



中裕燃氣控股有限公司
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, 2010**

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

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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, 2010 amounted to approximately HK\$218,722,000, representing an increase of approximately 36.1% over the corresponding period in 2009.
- Gross profit for the three months ended 31st March, 2010 amounted to approximately HK\$48,862,000, representing an increase of approximately 34.5% over the corresponding period in 2009.
- Loss attributable to owners of the Company for the three months ended 31st March, 2010 was approximately HK\$4,905,000.
- The Group's Adjusted EBITDA was approximately HK\$15,333,000 for the three months ended 31st March, 2010, representing an increase of 0.4% as compared with that of approximately HK\$15,275,000 for the corresponding period in 2009.
- The Board does not recommend the payment of any dividend for the three months ended 31st March, 2010.

The board of Directors (the "Board") is pleased to announce the unaudited consolidated results of the Group for the three months ended 31st March, 2010, together with the comparative figures for the corresponding period in 2009, which are set out as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE THREE MONTHS ENDED 31ST MARCH, 2010 (UNAUDITED)

	NOTES	Three months ended 31st March,	
		2010 HK\$'000	2009 HK\$'000
Turnover	3	218,722	160,695
Cost of sales		169,860	(124,361)
Gross profit		48,862	36,334
Other income	5	2,939	2,290
Other gains and losses	6	2,363	30,614
Selling and distribution costs		(6,623)	(5,209)
Administrative expenses		(36,731)	(25,718)
Share-based payment		(1,294)	(1,891)
Finance costs	7	(7,746)	(15,399)
Profit before tax		1,770	21,021
Income tax expenses	8	(3,433)	(6,147)
(Loss) Profit for the period		(1,663)	14,874
Other comprehensive income			
Exchange difference arising on translation		-	-
Total comprehensive (loss) income for the period		(1,663)	14,874
(Loss) Profit for the period attributable to:			
Owners of the Company		(4,905)	12,252
Minority interests		3,242	2,622
		(1,663)	14,874
Total comprehensive (loss) income attributable to:			
Owners of the Company		(4,905)	12,252
Minority interests		3,242	2,622
		(1,663)	14,874
(Loss) Earnings per share	9	(0.2485)	0.6334
Basic (HK cent per share)		NA	0.6281
Diluted (HK cent per share)		NA	0.6281

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.

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, 2009.

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, 2010:

	Three months ended	
	31st March,	
	2010	2009
	HK\$'000	HK\$'000
Sales of piped gas	154,924	127,302
Connection revenue from gas pipeline construction	34,965	19,262
Sales of liquefied petroleum gas	9,301	6,929
Operation of compressed natural gas ("CNG") filling station	16,541	6,574
Sales of stoves and related equipment	2,991	628
	<hr/>	<hr/>
	218,722	160,695

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

The Group's executive directors are the chief operating decision makers as they collectively make strategic decisions on resources allocation and performance assessment. The Group is principally engaged in development, construction and operation of natural gas and coalbed gas projects in the PRC. Nearly all identifiable assets of the Group are located in PRC. Information reported to the Group's executive directors for the purpose of resources allocation and assessment of performance focuses on the type of products

or services. Each type of product or service is managed by an unique business unit within the Group whose performance is assessed independently. The Group's operating segments under HKFRS 8 are therefore as follows:

- (a) sales of piped gas
- (b) connection revenue from gas pipeline construction
- (c) sales of liquefied petroleum gas
- (d) operation of CNG filling stations
- (e) sales of coalbed methane gas ("CBM")
- (f) Sales of stoves and related equipment

The following is an analysis of the Group's turnover and results by operating segment for the periods under review:

Segment information about these businesses is presented below:

