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# **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)

### **THIRD QUARTERLY RESULTS ANNOUNCEMENT FOR THE NINE MONTHS ENDED 30TH SEPTEMBER, 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.

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

**HIGHLIGHTS**

- During the period under review, the Group's turnover increased approximately 158.6%, to HK\$120,104,000.
- Loss attributable to equity holders of the parent for the period under review decreased to approximately HK\$4,133,000.
- The Board does not recommend the payment of any interim dividend for the nine months ended 30th September, 2007.

The board of Directors (the “Board”) is pleased to announce the unaudited condensed consolidated results of the Group for the nine months ended 30th September, 2007, together with the comparative figures for the corresponding period in 2006 are set out as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT

For the nine months ended 30th September, 2007

	Notes	Three months ended 30th September,		Nine months ended 30th September,	
		2007 HK\$'000 (unaudited)	2006 HK\$'000 (unaudited and restated)	2007 HK\$'000 (unaudited)	2006 HK\$'000 (unaudited and restated)
<b>CONTINUING OPERATIONS</b>					
Revenue	2	77,244	19,007	120,104	46,439
Cost of sales		(50,363)	(11,511)	(78,328)	(32,850)
<b>GROSS PROFIT</b>		<b>26,881</b>	<b>7,496</b>	<b>41,776</b>	<b>13,589</b>
Other income		5,225	78	5,804	170
Selling and distribution costs		(2,067)	(554)	(3,592)	(1,647)
Administrative expenses		(16,314)	(3,903)	(31,541)	(11,876)
Fair value changes on convertible bonds		436	—	436	—
Other expenses		—	(48)	(9,051)	(2,455)
Finance costs		(4,372)	(1,074)	(6,821)	(2,956)
<b>PROFIT (LOSS) BEFORE TAXATION</b>		<b>9,789</b>	<b>1,995</b>	<b>(2,989)</b>	<b>(5,175)</b>
Taxation	4	(168)	—	(168)	—
<b>PROFIT (LOSS) FOR THE PERIOD FROM CONTINUING OPERATIONS</b>		<b>9,621</b>	<b>1,995</b>	<b>(3,157)</b>	<b>(5,175)</b>
<b>DISCONTINUED OPERATIONS</b>					
Profit (Loss) for the period from discontinued operations		—	291	435	(73)
Loss on disposal of subsidiaries		—	—	(838)	—
<b>PROFIT (LOSS) FOR THE PERIOD</b>		<b>9,621</b>	<b>2,286</b>	<b>(3,560)</b>	<b>(5,248)</b>
Attributable to:					
Equity holders of the parent		8,460	2,217	(4,133)	(5,208)
Minority interests		1,161	69	573	(40)
		<b>9,621</b>	<b>2,286</b>	<b>(3,560)</b>	<b>(5,248)</b>
Interim dividend	5	—	—	—	—
<b>EARNINGS (LOSS) PER SHARE</b>					
From continuing and discontinued operations:					
Basic		HK0.452 cent	HK0.167 cent	HK(0.221) cent	HK(0.393) cent
Diluted		HK0.449 cent	HK0.166 cent	HK(0.216) cent	HK(0.388) cent
From continuing operations:					
Basic		HK0.452 cent	HK0.145 cent	HK(0.199) cent	HK(0.387) cent
Diluted		HK0.449 cent	HK0.144 cent	HK(0.195) cent	HK(0.383) cent

*Notes:*

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

The unaudited condensed consolidated income statement have been prepared under the historical cost basis and in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. In addition, the unaudited condensed consolidated income statement include applicable disclosures required by the GEM Listing Rules and by the Hong Kong Companies Ordinance. The significant accounting policies adopted are the same as those adopted in the audited consolidated financial statements of the Company for the year ended 31st December, 2006.

