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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, 2008

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

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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.

FINANCIAL HIGHLIGHTS

- Turnover for the nine months ended 30th September, 2008 amounted to approximately HK\$436,913,000, representing an increase of approximately 263.8% over the corresponding period in 2007.
- Sales of piped gas for the nine months ended 30th September, 2008 amounted to approximately HK\$275,613,000, representing an increase of approximately 358.3% over the corresponding period in 2007
- Connection revenue from gas pipeline construction for the nine months ended 30th September, 2008 amounted to approximately HK\$125,650,000, representing an increase of approximately 186.8% over the corresponding period in 2007.
- Profit attributable to equity holders of the parent for the period under review is approximately HK\$744,000.
- Excluding non-cash items (i) Fair value changes on convertible bonds of approximately HK\$4,989,000 and (ii) Effective interest expense on convertible bonds of approximately HK\$13,777,000, profit attributable to equity holders of the parent for the period under review is approximately HK\$19,510,000.
- The Board does not recommend the payment of any interim dividend for the nine months ended 30th September, 2008.

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, 2008, together with the comparative figures for the corresponding period in 2007 are set out as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the nine months ended 30th September, 2008

	Notes	Three months ended 30th September,		Nine months ended 30th September,	
		2008 HK\$'000 (unaudited)	2007 HK\$'000 (unaudited)	2008 HK\$'000 (unaudited)	2007 HK\$'000 (unaudited)
CONTINUING OPERATIONS					
Turnover	2	167,575	77,244	436,913	120,104
Cost of sales		<u>(113,087)</u>	<u>(50,363)</u>	<u>(313,922)</u>	<u>(78,328)</u>
GROSS PROFIT		54,488	26,881	122,991	41,776
Other income		3,007	5,225	10,565	5,804
Selling and distribution costs		(4,505)	(2,067)	(13,056)	(3,592)
Administrative expenses		(22,601)	(16,314)	(67,450)	(31,541)
Other expenses	4	(1,347)	—	(5,917)	(9,051)
Finance costs	5	(6,719)	(4,372)	(32,584)	(6,821)
Fair value changes on convertible bonds	6	<u>14,224</u>	<u>436</u>	<u>(4,989)</u>	<u>436</u>
PROFIT (LOSS) BEFORE TAXATION		36,547	9,789	9,560	(2,989)
Income tax expenses	7	<u>(1,970)</u>	<u>(168)</u>	<u>(4,318)</u>	<u>(168)</u>
PROFIT (LOSS) FOR THE PERIOD FROM CONTINUING OPERATIONS		34,577	9,621	5,242	(3,157)
DISCONTINUED OPERATIONS					
Loss for the period from discontinued operations		<u>—</u>	<u>—</u>	<u>—</u>	<u>(403)</u>
PROFIT (LOSS) FOR THE PERIOD		<u>34,577</u>	<u>9,621</u>	<u>5,242</u>	<u>(3,560)</u>
Attributable to:					
Equity holders of the parent	10	32,482	8,460	744	(4,133)
Minority interests		<u>2,095</u>	<u>1,161</u>	<u>4,498</u>	<u>573</u>
		<u>34,577</u>	<u>9,621</u>	<u>5,242</u>	<u>(3,560)</u>

	Notes	Three months ended 30th September,		Nine months ended 30th September,	
		2008 HK\$'000 (unaudited)	2007 HK\$'000 (unaudited)	2008 HK\$'000 (unaudited)	2007 HK\$'000 (unaudited)
Interim dividend	8	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
EARNINGS (LOSS) PER SHARE	9				
From continuing and discontinued operations:					
Basic		<u>HK1.6780 cent</u>	<u>HK0.452 cent</u>	<u>HK0.0384 cent</u>	<u>HK(0.221) cent</u>
Diluted		<u>N/A</u>	<u>HK0.449 cent</u>	<u>N/A</u>	<u>HK(0.216) cent</u>
From continuing operations:					
Basic		<u>HK1.6780 cent</u>	<u>HK0.452 cent</u>	<u>HK0.0384 cent</u>	<u>HK(0.199) cent</u>
Diluted		<u>N/A</u>	<u>HK0.449 cent</u>	<u>N/A</u>	<u>HK(0.195) cent</u>

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 includes 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, 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 nine months ended 30th September, 2008 is as follows:

	Three months ended		Nine months ended	
	30th September,		30th September,	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales of piped gas	96,291	42,260	275,613	60,137
Connection revenue from gas pipeline construction	58,779	27,690	125,650	43,808
Sales of liquefied petroleum gas	8,879	6,826	26,993	15,493
Sales of natural gas from compressed natural gas ("CNG") vehicle gas refueling station	2,544	—	5,943	—
Sales of stoves and related equipment	1,082	468	2,714	666
	<u>167,575</u>	<u>77,244</u>	<u>436,913</u>	<u>120,104</u>

3. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purpose, the Group is currently organised into four major operating divisions: Sales of piped gas, connection revenue from gas pipeline construction, sales of liquefied petroleum gas and sales of natural gas from CNG vehicle gas refueling station. 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, 2008

