

## Third Quarterly Report 2007/2008

Stock Code : 8212



APTUS

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**APTUS HOLDINGS LIMITED**

(INCORPORATED IN CAYMAN ISLANDS WITH LIMITED LIABILITY)

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*This report, for which the directors of Aptus Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to Aptus Holdings Limited. 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.*

## RESULTS

The board of directors (the “**Board**”) of Aptus Holdings Limited (the “**Company**”) announces that the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the three months and nine months ended 31 March 2008, together with the comparative unaudited figures for the corresponding period in 2007, are as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months and nine months ended 31 March 2008

	Notes	(Unaudited) Three months ended 31 March		(Unaudited) Nine months ended 31 March	
		2008	2007	2008	2007
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
REVENUE	2	30,699	13,290	86,899	30,721
Cost of sales		(27,347)	(12,560)	(74,073)	(29,619)
Gross profit		3,352	730	12,826	1,102
Other revenue		356	18	1,162	352
Selling and distribution costs		(3,154)	(90)	(10,487)	(265)
Administrative expenses		(4,142)	(19,828)	(20,555)	(73,502)
Finance costs		(10,202)	(7,978)	(27,856)	(12,068)
Loss on deemed disposal of a subsidiary of a jointly controlled entity	3	–	–	(7)	–
Share of loss of an associate	3	(59)	–	(42)	–
LOSS BEFORE TAXATION		(13,849)	(27,148)	(44,959)	(84,381)
Tax	4	(311)	–	330	(3)
LOSS FOR THE PERIOD		(14,160)	(27,148)	(44,629)	(84,384)
NET LOSS ATTRIBUTABLE TO:					
Equity holders of the Company		(14,113)	(27,157)	(44,427)	(84,285)
Minority interests		(47)	9	(202)	(99)
		(14,160)	(27,148)	(44,629)	(84,384)
LOSS PER SHARE	5				
Basic (HK Cents)		(0.831)	(1.623)	(2.615)	(5.047)

Notes:

## **1. BASIS OF PREPARATION AND ACCOUNTING POLICIES**

The unaudited consolidated results have been prepared in accordance with accounting principles generally accepted in Hong Kong which include Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong (the "GEM Listing Rules").

The unaudited consolidated results have been prepared under the historical cost convention, except for certain financial instruments which are measured at fair value.

The accounting policies and methods of computation used in the preparation of these unaudited consolidated results are consistent with those applied in the annual financial statements for the year ended 30 June 2007.

## **2. REVENUE RECOGNITION**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from sales of gas and gas appliances are recognized when goods are delivered and title has been passed.

Gas transportation revenue and gas connection fee income are recognized when the corresponding services are performed.

Sales of edible oil products are recognized when goods are delivered and title has been passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

## **3. DEEMED DISPOSAL OF A SUBSIDIARY OF A JOINTLY CONTROLLED ENTITY**

In August 2007, Linli Huayou Gas Co., Limited ("Linli Huayou") increased its registered capital from RMB5,000,000 to RMB7,200,000. The additional capital of RMB2,200,000 was paid by an independent third party. As a result, Changde Huayou Gas Co., Limited's (a jointly controlled entity of the Group) equity interest in Linli Huayou decreased from 70% to 48.6%, and Linli Huayou changed from a subsidiary to an associate of Changde Huayou Gas Co., Limited.

## **4. TAX**

No provision for Hong Kong profits tax has been made as the Group did not have any assessable profits arising in Hong Kong for the three months and nine months ended 31 March 2008 (three months and nine months ended 31 March 2007: NIL). Taxation arising in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

## 5. LOSS PER SHARE

The calculation of basic loss per share is based on the unaudited net loss attributable to equity holders for the three months ended and nine months ended 31 March 2008 of approximately HK\$14,113,000 and HK\$44,427,000 respectively (three months and nine months ended 31 March 2007: approximately HK\$27,157,000 and HK\$84,285,000 respectively) and the weighted average number of approximately 1,698,831,428 and 1,698,734,155 ordinary shares issued during the three months and nine months ended 31 March 2008 (three months and nine months ended 31 March 2007: 1,673,020,595 and 1,669,956,483 shares respectively).

