



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)

INTERIM REPORT

FOR THE SIX MONTHS ENDED 30TH JUNE, 2008

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Exchange. 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 trade on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The Exchange takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

This announcement, for which the directors (the "Directors") of Zhongyu Gas Holdings Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to 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.

FINANCIAL HIGHLIGHTS

- Turnover for the six months ended 30th June, 2008 amounted to approximately HK\$269,338,000, representing an increase of approximately 528.4% over the corresponding period in 2007.
- Sales of piped gas for the six months ended 30th June, 2008 amounted to approximately HK\$182,721,000, representing an increase of approximately 922.1% over the corresponding period in 2007.
- Connection revenue from gas pipeline construction for the six months ended 30th June, 2008 amounted to approximately HK\$66,871,000, representing an increase of approximately 314.9% over the corresponding period in 2007.
- Loss attributable to equity holders of the Company for the six months ended 30th June, 2008 was approximately HK\$31,739,000.
- The Board does not recommend the payment of any dividend for the six months ended 30th June, 2008.

The board of Directors (the “Board”) is pleased to announce the unaudited consolidated results of the Group for the six months ended 30th June, 2008, together with the comparative figures for the corresponding period in 2007, which are set out as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2008

	Notes	Three months ended 30th June,		Six months ended 30th June,	
		2008 HK\$'000 (unaudited)	2007 HK\$'000 (unaudited)	2008 HK\$'000 (unaudited)	2007 HK\$'000 (unaudited)
CONTINUING OPERATIONS					
Turnover	2	146,764	22,954	269,338	42,860
Cost of sales		(106,991)	(14,765)	(200,835)	(27,965)
GROSS PROFIT		39,773	8,189	68,503	14,895
Other income		3,588	542	7,559	579
Distribution costs		(3,755)	(732)	(8,550)	(1,525)
Administrative expenses		(20,683)	(10,131)	(44,849)	(15,227)
Other expenses	4	(4,570)	(9,051)	(4,570)	(9,051)
Finance costs	5	(12,303)	(1,371)	(25,866)	(2,449)
Change in fair value of derivative financial instruments	11	(18,752)	—	(19,213)	—
LOSS BEFORE TAX		(16,702)	(12,554)	(26,986)	(12,778)
Income tax expenses	6	(1,644)	—	(2,348)	—
LOSS FOR THE PERIOD FROM CONTINUING OPERATIONS		(18,346)	(12,554)	(29,334)	(12,778)
DISCONTINUED OPERATIONS					
Gain (loss) for the period from discontinued operations		—	(1,459)	—	(403)
LOSS FOR THE PERIOD		(18,346)	(12,771)	(29,334)	(13,181)
Attributable to:					
Equity holders of the parent		(20,136)	(12,269)	(31,739)	(12,593)
Minority interests		1,790	(502)	2,405	(588)
		(18,346)	(12,771)	(29,334)	(13,181)
Interim dividend	7	—	—	—	—
LOSS PER SHARE					
8					
From continuing and discontinued operations:					
Basic		HK\$(1.0370) cent	HK\$(0.6555) cent	HK\$(1.6335) cent	HK\$(0.6728) cent
Diluted		N/A	HK\$(0.6365) cent	N/A	HK\$(0.6629) cent
From continuing operations					
Basic		HK\$(1.0370) cent	HK\$(0.6439) cent	HK\$(1.6335) cent	HK\$(0.6513) cent
Diluted		N/A	HK\$(0.6525) cent	N/A	HK\$(0.6417) cent

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June, 2008

	<i>NOTES</i>	30th June, 2008 HK\$'000 (Unaudited)	31st December, 2007 HK\$'000 (Audited)
Non-current assets			
Investment Property		4,335	4,074
Property, plant and equipment	9	544,704	457,175
Intangible assets		241,617	213,899
Goodwill		94,512	94,512
Prepaid lease payments		42,807	44,113
		927,975	854,233
Current assets			
Inventories		47,710	34,000
Trade receivables	10	14,331	27,487
Deposits, prepayments and other receivables		42,362	22,922
Prepaid lease payments		1,068	1,076
Amounts due from customers for contract work		38,495	26,348
Amounts due from related companies		118	118
Loan receivables		—	133,190
Trust monies placed with a financial Institution		—	42,964
Pledged bank deposit		—	1,171
Bank balances and cash		504,554	365,545
		648,638	661,812
Current liabilities			
Deferred income and advance received		24,037	31,499
Derivative financial Instrument	11	149,249	130,036
Trade payables	12	51,352	59,398
Other payables and accrued charges		43,221	47,608
Amounts due to customers for contract work		41,828	1,348
Amounts due to related companies		1,105	1,105
Bank borrowings		178,819	201,091
Taxes payables		3,736	3,579
		493,347	475,664
Net current assets		155,291	186,148
		1,083,266	1,040,381

