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中裕燃气

**中裕燃气控股有限公司**

**ZHONGYU GAS HOLDINGS LIMITED**

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

(Stock Code : 8070)

**FIRST QUARTERLY RESULTS ANNOUNCEMENT  
FOR THE THREE MONTHS ENDED 31ST MARCH, 2006**

**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.*

## HIGHLIGHTS

- The Group's unaudited turnover amounted to approximately HK\$10,515,000 for the three months ended 31st March, 2006.
- The Group's unaudited loss amounted to approximately HK\$4,675,000 for the three months ended 31st March, 2006.
- The Board does not recommend the payment of any dividend for the three months ended 31st March, 2006.

The board of Directors (the "Board") is pleased to announce the unaudited consolidated results of the Group for the three months ended 31st March, 2006, together with the comparative figures for the corresponding period in 2005, as follows:

## CONSOLIDATED RESULTS (UNAUDITED)

		Three months ended 31st March,	
		2006	2005
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	10,515	2,777
Cost of sales		(8,116)	(2,117)
<b>GROSS PROFIT</b>		<b>2,399</b>	<b>660</b>
Other income		46	32
Distribution costs		(780)	(352)
Administrative expenses		(5,057)	(4,515)
Other expenses		(827)	(909)
Finance costs		(523)	(1,085)
<b>LOSS BEFORE TAX</b>		<b>(4,742)</b>	<b>(6,169)</b>
Income tax expenses	4	—	—
<b>LOSS FOR THE PERIOD</b>		<b>(4,742)</b>	<b>(6,169)</b>
Attributable to:			
Equity holders of the parent		(4,675)	(4,732)
Minority interests		(67)	(1,437)
		<b>(4,742)</b>	<b>(6,169)</b>
Dividend	5	—	—
<b>LOSS PER SHARE</b>	6		
Basic (HK cent)		<b>(0.353)</b>	<b>(0.445)</b>
Diluted (HK cent)		<b>(0.347)</b>	N/A

*Notes:*

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

The unaudited consolidated results have been prepared under the historical cost basis and in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. In addition, the unaudited consolidated results include applicable disclosures required by the GEM Listing Rules and by the Hong Kong Companies Ordinance. The principal policies adopted are the same as those adopted in the audited financial statements of the Group for the year ended 31st December, 2005.

**2. TURNOVER**

Revenue represents the net amounts received and receivable for goods sold and services rendered by the Group to outside customers, less returns and allowances. An analysis of the Group's revenue for the three months ended 31st March, 2006 is as follows:

	<b>Three months ended</b>	
	<b>31st March,</b>	
	<b>2006</b>	<b>2005</b>
	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
Sales of liquefied petroleum gas	<b>4,594</b>	—
Connection fees from gas pipeline construction	<b>2,995</b>	354
Sales of natural gas	<b>2,397</b>	1,156
Software maintenance service income	<b>279</b>	457
Software project income	<b>186</b>	709
Sales of stoves and related equipment	<b>64</b>	36
Sales of computer hardware	<b>—</b>	65
	<b>10,515</b>	<b>2,777</b>

### 3. BUSINESS AND GEOGRAPHICAL SEGMENTS

#### Business segments

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

Segment information about these divisions is presented below:

#### Income statement for the three months ended 31st March, 2006

	Sales of liquefied petroleum gas <i>HK\$'000</i>	Gas pipeline construction <i>HK\$'000</i>	Sales of natural gas <i>HK\$'000</i>	Software maintenance services <i>HK\$'000</i>	Development and sale of software <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Turnover	<u>4,594</u>	<u>2,995</u>	<u>2,397</u>	<u>279</u>	<u>186</u>	<u>64</u>	<u>10,515</u>
Segment results	<u>214</u>	<u>1,873</u>	<u>(317)</u>	<u>231</u>	<u>(397)</u>	<u>15</u>	<u>1,619</u>
Unallocated corporate income							46
Unallocated corporate expenses							(5,884)
Finance costs							<u>(523)</u>
Loss before tax							(4,742)
Income tax expense							<u>—</u>
Loss for the period							<u>(4,742)</u>

## Income statement for the three months ended 31st March, 2005

	Sales of liquefied petroleum gas <i>HK\$'000</i>	Gas pipeline construction <i>HK\$'000</i>	Sale of natural gas <i>HK\$'000</i>	Software maintenance services <i>HK\$'000</i>	Development and sale of software <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Turnover	—	354	1,156	457	709	101	2,777
Segment results	—	(94)	16	(75)	(444)	(306)	(903)
Unallocated corporate income							32
Unallocated corporate expenses							(4,213)
Finance costs							(1,085)
Loss before tax							(6,169)
Income tax expense							—
Loss for the period							(6,169)

### Geographical segments

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

	Three months ended 31st March,	
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
The PRC	10,049	1,575
Hong Kong	466	1,202
	<u>10,515</u>	<u>2,777</u>

#### 4. INCOME TAX EXPENSES

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

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

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

#### 5. DIVIDEND

The Board does not recommend the payment of any dividend for the three months ended 31st March, 2006 (2005: Nil).