**2. REVENUE**

Revenue represents the net amounts received and receivable for goods sold and services rendered by the Group to outside customers, less returns and allowances. An analysis of the Group's revenue for the nine months ended 30th September, 2007 is as follows:

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>30th September,</b>		<b>30th September,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Sales of piped natural gas and coal gas	<b>42,260</b>	4,244	<b>60,137</b>	8,813
Connection revenue from gas pipeline construction	<b>27,690</b>	10,313	<b>43,808</b>	21,851
Sales of liquefied petroleum gas	<b>6,826</b>	4,408	<b>15,493</b>	15,601
Sales of stoves and related equipment	<b>468</b>	42	<b>666</b>	174
	<b>77,244</b>	19,007	<b>120,104</b>	46,439

### 3. BUSINESS AND GEOGRAPHICAL SEGMENTS

#### Business segments

For management purpose, the Group is currently organised into three major operating divisions: Sales of piped natural gas and coal gas, gas pipeline construction and sales of liquefied petroleum gas. These divisions are the basis on which the Group reports its primary segment information. The Group's software business including development and sale of software and software maintenance services has permanently ceased since 10th May, 2007.

Segment information about these divisions is presented below:

#### Income statement for the nine months ended 30th September, 2007

	Continuing operations				Discontinued operations		Consolidated
	Sales of piped natural gas and coal gas	Gas pipeline construction	Sales of liquefied petroleum gas	Other operations	Total	Software business	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	<u>60,137</u>	<u>43,808</u>	<u>15,493</u>	<u>666</u>	<u>120,104</u>	<u>1,952</u>	<u>122,056</u>
Segment results	<u>11,394</u>	<u>28,289</u>	<u>1,902</u>	<u>191</u>	<u>41,776</u>	<u>1,022</u>	<u>42,798</u>
Unallocated corporate income							6,252
Unallocated corporate expenses							(45,621)
Finance costs							(6,821)
Loss before taxation							(3,392)
Taxation							(168)
Loss for the period							<u>(3,560)</u>

### 3. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

#### Income statement for the nine months ended 30th September, 2006

	Continuing operations				Discontinued operations		Consolidated HK\$'000
	Sales of piped natural gas and coal gas HK\$'000	Gas pipeline construction HK\$'000	Sales of liquefied petroleum gas HK\$'000	Other operations HK\$'000	Total HK\$'000	Software business HK\$'000	
Revenue	8,813	21,851	15,601	174	46,439	3,531	49,970
Segment results	(213)	13,483	(1,365)	38	11,943	1,580	13,523
Unallocated corporate income							173
Unallocated corporate expenses							(15,988)
Finance costs							(2,956)
Loss before taxation							(5,248)
Taxation							—
Loss for the period							(5,248)

### 4. TAXATION

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 People's Republic of China ("PRC"), the Company'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. Jiyuan Zhongyu Gas Co, Ltd., an indirect non wholly-owned subsidiary of the Company, is entitled to a 50% reduction in income of PRC for the year ended 31st December, 2006 and two years ending 31st December, 2008. Also, Jiyuan Zhongyu Gas Co, Ltd. is fully exempted from the 3% attributable to local municipal income tax. Accordingly, Jiyuan Zhongyu Gas Co. Ltd. is subject to PRC corporate income tax at an applicable income tax rate of 15% for the year ending 31st December, 2007. Save as disclosed herein, no provision for PRC income tax has been made as all of the Group's PRC subsidiaries and jointly controlled entity either had no assessable profits arising in the PRC or were exempted from PRC income tax during the periods.

