



**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 REPORT  
FOR THE THREE MONTHS ENDED  
31ST MARCH, 2007**

## **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.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

**The principal means of information dissemination on GEM is publication on the internet website at [www.hkgem.com](http://www.hkgem.com) operated by the Stock Exchange. Listed companies are not generally required to issue paid reports 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

- The Group's unaudited turnover amounted to approximately HK\$20,872,000 for the three months ended 31st March, 2007.
- The Group's loss attributable to equity holders of the parent amounted to approximately HK\$324,000 for the three months ended 31st March, 2007.
- The Board does not recommend the payment of any dividend for the three months ended 31st March, 2007.

The board of Directors (the "Board") is pleased to announce the unaudited consolidated results of the Group for the three months ended 31st March, 2007, together with the comparative figures for the corresponding period in 2006, as follows:

## CONSOLIDATED RESULTS (UNAUDITED)

		<b>Three months ended 31st March,</b>	
		<b>2007</b>	<b>2006</b>
		<b>HK\$'000</b>	<b>HK\$'000</b>
	<i>Notes</i>		
Turnover	2	20,872	10,515
Cost of sales		<u>(13,564)</u>	<u>(8,116)</u>
<b>GROSS PROFIT</b>		<b>7,308</b>	<b>2,399</b>
Other income		48	46
Distribution costs		(1,049)	(780)
Administrative expenses		(5,547)	(5,057)
Other expenses		(91)	(827)
Finance costs		<u>(1,079)</u>	<u>(523)</u>
<b>LOSS BEFORE TAX</b>		<b>(410)</b>	<b>(4,742)</b>
Income tax expenses	4	<u>—</u>	<u>—</u>
<b>LOSS FOR THE PERIOD</b>		<b><u>(410)</u></b>	<b><u>(4,742)</u></b>
Attributable to:			
Equity holders of the parent		(324)	(4,675)
Minority interests		<u>(86)</u>	<u>(67)</u>
		<b><u>(410)</u></b>	<b><u>(4,742)</u></b>
Dividends	5	<u>—</u>	<u>—</u>
<b>LOSS PER SHARE</b>	6		
Basic (HK cent)		<b><u>(0.0204)</u></b>	<b><u>(0.353)</u></b>
Diluted (HK cent)		<b><u>(0.0202)</u></b>	<b><u>(0.347)</u></b>

Notes:

## 1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The unaudited 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 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, 2006.

## 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, 2007 is as follows:

	<b>Three months ended</b>	
	<b>31st March,</b>	
	<b>2007</b>	<b>2006</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Sales of natural gas	<b>10,570</b>	2,397
Sales of liquefied petroleum gas	<b>4,695</b>	4,594
Connection revenue from gas pipeline construction	<b>4,570</b>	2,995
Software project income	<b>493</b>	186
Software maintenance service income	<b>473</b>	279
Sales of stoves and related equipment	<b>71</b>	64
	<b>20,872</b>	10,515

### 3. BUSINESS AND GEOGRAPHICAL SEGMENTS

#### Business segments

For management purpose, the Group is currently organised into five major operating divisions: Sales of natural gas, sales of liquefied petroleum gas, connection revenue from gas pipeline construction, 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 three months ended 31st March, 2007

	Sale of natural gas	Sales of liquefied petroleum gas	Connection revenue from gas pipeline construction	Development and sale of software	Software maintenance services	Other operations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	10,570	4,695	4,570	493	473	71	20,872
Segment results	2,876	768	2,689	123	388	12	6,856
Unallocated corporate income							48
Unallocated corporate expenses							(6,235)
Finance costs							(1,079)
Loss before tax							(410)
Income tax expense							—
Loss for the period							(410)

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

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

### 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,	
	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
The PRC	19,905	10,049
Hong Kong	967	466
	<u>20,872</u>	<u>10,515</u>

#### 4. INCOME TAX EXPENSES

The statutory tax rates for Hong Kong Profits Tax and the PRC Enterprise Income Tax are 17.5% (2006: 17.5%) and 33% (2006: 33%) respectively.