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June, 2008

		30th June, 2008 <i>HK\$'000</i> (Unaudited)	31st December, 2007 <i>HK\$'000</i> (Audited)
Capital and reserves			
Share capital		19,358	19,440
Reserves		703,106	677,157
Equity attributable to equity holders of the parent		722,464	696,597
Minority interests		67,654	65,249
Total equity		790,118	761,846
Non-current liabilities			
Convertible bonds	11	217,135	203,358
Bank borrowings		59,357	58,521
Deferred taxation		16,656	16,656
		293,148	278,535
		1,083,266	1,040,381

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For year ended 30th June, 2008

	Attributable to equity holders of the parent										
	Share capital	Share premium	Share option reserve	Property			Translation reserve	Accumulated (losses) profits	Minority		Total
				Merger reserve	revaluation reserve	Other reserve			Total	interests	
<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1st January, 2007	13,252	145,901	4,816	3,740	–	7,607	7,436	572	183,324	8,172	191,496
Exchange differences arising on translation to presentation currency	–	–	–	–	–	–	44,866	–	44,866	581	45,447
Revaluation upon change of intended use of properties	–	–	–	–	1,747	–	–	–	1,747	–	1,747
Share of valuation surplus by minority shareholders	–	–	–	–	(182)	–	–	–	(182)	182	–
Deferred taxation liability on revaluation of buildings	–	–	–	–	(437)	–	–	–	(437)	–	(437)
Net income recognised directly in equity	–	–	–	–	1,128	–	44,866	–	45,994	763	46,757
(Loss)/profit for the year	–	–	–	–	–	–	–	(26,183)	(26,183)	3,472	(22,711)
Total recognised income for the year	–	–	–	–	1,128	–	44,866	(26,183)	19,811	4,235	24,046
Recognition of equity-settled share-based payments	–	–	9,657	–	–	–	–	–	9,657	–	9,657
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	28,675	28,675
Issue of shares	6,165	509,898	–	–	–	–	–	–	516,063	–	516,063
Disposal of subsidiaries	–	–	–	(3,740)	–	–	–	3,740	–	–	–
Exercise of share options	50	1,911	(402)	–	–	–	–	–	1,559	–	1,559
Shares repurchased and cancelled	(27)	(2,578)	–	–	–	–	–	–	(2,605)	–	(2,605)
Transaction costs attributable to issue of shares	–	(31,212)	–	–	–	–	–	–	(31,212)	–	(31,212)
Contributions from minority shareholders upon incorporation of subsidiaries	–	–	–	–	–	–	–	–	–	24,167	24,167
At 31st December, 2007	19,440	623,920	14,071	–	1,128	7,607	52,302	(21,871)	696,597	65,249	761,846
At 1st January, 2008	19,440	623,920	14,071	–	1,128	7,607	52,302	(21,871)	696,597	65,249	761,846
Shares repurchased and cancelled	(82)	(4,793)	–	–	–	–	–	–	(4,875)	–	(4,875)
Recognition of equity-settled share-based payments	–	–	4,421	–	–	–	–	–	4,421	–	4,421
Exchange differences arising on translation to presentation currency	–	–	–	–	–	–	58,060	–	58,060	–	58,060
(Loss)/profit for the period	–	–	–	–	–	–	–	(31,739)	(31,739)	2,404	(29,335)
At 30th June, 2008	19,358	619,127	18,492	–	1,128	7,607	110,362	(53,610)	722,464	67,653	790,117

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June, 2008

	Six months ended 30th June,	
	2008	2007
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
NET CASH INFLOW FROM OPERATING ACTIVITIES	21,456	23,500
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(126,518)	(161,031)
NET CASH INFLOW(OUTFLOW) FROM FINANCING ACTIVITIES	(45,918)	727,250
NET INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS	(150,980)	589,719
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	655,534	65,815
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	504,554	655,534
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		
Bank balances and cash	504,554	655,534

Notes:

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The unaudited condensed financial statements 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 financial statements 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 Company for the year ended 31st December, 2007.