## 5. INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the nine months ended 30th September, 2007 (2006: Nil).

## 6. EARNINGS (LOSS) PER SHARE

### From continuing and discontinued operations

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

	Three months ended		Nine months ended	
	30th September,		30th September,	
	2007	2006	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit (Loss) for the period from continuing and discontinued operations attributable to equity holders of the parent	<u>8,460</u>	<u>2,217</u>	<u>(4,133)</u>	<u>(5,208)</u>
	2007	2006	2007	2006
	'000	'000	'000	'000
Number of shares				
Weighted average number of ordinary shares for the purposes of basic earnings (loss) per share	1,871,682	1,325,186	1,871,682	1,325,186
Effect of dilutive potential ordinary shares				
Share options	<u>13,969</u>	<u>12,752</u>	<u>43,755</u>	<u>15,676</u>
Weighted average number of ordinary shares for the purposes of diluted earnings (loss) per share	<u>1,885,651</u>	<u>1,337,938</u>	<u>1,915,437</u>	<u>1,340,862</u>

6. **EARNINGS (LOSS) PER SHARE** *(Continued)*

**From continuing operations**

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

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>30th September,</b>		<b>30th September,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Profit (Loss) for the period attributable to equity holders of the parent	<b>8,460</b>	2,217	<b>(4,133)</b>	(5,208)
Less: Profit (Loss) for the period from discontinued operations	<u>—</u>	<u>291</u>	<u>(403)</u>	<u>(73)</u>
Profit (Loss) for the period from continuing operations attributable to equity holders of the parent	<u><b>8,460</b></u>	<u>1,926</u>	<u><b>(3,730)</b></u>	<u>(5,135)</u>
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>'000</b>	<b>'000</b>	<b>'000</b>	<b>'000</b>
Number of shares				
Weighted average number of ordinary shares for the purposes of basic earnings (loss) per share	<b>1,871,682</b>	1,325,186	<b>1,871,682</b>	1,325,186
Effect of dilutive potential ordinary shares				
Share options	<u><b>13,969</b></u>	<u>12,752</u>	<u><b>43,755</b></u>	<u>15,676</u>
Weighted average number of ordinary shares for the purposes of diluted earnings (loss) per share	<u><b>1,885,651</b></u>	<u>1,337,938</u>	<u><b>1,915,437</b></u>	<u>1,340,862</u>



## 7. RESERVES

	Attributable to equity holders of the parent						
	Share premium	Share Option reserve	Merger reserve	Other reserve	Translation reserve	Accumulated profits losses	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January, 2006	145,901	2,408	3,740	7,607	607	(6,284)	153,979
Recognition of equity-settled share based payment	—	2,408	—	—	—	—	2,408
Loss for the period	—	—	—	—	—	(5,208)	(5,208)
<b>At 30th September, 2006</b>	<b>145,901</b>	<b>4,816</b>	<b>3,740</b>	<b>7,607</b>	<b>607</b>	<b>(11,492)</b>	<b>151,179</b>
At 1st January, 2007	145,901	4,816	3,740	7,607	7,436	572	170,072
Issue of shares	430,895	—	—	—	—	—	430,895
Share issue expenses	(16,715)	—	—	—	—	—	(16,715)
Issue of shares on exercise of share options	948	(199)	—	—	—	—	749
Recognition of equity-settled share based payment	—	9,051	—	—	—	—	9,051
Disposal of subsidiaries	—	—	(3,740)	—	—	3,740	—
Exchange differences arising on translation of foreign operations recognised directly in equity	—	—	—	—	(1,046)	—	(1,046)
Loss for the period	—	—	—	—	—	(4,133)	(4,133)
<b>At 30th September, 2007</b>	<b>561,029</b>	<b>13,668</b>	<b>—</b>	<b>7,607</b>	<b>6,390</b>	<b>179</b>	<b>588,873</b>

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, SIGNIFICANT INVESTMENTS AND FUND RAISING ACTIVITIES

On 22nd January, 2007, the Group and 河南省煤層氣開發利用有限公司 (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 exploration, exploitation, development and production of coalbed methane in Henan Province, the PRC. Upon establishment, the Group holds 75% equity interests in Zhongyu Coalbed Methane with the remaining 25% equity interests in Zhongyu Coalbed Methane being held by Henan Methane. Zhongyu Coalbed Methane has been accounted for as an indirect 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 would be extended from Jiaozuo, Henan Province, the PRC to the mine areas legally owned and controlled by Henan Methane situated at Jiaozuo, 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 is 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 and the circular of the Company dated 12th February 2007.