No provision for Hong Kong Profits Tax has been made 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. DIVIDENDS

The Board does not recommend the payment of any dividend for the three months ended 31st March, 2007 (2006: 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>2007</b> <b>HK\$'000</b>	2006 HK\$'000
Loss for the period attributable to equity holders of the parent	<u>324</u>	<u>4,675</u>
	<b>2007</b> <b>'000</b>	2006 '000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic loss per share	<b>1,590,186</b>	1,325,186
Effect of dilutive potential ordinary shares		
Share options	<u>11,924</u>	<u>20,568</u>
Weighted average number of ordinary shares for the purposes of diluted loss per share	<u><b>1,602,110</b></u>	<u>1,345,754</u>

## 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) profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
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>
At 1st January, 2007	145,901	4,816	3,740	7,607	7,436	572	170,072
Issue of shares 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>7,607</u>	<u>7,436</u>	<u>162</u>	<u>275,129</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 22nd January, 2007, the Group and Henan Province Coalbed Methane Development and Utilisation Company Limited (“Henan Methane”) entered into a joint venture agreement (the “JV Agreement”), pursuant to which 河南中裕煤層氣開發利用有限公司 (Henan Zhongyu Coalbed Methane Development and Utilisation Company Limited) (“Zhongyu Coalbed Methane”) is jointly established. Zhongyu Coalbed Methane engages principally in the development and utilisation of coalbed methane in Henan Province, People’s Republic of China (“PRC”). Upon establishment, the Group holds 75% equity interests in Zhongyu Coalbed Methane with the remaining 25% being held by Henan Methane. Zhongyu Coalbed Methane had been accounted for as a non-wholly owned subsidiary of the Company. On 9th April, 2007, a supplementary joint venture agreement (the “Supplementary JV Agreement”) to the JV Agreement was entered into between the Group and Henan Methane, pursuant to which the joint development area of coalbed methane by Zhongyu Coalbed Methane will be extended from Jiaozuo City, Henan Province, the PRC to the mine areas legally owned and controlled by Henan Gas situated at Jiaozuo City, Zhengzhou, Pingdingshan (including Yuzhou and Ruzhou), Hebi, Yima, Yongxia. All of these areas are located at Henan Province, the PRC. According to the Supplementary JV Agreement, the Group will be the exclusive sole joint venture partner of Henan Methane in these areas and without prior written consent from the Group, Henan Methane will not form any joint venture engaging in similar business with other third parties. The details of above had been disclosed in the announcements of the Company dated 22nd January, 2007 and 11th April, 2007 respectively.

Save as disclosed above, the Group had no acquisitions, disposals nor significant investments for the three months ended 31st March, 2007.

## **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\$20,872,000, representing an increase of approximately 98.5% from that of approximately HK\$10,515,000 for the corresponding period in 2006. 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 50.6% was derived from sales of natural gas, approximately 22.5% was derived from sales of liquefied petroleum gas, approximately 21.9% was derived from connection revenue from gas pipeline construction, approximately 2.4% was derived from software project income, approximately 2.3% was derived from software maintenance services income and the remaining approximately 0.3% was derived from sales of stoves and related equipment.

The Group's overall gross profit margin increased to approximately 35.0% for the period under review from approximately 22.8% for the corresponding period in 2006. The increase was mainly attributable to the increase in the proportion of turnover derived from connection revenue 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\$1,049,000, representing an increase of approximately 34.5% from that of approximately HK\$780,000 for the corresponding period in 2006. The increase was mainly attributable to the salary increment.

During the period under review, the Group's administrative expenses amounted to approximately HK\$5,547,000, representing an increase of approximately 9.7% from that of approximately HK\$5,057,000 for the corresponding period in 2006. The increase was mainly attributable to the increase in salaries and wages.

