately HK\$31,044,000 (2006: HK\$11,514,000). The increase was mainly due to the increase in the number of headcount resulting from the Group's business expansion by acquiring and establishing a number of companies during the year under review. More than 99.8% 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 31st December, 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 31st December, 2007, the Directors did not have any future plans for material investment or capital assets.

COMPETING INTEREST

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

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”) in the PRC and (ii) the development, construction of gas pipeline network and sales of piped gas. During the year, we are also engaged in development and sale of human resource management (“HRM”) software. That operation has been discounted since May 2007.

Upstream Gas Business

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

In March 2007, the Group established a joint venture company, namely 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”) to engage in the exploration, exploitation, development and production of CBM in Henan Province, the PRC. Upon establishment, the Group holds 75% equity interests in Zhongyu Coalbed Methane with the remaining 25% equity interests in Zhongyu Coalbed Methane being held by 河南省煤層氣開發利用有限公司 (Henan Province Coalbed Methane Development and Utilisation Company Limited) (“Henan Methane”). Zhongyu Coalbed Methane has been accounted for as an indirect non-wholly-owned subsidiary of the Company.

As at 31st December, 2007, 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.

For the period between the date of establishment of Zhongyu Coalbed Methane and 31st December, 2007, the Group successfully completed drilling of 33 vertical wells in Jiaozuo. Fracturing process, which is the second phase in CBM extraction, for the aforesaid 15 vertical wells has been started in September 2007, among which 2 vertical wells has been completed the fracturing process and has begun the de-watering and releasing process, which is the last phase in CBM extraction, by the end of 2007. During the year under review, the Group has not recorded any revenue derived from CBM projects. We anticipate that the commercial production of CBM will commence by the four quarter of 2008. We also believe that the upstream gas business will have significant contribution to the Group's turnover and results in the near future.

In the third quarter of 2007, the Group has appointed Netherland, Sewell & Associates, a renowned energy research firm based in Texas, the United States, to prepare an independent report confirming the extent of the Group's CBM deposits.

Downstream Gas Business

The Group' downstream gas business primarily comprises sales of piped gas, gas pipeline construction and sales of liquefied petroleum gas ("LPG"). As at 31st December, 2007, the Group secured nine exclusive gas projects, two in Shandong Province, the PRC and seven in Henan Province, the PRC. Among nine gas projects, three gas projects and their subsidiaries, including Jiaozuo 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. (collectively "Newly Acquired Projects") were newly acquired by the Group in August 2007. The results of Newly Acquired Projects for the period between the date of acquisition and 31st December, 2007 were consolidated with the Group in the financial year 2007. The Newly Acquired Projects contributed approximately HK\$175,226,000 and HK\$42,267,000 to the Group's turnover and profits before tax respectively in 2007.

The cities in which the Group's gas projects operate currently have a total connectable urban population of approximately 3,084,000. It is estimated that there are an aggregate of approximately 881,000 connectable residential households in such cities.

Sales of Piped Gas

Sales of piped gas to customers provide the Group with a recurring stream of revenue. Because of the huge usage of piped gas by our industrial/commercial customers and the increase in the accumulated number of residential customers, sales of piped gas became the largest component of the Group's total turnover in 2007. More than 90% of total sales of piped gas for the year ended 31st December, 2007 were derived from provision of natural gas. Fees charged by the Group for provision of piped natural gas are required to obtain approval from local pricing bureaus. During the year under review, the total unit of natural gas provided by the Group to its customers was approximately 75,320,000 m³ (2006: 12,323,000m³).

For the period between the date of acquisition and 31st December, 2007, the total unit of natural gas provided by the Newly Acquired Projects to its customers was approximately 48,560,000m³.

With the aim to enhance the Group's turnover and results, the Group has commenced to develop compressed natural gas ("CNG") vehicle gas refuelling business in the PRC since September 2007. As at 31st December, 2007, the Group operated one CNG vehicle gas refuelling station in Linyi City, Shangdong Province, the PRC. In December 2007, the Group acquired three companies, including Jiyuan Yulian Compressed Gas Co. Ltd, Luohe Yulian Compressed Gas Co. Ltd, and Sanmenxia Yulian Compressed Gas Co. Ltd. (collectively "Acquired Companies") which have obtained the approval from the local governments of Jiyuan city, Luohe city and Sanmenxia city, Hanan Province, the PRC to build a total of eight CNG vehicle gas refuelling stations in aforesaid locations.