On 1st March, 2007, Hezhong Investment Holding Company Limited (“Hezhong”), the substantial shareholder of the Company, entered into the placing and subscription agreement with First Shanghai Securities Limited, being the placing agent and the Company, pursuant to which Hezhong agreed to place, through the placing agent, 265,000,000 shares of the Company (the “Shares”) beneficially owned by Hezhong to not less than six places at a price of HK\$0.42 per Share (the “Placement A”). On the same date, the Company has conditionally agreed to allot and issue, and Hezhong has agreed to subscribe for 265,000,000 new Shares at a price of HK\$0.42 per Share. The Placement A was completed on 8th March, 2007 and the total proceeds raised as a result of the Placement A were HK\$111,300,000. The details of above had been disclosed in the announcement of the Company dated 1st March, 2007.

On 30th April, 2007, the Company and an independent third party entered into the sale and purchase agreement, pursuant to which the Company agreed to sell and the purchaser agreed to purchase 10,311 shares of US\$1.00 in the issued share capital of Cyber Dynamic Enterprise Limited, the then wholly-owned subsidiary of the Company and the shareholder’s loan owed by Cyber Dynamic Enterprise Limited and its subsidiaries to the Company for a total consideration of HK\$40,000 payable in cash. The completion of the aforesaid sale and purchase agreement was held on 10th May, 2007. Upon completion of the aforesaid sale and purchase agreement, the Group ceased to be interested on the software business including the development and distribution of HRM software system and provision of maintenance and consulting service. The details of above had been disclosed in the announcement and the circular of the Company dated 30th April, 2007 and 21st May, 2007 respectively.

On 7th May, 2007 and 16th May, 2007 respectively, the Group and Hezhong entered into the sale and purchase agreement and supplement deed respectively, pursuant to which Hezhong agreed to sell and the Group agreed to purchase five gas projects, namely Jiazuo China-Gas City Gas Development Co. Ltd., Jiaozuo China-Gas Gas Project Install Co. Ltd., Jiyuan Zhongyu Gas Co. Ltd., Luohe Zhongyu Gas Co. Ltd. and Luohe Zhongyu Gas Project Install Co. Ltd. (collectively "Acquired Projects") for a total consideration of RMB300,000,000 payable by cash and by allotment and issue of Shares. Out of the total consideration for the aforesaid acquisition, RMB222,504,384 was paid by cash and the remaining RMB77,495,616 was settled by allotment and issue of 72,480,000 Shares at a price of HK\$1.08 each. The aforesaid sale and purchase agreement and the transactions contemplated thereunder was completed on 17th August, 2007. Upon completion, the Acquired Projects have become indirectly non wholly-owned subsidiaries of the Company. The details of above had been disclosed in the announcements dated 7th May, 2007, 16th May, 2007 and 9th August, 2007 respectively and the circular of the Company dated 24th July, 2007.

On 25th May, 2007, Hezhong entered into the placing and subscription agreement with Morgan Stanley & Co. International plc, the placing agent and the Company, pursuant to which Hezhong agreed to place, through the placing agent, 279,000,000 Shares beneficially owned by Hezhong to not less than six places at a price of HK\$1.165 per Share (the "Placement B"). On the same date, the Company has conditionally agreed to allot and issue, and Hezhong has agreed to subscribe for 279,000,000 new Shares at a price of HK\$1.165 per Share. The Placement B was completed on 7th June, 2007 and the total proceeds raised as a result of the Placement B were HK\$325,035,000. The details of above had been disclosed in the announcements of the Company dated 28th May, 2007 and 7th June, 2007 respectively.