Income statement for the three months ended 31st March, 2010

	Sales of piped gas	Connection revenue from gas pipeline construction	Sales of liquefied petroleum gas	Operation of CNG filling stations	Sales of CBM	Other operations	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<u>154,924</u>	<u>34,965</u>	<u>9,301</u>	<u>16,541</u>	<u>-</u>	<u>2,991</u>	<u>218,722</u>
Segment results	<u>(6,036)</u>	<u>15,777</u>	<u>(480)</u>	<u>11,042</u>	<u>(2,457)</u>	<u>1,515</u>	<u>19,361</u>
Interests and other income							2,939
Central corporate expenses							(15,147)
Finance costs							(7,746)
Change in fair value of derivative financial instruments							<u>2,363</u>
Profit before tax							1,770
Income tax expenses							<u>(3,433)</u>
Loss for the period							<u>(1,663)</u>

Income statement for the three months ended 31st March, 2009

	Sales of piped gas <i>HK\$'000</i>	Connection revenue from gas pipeline <i>HK\$'000</i>	Sales of liquefied petroleum gas <i>HK\$'000</i>	Operation of CNG filling stations <i>HK\$'000</i>	Sales of CBM <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Total <i>HK\$'000</i>
Turnover	<u>127,302</u>	<u>19,262</u>	<u>6,929</u>	<u>6,574</u>	<u>-</u>	<u>628</u>	<u>160,695</u>
Segment results	<u>11,773</u>	<u>8,013</u>	<u>(963)</u>	<u>972</u>	<u>(1,344)</u>	<u>104</u>	<u>18,555</u>
Interests and other income							2,290
Central corporate expenses							(15,039)
Finance costs							(15,399)
Change in fair value of derivative financial instruments							21,154
Gain on repurchase of convertible bonds							<u>9,460</u>
Profit before tax							21,021
Income tax expense							<u>(6,147)</u>
Profit for the period							<u>14,874</u>

5. OTHER INCOME

	Three months ended 31st March,	
	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Bank interest income	509	925
Sundry income	2,430	1,365
	<u>2,939</u>	<u>2,290</u>

6. OTHER GAINS AND LOSS

	Three months ended 31st March,	
	2010	2009
	HK\$'000	HK\$'000
Change in fair value of derivative financial instruments	2,363	21,154
Gain on repurchase of convertible bonds (<i>Note</i>)	-	9,460
	<hr/> 2,363	<hr/> 30,614

Note:

On 11th March, 2009, the Group entered into a purchase agreement with one of the holders (“Bond Holder A”) of the convertible bonds (“Bonds”) in an aggregate principal amount of US\$40,000,000 due 2012 issued by the Company to five institutional subscribers on 25th June, 2007 pursuant to which the Company agreed to repurchase and the Bond Holder A agreed to sell an aggregate outstanding principal amount of the Bond amounting to US\$5,000,000 at 80% of the principal amount. In addition, the Company paid all the accrued interest to Bond Holder A up to the date of completion of the said agreement. The aforesaid transaction was completed on 14th March, 2009.

On 25th March, 2009, the Group entered into a conditional agreement (“Amendment Agreement”) with the holders (“Bond Holders B”) of the Bonds pursuant to which the Company and the Bond Holders B had conditionally agreed to alter the existing terms and conditions of the Bonds in an aggregate principal amount of US\$35 million due 2012 issued by the Company to the Bond Holders B on 25th June, 2007 in accordance with the bond subscription agreement dated 28th May, 2007 in exchange for the repurchase by the Company of the 40% of the outstanding Bonds in an aggregate principal amount of US\$14 million (the “Repurchase Bonds”) from the Bond Holders B at a purchase price representing 110% of the principal amount of the Repurchase Bonds, together with all accrued and unpaid interest on the Repurchase Bonds up to 18th May, 2009 and the payment of the fee in an aggregate amount of US\$150,000 to the Bond Holders B. For details of the aforesaid transaction, please refer to the Company’s circular (“Circular”) dated 15th April, 2009.

On 4th May, 2009, an ordinary resolution approving the Amendment Agreement was duly passed by the independent Shareholders by way of poll at an extraordinary general meeting of the Company. The aforesaid connected transaction was completed on 18th May, 2009.