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 six months ended 30th June, 2007 is as follows:

	Three months ended		Six months ended	
	30th June,		30th June,	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales of piped gas	88,207	7,307	182,721	17,877
Connection fees from gas pipeline construction	46,705	11,548	66,871	16,118
Sales of liquefied petroleum gas	10,911	3,972	18,114	8,667
Sales of stoves and related equipment	941	127	1,632	198
	<u>146,764</u>	<u>22,954</u>	<u>269,338</u>	<u>42,860</u>

3. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purpose, the Group is currently organised into three major operating divisions: Sales of natural 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 six months ended 30th June, 2008

	Continuing operations				Total	Discontinued operations	
	Sales of piped gas	Gas pipeline construction	Sales of liquefied petroleum gas	Other operations		Software business	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<u>182,721</u>	<u>66,871</u>	<u>18,114</u>	<u>1,632</u>	<u>269,338</u>	—	<u>269,338</u>
Segment results	<u>30,105</u>	<u>36,839</u>	<u>1,295</u>	<u>264</u>	<u>68,503</u>	—	<u>68,503</u>
Unallocated corporate income							7,559
Unallocated corporate expenses							(77,182)
Finance costs							<u>(25,866)</u>
Loss before tax							(26,986)
Income tax expense							<u>(2,348)</u>
Loss for the period							<u>(29,334)</u>

3. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Income statement for the six months ended 30th June, 2007

	Continuing operations				Discontinued operations		Consolidated HK\$'000
	Sales of natural 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	
Turnover	17,877	16,118	8,667	198	42,860	1,952	44,812
Segment results	4,275	9,382	1,189	49	14,895	1,022	15,917
Unallocated corporate income							591
Unallocated corporate expenses							(27,240)
Finance costs							(2,449)
Loss before tax							(13,181)
Income tax expense							—
Loss for the period							(13,181)

4. OTHER EXPENSES

The group recognized the total non-cash share-based payment expense of approximately HK\$ 4,570,000 for the period ended 30th June, 2008 (2007: HK\$9,051,000) resulting from the issuance of share options by the Company on 3rd April, 2008.

5. FINANCE COSTS

	Three months ended 30th June,		Six months ended 30th June,	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Interest on bank borrowings	4,634	1,371	10,529	2,449
Effective interest expense on convertible loan notes	7,669	—	15,337	—
	<u>12,303</u>	<u>1,371</u>	<u>25,866</u>	<u>2,449</u>

6. INCOME TAX EXPENSES

PRC Enterprise Income Tax is calculated at a tax rate of 33% (2007: 33%), which is the prevailing tax rate in the People's Republic of China (the "PRC"). Hong Kong Profits Tax is calculated at 17.5% (2007: 17.5%) of the estimated assessable profit for the six months ended 30 June, 2008.

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

On 16th March, 2007, the People's Republic of China promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China. On 6th December, 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate from 33% to 25% for certain subsidiaries from 1st January, 2008.

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 2009 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.

7. INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30th June, 2008 (2007: Nil).

8. LOSS PER SHARE

From continuing and discontinued operations

The calculation of the basic and diluted 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 30th June,		Six months ended 30th June,	
	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Loss for the period from continuing and discontinued operations attributable to equity holders of the parent	<u>(20,136)</u>	<u>(12,269)</u>	<u>(31,739)</u>	<u>(12,593)</u>
	2008 <i>'000</i>	2007 <i>'000</i>	2008 <i>'000</i>	2007 <i>'000</i>
Number of shares				
Weighted average number of ordinary shares for the purposes of basic loss per share	1,941,663	1,871,682	1,943,030	1,871,682
Effect of dilutive potential ordinary shares				
Share options	<u>—</u>	<u>55,949</u>	<u>—</u>	<u>27,958</u>
Weighted average number of ordinary shares for the purposes of diluted loss per share	<u>1,941,663</u>	<u>1,927,631</u>	<u>1,943,030</u>	<u>1,899,640</u>

