



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 REPORT

FOR THE THREE MONTHS ENDED

31ST MARCH, 2008

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This report, 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 report 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 report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

FINANCIAL HIGHLIGHTS

- Turnover for the three months ended 31st March, 2008 amounted to approximately HK\$122,574,000, representing an increase of approximately 515.8% over the corresponding period in 2007.
- Sales of piped gas for the three months ended 31st March, 2008 amounted to approximately HK\$94,514,000, representing an increase of approximately 794.2% over the corresponding period in 2007.
- Connection revenue from gas pipeline construction for the three months ended 31st March, 2008 amounted to approximately HK\$20,166,000, representing an increase of approximately 341.3% over the corresponding period in 2007.
- Loss attributable to equity holders of the Company for the three months ended 31st March, 2008 was approximately HK\$11,603,000.
- The Board does not recommend the payment of any dividend for the three months ended 31st March, 2008.

The board of Directors (the “Board”) is pleased to announce the unaudited consolidated results of the Group for the three months ended 31st March, 2008, together with the comparative figures for the corresponding period in 2007, which are set out as follows:

CONSOLIDATED RESULTS (UNAUDITED)

		Three months ended 31st March,	
	<i>NOTES</i>	2008 HK\$'000	2007 HK\$'000 (re-presented)
Continuing operations			
Turnover	3	122,574	19,906
Cost of sales		<u>(93,844)</u>	<u>(13,200)</u>
Gross profit		28,730	6,706
Other income	5	3,971	37
Selling and distribution costs		(4,795)	(793)
Administrative expenses		(24,166)	(5,095)
Finance costs	6	(13,563)	(1,077)
Change in fair value of derivative financial instruments	7	<u>(461)</u>	<u>—</u>
Loss before tax		(10,284)	(222)
Income tax expenses	8	<u>(704)</u>	<u>—</u>
Loss for the period from continuing operations		<u>(10,988)</u>	<u>(222)</u>
Discontinued operations			
Loss for the period from discontinued operations		<u>—</u>	<u>(188)</u>
Loss for the period		<u>(10,988)</u>	<u>(410)</u>
Attributable to:			
Equity holders of the Company		(11,603)	(324)
Minority interests		615	(86)
		<u>(10,988)</u>	<u>(410)</u>
Dividends	9	<u>—</u>	<u>—</u>
Loss per share	10		
From continuing and discontinued operations:			
Basic		<u>(0.5967) cent</u>	<u>(0.0204) cent</u>
Diluted		<u>N/A</u>	<u>N/A</u>
From continuing operations:			
Basic		<u>(0.5967) cent</u>	<u>(0.0086) cent</u>
Diluted		<u>N/A</u>	<u>N/A</u>

Notes:

1. PRESENTATION OF CONSOLIDATED Results

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

Certain comparative figures for the three months ended 31st March, 2007 have been re-presented in order to reflect the discontinuation of the Group's software business in 2007.

2. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The consolidated results have been prepared on the historical cost basis and in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated 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 consolidated financial statements of the Group for the year ended 31st December, 2007.

3. TURNOVER

Turnover represents the net amounts received and receivable for goods sold and services rendered by the Group to outside customers, net of discounts and related taxes. An analysis of the Group's turnover for the three months ended 31st March, 2008, for both continuing and discontinued operations is as follows:

	Three months ended 31st March,	
	2008	2007
	HK\$'000	HK\$'000
		(re-presented)
Continuing operations		
Sales of piped gas	94,514	10,570
Connection revenue from gas pipeline construction	20,166	4,570
Sales of liquefied petroleum gas	7,203	4,695
Sales of stoves and related equipment	691	71
	<u>122,574</u>	<u>19,906</u>
Discontinued operations (Note)		
Software project income	—	493
Software maintenance service income	—	473
	<u>—</u>	<u>966</u>
	<u>—</u>	<u>20,872</u>
	<u><u>—</u></u>	<u><u>20,872</u></u>

Note: The Group completed the discontinuation of its software business in 2007.