Gas Pipeline Construction

Connection revenue from gas pipeline construction is one-off connection fees paid by residential households and industrial/commercial customers for the connection of their premises to the piped gas networks operated by the Group. Connection fees charged by the Group are required to obtain approval from local pricing bureaus. During the year under review, the average connection fees charged to residential households by the Group was approximately RMB2,450. The connection fees charged to industrial/commercial customers by the Group was significantly higher amounts than that charged to residential households and was determined on a case basis. With the aim to minimize our risk on the recoverability of amounts due from customers of contract work, commencing from the year 2007, 20-40% of the contract sum is required to be paid in advance by our customers before the commencement of their premises to our piped gas networks. As the Group's downstream gas business is still at the development stage, connection revenue from gas pipeline construction remained a significant component of the Group's turnover in 2007.

During the year under review, the Group made new gas pipeline connection for 38,950 residential households (2006: 13,570 households) and 131 industrial/commercial customers (2006: 43 customers). As at 31st December, 2007, the Group have the accumulated number of residential households of 215,867 (2006: 39,078 households) and industrial/commercial customers of 718 (2006: 96 industrial/commercial customers). As at 31st December, 2007, the Group's penetration rate reached 25% (2006: 8%) (represented by the percentage of accumulated number of residential households to estimated an aggregate of connectable residential households).

For the period between the date of acquisition and 31st December, 2007, the Newly Acquired Projects made new gas pipeline connection for 14,592 residential households and 52 industrial/commercial customers. As at 31st December, 2007, the Newly Acquired Projects have the accumulated number of residential households of 152,431 and industrial/commercial customers of 543.

Sales of LPG

Sales of LPG are not a core business of the Group. During the year under review, the Group sold approximately 4,959 tons of bottled LPG (2006: 3,608 tons).

For the period between the date of acquisition and 31st December, 2007, the Newly Acquired Projects sold approximately 1,463 tons of bottled LPG.

HRM Software Business

In view of the growing business opportunity in relation to the Group's CBM and natural gas businesses, the Directors consider to streamline the principal businesses of the Group to focus mainly on the CBM and natural gas businesses. Further, the Group recorded a consistence 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. 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.

ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENTS

On 22nd January, 2007, the Group and Henan Methane entered into a joint venture agreement (the "JV Agreement"), pursuant to which 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 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 Investment Holding Company Limited ("Hezhong"), the substantial shareholder of the Company, entered into the sale and purchase agreement and supplement deed, pursuant to which Hezhong agreed to sell and the Group agreed to purchase three gas projects and their subsidiaries, namely Jiaozuo 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 RMB294,045,000 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 was paid by cash and the remaining

approximately RMB71,540,616 was settled by allotment and issue of 72,480,000 Shares at a price of HK\$1.10 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. The aforesaid sale and purchase agreement was completed on 17th August, 2007. Since then, the Newly Acquired Projects have become non-wholly owned subsidiaries of the Company and their results for the period between the date of completion and 31st December, 2007 were consolidated with the Group in the financial year 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 16th December, 2007, the Group acquired certain assets through purchase of the entire equity interests of Acquired Companies from an independent third party at a total consideration of RMB90,160,000 (approximately HK\$96,842,000) paid by cash. The subsidiaries have not commenced businesses at the date of acquisition. The principal assets of the Acquired Companies is exclusive operating rights for operation of gas stations. As the above transaction does not fall into any classifications set out in Rule 19.06 of the GEM Listing Rules, no announcement was made.

FUND RAISING ACTIVITIES

On 1st March, 2007, Hezhong 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 25th May, 2007, Hezhong 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.

FINANCIAL REVIEW

Continuing Operations

Turnover

	2007 <i>HK\$'000</i>	% of total <i>%</i>	2006 <i>HK\$'000</i>	% of total <i>%</i>	Changes <i>%</i>
Sales of piped gas	143,547	48.8	17,833	22.8	705.0
Connection revenue from gas pipeline construction	123,693	42.0	39,139	50.1	216.0
Sales of liquefied petroleum gas	25,415	8.6	20,866	26.7	21.8
Sales of stoves and related equipment	<u>1,863</u>	<u>0.6</u>	<u>321</u>	<u>0.4</u>	<u>480.0</u>
Total	<u><u>294,518</u></u>	<u><u>100.0</u></u>	<u><u>78,159</u></u>	<u><u>100.0</u></u>	<u><u>276.8</u></u>

Turnover increased by 276.8% to approximately HK\$294,518,000 in 2007 from approximately HK\$78,159,000 in 2006. The tremendous growth in turnover was mainly attributable to the robust growth in Sales of piped gas and Connection revenue from gas pipeline construction.

