



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)

**THIRD QUARTERLY REPORT
FOR THE NINE MONTHS ENDED
30TH SEPTEMBER, 2006**

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

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

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The principal means of information dissemination on GEM is publication on the internet website at www.hkgem.com operated by the Stock Exchange. Listed companies are not generally required to issue paid announcement in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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.

HIGHLIGHTS

- During the period under review, the Group's turnover increased approximately 451.8%, to HK\$49,969,000.
- Loss attributable to equity holders of the parent for the period under review decreased approximately 61.6%, to HK\$5,208,000.
- The Board does not recommend the payment of any interim dividend for the nine months ended 30th September, 2006.

The board of Directors (the "Board") is pleased to announce the unaudited condensed consolidated results of the Group for the nine months ended 30th September, 2006, together with the comparative figures for the corresponding period in 2005 are set out as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the nine months ended 30th September, 2006

	Notes	Three months ended 30th September,		Nine months ended 30th September,	
		2006 HK\$'000 (unaudited)	2005 HK\$'000 (unaudited)	2006 HK\$'000 (unaudited)	2005 HK\$'000 (unaudited)
Turnover	2	20,368	3,547	49,969	9,056
Cost of sales		(11,778)	(1,657)	(33,884)	(5,156)
GROSS PROFIT		8,590	1,890	16,085	3,900
Other income		79	55	173	229
Selling and distribution costs		(783)	(303)	(2,303)	(1,657)
Administrative expenses		(4,395)	(6,328)	(13,532)	(13,915)
Other expenses		(131)	(1,385)	(2,715)	(4,148)
Finance costs		(1,074)	(565)	(2,956)	(1,809)
PROFIT (LOSS) BEFORE TAX		2,286	(6,636)	(5,248)	(17,400)
Income tax expenses	4	—	—	—	—
PROFIT (LOSS) FOR THE PERIOD		2,286	(6,636)	(5,248)	(17,400)
Attributable to:					
Equity holders of the parent		2,217	(5,419)	(5,208)	(13,574)
Minority interests		69	(1,217)	(40)	(3,826)
		2,286	(6,636)	(5,248)	(17,400)
Interim dividend	5	—	—	—	—
EARNINGS (LOSS) PER SHARE	6				
Basic		HK0.167 cent	HK(0.510) cent	HK(0.393) cent	HK(1.277) cents
Diluted		HK0.166 cent	N/A	HK(0.388) cent	N/A

Notes:

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated income statement have been prepared under the historical cost basis and in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. In addition, the unaudited condensed consolidated income statement include applicable disclosures required by the GEM Listing Rules and by the Hong Kong Companies Ordinance. The significant accounting policies adopted are the same as those adopted in the audited consolidated financial statements of the Company 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 nine months ended 30th September, 2006 is as follows:

	Three months ended 30th September,		Nine months ended 30th September,	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Connection fees from gas pipeline construction	10,313	702	21,851	1,324
Sales of liquefied petroleum gas	4,408	—	15,601	—
Sales of natural gas	4,244	906	8,813	2,651
Software project income	995	1,439	2,453	3,271
Software maintenance service income	366	484	1,077	1,599
Sales of stoves and related equipment	42	16	174	204
Sales of computer hardware	—	—	—	7
	<u>20,368</u>	<u>3,547</u>	<u>49,969</u>	<u>9,056</u>

3. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purpose, the Group is currently organised into five major operating divisions: Gas pipeline construction, sales of liquefied petroleum gas, sales of natural gas, development and sale of software and software maintenance services. 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 nine months ended 30th September, 2006

	Gas pipeline construction	Sales of liquefied petroleum gas	Sales of natural gas	Development and sale of software	Software maintenance services	Other operations	Eliminations	Consolidated
	<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>	<i>HK\$'000</i>
Turnover	21,851	15,601	8,813	2,453	1,077	174	–	
Inter-segment sales	–	–	795	–	–	–	(795)	
Total turnover	<u>21,851</u>	<u>15,601</u>	<u>9,608</u>	<u>2,453</u>	<u>1,077</u>	<u>174</u>	<u>(795)</u>	<u>49,969</u>
Segment results	<u>13,485</u>	<u>(1,365)</u>	<u>(213)</u>	<u>763</u>	<u>817</u>	<u>38</u>	<u>–</u>	<u>13,523</u>
Unallocated corporate income								173
Unallocated corporate expenses								(15,988)
Finance costs								(2,956)
Loss before tax								(5,248)
Income tax expenses								–
Loss for the period								<u>(5,248)</u>

3. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Income statement for the nine months ended 30th September, 2005