7. FINANCE COSTS

	Three months ended 31st March,	
	2010 HK\$'000	2009 HK\$'000
Interest on bank borrowings		
– wholly repayable within five years	5,574	7,147
Effective interest expense on convertible bonds	2,172	8,252
	7,746	15,399

8. INCOME TAX EXPENSES

	Three months ended 31st March,	
	2010 HK\$'000	2009 HK\$'000
PRC Enterprise Income Tax	3,433	2,113
Dividend Withholding Tax	–	4,034
	3,433	6,147

On 26th June, 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the year.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1st January, 2008 onwards.

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Company and its subsidiaries had no assessable profits arising in Hong Kong for both period.

Pursuant to the relevant laws and regulations in the PRC, certain PRC subsidiaries of the Group are exempted from PRC Enterprise Income Tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years. The tax concession arrangement of the aforesaid PRC subsidiaries will be expired from 2010 to 2011. According to New Law, the tax concession arrangement will not be granted to all new applicants incorporated after 16th March, 2007. As for the existing group entities entitle such tax concession but have not commenced their first profit-making year will be exempted from PRC Enterprise Income Tax for two years, followed by a 50% reduction for the next three years regardless of its reported results commencing from 1st January, 2008 and the charge of PRC Enterprise Income Tax for the year has been provided for after taking these tax incentive into account.

Under the EIT Law of the PRC, withholding tax is imposed on the dividend declared to non-PRC tax residents in respect of profits earned by PRC subsidiaries from 1st January, 2008 onwards.

9. (LOSS) EARNINGS PER SHARE

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

	Three months ended 31st March,	
	2010 HK\$'000	2009 HK\$'000
(Loss) Earnings		
Earnings (Loss) for the purposes of basic (loss)/earnings per share		
	(4,905)	12,252
 As at 31st March,		
	2010 '000	2009 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	1,974,008	1,934,402
Effect of dilutive potential ordinary shares: Share options issued by the Company	–	16,312
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	NA	1,950,714

The denominators used are the same as those detailed above for both basis (loss) earnings per share and diluted earnings per share.

Notes:

Diluted loss per share has not been presented for the three months ended 31st March, 2010 because:

- (a) The exercise of the Company's outstanding share options would result in a decrease in loss per share from continuing operations.
- (b) The conversion of the Company's outstanding convertible bonds would decrease the loss per share, after taking into account of the effect of interest and change in fair value of conversion/redemption option derivative components of the convertible bonds.

10. DIVIDENDS

No dividend was paid or proposed during the three months ended 31st March, 2010, nor has any dividend been proposed since 31st March, 2010 (2009: nil).

11. RESERVES

	Property								
	Share	options	revaluation	Other	surplus	Statutory	Translation	Accumulated	
	Share	reserve	options	reserve	reserve	reserve	reserve	losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1st January, 2009 (as restated)	617,376	20,971	1,128	7,607	-	104,632	(114,668)	636,446	
Profit for the period	-	-	-	-	-	-	-	12,252	12,252
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	-	-	-	12,252	12,252
Balance at 31st March, 2009 (unaudited)	<u>617,376</u>	<u>20,971</u>	<u>1,128</u>	<u>7,607</u>	<u>-</u>	<u>104,032</u>	<u>(102,416)</u>	<u>648,698</u>	
Balance At 1st January, 2010 (audited)	625,142	24,258	1,128	7,607	22,386	110,780	(116,994)	674,307	
Profit for the period	-	-	-	-	-	-	-	(4,905)	(4,905)
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	-	-	-	(4,905)	(4,905)
Exercise of share option	5,252	(1,106)	-	-	-	-	-	-	4,146
Share conversion	8,949	-	-	-	-	-	-	-	8,949
Equity-settled share-based payments	-	1,294	-	-	-	-	-	-	1,294
Balance at 31st March, 2010 (audited)	<u>639,343</u>	<u>24,446</u>	<u>1,128</u>	<u>7,607</u>	<u>22,386</u>	<u>110,780</u>	<u>(121,899)</u>	<u>683,791</u>	

12. ACQUISITIONS, DISPOSAL AND SIGNIFICANT INVESTMENTS

The Group had no acquisitions, disposals nor significant investments for the three months ended 31st March, 2010.