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, which was mainly resulted from the sustained expansion of the Group's downstream gas distribution business in the PRC by the successful acquisition of Newly Acquired Projects in August 2007. For the period between the date of acquisition and 31st December, 2007, the Newly Acquired Projects contributed approximately HK\$95,929,000 to the Group's sales of piped gas.

The substantial increase in connection revenue from gas pipeline construction was mainly attributable to the increase in the number of households connected to the Group's existing gas pipeline networks which was mainly resulted from the sustained expansion of the Group's downstream gas distribution business in the PRC by the successful acquisition of Newly Acquired Projects in August 2007. For the period between the date of acquisition and 31st December, 2007, the Newly Acquired Projects contributed approximately HK\$69,905,000 to the Group's connection revenue from gas pipeline construction.

Gross profit margin

The overall gross profit margin in 2007 amounted to 34.9% (2006: 33.9%). The slightly increase was mainly due to the increase in the gross profit margin of sales of piped gas, resulting from the economic of sales, which was partly offset by the drop in the gross profit margin of connection revenue from gas pipeline construction, resulting from the surge of material cost.

Other income

Other income increased to approximately HK\$11,256,000 in 2007 from approximately HK\$8,020,000 in 2006. The 2007 balance mainly represented the bank interest income of approximately HK\$4,623,000 and the interest income from loan receivables of approximately HK\$4,258,000.

Selling and distribution costs

Selling and distribution costs increased by 174.0% to approximately HK\$7,663,000 in 2007 from approximately HK\$2,797,000 in 2006. The increase was mainly attributable to the increase in (i) staff costs and related expenses as a result of the increase in headcount and (ii) repairs and maintenance expenses, both resulting from the acquisition of Newly Acquired Projects in August 2007.

Administrative expenses

Administrative expenses increased by 221.7% to approximately HK\$58,105,000 in 2007 from approximately HK\$18,060,000 in 2006. The increase was mainly attributable to (i) staff costs and related expenses resulting from the increase in headcount; (ii) premises expenses resulting from the increase in related upon the renewal of lease; (iii) office related expenses resulting from the increase in number of subsidiaries and (iv) legal and professional fees resulting from the increase in number of transactions and funding activities performed by the Group.

Other expenses

Other expenses increased to approximately HK\$9,657,000 in 2007 from approximately HK\$2,408,000 in 2006. Other expense for the year under review was one-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 680.6% to approximately HK\$27,548,000 in 2007 from approximately HK\$3,529,000 in 2006. The increase was mainly attributable to the increase in (i) non-cash effective interest expense charged on convertible bonds; (ii) interest paid on convertible bonds and (iii) interest on bank borrowings resulting from the increase in the average bank borrowings and the average bank interest rate.

Impairment loss recognised on amounts due from customers for contract work

The Group recorded impairment loss recognised amounts due from customers for contract work of approximately HK\$21,551,000.

At each balance sheet date, management reconsidered the recoverability of its amounts due from customers of contract work based on likelihood of collection from its customers. In determining whether impairment is required, the Group takes into consideration of the construction progress and the progress payments received from its customers. Impairment is recognised for those contracts may not be honored by the customers.

During the year, we reviewed the recoverable amounts of the amounts due from customers for contract work and identified certain projects, which were started from the years 2005 and 2006 have slow construction progress. We are of the view that the amounts are unlikely to be recovered from its customers in considerable period of time and accordingly, impairment losses are recognised in full.

Change in fair value of derivative financial instruments

The Group recorded a non-cash loss arising on change in fair value of derivative financial instruments which was issued by the Company in June 2007 of HK\$7,617,000 in 2007 (2006:Nil)

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 year 2007 and 2006.