No diluted loss per share has been presented in both periods as the outstanding share options and convertible bonds of the Company are anti-dilutive since their exercise or concession would result in a decrease in loss per share.

## 6. DIVIDEND

The Board does not recommend the payment of any dividend for the nine months ended 31 March 2008 (nine months ended 31 March 2007: NIL).

## 7. MOVEMENT OF RESERVES

	(Unaudited) Share option reserve HK\$'000	(Unaudited) Convertible bonds reserve HK\$'000	(Unaudited) Translation reserve HK\$'000	(Unaudited) Share premium account HK\$'000	(Unaudited) Capital reserve HK\$'000	(Unaudited) Accumulated losses HK\$'000	(Unaudited) Total HK\$'000
At 1 July 2007	78,120	10,712	5,384	90,960	15,826	(225,489)	(24,487)
Shares issued on exercise of options	-	-	-	96	-	-	96
Exchange differences arising from translation of financial statements of overseas operations	-	-	14,443	-	-	-	14,443
Recognition of equity-settled share based payments	7,674	-	-	-	-	-	7,674
Net loss for the period	-	-	-	-	-	(44,427)	(44,427)
<b>At 31 March 2008</b>	<b>85,794</b>	<b>10,712</b>	<b>19,827</b>	<b>91,056</b>	<b>15,826</b>	<b>(269,916)</b>	<b>(46,701)</b>
At 1 July 2006	23,207	-	339	88,096	15,826	(114,725)	12,743
Shares issued on exercise of options	-	-	-	1,661	-	-	1,661
Exchange differences arising from translation of financial statements of overseas operations	-	-	2,856	-	-	-	2,856
Issue of convertible bonds	-	10,712	-	-	-	-	10,712
Recognition of equity-settled share based payments	46,291	-	-	-	-	-	46,291
Net loss for the period	-	-	-	-	-	(84,285)	(84,285)
<b>At 31 March 2007</b>	<b>69,498</b>	<b>10,712</b>	<b>3,195</b>	<b>89,757</b>	<b>15,826</b>	<b>(199,010)</b>	<b>(10,022)</b>

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## MANAGEMENT DISCUSSION AND ANALYSIS

The Company is engaged in the trading of edible oil, oilfield mining and operation of natural gas businesses in the PRC. In February 2007, the Group completed the investment in Hunan Huayou Natural Gas Transportation and Distribution Company Limited and Changde Huayou Gas Co., Limited (collectively referred to as the “Hunan Joint Ventures”), the principal businesses are provision of gas transportation services via the Changsha to Changde provincial level pipeline to city-level gas distributors along the pipeline and the operation of a city level natural gas distribution project in Changde City, Hunan province, the PRC. The Hunan Joint Ventures are treated as jointly controlled entities of the Group and thus the two ventures’ accounts can be consolidated into our accounts on a proportional basis.

### FINANCIAL REVIEW

For the nine months ended 31 March 2008, the Group recorded an unaudited consolidated turnover of approximately HK\$86.9 million, which represented an increase of approximately 183% as compared to approximately HK\$30.7 million for the nine months ended 31 March 2007. Of the HK\$56.2 million in additional turnover, the Group’s sales of edible oil products increased by approximately HK\$12.2 million over the previous corresponding period to HK\$26.6 million. The balance of the increase of HK\$44 million was due to the contributions from our attributable share of turnover from the Hunan Joint Ventures for the period ended 31 March 2008.