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

As at 31st March, 2010, 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 year under review, we are principally engaged in (i) the exploration, exploitation and development of coalbed methane (“CBM”) and (ii) the development, construction of gas pipeline network and sales of piped gas and sales of natural gas from compressed natural gas (“CNG”) filling station for vehicles in the People’s Republic of China (the “PRC”).

Upstream CBM Exploration

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, 2010, 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, 2010, the Group successfully completed drilling of 33 vertical wells in Jiaozuo and all of them have entered into dewatering and releasing process since third quarter 2008 and some are showing positive result until now. In April 2008, the Group has appointed Netherland, Sewell & Associates, Inc. (“NSAI”), a renowned energy research firm, to prepare an independent report confirming the extent of the Group’s CBM deposits. The estimated low, medium and high gas volumes in Jiaozuo CBM block as of 1st April, 2008 were approximately 4,166.9 BCF (approximately 118.0 bln m³), 5,916.3 BCF (approximately 167.5 bln m³) and 9,275.6 BCF (approximately 262.7 bln m³) respectively. The result indicates an enormous CBM reserves located in our Jiaozuo CBM block, and approximates to the preliminary gas volume estimation which was conducted by the related domestic CBM exploration institutions and announced by the Group before. Going onward, the Group will further extend the trial and exploration in Jiaozuo CBM blocks as well as to better master its reserve estimates, with the aim of hastening the commercial production of the CBM.

Downstream Natural Gas Distribution

The Group' downstream natural gas distribution business primarily comprises sales of piped gas, gas pipeline construction and sales of natural gas from CNG filling stations for vehicles.

As at 31st March, 2010, the Group secured eleven exclusive gas projects, three in Shandong Province, the PRC and eight in Henan Province, the PRC.

The cities in which the Group's gas projects operate currently have a total connectable urban population of approximately 3,284,000. It is estimated that there are an aggregate of approximately 925,200 connectable residential households in such cities.

With the aim to enhance the Group's turnover and results, the Group has commenced to develop CNG vehicle gas filling business in the PRC since September 2007. In September 2007, one CNG filling station has been erected and commenced its operation in Linyi City, Shandong Province, the PRC. In October 2008, the Group has completed construction of a new CNG filling station in Luohe City, Henan Province, the PRC. The commercial operation of such CNG filling station has been commenced from the end of November 2008. In March 2009, the Group has completed the construction of a new CNG filling station in Jiyuan City, Henan Province, the PRC, and such CNG filling station commenced commercial operation on 1st April, 2009. In December 2009, one CNG filling station has been completed construction and commenced its operation in Sanmenxia City, Henan Province, the PRC.

On 7th September, 2009, the group acquired the entire equity interest of 南京裕聯壓縮氣有限公司 (Nanjing Yulian Compressed Gas Company Limited) ("Nanjing Yulian"), a company established in the PRC with limited liability. Nanjing Yulian is an investment holding company and has no other business save for the holding of 70% equity interests in 南京裕聯天然氣加氣有限公司 (Nanjing Yulian Natural Gas Filling Company Limited) ("Nanjing Yulian NG Filling"). Nanjing Yulian obtained approval from local authorities of Nanjing, the PRC to construct a total of eight CNG filling stations in Nanjing. Nanjing Yulian NG Filling has erected one CNG filling station and commenced its operation in Nanjing, the PRC during the year. In future, the Group plans to erect two new CNG filling stations in Luohe City and Nanjing respectively by 2010 in order to increase the Group's market share.

In order to ease shortage of the natural gas supply and to meet robust demand for clean energy, the construction works for building of West-East natural gas transmission project second pipeline progresses were projected to be completed by the end of 2010 and the commercial operation was planned to be commenced in early 2011. With the aim to secure the Group's future natural gas supply and further develop the Group's downstream natural gas distribution business in Luohe City, Jiyuan City and Sanmenxia City, where West-East natural gas pipeline branch networks will cover, the Group has entered into 3 outline agreements of natural gas sales and transportation with the local natural gas suppliers respectively.