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purpose, the Group is currently organised into three major operating divisions: sales of piped gas, connection revenue from gas pipeline construction and sales of liquefied petroleum gas. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

Income statement for the three months ended 31st March, 2008

	Continuing operations				Discontinued operations					Total Consolidated
	Sales of piped gas	Connection revenue from gas pipeline construction	Sales of liquefied petroleum gas	Other operations	Development and sale of software	Software maintenance services	Sales of computer hardware	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	94,514	20,166	7,203	691	122,574	—	—	—	—	122,574
Segment results	15,914	12,208	515	93	28,730	—	—	—	—	28,730
Unallocated corporate income					3,971				—	3,971
Unallocated corporate expenses					(28,961)				—	(28,961)
Finance costs					(13,563)				—	(13,563)
Change in fair value of derivative financial instruments					(461)				—	(461)
Loss before tax					(10,284)				—	(10,284)
Income tax expense					(704)				—	(704)
Loss for the period					(10,988)				—	(10,988)

Income statement for the three months ended 31st March, 2007 (re-presented)

	Continuing operations				Discontinued operations					
	Connection revenue from Sales of gas pipeline piped gas		Sales of liquefied petroleum gas		Development and sale of software		Software maintenance services		Total Consolidated	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	Other operations	Total	HK\$'000	HK\$'000		HK\$'000
Turnover	10,570	4,570	4,695	71		19,906	493	473	966	20,872
Segment results	2,876	2,689	768	12		6,345	123	388	511	6,856
Unallocated corporate income						37			11	48
Unallocated corporate expenses						(5,527)			(710)	(6,237)
Finance costs						(1,077)			-	(1,077)
Loss before tax						(222)			(188)	(410)
Income tax expense						-			-	-
Loss for the period						(222)			(188)	(410)

5. OTHER INCOME

	Three months ended 31st March,	
	2008 HK\$'000	2007 HK\$'000 (re-presented)
Continuing operations		
Bank interest income	2,176	11
Other interest income	771	-
Sundry income	1,024	26
	3,971	37
Discontinued operations		
Bank interest income	-	1
Sundry income	-	10
	-	11

6. FINANCE COSTS

	Three months ended	
	31st March,	
	2008	2007
	HK\$'000	HK\$'000
Continuing operations		
Interest on bank borrowings:		
- wholly repayable within five years	5,895	1,077
Effective interest expense on convertible loan notes	7,668	—
Total finance costs	13,563	1,077

7. CONVERTIBLE BONDS

The movement of embedded derivative of the convertible bonds during the three months ended 31st March, 2008 is set out below:

	2008	2007
	HK\$'000	HK\$'000
At 1st January	130,036	—
Loss arising on change in fair value	461	—
At 31st March	130,497	—

8. INCOME TAX EXPENSES

PRC Enterprise Income Tax is calculated at a tax rate of 33% (2007: 33%), which is the prevailing tax rate in the People's Republic of China (the "PRC"). Hong Kong Profits Tax is calculated at 17.5% (2007: 17.5%) of the estimated assessable profit for the three months ended 31st March, 2008.

No provision for Hong Kong Profits Tax has been made in the consolidated results 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.

From continuing operations

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

	Three months ended 31st March,	
	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Loss		
Loss for the period attributable to equity holders of the Company from continuing and discontinued operations	(11,603)	(324)
Add: Loss for the period from discontinued operations	—	188
Loss for the purposes of basic and diluted loss per share from continuing operations	<u>(11,603)</u>	<u>(136)</u>

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

Notes:

- (a) The computation of diluted loss per share for the three months ended 31st March, 2008 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.
- (b) The computation of diluted loss per share for the three months ended 31st December, 2008 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.

11. Reserves

	Share premium	Share option reserve	Merger reserve	Property revaluation reserve	Other reserve	Translation reserve	Accumulated profits (losses)	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January, 2007	145,901	4,816	3,740	–	7,607	7,436	572	170,072
Issue of share on placement	105,467	–	–	–	–	–	–	105,467
Loss for the period	–	–	–	–	–	–	(410)	(410)
At 31st March, 2007	<u>251,368</u>	<u>4,816</u>	<u>3,740</u>	<u>–</u>	<u>7,607</u>	<u>7,436</u>	<u>162</u>	<u>275,129</u>
At 1st January, 2008	623,920	14,071	–	1,128	7,607	52,302	(21,871)	677,157
Loss for the period	–	–	–	–	–	–	(10,988)	(10,988)
At 31st March, 2008	<u>623,920</u>	<u>14,071</u>	<u>–</u>	<u>1,128</u>	<u>7,607</u>	<u>52,302</u>	<u>(32,859)</u>	<u>666,169</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.