During the period under review, the Group's financial costs amounted to approximately HK\$1,079,000, representing an increase of approximately 106.3% from that of approximately HK\$523,000 for the corresponding period in 2006. The increase was mainly attributable to the reduction of amounts capitalised in construction in progress of the Group.

As a result, loss attributable to equity holders of the parent for the period under review improved from approximately HK\$324,000 from that of HK\$4,675,000 for the corresponding period in 2006.

## **Gas Business**

### *Sales of Natural Gas*

For the period under review, the turnover of the Group derived from sale of natural gas was approximately HK\$10,570,000, representing an increase of approximately 341.0% from that of approximately HK\$2,397,000 for the corresponding period in 2006. The substantial increase was mainly attributable to the increase in the total gas consumption by industrial/commercial users.

### *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\$4,695,000 representing an increase of approximately 2.2% from that of approximately HK\$4,594,000 for the corresponding period in 2006. 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\$4,570,000, representing an increase of approximately 52.6% from that of approximately HK\$2,995,000 for the corresponding period in 2007. The increase was mainly attributable to the increase in the number of households connected to the Group's gas pipeline networks.

## **Software Business**

### *Development and sales of HRM Software*

For the period under review, the Group's turnover derived from software project income amounted to approximately HK\$493,000, representing a decrease of approximately 165.1% from that of approximately HK\$186,000 for the corresponding period in 2006. The increase was mainly attributable to the increase in the number of HRM Software Project.

### *Software Maintenance Services*

For the period under review, the Group's turnover derived from software maintenance service income amounted to approximately HK\$473,000, representing a decrease of approximately 69.5% from that of approximately HK\$279,000 for the corresponding period in 2006. The increase was mainly attributable to the increase in number of customers using the software maintenance service rendered by the Group.

## **Prospects**

Due to the growing prosperity, population and annual gross domestic production per capita in the PRC as well as the increasing awareness of environment protection in the PRC, we believe that the demand for the natural gas in the PRC would increase as natural gas is considered to be an environmentally clean source of energy. Accordingly, we are still positive about the boom of the natural gas market in the PRC for the rest of 2007. In 2007, 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 revenue from gas pipeline construction and sales of piped gas and in turn, improve its financial results.

As the PRC is now facing the problem of energy, including but not limited to the shortage of oil and gas resulting from the rapid development of its economy, we consider there will be more demand for alternative energy source and the JV Agreement offers the Group a good business opportunity to allow the Group to tap into the upstream coalbed methane supply market in the PRC. Taking into account that coalbed methane can be used as an alternative energy source to natural gas and sold to the Group's gas operations located in Henan Province, the PRC, we believe investing in coalbed methane projects could help to safeguard sufficient source of gas supply to the Group's gas operations located in Henan Province and enlarge the Group's source of income as well as greatly alleviate the PRC' energy problem. We also believe that the Group's upstream coalbed methane project would help and enhance its downstream gas business. The Group will strive to obtain more exclusive coalbed methane operations in the PRC to enhance its market position and to improve its financial performance.

In addition, the Group continues to look for valuable strategic investors and introduce them to the Group in order to enhance the Group's reputation and financial position.

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, 2007, the interests and short positions of the Directors and the chief executive of the Company and their associates in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of 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>55.5</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	0.63%
Mr. Hao Yu	8,004,000 <i>(Note 1)</i>	Personal	8,004,000	0.50%
Mr. Lu Zhaoheng	5,004,000 <i>(Note 1)</i>	Personal	5,004,000	0.31%
Mr. Xu Yongxuan	5,004,000 <i>(Note 1)</i>	Personal	5,004,000	0.31%

*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, 2007, 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, 2007, 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	54.87%

*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, 2007, the Directors were not aware of any other person (other than the directors and the chief executive of the Company) who had, or was deemed to have, 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, 2007.

## **BOARD PRACTICE AND PROCEDURES**

The Company has complied with the requirement of Board Practices and Procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules during the three months ended 31st March, 2007.

## **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, 2007.

## **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, 14 May, 2007