Sales of Piped Gas

Approximately 87% of total sales of piped gas for the three months ended 31st March, 2010 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 66,966,500 m³ (2009: 52,100,000 m³).

Gas Pipeline Construction

During the three months ended 31st March, 2010, the Group made new gas pipeline connection for 10,851 residential households (2009: 6,125 residential households) and 42 industrial/commercial customers (2009: 32 industrial/commercial customers). As at 31st March, 2010, the Group have the accumulated number of residential households of 354,621 (2009: 272,283 residential households) and industrial/commercial customers of 1,362 (2009: 1,083 industrial/commercial customers). As at 31st March, 2010, the Group's penetration rate reached 38% (2009: 30% (represented by the percentage of accumulated number of residential households to estimated an aggregate of connectable residential households).

Sales of Natural Gas From CNG Filling Stations

During the period under review, the total unit of CNG provided by the Group to its customers was approximately 5,718,100 m³ (2009: 3,184,000 m³).

Sales of LPG

Sales of LPG are not a core business of the Group. During the period under review, the Group sold approximately 1,543 tons of bottled LPG (2009: 1,545 tons).

FINANCIAL REVIEW

For the three months ended 31st March, 2010, turnover increased by 36.1% to approximately HK\$218,722,000 from approximately HK\$160,695,000 for the corresponding period in 2009. The growth in turnover was mainly attributable to the robust growth in sales of piped gas.

Sales of piped gas for the three months ended 31st March, 2010 amounted to approximately HK\$154,924,000, representing an increase of approximately 21.7% over the corresponding period in 2009. 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.

Connection revenue from gas pipeline construction for the three months ended 31st March, 2010 amounted to approximately HK\$34,965,000, representing a increase of approximately 81.5% over the corresponding period in 2009. The increase in connection revenue from gas pipeline construction was mainly attributable to the increase in construction work of gas pipeline connection completed for residential households during the period under review.

Gross profit margin

The overall gross profit margin for the three months ended 31st March, 2010 amounted to approximately 22.3% (2009: 22.6%). The slightly decrease in the gross profit margin of connection revenue from gas pipeline construction to approximately 58% for the three months ended 31st March, 2010 from approximately 59.2% for the corresponding period in 2009, resulting from the surge of material cost.

Other income

Other income increased to approximately HK\$2,939,000 for the three months ended 31st March, 2010 from approximately HK\$2,290,000 for the corresponding period in 2009. The 2010 balance mainly represented the bank interest income of approximately HK\$509,000 and the sundry income of approximately HK\$2,430,000.

Other gains and loss

The Group recorded a non-cash gain arising on change in fair value of derivative financial instruments which was issued by the Company in June 2007 of approximately HK\$2,363,000 for the three months ended 31st March, 2010 (2009: HK\$21,154,000).

Operating expenses

Operating expenses, including selling and distribution costs and administrative expenses increased by 40.2% to approximately HK\$43,354,000 for the three months ended 31st March, 2010 from approximately HK\$30,927,000 for the corresponding period in 2009. The increase was mainly attributable to the increase in staff salary cost to approximately HK\$20,306,000 for the three months ended 31st March, 2010 (2009: HK\$13,747,000) resulting from the annual bonus was paid in the first quarter in 2010, but it was paid in the second quarter in 2009.

Share-based payment

The Group recorded a share-based payment expense of approximately HK\$1,294,000 for the share options granted on 3rd April, 2008 for the three months ended 31st March, 2010 (2009: 1,891,000).

Finance costs

Finance costs decreased by 49.7% to approximately HK\$7,746,000 for the three months ended 31st March, 2010 from approximately HK\$15,399,000 for the corresponding period in 2009. The decrease was mainly attributable to the decrease in (i) non-cash effective interest expense charged on convertible bonds to approximately HK\$2,172,000 for the three months ended 31st March, 2010 (2009: HK\$8,252,000) and (ii) interest on bank borrowings to approximately HK\$5,574,000 for the three months ended 31st March, 2010 (2009: HK\$7,147,000) resulting from the decrease in the average bank borrowings.