12. Acquisitions, Disposal and Significant Investments

The Group had no acquisitions, disposals nor significant investments for the three months ended 31st March, 2008.

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

As at 31st March, 2008, the Directors did not have any future plans for material investment or capital assets.

COMPETING INTEREST

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

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 period 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.

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, the PRC and enhance the Group’s profitability, the Group tapped into the upper stream CBM supply market in the PRC in 2007.

As at 31st March, 2008, the Group secured eight coal blocks, situated at Jiaozuo, Zhengzhou, Pingdingshan (including Yuzhou and Ruzhou), Hebi, Yima, Yongxia, Henan Province, the PRC to explore, exploit, develop and produce CBM.

As at 31st March, 2008, the Group successfully completed drilling of 33 vertical wells in Jiaozuo. Fracturing process, which is the second phase in CBM extraction, for all the aforesaid 33 vertical wells has been completed, among which 17 vertical wells has begun the de-watering and releasing process, which is the last phase in CBM extraction, since September 2007. During the period 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 end 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.

Downstream Gas Business

The Group's downstream gas business primarily comprises sales of piped gas, gas pipeline construction and sales of liquefied petroleum gas ("LPG"). As at 31st March, 2008, 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 Zhougyu Gas Co. Ltd. and Luohe Zhougyu Gas Project Install Co. Ltd. (collectively "Newly Acquired Projects") were newly acquired by the Group in August 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

Approximately 90% of total sales of piped gas for the three months ended 31st March, 2008 was derived from provision of natural gas. During the period under review, the total unit of natural gas provided by the Group to its customers was approximately 41,342,000 m³ (2007: 6,329,000 m³).

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 March, 2008, the Group operated one CNG vehicle gas refuelling station in Linyi City, Shandong 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. which have obtained the approval from the local governments of Jiyuan, Luohe and Sanmenxia, Henan province, the PRC to build a total of eight CNG vehicle gas refuelling stations in aforesaid locations. As at 31st March, 2008, all the construction works for building the above eight CNG vehicle gas refuelling stations have been commenced. We anticipate the respective construction works will be completed by the end of 2008.

Gas Pipeline Construction

During the three months ended 31st March, 2008, the Group made new gas pipeline connection for 6,208 residential households (2007: 2,524 residential households) and 33 industrial/commercial customers (2007: 7 industrial/commercial customers). As at 31st March, 2008, the Group have the accumulated number of residential households of 222,075 (2007: 41,602 residential households) and industrial/commercial customers of 751 (2007: 103 industrial/commercial customers). As at 31st March, 2008, the Group's penetration rate reached 25% (2007: 8%) (represented by the percentage of accumulated number of residential households to estimated an aggregate of connectable residential households).

Sales of LPG

Sales of LPG are not a core business of the Group. During the period under review, the Group sold approximately 1,290 tons of bottled LPG (2007: 800 tons).

FINANCIAL REVIEW

For the three months ended 31st March, 2008, turnover increased by 515.8% to approximately HK\$122,574,000 from approximately HK\$19,906,000 for the corresponding period in 2007. The tremendous growth in turnover was mainly attributable to the robust growth in sales of piped gas and connection revenue from gas pipeline construction.

Sales of piped gas for the three months ended 31st March, 2008 amounted to approximately HK\$94,514,000, representing an increase of approximately 794.2% over the corresponding period in 2007. 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.

Connection revenue from gas pipeline construction for the three months ended 31st March, 2008 amounted to approximately HK\$20,166,000, representing an increase of approximately 341.3% over the corresponding period in 2007. The 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.