The gross profit for the nine months ended 31 March 2008 increased by approximately 11 times to approximately HK\$12.8 million (for the nine months ended 31 March 2007: HK\$1.1 million). HK\$12.3 million of the gross profit was generated by our gas sector operations and HK\$0.5 million was generated by our trading of edible oil products operations. Overall, gross margin increased to approximately 14.7% for the nine months ended 31 March 2008 from approximately 3.6% previously due to the rising in contribution from the Hunan natural gas operations which have a higher gross margin. Gross margin for the trading of edible oil products for the nine months ended 31 March 2008 was approximately 1.3% against 1.8% previously. The lower gross margin here was due to the low-price strategy adopted by the Group in reaction to tougher market conditions. This, however, was more than offset by the 25.7% gross margin being achieved by our natural gas operations.

Net loss for the period under review decreased by approximately 47% to HK\$44.6 million from HK\$84.4 million previously. The bulk of the decrease in net loss can be explained by the net effect of the following items: (i) decrease in share option expenses by approximately HK\$38.6 million from approximately HK\$46.3 million recorded for the nine months ended 31 March 2007 to approximately HK\$7.7 million for the nine months ended 31 March 2008; (ii) increase in imputed finance cost for the convertible bonds by approximately HK\$13 million to approximately HK\$22.6 million for the period ended 31 March 2008 (for the period ended 31 March 2007: approximately HK\$9.6 million); and (iii) decrease in legal and professional fee from HK\$13.4 million (mainly incurred for the issuance of convertible bonds) in nine months ended 31 March 2007 to approximately HK\$0.1 million in the period under review.

## **BUSINESS REVIEW**

Operationally, the results predominately reflect the trading of edible oil products and the selling of natural gas. While drilling at the Group's Xin Jiang Oilfield is in progress, commercial production of crude has yet to commence as we are still in the development stage of the project.

With regards to the edible oil operations, turnover for the period ended 31 March 2008 was approximately HK\$38.8 million (for the period ended 31 March 2007: approximately HK\$26.6 million) and gross profit was approximately HK\$0.5 million (for the period ended 31 March 2007: approximately HK\$0.5 million). Gross profit remained steady despite increased turnover because the company was selling at a more competitive price in order to attract higher sales volume.

On the natural gas side, our 48.33% owned Changde Huayou Gas Co., Ltd ("Changde Joint Venture") (a city level natural gas pipeline project) and 33.0% owned Hunan Huayou Natural Gas Transportation and Distribution Company Limited ("Hunan Joint Venture") (a provincial level natural gas pipeline project) contributed a combined turnover of approximately HK\$48 million to the Group for the period ended 31 March 2008 (for the period ended 31 March 2007: HK\$4 million). Gross profit for the period ended 31 March 2008 was approximately HK\$12.3 million (for the period ended 31 March 2007: HK\$0.6 million).

The Changde Joint Venture has completed about 657 km of city-level pipelines connecting approximately 139 commercial users, 7 industrial users, 90 public welfare establishments and nearly 50,000 residential users to its network.

The Hunan Joint Venture has completed the construction of its main pipelines (about 188 km in total) branching out to reach 7 city-level gas distribution stations in the province of Hunan.

## **FUTURE OUTLOOK AND PROSPECTS**

On the natural gas side, the short term objective of the Group is to continue the expansion of the pipeline network of the Changde Joint Venture (city level natural gas pipeline project) with a target to extend its reach to about 4,000 more commercial, industrial, welfare establishments and residential users in the city before the end of this fiscal year to take advantages of the fast growing demand in the city of Changde.

As for the Hunan Joint Venture (provincial level natural gas pipeline project), it is the Group's aim to further expand from the existing pipelines to branch out to at least one more city-level gas distribution station before the end of the fiscal year to increase the sale of natural gas to nearby cities.

In terms of the Xin Jiang Oilfield project, currently, we are still in the development stage of this project conducting drillings of wells and testing our findings. It is the Group's target to bring on commercial operations by the end of the fiscal year.

In addition to developing the assets we have on hand at the moment, we intend to explore more business opportunities in the oil and gas related industries in the PRC and also look to continue developing our working relationship with Huayou and explore for further opportunities in which we can cooperate.