From continuing operations

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

	Three months ended		Six months ended	
	30th June,		30th June,	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loss for the period attributable to equity holders of the parent	(20,136)	(12,269)	(31,739)	(12,293)
Less: Loss for the period from discontinued operations	—	(217)	—	(4,403)
Less for the period from continuing operations attributable to equity holders of the parent	<u>(20,136)</u>	<u>(12,052)</u>	<u>(31,739)</u>	<u>(12,190)</u>
	2008	2007	2008	2007
	'000	'000	'000	'000
Number of shares				
Weighted average number of ordinary shares for the purposes of basic loss per share	1,941,663	1,871,682	1,943,030	1,871,682
Effect of dilutive potential ordinary shares				
Share options	—	55,949	—	27,958
Weighted average number of ordinary shares for the purposes of diluted loss per share	<u>1,941,663</u>	<u>1,927,631</u>	<u>1,943,030</u>	<u>1,899,640</u>

9. PROPERTY, PLANT AND EQUIPMENT

During the period under review, the addition to property, plant and equipment was approximately HK\$44,501,000 (2007: HK\$18,034,000).

10. TRADE RECEIVABLES

An aged analysis of trade receivables as at the balance sheet dates is as follows:

	30th June, 2008 HK\$'000	31st December, 2007 HK\$'000
Within 1 month	9,119	399
Over 1 month but within 3 months	611	32
Over 3 months but within 6 months	—	24
Over 6 months	4,601	178
	<hr/>	<hr/>
	14,331	633
Less: Provision for bad and doubtful debts	—	—
	<hr/>	<hr/>
	14,331	633
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11. CONVERTIBLE BONDS

The movement of embedded derivative of the convertible bonds during the six months ended 30th June, 2008 is set out below:

	Liability HK\$'000	Embedded derivatives HK\$'000	Total HK\$'000
At 1st January, 2008	203,358	130,036	333,394
Interest charged	15,337	—	15,337
Interest paid	(1,560)	—	(1,560)
Loss arising on change in fair value	—	19,213	19,213
	<hr/>	<hr/>	<hr/>
At 30th June, 2008	217,135	149,249	366,384
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

12. TRADE PAYABLES

The following is an aged analysis of trade payables as at the balance sheet dates:

	30th June, 2008 HK\$'000	31st December, 2007 HK\$'000
0 - 30 days	7,310	15,109
31 - 90 days	8,301	26,709
91 - 180 days	12,654	6,807
Over 180 days	23,087	10,773
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	51,352	59,398
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13. ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENTS

The Group had no acquisitions, disposals nor significant investments for the six months ended 30th June, 2008.

14. CAPITAL COMMITMENTS

As at 30th June, 2008, the Group did not have any significant capital commitments.

15. CONTINGENT LIABILITIES

As at 30th June, 2008, the Group did not have any contingent liabilities.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Liquidity

As at 30th June, 2008, the Group had consolidated current assets of approximately HK\$648,638,000 and its current ratio was approximately 1.3. As at 30th June, 2008, the Group had a gearing ratio of approximately 28.9%, measured as total consolidated interest borrowings of approximately HK\$455,311,000 to consolidated total assets of approximately HK\$1,576,613,000. As at 30th June, 2008, the Group had consolidated bank balances and cash of approximately HK\$504,554,000. The consolidated trade receivables amounted to approximately HK\$14,331,000 while consolidated trade payables amounted to approximately HK\$51,352,000.

Financial resources

During the six months ended 30th June, 2008, the Group generally financed its operations with internally generated resources and borrowings. As at 30th June, 2008, all of the borrowings were secured or unsecured and on normal commercial basis.

Directors' opinion on sufficiency of working capital

The Directors are of the opinion that, after taking into account the current financial resources, the Group has sufficient working capital for its present requirements.

EXPOSURE TO EXCHANGE RATE FLUCTUATIONS

For the six months ended 30th June, 2008, the Group's business in gas projects and borrowings were transacted only in RMB and US dollars. The Directors consider that the Group did not have any exposure to foreign exchange fluctuation as all transactions and borrowings were denominated in RMB and US dollars.

EMPLOYEE INFORMATION

As at 30th June, 2008, the Group had 1,700 employees (2007: 660) in Hong Kong and the PRC, and the total remuneration for the period under review was approximately HK\$20,946,000 (2007: HK\$5,628,000). The increase in number of staff in the Group was mainly attributable to the business expansion.

The Group's remuneration and bonus policies are basically determined by the performance of individual employees.

The Group has adopted a share option scheme whereby certain employees of the Group may be granted options to acquire shares.