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 2010 and 2009.

Pursuant to the relevant laws and regulations in the PRC, certain PRC subsidiaries of the Group are exempted from PRC Enterprise Income Tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years. The tax concession arrangement of the aforesaid PRC subsidiaries will be expired from 2010 to 2011. According to New Law, the tax concession arrangement will not be granted to all new applicants incorporated after 16th March, 2007. As for the existing group entities entitle such tax concession but have not commenced their first profit-making year will be exempted from PRC Enterprise Income Tax for two years, followed by a 50% reduction for the next three years regardless of its reported results commencing from 1st January, 2008 and the charge of PRC Enterprise Income Tax for the year has been provided for after taking these tax incentive into account.

No dividend withholding tax was paid by the Group in the event of inter-group dividend distribution during the three months ended 31st March, 2010 (2009: 4,034,000).

Accordingly, the income tax expenses for the three months ended 31st March, 2010 amounted to approximately HK\$3,433,000 (2009: HK\$6,147,000).

Loss attributable to owners

As a result of the above, loss attributable to owners of the parent amounted to approximately HK\$4,905,000 for the three months ended 31st March, 2010.

Earnings before interests, taxation, depreciation, amortisation (“EBITDA”)

For the three months ended 31st March, 2010 excluding other income and other gains and loss, the Group's EBITDA increased by 0.4% to approximately HK\$15,333,000 from approximately HK\$15,275,000 for the corresponding period in 2009.

Prospects

The Group is confident in its future prospects since the steady growth of the natural gas market in China is expected to be maintained due to the favorable domestic business environment and the growing demand for piped gas consumption arising from the progressing urbanization in China. In the future, the Group will expand its downstream natural gas distribution with a focus on high margin commercial and industrial users and gas refueling stations with the goal of increasing its penetration rate in the nine cities it is operating in.

In addition to the abovementioned strategies, the Group is cautiously seeking for suitable investment opportunities. With our healthy financial position, together with the constant cash inflow generated by our downstream projects, we believe that we would be able to prudently increase our market penetration. At the same time, we will strive to enhance our operation efficiency by cooperating with promising peers in the industry. We believe that Zhongyu Gas is well-positioned to tackle the challenges imposed by the global economic environment and maximize our shareholders' returns.

On 17th January, 2010, the board of directors of the Company received voluntary conditional cash and securities exchange offer ("Offer") proposed by a wholly owned subsidiary of China Gas Holdings Limited ("China Gas"), a listed company in the Stock Exchange (Stock code: 384), to acquire the entire issued share capital of the Company. The consideration will be satisfied by the cash and ordinary shares of China Gas. According to the joint announcement of the Company and China Gas dated 26th January, 2010, after being takeover by China Gas, the Company will still maintain the public float not less than 25% in compliance with the Listing Rules. Details of the proposed takeover are set out in the joint announcement of the Company and China Gas dated 26th January, 2010, offer document of the China Gas dated 17th May, 2010 and response document of the Company dated on 31st May, 2010.

On 26th May, 2010, the Company had also informed the legal advisers to Rich Legend International Limited, a wholly owned subsidiary of China Gas (the "Offeror") and China Gas that it had received:

- (a) letters of objection from the joint venture partners of 5 of its 19 operating subsidiaries in the PRC which stated that they object to the Offers and the change in control of the Company, and that if the Company proceeds with the Offers, they would refuse to co-operate with the new management and that the local government may revoke the concession rights of the Company's subsidiaries in the PRC;
- (b) in addition to the letters of objection from the above-mentioned 5 joint venture partners, another joint venture partner of 焦作中燃城市燃氣發展有限公司 (a PRC subsidiary of the Company) has also verbally expressed its objection to the Offers and a change in control of the Company;
- (c) letters from 3 of the 9 PRC local governments where the Company has operations stating that they would revoke the concession rights of the Company's subsidiaries if the Company proceeds with the Offers without their consent; and
- (d) letters of objection from banks who, in aggregate, have lent RMB137,000,000 to the Group. The banks have notified the Company's subsidiaries that the banks are aware of the Offers and that if the Offers complete, resulting in a change in control of the Company, the banks would seek a full repayment of loans made to such subsidiaries of the Company.