With National policy of the Central Government of the PRC promoting the use of natural gas, a more environmental friendly source of energy, and the buoyant demand for energy in the PRC, we believe the future is very bright for the natural gas section in the PRC.



## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 March 2008, the interests of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were 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 have taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

### (1) Long positions in the ordinary shares of the Company or any of its associated corporations

	Number of ordinary shares held			Total interest	Percentage of the Company's issued share capital
	Personal interest	Corporate interest	Under share option scheme		
Madam Cheung Kwai Lan	-	971,746,428	-	971,746,428	57.20

*Note:* These shares are owned by Precise Result Profits Limited, which is an indirect wholly-owned subsidiary of China Vanguard Group Limited. Accordingly, Madam Cheung Kwai Lan is deemed to be interested in the shares of the Company under SFO for her controlling interests in Best Frontier Investments Limited, which owns approximately 38.02% of the issued share capital of China Vanguard Group Limited.

## **(2) Share option scheme**

As at 31 March 2008, no share option had been granted or agreed to be granted to the Directors and chief executives under the share option scheme.

Save as disclosed above, as at 31 March 2008, none of the Directors or chief executives of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which would have 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 which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

## **ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES**

Save as disclosed in the section headed "Directors' and chief executives' interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation" above, at no time during the period was the Company or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors and chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any body corporate, and none of the directors and chief executives or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the period.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 31 March 2008, so far as is known to the Directors and the chief executives of the Company, the interests and short positions of the persons or corporations in the shares or underlying shares of the Company which have been disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

### Long positions in the shares

Name of Shareholders	Capacity	Number of ordinary shares held	Number of share options and underlying shares held	Aggregate long position	Percentage of shareholding
Precise Result Profits Limited (“Precise”) (Note 1)	Beneficial owner, directly held	971,746,428	–	971,746,428	57.20
China Success Enterprises Limited (“China Success”) (Notes 1 and 2)	Beneficial owner, held by a controlled corporation	971,746,428	–	971,746,428	57.20
China Vanguard Group Limited (“China Vanguard”) (Notes 1 and 3)	Beneficial owner, held by controlled corporations	971,746,428	–	971,746,428	57.20
Best Frontier Investments Limited (“Best Frontier”) (Notes 1 and 4)	Beneficial owner, held by controlled corporations	971,746,428	–	971,746,428	57.20
Cheung Kwai Lan (Notes 1 and 5)	Beneficial owner, held by controlled corporations	971,746,428	–	971,746,428	57.20
Chan Tung Mei (Notes 1 and 6)	Beneficial owner, held by controlled corporations	971,746,428	–	971,746,428	57.20

Name of Shareholders	Capacity	Number of ordinary shares held	Number of share options and underlying shares held	Aggregate long position	Percentage of shareholding
Evolution Master Fund, Ltd. SPC, Segregated Portfolio M ("Evolution M Fund") (Notes 7 and 8)	Beneficial owner	50,410,000	161,379,310	211,789,310	12.47
Evolution Capital Management LLC (Notes 7, 8 and 9)	Investment manager	50,410,000	161,379,310	211,789,310	12.47

### Short positions in underlying share of the Company

Name of shareholders	Capacity	Number of underlying shares	Percentage of shareholding
Evolution M Fund (Note 8)	Beneficial owner	48,750,000	2.87
Evolution Capital Management, LLC (Notes 8 and 9)	Investment manager	48,750,000	2.87