On 28th May, 2007, the Company entered into a bond subscription agreement with five independent subscribers who have conditionally agreed to subscribe and pay for convertible bonds issued by the Company in an aggregate principal amount of US\$40,000,000. The aforesaid bond subscription agreement and the transactions contemplated thereunder were completed on 26th June, 2007. The details of above had been disclosed in the announcements dated 28th May, 2007 and 26th June, 2007 respectively and the circular of the Company dated 4th June, 2007.

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

## **OPERATIONAL AND FINANCIAL REVIEW**

### **Continuing Operations**

#### *Revenue*

Revenue increased by 158.6% to approximately HK\$120,104,000 for the nine months ended 30th September, 2007 from approximately HK\$46,439,000 in the corresponding period in 2006. The increase in revenue was mainly attributable to an increase in (i) Connection revenue from gas pipeline construction; and (ii) Sales of piped natural gas and coal gas. The increase in Connection revenue from gas pipeline construction was mainly attributable to the increase in the number of households connected to the existing gas pipeline networks resulting from the efforts of the Group's sales and marketing teams and the expansion of the Group's gas business by acquiring the Acquired Projects in August 2007. During the period under review, the number of new gas pipeline connection made to residential households and industrial/commercial customers was 15,599 households (2006: 9,531 households) and 47 customers (2006: 13 customers) respectively. The increase in Sales of piped natural gas and coal 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 both resulting from the expansion of the Group's gas business by acquiring the Acquired Projects in August 2007. During the period under review, the total unit of piped natural gas and coal gas provided to residential households and industrial/commercial customers was approximately 7,796,000m<sup>3</sup> and 31,608,000m<sup>3</sup> respectively (2006: 375,000m<sup>3</sup> and 3,661,000m<sup>3</sup> respectively) and liquified petroleum gas sold by the Group to its customers was approximately 3,048 tons (2006: 3,027 tons). During the period under review, the Group did not record any revenue derived from coalbed methane ("CBM") projects, which are the Group's upstream business. The CBM project in Jiaozuo, Henan Province, the PRC has commenced its operations. For the nine months ended 30th September, 2007, the Group has successfully completed drilling of 22 vertical wells and has commenced to drill additional 13 vertical wells in Jiaozuo. Fracturing process, which is the second phase in CBM extraction, for the aforesaid 22 completed vertical wells had been started in September 2007. It is expected the commercial production of CBM will start by the mid of 2008.

### *Gross profit margin*

The overall gross profit margin amounted to approximately 34.8% for the nine months ended 30th September, 2007 from approximately 29.3% in 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 has a relatively high gross profit margin, partially offset by the increase in proportion of the turnover derived from Sales of piped natural gas and coal gas which has a relatively low gross profit margin.

### *Other income*

Other income increased to approximately HK\$5,804,000 for the nine months ended 30th September, 2007 from approximately HK\$170,000 in the corresponding period in 2006. The increase in other income was mainly attributable to the increase in (i) other interest income from interest bearing loan granted to independent third parties and (ii) bank interest income.

### *Selling and distribution costs*

Selling and distribution costs increased by 118.1% to approximately HK\$3,592,000 for the nine months ended 30th September, 2007 from approximately HK\$1,647,000 in the corresponding period in 2006. The increase in selling and distribution costs was mainly attributable to the increase in (i) salaries; and (ii) transportation expenses for distribution of gas, both resulting from the expansion of the piped gas business by the acquisition of Acquired Projects in August 2007.

### *Administrative expenses*

Administrative expenses increased by 165.6% to approximately HK\$31,541,000 for the nine months ended 30th September, 2007 from approximately HK\$11,876,000 in the corresponding period in 2006. The increase in administrative expenses was mainly attributable to the formation of a joint venture company, namely Zhongyu Coalbed Methane, the establishment of a wholly-owned subsidiary, namely Zhongyu (Henan) Energy Holdings Limited (“Zhongyu Energy”) in Henan Province, the PRC in April 2007 and the expansion of the piped gas business by acquiring the Acquired Projects in August 2007. Zhongyu Energy is principally engaged in investment holding and provision of management services to the Group.