The Company has sought PRC legal advice in relation to the above and has received a PRC legal opinion on 28th May, 2010 ("Legal Opinion"). The legal opinion states, among other things, that (i) consent from the relevant joint venture partners to the Offers and/or a change in control of the Company is not required as a matter of PRC law, (ii) such a change in control of the Company should not affect the legal validity of the concession rights granted by the local government authorities, and (iii) there is no requirement to obtain consent to the Offers and/or a change in control of the Company under PRC law or the relevant loan agreements between the Company's subsidiaries and the banks, and there is no stipulation under PRC law or the relevant loan agreements that the banks may call for repayment of the loans in full if there is a change in control of the Company.

However, as set out in the legal opinion, notwithstanding that there is no requirement under PRC law to obtain consents from the joint venture partners and/or the local government authorities, there is a risk that (a) the joint venture partners may still refuse to co-operate with a new management if there is a change in control of the Company; and (b) the local government authorities may revoke the concession rights of the subsidiaries in the PRC which would affect the operation of the Group. As a result, the Directors consider that if the above events materialize, it might result in material changes to the financial or trading position or outlook of the Group.

According to the announcement dated 15th June, 2010, the Offeror has received 52.72% and 61.77% form of acceptance for share offer and option offer respectively. No acceptance for convertible bond offer has been received. However, the Offeror has been informed by the legal advisers of Hezhong, that the acceptance of the share offer purportedly made by Hezhong may not have been duly authorised and therefore may be invalid. The Offeror and China Gas are seeking further clarification and confirmation of the status of the acceptance of the share offer by Hezhong. The Offer will remain open for acceptance until 28th June, 2010. The conclusion of the Offer has not been made as at the date these consolidated financial statements were authorised for issuance.

Reference is made to the announcements dated 31st March, 2010 (the "Announcement A"), 23rd April, 2010 and 14th May, 2010 (the "Announcement B") issued by the Company in relation to its inability to announce its annual results and publish its annual report for the year ended 31st December, 2009 and its quarterly results for the three months ended 31st March, 2010. As set out in the Announcement A in relation to its inability to announce its annual results and publish its annual report for the year ended 31st December, 2009, the senior management of some of the major subsidiaries of Company have not provided the external auditors with responses to their follow-up questions for the purpose of finalising the audit and as a result, the annual results and annual report of Company for the year ended 31st December, 2009 and the quarterly results for the three months ended 31st March, 2010 had not been issued by 31st March, 2010 and 15th May, 2010, respectively, as required by the GEM Listing Rules.

As set out in the Announcement B, after continuous efforts made by the Directors, on 18th May, 2010, the Directors received a notification from the representative of the senior management of the relevant subsidiaries of Company that they will resume cooperation with the Company to complete the audit of the Company's financial statements for the year ended 31st December, 2009. On 24th May, 2010, the senior management of the relevant subsidiaries of Company commenced providing the outstanding information to the auditor of the Company. In connection with the above, the Company's annual results for the year ended 31st December, 2009 and its quarterly results for the three months ended 31st March, 2010 were published on 24th June, 2010. The Company's annual report for the year ended 31st December, 2009 and its quarterly report for the three months ended 31st March, 2010 will be published on 30th June, 2010.