Except for Jiyuan Zhongyu Gas Co., Luohe Zhongyu Gas Project Install Co. Ltd, Sanmenxia China-Gas City Gas Development Co. Ltd and Xinmi Zhongyu Gas Co. Ltd which are entitled to a 50% reduction in PRC income tax, Ltd, the Group's PRC subsidiaries and the jointly controlled entity are exempted from PRC income tax in 2007.

Accordingly, the income tax expenses in 2007 amounted to approximately HK\$4,109,000 (2006: Nil).

Earnings from continuing operations before interests, taxation, depreciation, amortisation and change in fair value of derivative financial instruments ("EBITDAF")

The Group recorded EBITDAF of approximately HK\$32,523,000 in 2007, representing an increase of 104.9% as compared with that of approximately HK\$15,873,000 in 2006.

Discontinued Operations

With the aim to streamline the principal businesses of the Group to focus mainly on the CBM and natural gas businesses, we disposed of the HRM software business in May 2007. Since then, the HRM software business has permanently ceased.

For the six months ended 30th June, 2007, the Group recorded a loss from discontinued operations of approximately HK\$403,000.

Loss attributable to equity holders

As a result of the above, loss attributable to equity holders of the parent amounted to approximately HK\$26,183,000 in 2007.

DISCLOSURE OF INTERESTS

(a) Interests of Directors

As at 31st December, 2007, 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")) 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) which were required, pursuant to section 352 of

the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to Rule 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	<i>Notes</i>	Nature of Shares and/or underlying Shares	Type of Interests	Approximate percentage of issued share capital
Mr. Wang Wenliang	1	954,987,542	Beneficial and interested in corporation	49.13%
Mr. Hao Yu	2	1,009,989,542	Beneficial and interest in corporation	51.96%
Mr. Lu Zhaoheng	3,4	5,004,000	Beneficial	0.26%
Mr. Xu Yongxuan	3,4	5,004,000	Beneficial	0.26%
Mr. Lui Siu Keung	3,5	9,000,000	Beneficial	0.46%

Notes:

1. Among these Shares and/or underlying Shares, 944,985,542 Shares are held by Hezhong. Mr. Wang Wenliang is beneficially interested in 60% of the issued share capital of Hezhong. The remaining 10,002,000 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, 944,985,542 Shares are held by Hezhong. Mr. Hao Yu is interested in 40% of the issue share capital of Hezhong. The remaining 65,004,000 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.
3. These 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.
4. These underlying Shares entitle the holders thereof to subscribe for Shares at an exercise price of HK\$0.31 per Share during the period from 13th June, 2006 to 12th June, 2015.
5. These underlying Shares entitle the holder thereof to subscribe for Shares at an exercise price of HK\$0.56 per Share during the period from 29th March, 2007 to 28th March 2016.

Save as disclosed above, as at 31st December, 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) Interests of substantial shareholders of the Company

So far as is known to the Directors, as at 31st December, 2007, the following entities (not being Directors or chief executive of the Company) or 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

Name of Shareholder	Type of interests	Number of Shares	Approximate percentage of interests
Hezhong	Beneficial	944,985,542	48.61%
Perry Capital (Asia) Limited	Deemed/Beneficial	253,033,475	13.02%
Perry Capital LLC	Deemed/Beneficial	253,033,475	13.02%
Perry Corp.	Deemed/Beneficial	253,033,475	13.02%
Perry Richard Cayne	Deemed/Beneficial	253,033,475	13.02%
Perry Partners International, Inc.	Beneficial	213,953,570	11.01%

Note:

1. Hezhong is beneficially interested in 944,985,542 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 interest 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 31st December, 2007, 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 (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 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.

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 year ended 31st December, 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 year ended 31st December, 2007.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year, the Company repurchased a total of 2,730,000 shares through the Stock Exchange at a price range from HK\$0.90 to HK\$0.97 per share at an aggregate consideration of HK\$2,605,000.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the shares during the year.

PRELIMINARY ANNOUNCEMENT OF THE RESULTS AGREED BY AUDITOR

The figures in respect of the Group's consolidated balance sheet, consolidated income statement and the related notes thereto for the year ended 31st December, 2007 as set out in this announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement."

BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises Mr. Wang Wenliang (*Chairman*), Mr. Hao Yu (*Chief Executive Officer*), Mr. Lu Zhaoheng and Mr. Lui Siu Keung (*Chief Financial Officer*), 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, 27th March, 2008

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