#### 6. LOSS PER SHARE

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

	<b>2006</b> <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Loss for the period attributable to equity holders of the parent	<u>4,675</u>	<u>4,732</u>
	<b>2006</b> <i>'000</i>	2005 <i>'000</i>
Number of shares		
Weighted average number of ordinary shares for the purposes of basic loss per share	1,325,186	<u>1,062,800</u>
Effect of dilutive potential ordinary shares		
Share options	<u>20,568</u>	
Weighted average number of ordinary shares for the purposes of diluted loss per share	<u>1,345,754</u>	

No diluted loss per share for the three months ended 31st March, 2005 has been presented because there were no dilutive potential ordinary shares.

## 7. RESERVES

	Share premium HK\$'000	Share option reserve HK\$'000	Merger reserve HK\$'000	Other reserve HK\$'000	Translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st January, 2005	48,817	—	3,740	—	—	(9,720)	42,837
Loss for the period	—	—	—	—	—	(4,732)	(4,732)
At 31st March, 2005	<u>48,817</u>	<u>—</u>	<u>3,740</u>	<u>—</u>	<u>—</u>	<u>(14,452)</u>	<u>38,105</u>
At 1st January, 2006	145,901	2,408	3,740	7,607	607	(6,284)	153,979
Loss for the period	—	—	—	—	—	(4,675)	(4,675)
At 31st March, 2006	<u>145,901</u>	<u>2,408</u>	<u>3,740</u>	<u>7,607</u>	<u>607</u>	<u>(10,959)</u>	<u>149,304</u>

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

## 8. ACQUISITIONS, DISPOSAL AND SIGNIFICANT INVESTMENTS

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

On 17th February, 2006, being the latest date to lodge the application letter to subscribe for the New Share pursuant to the Share Subscription Agreement, CGCE received the application letter with respective payment attached from Zhongyu Gas Inv for subscription for 1,280,000 New Shares and Mr. Zheng failed to subscribe for his 38,400 New Shares. Accordingly, CGCE allotted and issued 1,280,000 New Shares with a total consideration of HK\$9,984,000 to Zhongyu Gas Inv on 21st February, 2006. Zhongyu Gas Inv fully paid the said consideration on 10th February, 2006.

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

CGCE was incorporated in the British Virgin Islands on 12th May, 2003. It is an investment holding company interested in the entire registered capital of Linyi China Gas City Gas Construction Company Limited (“Linyi China Gas”), a wholly-foreign owned enterprise established in the PRC on 18 July, 2003. Linyi China Gas is principally engaged in design and construction of natural gas pipeline network and ancillary facilities, distribution and sales of natural gas in the Linyi Economic Development District, Linyi City, Shandong Province, the PRC.

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

It is expected that the construction of the west-east branch pipeline to reach Linyi City would be completed by the mid of 2006 and then the piped natural gas supply would be available in Linyi City. The Directors are of the view that the turnover of Linyi China Gas would increase substantially as and when piped natural gas supply become available. Having considered the expected increase in the turnover resulting from the business growth of Linyi China Gas in the near future, the Directors are of the view that the entering into of the Share Subscription Agreement would increase the Company’s portion of the profits sharing from Linyi China Gas and thus improve the results of the Group.

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

## **COMPETING INTEREST**

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



## **BUSINESS REVIEW**

### **FINANCIAL REVIEW**

#### **Overall**

During the period under review, the Group recorded unaudited turnover of approximately HK\$10,515,000, representing an increase of approximately 278.6% from that of approximately HK\$2,777,000 for the corresponding period in 2005. The increase was mainly attributable to the continual expansion of the Group's gas businesses, including gas supply business and gas pipeline construction business. Of the Group's total turnover, approximately 43.7% was derived from sales of liquefied petroleum gas, approximately 28.5% was derived from connection fees from gas pipeline construction, approximately 22.8% was derived from sales of natural gas, approximately 2.6% was derived from software maintenance services income, approximately 1.8% was derived from software project income and the remaining approximately 0.6% was derived from sales of stoves and related equipment.

The Group's overall gross profit margin decreased to approximately 22.8% for the period under review from approximately 23.8% for the corresponding period in 2005. The slight decrease was mainly attributable to the increase in the proportion of turnover derived from sales of natural gas and liquefied petroleum gas, which in general have relatively low profit margins, in the Group's total turnover. The negative effect on the Group's overall gross profit margin attributable to the sales of natural gas and liquefied petroleum gas was partly offset by the increase in the proportion of turnover derived from connection fees from gas pipeline construction, which in general has a relatively high profit margin, in the Group's total turnover.