CHARGE ON THE GROUP'S ASSETS

As at 30th June, 2008, the Group did not have any charges on the Group's assets.

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

As at 30th June, 2008, 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 period under review, we are principally engaged in (i) the exploration, exploitation and development of Coalbed methane (“CBM”) in the PRC and (ii) the development, construction of gas pipeline network and sales of piped gas.

Upstream Gas Business

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, 2008, 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 30th June, 2008, the Group successfully completed drilling of 33 vertical wells in Jiaozuo. All of the aforesaid 33 vertical wells have entered into dewatering and releasing process, the last phase in CBM extraction, and has shown positive result. Among the aforesaid 33 vertical wells, 24 have started to produce CBM by the end of June 2008. During the period under review, the Group has not recorded any revenue derived from CBM projects. We anticipate that the commercial production of CBM will commence by the end of 2008. We also believe that the upstream gas business will have significant contribution to the Group’s turnover and results in the near future.

Downstream Gas Business

The Group’ downstream gas business primarily comprises sales of piped gas, gas pipeline construction and sales of liquefied petroleum gas (“LPG”). As at 30th June, 2008, the Group secured nine exclusive gas projects, two in Shandong Province, the PRC and seven in Henan Province, the PRC. Among nine gas projects, three gas projects and their subsidiaries, including Jiaozuo China-Gas City Gas Development Co. Ltd., Jiaozuo China-Gas Gas Project Install Co. Ltd., Jiyuan Zhongyu Gas Co. Ltd., Luohe Zhougyu Gas Co. Ltd. and Luohe Zhougyu Gas Project Install Co. Ltd. (collectively “Newly Acquired Projects”) were newly acquired by the Group in August 2007.

The cities in which the Group’s gas projects operate currently have a total connectable urban population of approximately 3,084,000. It is estimated that there are an aggregate of approximately 881,000 connectable residential households in such cities.

Sales of Piped Gas

Approximately 90% of total sales of piped gas for the six months ended 30 June, 2008 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 79,274,000 m³ (2007: 12,070,000 m³).

With the aim to enhance the Group's turnover and results, the Group has commenced to develop compressed natural gas ("CNG") vehicle gas refuelling business in the PRC since September 2007. As at 30th June, 2008, the Group operated one CNG vehicle gas refuelling station in Linyi City, Shangdong Province, the PRC. In December 2007, the Group acquired three companies, including Jiyuan Yulian Compressed Gas Co. Ltd. Luohe Yulian Compressed Gas Co. Ltd. and Sanmenxia Yulian Compressed Gas Co. Ltd. which have obtained the approval from the local governments of Jiyuan, Luohe and Sanmenxia, Hanan province, the PRC to build a total of eight CNG vehicle gas refuelling stations in aforesaid locations. As at 30th June, 2008, all the construction works for building the above eight CNG vehicle gas refuelling stations have been commenced. We anticipate the respective construction works will be completed by the end of 2008.

Gas Pipeline Construction

During the six months ended 30th June, 2008, the Group made new gas pipeline connection for 22,845 residential households (2007: 19,996 residential households) and 151 industrial/commercial customers (2007: 64 industrial/commercial customers). As at 30th June, 2008, the Group have the accumulated number of residential households of 233,498 (2007: 45,112 residential households) and industrial/commercial customers of 814 (2007: 113 industrial/commercial customers). As at 30th June, 2008, the Group's penetration rate reached 27% (2007: 10%) (represented by the percentage of accumulated number of residential households to estimated an aggregate of connectable residential households).

Sales of LPG

Sales of LPG are not a core business of the Group. During the period under review, the Group sold approximately 2,789 tons of bottled LPG (2007: 1712 tons).

FINANCIAL REVIEW

For the six months ended 30th June, 2008, turnover increased by 528.4% to approximately HK\$269,338,000 from approximately HK\$42,860,000 for the corresponding period in 2007. The tremendous growth in turnover was mainly attributable to the robust growth in sales of piped gas and connection revenue from gas pipeline construction.

Sales of piped gas for the six months ended 30th June, 2008 amounted to approximately HK\$182,721,000, representing an increase of approximately 922.1% over the corresponding period in 2007. 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, which was mainly resulted from the sustained expansion of the Group's downstream gas distribution business in the PRC by the successful acquisition of Newly Acquired Projects in August 2007. In addition, the upward price adjustment of natural gas sold to industrial and commercial users, which has been commenced in fourth quarter of 2007, was also a reason for the increase in total sales of piped gas.