#### Notes:

- As further detailed in note 8 below, 48,750,000 shares of the Company, which were included in 971,746,428 shares as at 31 March 2008, were lent to Evolution M Fund.
- Precise is a wholly owned subsidiary of China Success. The shares referred to herein related to the same parcel of shares held by Precise.
- China Success is a wholly owned subsidiary of China Vanguard. The shares referred to herein related to the same parcel of shares held by Precise.
- As at 31 March 2008, Best Frontier is interested in approximately 38.02% of the issued share capital of China Vanguard. The shares referred to herein related to the same parcel of shares held by Precise.
- Madam Cheung Kwai Lan and Mr. Chan Tung Mei have equity interests of 99.89% and 0.11%, respectively of the issued share capital of Best Frontier. Madam Cheung Kwai Lan is the spouse of Mr. Chan Tung Mei. Accordingly, Madam Cheung Kwai Lan is deemed to be 100% interested in the shares of Best Frontier under the SFO. The shares referred to herein relate to the same parcel of shares held by Precise.

6. Madam Cheung Kwai Lan and Mr. Chan Tung Mei have equity interests of 99.89% and 0.11%, respectively of the issued share capital of Best Frontier. Mr. Chan Tung Mei is the spouse of Madam Cheung Kwai Lan. Accordingly, Mr. Chan Tung Mei is deemed to be 100% interested in the shares of Best Frontier under the SFO. The shares referred to herein relate to the same parcel of shares held by Precise.
7. On 7 November 2006, Evolution M Fund entered into an agreement with the Company to subscribe convertible bonds in the aggregate principal amount of HK\$234,000,000 of the Company, which were then issued to Evolution M Fund on 22 November 2006. Assuming the convertible bonds are fully converted into the Company's shares at the reset conversion price of HK\$1.45 each, the convertible bonds will be converted into 161,379,310 shares of the Company. As at 31 March 2008, the outstanding principal amount of the convertible bonds were HK\$234,000,000.
8. As a condition precedent to the issue of the convertible bonds, China Vanguard entered into a stock lending agreement with Evolution M Fund, pursuant to which China Vanguard agrees to lend to Evolution M Fund up to 48,750,000 shares of the Company (the "Borrowed Shares"). Evolution M Fund exercised its right under the stock lending agreement and China Vanguard lent 48,750,000 shares of the Company to Evolution M Fund on 7 March 2007. As at 31 March 2008, Evolution M Fund held 1,660,000 ordinary shares of the Company and 48,750,000 Borrowed Shares of the Company, totaling 50,410,000 shares of the Company.
9. As the investment manager of Evolution M Fund, Evolution Capital Management, LLC is deemed to be interested in the aggregated long and short positions in the shares and underlying shares of the Company held by Evolution M Fund.

Save as disclosed above, as at 31 March 2008, the Directors or chief executives of the Company were not aware of any person (other than a Director or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, was, directly or indirectly, interest in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES**

During the nine months ended 31 March 2008, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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## COMPETING INTERESTS

None of the Directors or the management shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules) had any business that competed or might compete with the business of the Group.

## AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference based upon the guidelines published by the Hong Kong Institute of Certified Public Accountants. The primary duties of the audit committee are to review the Company's annual report and accounts, half-year reports and quarterly reports and to provide advice and comments thereon to the Board. The audit committee is also responsible for reviewing and supervising the Company's financial reporting and internal control procedures. The audit committee consisted of four Independent Non-executive Directors, namely Mr. Tian He Nian, Mr. Zhao Zhi Ming, Mr. Zhang Xiu Fu and Mr. To Yan Ming, Edmond. Mr. To Yan Ming, Edmond is the chairman of the audit committee. The Group's unaudited results for the nine months ended 31 March 2008 have been reviewed by the audit committee which was of the opinion that the preparation of such results complied with applicable accounting standards and requirements and that adequate disclosures had been made.

By order of the Board,  
**CHAN Ting**  
*Director*

Hong Kong, 15 May 2008

*As at the date of this report, the Executive Directors are Madam Cheung Kwai Lan, Mr. Chan Ting and Mr. Fung King Him, Daniel; and the Independent Non-executive Directors are Mr. Tian He Nian, Mr. Zhao Zhi Ming, Mr. Zhang Xiu Fu and Mr. To Yan Ming, Edmond.*