Gross profit margin

The overall gross profit margin for the three months ended 31st March, 2008 amounted to approximately 23.4% (2007: 33.7%). The decrease was mainly due to the increase in the proportion of turnover derived from sales of piped gas, which in general has a relatively low profit margin, in the Group's total turnover to approximately 77.1% for the three months ended 31st March, 2008 from approximately 53.1% for the corresponding period in 2007 and the decrease in the gross profit margin of connection revenue from gas pipeline construction to approximately 60.7% for the three months ended 31st March, 2008 from approximately 66.7% for the corresponding period in 2007, resulting from the surge of material cost.

Other income

Other income increased to approximately HK\$3,971,000 for the three months ended 31st March, 2008 from approximately HK\$37,000 for the corresponding period in 2007. The 2008 balance mainly represented the bank interest income of approximately HK\$2,176,000 and the other interest income of approximately HK\$771,000.

Operating expenses

Operating expenses, including selling and distribution costs and administrative expenses increased by 391.9% to approximately HK\$28,961,000 for the three months ended 31st March, 2008 from approximately HK\$5,888,000 for the corresponding period in 2007. The increase was mainly attributable to the increase in (i) staff costs and related expenses to approximately HK\$13,165,000 for the three months ended 31st March, 2008 (2007: HK\$2,909,000) as a result of the increase in headcount, (ii) insurance to approximately HK\$1,384,000 for the three months ended 31st March 2008 (2007: HK\$290,000), (iii) depreciation to approximately HK\$1,863,000 for the three months ended 31st March, 2008 (2007: HK\$216,000) and (iv) amortization of patent to approximately HK\$709,000 for the three months ended 31st March, 2008 (2007: Nil), all resulting from the acquisition of Newly Acquired Projects in August 2007.

Finance costs

Finance costs increased by 1,159.3% to approximately HK\$13,563,000 for the three months ended 31st March, 2008 from approximately HK\$1,077,000 for the corresponding period in 2007. The increase was mainly attributable to the increase in (i) non-cash effective interest expense charged on convertible bonds to approximately HK\$7,668,000 for the three months ended 31st March, 2008 (2007: Nil) and (ii) interest on bank borrowings to approximately HK\$5,895,000 for the three months ended 31st March, 2008 (2007: HK\$1,077,000) resulting from the increase in the average bank borrowings and the average bank interest rate.

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 approximately HK\$461,000 for the three months ended 31st March, 2008 (2007: 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 are exempted from PRC income tax in 2007.

Accordingly, the income tax expenses for the three months ended 31st March, 2008 amounted to approximately HK\$704,000 (2007: Nil).

Loss attributable to equity holders

As a result of the above, loss attributable to equity holders of the parent amounted to approximately HK\$11,603,000 for the three months ended 31st March, 2008.

Prospects

Riding on the booming natural gas market in the PRC, the Group had proactively strengthened both its upstream and downstream capabilities in 2008. 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. 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 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 since September 2007. The Group is satisfied with the progress of CBM extraction, and anticipates commercial CBM production by the end of 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.

DISCLOSURE OF INTERESTS

(a) Interests of Directors

As at 31st March, 2008, 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	Notes	Nature of Shares and/or underlying Shares	Type of Interests	Approximate percentage of issued share capital
Mr. Wang Wenliang	1	955,737,542	Beneficial and interested in corporation	49.15%
Mr. Hao Yu	2	1,010,739,542	Beneficial and interest in corporation	51.98%
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, 945,735,542 Shares are held by Hezhong Investment Holding Company Limited (“Hezhong”). Mr. Wang Wenliang is beneficially interested in 60% of the issued share capital of Hezhong. 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, 945,735,542 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 March, 2008, 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 March, 2008, 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	945,735,542	48.63%
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 Perry Partners International, Inc.	Deemed/Beneficial	253,033,475	13.02%
	Beneficial	213,953,570	11.01%

Note:

1. Hezhong is beneficially interested in 945,735,542 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 March, 2008, 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 three months ended 31st March, 2008.

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, 2008.

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, 2008.

BOARD OF DIRECTORS

As at the date of this report, 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*), as the non-executive Director and Mr. Wang Shunlong, Dr. Luo Yongtai and Mr. Hung, Randy King Kuen, as the independent non-executive Directors.

By Order of the Board
Wang Wenliang
Chairman

Hong Kong, 14th May, 2008