The Group's distribution costs for the period under review was approximately HK\$780,000, representing an increase of approximately 121.5% from that of approximately HK\$352,000 for the corresponding period in 2005. The significant increase was mainly attributable to the increase in salaries resulting from the employment of additional number of staff to deliver bottled liquefied petroleum gas to the customers.

During the period under review, the Group's administrative expenses amounted to approximately HK\$5,057,000, representing an increase of approximately 12.0% from that of approximately HK\$4,515,000 for the corresponding period in 2005. The increase was mainly attributable to the increase in salaries and wages resulting from the exploration and development of the Group's gas business.

As a result, loss attributable to equity holders of the parent for the period under review was approximately HK\$4,675,000, representing an decrease of approximately 1.2% from that of HK\$4,732,000 for the corresponding period in 2005.

## **Gas Business**

### *Sales of Liquefied Petroleum Gas*

For the period under review, the turnover of the Group derived from sale of liquefied petroleum gas was approximately HK\$4,594,000. No such type of turnover was recorded for the corresponding period in 2005. The households are the main users for consumption of liquefied petroleum gas.

### *Gas Pipeline Construction*

For the period under review, the turnover of the Group derived from the connection fees from gas pipeline construction reached approximately HK\$2,995,000, representing an increase of approximately 746.0% from that of approximately HK\$354,000 for the corresponding period in 2005. The substantial increase was mainly attributable to the increase in the number of households connected to the Group's gas pipeline networks.

### *Sales of Natural Gas*

For the period under review, the turnover of the Group derived from sale of natural gas was approximately HK\$2,397,000, representing an increase of approximately 107.4% from that of approximately HK\$1,156,000 for the corresponding period in 2005. The substantial increase was mainly attributable to the increase in the total gas consumption by industrial/commercial users.

## **Software Business**

### *Software Maintenance Services*

For the period under review, the Group's turnover derived from software maintenance service income amounted to approximately HK\$279,000, representing a decrease of approximately 38.9% from that of approximately HK\$457,000 for the corresponding period in 2005. The decrease was mainly attributable to the decrease in number of customers using the software maintenance service rendered by the Group.

### *Development and sales of HRM Software*

For the period under review, the Group's turnover derived from software project income amounted to approximately HK\$186,000, representing a decrease of approximately 73.8% from that of approximately HK\$709,000 for the corresponding period in 2005. The decrease was mainly attributable to the result of the concentration of the Group's resources to explore and develop the gas related business.

## **Prospects**

We expect that the gas market in the PRC will continue to be robust for the rest of 2006. In 2006, the Group will continue to focus on the exploration and the development of gas related business. The Group will strive to obtain more exclusive gas operations in the PRC in order to enhance its market position and to improve its financial performance. In respect of its existing gas operations, the Group will devote much effort to connecting more users to the Group's gas pipeline networks in order to increase the Group's turnover derived from connection fees from gas pipeline construction and sales of piped gas and in turn, improve its financial results.

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

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

## DISCLOSURE OF INTERESTS

### (a) Interests of Directors

As at 31st March, 2006, the interests and short positions of the Directors and the chief executive of the Company and their associates in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of the Part XV of Securities and Future Ordinance (the “SFO”)) (a) which were required to be notified to the Company and the Stock Exchange 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:

#### (i) Long positions in the shares of the Company:

Name of Director		Nature of interest	Total	Approximate percentage or attributable percentage of shareholdings (%)
Mr. Wang Wenliang (“Mr. Wang”)	<i>Note</i>	Personal	10,002,000	
		Corporate	872,505,542	
			<u>882,507,542</u>	<u>66.59</u>

*Note:* Mr. Wang is interested in the underlying shares of the Company (“Shares”) of the 10,002,000 option held by him as stated in (a)(ii) below. Hezhong Investment Holding Company Limited (“Hezhong”) is the beneficial owner of 882,507,542 Shares. Mr. Wang is deemed to be interested in these Shares through his 52% interest in the issued share capital of Hezhong.

(ii) *Share options:*

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

*Notes:*

1. These options were granted under the share option scheme adopted by the Company on 24th October, 2003 and entitle the holders thereof to subscribe for Shares at an exercise price of HK\$0.310 per Share during the period from 4th July, 2006 to 12th June, 2015.
2. The underlying Shares of these 10,002,000 options held by Mr. Wang duplicates his shareholding stated in section (a)(i) above.

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

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

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

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

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

So far as is known to the Directors, as at 31st March, 2006, the following person (not being directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

*Long positions in the Shares*

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

*Note:*

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

Save as disclosed above, as at 31st March, 2006, the Directors were not aware of any other person (other than the directors and the chief executive of the Company) who had, or was deemed to have, interest or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group.

## **CODE OF CORPORATE GOVERNANCE PRACTICES**

The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices 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 three months ended 31st March, 2006.

## **BOARD PRACTICE AND PROCEDURES**

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

## **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 three months ended 31st March, 2006.

## **BOARD OF DIRECTORS**

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

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

Hong Kong, 12th May, 2006

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