DISCLOSURE OF INTERESTS

(a) Interests of Directors

As at 31st March, 2010, 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”)) (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:

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	956,923,542	Beneficial and interest in corporation	49.39%
Mr. Hao Yu	2	1,010,759,542	Beneficial and interest in corporation	52.16%
Mr. Lu Zhaoheng	3	8,004,000	Beneficial	0.41%
Mr. Xu Yongxuan	4	5,004,000	Beneficial	0.26%
Mr. Lui Siu Keung	5	12,000,000	Beneficial	0.62%
Dr. Luo Yongtai	6	2,000,000	Beneficial	0.10%
Mr. Hung, Randy King Kuen	6	2,000,000	Beneficial	0.10%

Notes:

1. Among these Shares and/or underlying Shares, 945,755,542 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. 10,002,000 of the remaining 11,168,000 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, 945,755,542 Shares are held by Hezhong. Mr. Hao Yu is interested in 40% of the issue share capital of Hezhong. The remaining 8,004,000 and 57,000,000 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 and HK\$0.56 per share respectively under the share option scheme adopted by the Company on 24th October, 2003.
3. 5,004,000 and 3,000,000 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 and HK\$0.80 per share respectively under the share option scheme adopted by the Company on 24th October, 2003.

4. 5,004,000 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.
5. 9,000,000 and 3,000,000 underlying Shares entitle the holder thereof to subscribe for Shares at an exercise price of HK\$0.56 per share and HK\$0.80 per share respectively under the share option scheme adopted by the Company on 24th October, 2003.
6. These underlying Shares entitle the holders thereof to subscribe for Shares at an exercise price of HK\$0.80 per share under the share option scheme adopted by the Company on 24th October, 2003.

Save as disclosed above, as at 31st March, 2010, 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, 2010, the following entities (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 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 interest	Number of shares	Approximate percentage of interests
Hezhong	Beneficial	945,755,542	48.81%
Perry Capital (Asia) Limited	Investment manager	373,400,657	18.92%
Perry Capital LLC	Investment manager	373,400,657	18.92%
Perry Corp.	Investment manager	373,400,657	18.92%
Perry Richard Cayne	Interest in corporation	373,400,657	18.92%
Perry Partners International, Inc.	Beneficial	309,489,220	15.68%

Notes:

1. Hezhong is beneficially interested in 945,755,542 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 interests 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, 2010, 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 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 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.

Code provision C.1 provision that generally, Directors acknowledge their responsibilities for preparing accounts with sufficient and reliable financial information in each financial period, while the auditors appointed by the Group provide auditors' report on financial statements. The Company has deviated to announce its annual results and publish its annual report for the year ended 31st December, 2009 and its quarterly results for the three months ended 31st March, 2010 in the limits of three months and 45 days respectively after the each financial period according with the GEM Listing Rules.

Reference is made to the announcements dated 31st March, 2010 (the "Announcement A"), 23rd April, 2010 and 14th May, 2010 (the "Announcement" B) issued by the Company in relation to its inability to announce its annual results and publish its annual report for the year ended 31st December, 2009 and its quarterly results for the three months ended 31st March, 2010. As set out in the Announcement A in relation to its inability to announce its annual results and publish its annual report for the year ended 31st December, 2009, the senior management of some of the major subsidiaries of Company have not provided the external auditors with responses to their follow-up questions for the purpose of finalising the audit and as a result, the annual results and annual report of Company for the year ended 31st December, 2009 and the quarterly results for the three months ended 31st March, 2010 had not been issued by 31st March, 2010 and 15th May, 2010, respectively, as required by the GEM Listing Rules.

As set out in the Announcement B, after continuous efforts made by the Directors, on 18th May, 2010, the Directors received a notification from the representative of the senior management of the relevant subsidiaries of Company that they will resume cooperation with the Company to complete the audit of the Company's financial statements for the year ended 31st December, 2009. On 24th May, 2010, the senior management of the relevant subsidiaries of Company commenced providing the outstanding information to the auditor of the Company. In connection with

the above, the Company's annual results for the year ended 31st December, 2009 and its quarterly results for the three months ended 31st March, 2010 were published on 24th June, 2010. The Company's annual report for the year ended 31st December, 2009 and its quarterly report for the three months ended 31st March, 2010 will be published on 30th June, 2010.

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, 2010.

BOARD PRACTICE AND PROCEDURES

The Company has complied with the requirement of Board Practices and Procedures as set out in Rule 5.34 of the GEM Listing Rules during the three months ended 31st March, 2010.

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, 2010.

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, 24th June, 2010