	Sales of							Consolidated
	Gas pipeline construction	liquefied petroleum gas	Sale of natural gas	Development and sale of software	Software maintenance services	Other		
	<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>	
Turnover	1,324	–	2,651	3,271	1,599	211	–	
Inter-segment sales	–	–	–	–	–	–	–	
Total turnover	<u>1,324</u>	<u>–</u>	<u>2,651</u>	<u>3,271</u>	<u>1,599</u>	<u>211</u>	<u>–</u>	<u>9,056</u>
Segment results	<u>521</u>	<u>–</u>	<u>(126)</u>	<u>(238)</u>	<u>1,173</u>	<u>(57)</u>	<u>–</u>	<u>1,273</u>
Unallocated corporate income								229
Unallocated corporate expenses								(17,093)
Finance costs								(1,809)
Loss before tax								(17,400)
Income tax expenses								–
Loss for the period								<u>(17,400)</u>

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 30th September,		Nine months ended 30th September,	
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
The People's Republic of China ("PRC")	<u>19,007</u>	1,655	<u>46,483</u>	4,210
Hong Kong	<u>1,361</u>	1,892	<u>3,486</u>	4,846
	<u>20,368</u>	<u>3,547</u>	<u>49,969</u>	<u>9,056</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. INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the nine months ended 30th September, 2006 (2005: Nil).

6. EARNINGS (LOSS) PER SHARE

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

	Three months ended 30th September,		Nine months ended 30th September,	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Profit (Loss) for the period attributable to equity holders of the parent	2,217	(5,419)	(5,208)	(13,574)
	<u>2,217</u>	<u>(5,419)</u>	<u>(5,208)</u>	<u>(13,574)</u>
	Three months ended 30th September,		Nine months ended 30th September,	
	2006 '000	2005 '000	2006 '000	2005 '000
Number of shares				
Weighted average number of ordinary shares for the purposes of basic earnings (loss) per share	1,325,186	1,062,800	1,325,186	1,062,800
		<u>1,062,800</u>		<u>1,062,800</u>
Effect of dilutive potential ordinary shares:				
Share options	12,752		15,676	
	<u>12,752</u>		<u>15,676</u>	
Weighted average number of ordinary shares for the purposes of diluted earnings (loss) per share	1,337,938		1,340,862	
	<u>1,337,938</u>		<u>1,340,862</u>	

No diluted loss per share for the three months and nine months ended 30th September, 2005 has been presented because there were no dilutive potential ordinary shares.

7. RESERVES

	Share premium <i>HK\$'000</i>	Share option reserve <i>HK\$'000</i>	Merger reserve <i>HK\$'000</i>	Other reserve <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January, 2005	48,817	—	3,740	—	—	(9,720)	42,837
Loss for the period	—	—	—	—	—	(13,574)	(13,574)
At 30th September, 2005	<u>48,817</u>	<u>—</u>	<u>3,740</u>	<u>—</u>	<u>—</u>	<u>(23,294)</u>	<u>29,263</u>
At 1st January, 2006	145,901	2,408	3,740	7,607	607	(6,284)	153,979
Recognition of equity settled share based payment	—	2,408	—	—	—	—	2,408
Loss for the period	—	—	—	—	—	(5,208)	(5,208)
At 30th September, 2006	<u>145,901</u>	<u>4,816</u>	<u>3,740</u>	<u>7,607</u>	<u>607</u>	<u>(11,492)</u>	<u>151,179</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 was 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 17th 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 sale of natural gas in the Linyi Economic Development District, Linyi City, Shandong Province, the PRC. Linyi China Gas entered into a purchase contract with PetroChina Company Limited (中國石油天然氣股份有限公司) (“PetroChina”) on 31st July, 2005 pursuant to which PetroChina agreed to supply natural gas to Linyi China Gas for the period from 31st July, 2005 to 31st July, 2025.

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

The construction of the west-east branch pipeline to reach Linyi City was completed in July 2006 and the piped natural gas supply from PetroChina is now available in Linyi City. The Directors believe that securing a sufficient piped natural gas supply would facilitate Linyi China Gas to develop its natural gas business in Linyi City and lower the Linyi China Gas's cost of sales and thus the turnover and results of Linyi China Gas would increase substantially in the second half of 2006. Having considered the expected increase in the turnover and results 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.

On 23rd July, 2006, Linyi ZhongYu Gas Company Limited ("Linyi ZhongYu JV"), a joint venture of the Company, and Linyi China Gas entered into a temporary contract ("Supply Contract") pursuant to which Linyi ZhongYu JV agreed to purchase and Linyi China Gas agreed to supply piped natural gas at market price offered by Linyi China Gas to party(ies) which is/are independent of and not connected with the Company, any director, chief executive and substantial shareholder or management shareholder of the Company or any of its subsidiaries or any of their respective associates.

Linyi ZhongYu JV was a Chinese-foreign equity joint venture company and established on 28th January, 2005. It is owned as to 51% by the Group and the remaining 49% by 臨沂市城市燃氣工程籌建處(the Department of City Natural Gas Engineering of Linyi City), Linyi ZhongYu JV is principally engaged in the construction and operation of natural gas projects in 蘭山區 (Lan Shan Qu) (exclusive of 南坊片 (Lan Shan Qu)) and part of 羅莊區 (Luo Zhuang Qu), Linyi City, Shandong Province, the PRC. Its main business activities include design and construction of natural gas pipeline network and ancillary facilities and sale of gas as well as sale and maintenance of gas appliances.