Connection revenue from gas pipeline construction for the six months ended 30th June, 2008 amounted to approximately HK\$66,871,000, representing an increase of approximately 314.9% over the corresponding period in 2007. The increase in connection revenue from gas pipeline construction was mainly attributable to the increase in the number of households connected to the Group's existing gas pipeline networks which was mainly resulted from the sustained expansion of the Group's downstream gas distribution business in the PRC by the successful acquisition of Newly Acquired Projects in August 2007.

Gross profit margin

The overall gross profit margin for the six months ended 30th June, 2008 amounted to approximately 25.4% (2007: 34.7%). The decrease was mainly due to the increase in the proportion of turnover derived from sales of piped gas, which in general has a relatively low profit margin, in the Group's total turnover to approximately 67.8% for the six months ended 30th June, 2008 from approximately 41.7% for the corresponding period in 2007 and the decrease in the gross profit margin of connection revenue from gas pipeline construction to approximately 56.9% for the six months ended 30th June, 2008 from approximately 66.7% for the corresponding period in 2007, resulting from the surge of material cost.

Other income

Other income increased to approximately HK\$7,559,000 for the six months ended 30th June, 2008 from approximately HK\$579,000 for the corresponding period in 2007. The 2008 balance mainly represented the bank interest income of approximately HK\$2,429,000 and the sundry income of approximately HK\$5,130,000.

Operating expenses

Operating expenses, including selling and distribution costs and administrative expenses increased by 218.8% to approximately HK\$53,399,000 for the six months ended 30th June, 2008 from approximately HK\$16,752,000 for the corresponding period in 2007. The increase was mainly attributable to the increase in (i) staff costs and related expenses to approximately HK\$20,465,000 for the six months ended 30th June, 2008 (2007: HK\$5,628,000) as a result of the increase in headcount, (ii) insurance to approximately HK\$2,559,000 for the six months ended 30th June 2008 (2007: HK\$577,000), (iii) depreciation to approximately HK\$3,692,000 for the six months ended 30th June, 2008 (2007: HK\$432,000) and (iv) amortization of patent to approximately HK\$591,000 for the six months ended 30th June, 2008 (2007: Nil), all resulting from the acquisition of Newly Acquired Projects in August 2007.

Other expenses

The group recognized the total non-cash share-based payment expense of approximately HK\$ 4,570,000 for the period ended 30th June, 2008 (2007: HK\$9,501,000) resulting from the issuance of share options by the Company on 3rd April, 2008.

Finance costs

Finance costs increased by 956.2% to approximately HK\$25,866,000 for the six months ended 30th June, 2008 from approximately HK\$2,449,000 for the corresponding period in 2007. The increase was mainly attributable to the increase in (i) non-cash effective interest expense charged on convertible bonds to approximately HK\$15,337,000 for the six months ended 30th June, 2008 (2007: Nil) and (ii) interest on bank borrowings to approximately HK\$10,529,000 for the six months ended 30th June, 2008 (2007: HK\$2,449,000) resulting from the increase in the average bank borrowings and the average bank interest rate.

Change in fair value of derivative financial instruments

The Group recorded a non-cash loss arising on change in fair value of derivative financial instruments which was issued by the Company in June 2007 of approximately HK\$19,212,000 for the six months ended 30th June, 2008 (2007: Nil).

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 2008 and 2007.

Except for Jiyuan Zhongyu Gas Co., Luohe Zhongyu Gas Project Install Co. Ltd, Sanmenxia China-Gas City Gas Development Co. Ltd and Xinmi Zhongyu Gas Co. Ltd which are entitled to a 50% reduction in PRC income tax, Ltd, the Group's PRC subsidiaries are exempted from PRC income tax in 2007.

Accordingly, the income tax expenses for the six months ended 30th June, 2008 amounted to approximately HK\$2,348,000 (2007: Nil).

Loss attributable to equity holders

As a result of the above, loss attributable to equity holders of the parent amounted to approximately HK\$31,739,000 for the six months ended 30th June, 2008.