### *Other expenses*

Other expenses increased by 268.7% to approximately HK\$9,051,000 for the nine months ended 30th September, 2007 from approximately HK\$2,455,000 in the corresponding period in 2006. Other expenses for the period under review was one-off recognition of equity-settled share based payments resulting from the issuance of share options by the Company on 29th March, 2007.

### *Finance costs*

Finance costs increased by 130.8% to approximately HK\$6,821,000 for the nine months ended 30th September, 2007 from approximately HK\$2,956,000 for the corresponding period in 2006. The increase was mainly attributable to the increase in interest paid on bank borrowings resulting from the increase in the bank borrowings and the bank interest rate.

### *Taxation*

For the nine months ended 30th September, 2007, the taxation was approximately HK\$168,000 (2006: Nil) derived from Jiyuan Zhongyu Gas Co. Ltd., one of the Acquired Projects. Jiyuan Zhongyu Gas Co. Ltd. is entitled to a 50% reduction in income of the PRC for the year ended 31st December, 2006 and two years ending 31st December, 2008. Also, Jiyuan Zhongyu Gas Co. Ltd. is fully exempted from the 3% attributable to local municipal income tax. Accordingly, the applicable income tax rate of Jiyuan Zhongyu Gas Co. Ltd. is 15% for the year ending 31st December, 2007.

Save as disclosed herein, no provision for the PRC income tax was made for nine months ended 30th September, 2006 and 2007. This was because all of the PRC subsidiaries either have no assessable profits arising in the PRC or were exempted from PRC income tax during 2006 and 2007.

### **Discontinued Operations**

In view of the growing business opportunity in relation to the Group's coalbed methane and natural gas businesses, the Directors consider to streamline the principal businesses of the Group to focus mainly on the coalbed methane and natural gas businesses. Further, the Group recorded a consistence unaudited consolidated net losses in relation to its software operations, including development and sale of software and software maintenance services for the two years ended 31 December 2006 of approximately HK\$1,672,000 and HK\$480,000 respectively. Considering that there are no signs of rebound and the software operations not making any significant contribution to the Group, the Directors consider that the disposing of the software operations will cut further losses for the Group. On the other hand, the Board had recently approached by an independent third party who has indicated to the Group that he is willing to acquire software operations. Accordingly, the Group disposed of its software operations on 30th April, 2007. Upon completion of the aforesaid disposal on 10th May, 2007, the software operations has permanently ceased. For the nine months ended 30th September, 2007, the Group recorded a profit from discontinued operations of approximately HK\$435,000 and a loss on disposal of subsidiaries of approximately HK\$838,000.

### *Profit attributable to equity holders*

As a result of the above, loss attributable to equity holders of the parent decreased to approximately HK\$4,133,000 for nine months ended 30th September, 2007 from approximately HK\$5,208,000 for the corresponding period in 2006.

## **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 in the near future.

To secure its gas supply, the Group tapped into the upstream CBM business in early 2007 by acquiring exclusive rights in eight coal blocks located at Henan Province, the PRC to explore, exploit, develop and produce CBM. As CBM is a substitute for natural gas, we believe tapping into the upstream CBM business could facilitate the development of the Group's downstream gas distribution business in Henan Province so as to boost the Group's revenue derived from both gas pipeline construction and sales of piped gas.

In respect of the Group's downstream gas distribution 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.