Taking into account the operation of Linyi ZhongYu JV and Linyi China Gas are located in the same city, the Directors are of the view that the entering into of the Supply Contract would minimize the Group's cost in construction of its network of gas pipelines connecting to the gas fields of its suppliers for natural gas.

The Directors confirmed that the terms of the Supply Contract have been determined after arm's length negotiations between the parties thereto and will be no less favourable than terms the Group can otherwise obtain in the market. The Directors are of the view that the terms of the Supply Contract are fair and reasonable and are in the interests of the Company and its shareholders as a whole.

Save as disclosed above, the Group had no acquisitions, disposals nor significant investments for the nine months ended 30th September, 2006.

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.

FINANCIAL REVIEW

Overall

During the period under review, the Group's turnover increased approximately 451.8%, to HK\$49,969,000 from approximately HK\$9,056,000 for the corresponding period in 2005. The upsurge in the Group's turnover 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 connection fees from gas pipeline construction, approximately 31.2% was derived from sales of liquefied petroleum gas, approximately 17.6% was derived from sales of natural gas, approximately 4.9% was derived from software project income, approximately 2.2% was derived from software maintenance services income, and the remaining approximately 0.4% was derived from sales of stoves and related equipment.

The Group's overall gross profit margin decreased to approximately 32.2% for the period under review from approximately 43.1% for the corresponding period in 2005. The 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 selling and distribution costs for the period under review was increased approximately 39.0%, to HK\$2,303,000 from approximately HK\$1,657,000 for the corresponding period in 2005. The increase was mainly attributable to the increase in salaries as the number of the Group's operating subsidiaries increased and additional sales and marketing staff was employed by the Group for the purposes to promote the Group and introduce the Group's products to its existing and potential customers.

During the period under review, the Group's administrative expenses decreased approximately 2.8%, to HK\$13,532,000 from approximately HK\$13,915,000 for the corresponding period in 2005. The decrease was mainly attributable to the combined effect of the decrease in professional fees incurred in connection with conducting the Group's discloseable transactions and the increase in salaries and wages as the number of the Group operating subsidiaries increased and rent and rates paid for an office located in Hong Kong.

The Group's finance costs for the period under review increased approximately 63.4%, to HK\$2,956,000 from approximately HK\$1,809,000 for the corresponding period in 2005. The increase was mainly attributable to the increase in interest expenses resulting from the rise in average interest rate and the increase in the average outstanding bank borrowings which were mainly used to fund the construction of the Group's pipeline networks.

As a result, loss attributable to equity holders of the parent for the period under review decreased 61.6%, to HK\$5,208,000 from HK\$13,574,000 for the corresponding period in 2005.

Gas Business

Gas Pipeline Construction

For the period under review, the turnover of the Group derived from the connection fees from gas pipeline construction increased approximately 1,550.4%, to HK\$21,851,000 from HK\$1,324,000 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 existing gas pipeline networks resulting from the efforts of the Group's sales and marketing teams and the increase in the number of the Group's gas pipeline projects acquired by the Group in October 2005.

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\$15,601,000. This type of turnover was generated from the old business of the Group's operating subsidiaries acquired by the Group in October 2005, therefore, 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.

Sales of Natural Gas

For the period under review, the turnover of the Group derived from sale of natural gas increased approximately 232.4%, to HK\$8,813,000 from approximately HK\$2,651,000 for the corresponding period in 2005. The increase 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.

Software Business

Development and sales of HRM Software

For the period under review, the Group's turnover derived from software project income decreased approximately 25.0%, to HK\$2,453,000 from approximately HK\$3,271,000 for the corresponding period in 2005. The decrease was mainly attributable to the result of the concentration of the Group's resources on the exploration and development of the gas related businesses.

Software Maintenance Services

For the period under review, the Group's turnover derived from software maintenance service income decreased approximately 32.7%, to HK\$1,077,000 from approximately HK\$1,599,000 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.

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 businesses. 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 continue to adopt a prudent and conservative approach on 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 30th September, 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	Number of Shares held	Approximate percentage or attributable percentage of shareholdings
Mr. Wang Wenliang (“Mr. Wang”)	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 872,505,542 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:*

Name of Directors	Number of options held	Nature of interest	Number of underlying Shares	Approximate percentage of the issued share capital of the Company
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:*

Name of Directors	Nature of interest	Associated corporation	Percentage of shareholding
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 30th September, 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 30th September, 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

Name	Nature of interest	Number of Shares held	Approximate percentage of interests
Hezhong	Beneficial	872,505,542	65.84%

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

Save as disclosed above, as at 30th September, 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 nine months ended 30th September, 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 nine months ended 30th September, 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 nine months ended 30th September, 2006.

BOARD OF DIRECTORS

As at the date of this report, 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, 10th November, 2006