Prospects

Riding on the booming natural gas market in the PRC, the Group had proactively strengthened both its upstream and downstream capabilities in 2008. With continuous efforts paid to the downstream natural gas operation, the Group currently has two downstream projects underway in Shandong province (Linyi Zhongyu, Linyi China Gas) and seven in Henan province (Sanmenxia, Yongcheng, Xinmi, Yanshi, Jiaozuo, Luohe and Jiyuan) under operation. In terms of upstream development, the joint venture, Henan Zhongyu Coalbed Methane Development and Utilization Company Limited, with Henan Provincial government has been running smoothly, and the CBM extraction process is on schedule. The first two phases of CBM extraction, drilling and fracturing, were completed last year; and the final phases of de-watering gas releasing process had been commenced since September 2007. The Group is satisfied with the progress of CBM extraction, and anticipates commercial CBM production by the end of 2008.

Future prospects of the Group remain promising as the natural gas market in China continues to flourish. In view of the energy problem that China is now facing, along with the rapid economic development which drives up the demand for natural gas and the growing consciousness of environmental protection in the country, we anticipate that CBM, as an alternative clean energy, will be well-received by the market. With the satisfactory progress in CBM extraction, the vertically integrated value chain of the Group will be completed. It ensures sufficient and cost-effective gas supply for the Group's downstream projects and will further enhance the profitability of the Group. Going forward, the Group will continue to enhance its upstream resources by expanding geographically to the Group's CBM blocks other than Jiaozuo City. Meanwhile, the Group will also expand the downstream business by increasing the number of gas refuelling stations, with

the aim to achieve economies of scale and hence enhance our profit margin. The favorable and growing macro-environment in the PRC, together with the excellent policy execution and corporate management of the Group, will render the investments highly rewarding. The Group will maintain the parallel run in expanding its upstream and downstream businesses, so as to enhance its market position and improve its financial performance.

In order to improve the Group's operating results, we will continue to seek cooperation opportunities with promising peers in the industry. We believe that forming strategic alliances will bring synergy to existing businesses and improve the cost efficiency of the Group.

DISCLOSURE OF INTERESTS

(a) Interests of Directors

As at 30th June, 2008, 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")) 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) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to Rule 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	955,737,542	Beneficial and interested in corporation	49.37%
Mr. Hao Yu	2	1,010,739,542	Beneficial and interest in corporation	52.21%
Mr. Lu Zhaoheng	3,4	5,004,000	Beneficial	0.26%
Mr. Xu Yongxuan	3,4	5,004,000	Beneficial	0.26%
Mr. Lui Siu Keung	3,5	12,000,000	Beneficial	0.62%

Notes:

1. Among these Shares and/or underlying Shares, 945,735,542 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. The remaining 10,002,000 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, 945,735,542 Shares are held by Hezhong. Mr. Hao Yu is interested in 40% of the issue 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 at an exercise price of HK\$0.31 per share 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 at an exercise price of HK\$0.31 per share under the share option scheme adopted by the Company on 24th October, 2003.
4. These underlying Shares entitle the holders thereof to subscribe for Shares at an exercise price of HK\$0.31 per Share during the period from 13th June, 2006 to 12th June, 2015.
5. These underlying Shares entitle the holder thereof to subscribe for Shares at an exercise prices of HK\$0.56 per Share during the period from 29th March, 2007 to 28th March 2016 and HK\$0.8 per Share during the period from 3rd April, 2010 to 2nd April, 2018 respectively.

Save as disclosed above, as at 30th June, 2008, 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 30th June, 2008, the following entities (not being Directors or chief executive of the Company) or 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 interests	Number of Shares	Approximate percentage of interests
Hezhong	Beneficial	945,735,542	48.86%
Perry Capital (Asia) Limited	Deemed/Beneficial	272,477,475	14.01%
Perry Capital LLC	Deemed/Beneficial	272,477,475	14.01%
Perry Corp.	Deemed/Beneficial	272,477,475	14.01%
Perry Richard Cayne	Deemed/Beneficial	272,477,475	14.01%
Perry Partners International, Inc.	Beneficial	234,745,243	12.07%

Note:

1. Hezhong is beneficially interested in 945,735,542 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 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 June, 2008, 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 (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 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.

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 six months ended 30th June, 2008.

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 six months ended 30th June, 2008.

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 six months ended 30th June, 2008.

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*), 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, 13th August, 2008

This announcement will remain on the "Latest Company Announcements" page of the GEM website at www.bkgem.com for at least 7 days from the date of its posting and on the Company's website at www.zygas.com.cn.