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 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) Directors' and chief executives' interests and short positions in the securities of the Company and its associated corporations

As at 30th September, 2007, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company and 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) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

#### *Long positions in the Shares*

Name of Directors	Notes	Nature of Shares and/or underlying Shares	Type of Interests	Approximate percentage of issued share capital
Mr. Wang Wenliang	1	954,987,542	Beneficial and interested in corporation	49.09%
Mr. Hao Yu	2	1,009,989,542	Beneficial and interested in corporation	51.90%
Mr. Lu Zhaoheng	3	5,004,000	Beneficial	0.26%
Mr. Xu Yongxuan	3	5,004,000	Beneficial	0.26%

#### *Notes:*

1. Among these Shares and/or underlying Shares, 944,985,542 Shares are held by Hezhong. Mr. Wang Wenliang is beneficially interested in 60% of the issued share capital of Hezhong. The remaining 10,002,000 underlying Shares are to be allotted and issued upon exercise the rights attaching to the share options granted under the share option scheme adopted by the Company on 24th October, 2003.
2. Among these Shares and/or underlying Shares, 944,985,542 Shares are held by Hezhong. Mr. Hao Yu is interested in 40% of the issued share capital of Hezhong. The remaining 65,004,000 underlying Shares are to be allotted and issued upon exercise the rights attaching to the share options granted under the share option scheme adopted by the Company on 24th October, 2003.
3. These underlying Shares are to be allotted and issued upon exercise the rights attaching to the share options granted under the share option scheme adopted by the Company on 24th October, 2003.



Save as disclosed above, as at 30th September, 2007, 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) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO**

So far as is known to the Directors and the chief executive of the Company, as at 30th September, 2007, the following person (not being Directors or chief executive of the Company) or corporation 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 were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

*Long positions in the Shares*

Name of Shareholder	Type of interests	Number of Shares	Approximate percentage of interests
Hezhong	Beneficial	944,985,542	48.56%
Perry Capital (Asia) Limited	Deemed/Beneficial	230,501,475	11.84%
Perry Capital LLC	Deemed/Beneficial	230,501,475	11.84%
Perry Corp.	Deemed/Beneficial	230,501,475	11.84%
Perry Richard Cayne	Deemed/Beneficial	230,501,475	11.84%
Perry Partners International, Inc.	Deemed/Beneficial	194,573,314	10.00%

Note:

1. Hezhong is beneficially interested in 944,985,542 Shares. Mr. Wang Wenliang and Mr. Hao Yu is beneficially interested in 60% and 40% of the issued share capital of Hezhong respectively.

2. According to the disclosure of interests pages as shown in the website of the Stock Exchange, Perry Richard Cayne holds as to 100% equity interests of Perry Corp, Perry Corp. holds as to 40% equity interest of Perry Capital LLC. Perry Capital LLC holds as to 100% equity interest of Perry Capital (Asia) Limited. Apart from the information ascertained in the disclosure of interests pages as shown in the website of the Stock Exchange, the Company has no further information.

Save as disclosed above, as at 30th September, 2007, the Directors and the chief executive of the Company were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the shares or underlying shares of the Company (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was directly or indirectly interested in 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.

## **CODE OF CORPORATE GOVERNANCE PRACTICES**

The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules with deviation as mentioned below.

Code provision A.4.1 provides that non-executive directors should be appointed for specific term, subject to re-election. The Company has deviated from this provision in that all non-executive Directors are not appointed for specific term. They are, however, subject to retirement by rotation at each annual general meeting of the Company and eligible for re-election according to the Company's articles of association.

## **AUDIT COMMITTEE**

The Company's Audit Committee, comprising Mr. Wang Shunlong, Dr. Luo Yongtai and Mr. Hung, Randy King Kuen, as the independent non-executive Directors, has reviewed with the Company's management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited results of the Group for the nine months ended 30th September, 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 nine months ended 30th September, 2007.

## **PURCHASE, SALE OR REDEMPTION OF SHARES**

During the nine months ended 30th September, 2007, the Company has purchased a total of 2,730,000 Shares on the Stock Exchange at a price range from HK\$0.90 to HK\$0.97 per Share.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Shares during the nine months ended 30th September, 2007.

## **BOARD OF DIRECTORS**

As at the date of this announcement, 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*), 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, 13th November, 2007

*This announcement will remain on the GEM website at [www.hkgem.com](http://www.hkgem.com) on the "Latest Company Announcements" page for at least 7 days from the date of its posting.*