	Continuing operations					Discontinued operations		Consolidated HK\$'000
	Sales of piped gas HK\$'000	Connection revenue from gas pipeline construction HK\$'000	Sales of liquefied petroleum gas HK\$'000	Sales of natural gas from CNG vehicle gas refueling station HK\$'000	Other operations HK\$'000	Total HK\$'000	Software business HK\$'000	
Turnover	<u>275,613</u>	<u>125,650</u>	<u>26,993</u>	<u>5,943</u>	<u>2,714</u>	<u>436,913</u>	—	<u>436,913</u>
Segment results	<u>48,972</u>	<u>69,633</u>	<u>1,905</u>	<u>2,189</u>	<u>292</u>	<u>122,991</u>	—	122,991
Unallocated corporate income								10,565
Unallocated corporate expenses								(91,412)
Finance costs								(32,584)
Profit before taxation								9,560
Taxation								(4,318)
Profit for the period								<u>5,242</u>

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

	<u>Continuing operations</u>					<u>Discontinued operations</u>		<u>Consolidated</u> <i>HK\$'000</i>
	<u>Sales of piped gas</u> <i>HK\$'000</i>	<u>Connection revenue from gas pipeline construction</u> <i>HK\$'000</i>	<u>Sales of liquefied petroleum gas</u> <i>HK\$'000</i>	<u>Sales of natural gas from CNG vehicle gas refueling station operations</u> <i>HK\$'000</i>	<u>Other operations</u> <i>HK\$'000</i>	<u>Total</u> <i>HK\$'000</i>	<u>Software business</u> <i>HK\$'000</i>	
Turnover	<u>60,137</u>	<u>43,808</u>	<u>15,493</u>	<u>—</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>—</u>	<u>191</u>	<u>41,776</u>	<u>1,022</u>	42,798
Unallocated corporate income								6,252
Unallocated corporate expenses								(45,621)
Finance costs								<u>(6,821)</u>
Loss before taxation								(3,392)
Taxation								<u>(168)</u>
Loss for the period								<u>(3,560)</u>

4. OTHER EXPENSES

The group recognized the total non-cash share-based payment expense of approximately HK\$5,917,000 for the nine months ended 30th September, 2008 (2007: HK\$9,051,000) resulting from the issuance of share options by the Company on 3rd April, 2008.

5. FINANCE COSTS

	Nine months ended	
	30th September, 2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Continuing operations		
Interest on bank borrowings:		
- wholly repayable within five years	17,247	6,821
Non-cash Effective interest expense on convertible bonds	13,777	—
Interest charged on convertible bonds	<u>1,560</u>	<u>—</u>
Total finance costs	<u>32,584</u>	<u>6,821</u>

6. CONVERTIBLE BONDS

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

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
At 1st January	130,036	—
Issue during the period, net of issued cost	—	122,419
Loss (Gain) arising on change in fair value	<u>4,989</u>	<u>(436)</u>
At 30th September	<u>135,025</u>	<u>121,983</u>

7. 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 nine months ended 30 September, 2008..

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profits arising in Hong Kong during the periods.

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.

8. INTERIM DIVIDEND

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

9. 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, 2008 HK\$'000	2007 HK\$'000	30th September, 2008 HK\$'000	2007 HK\$'000
Profit (Loss) for the period from continuing and discontinued operations attributable to equity holders of the parent	<u>32,482</u>	<u>8,460</u>	<u>744</u>	<u>(4,133)</u>
	2008 '000	2007 '000	2008 '000	2007 '000
Number of shares				
Weighted average number of ordinary shares for the purposes of basic earnings (loss) per share	1,935,762	1,871,682	1,940,607	1,871,682
Effect of dilutive potential ordinary shares Share options	<u>—</u>	<u>13,969</u>	<u>—</u>	<u>43,755</u>
Weighted average number of ordinary shares for the purposes of diluted earnings (loss) per share	<u>1,935,762</u>	<u>1,885,651</u>	<u>1,940,607</u>	<u>1,915,437</u>

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:

	Three months ended		Nine months ended	
	30th September, 2008 <i>HK\$'000</i>	30th September, 2007 <i>HK\$'000</i>	30th September, 2008 <i>HK\$'000</i>	30th September, 2007 <i>HK\$'000</i>
Profit (Loss) for the period attributable to equity holders of the parent	32,482	8,460	744	(4,133)
Less: Loss for the period from discontinued operations	<u>—</u>	<u>—</u>	<u>—</u>	<u>(403)</u>
Profit (Loss) for the period from continuing operations attributable to equity holders of the parent	<u>32,482</u>	<u>8,460</u>	<u>744</u>	<u>(3,730)</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 earnings (loss) per share	1,935,762	1,871,682	1,940,607	1,871,682
Effect of dilutive potential ordinary shares Share options	<u>—</u>	<u>13,969</u>	<u>—</u>	<u>43,755</u>
Weighted average number of ordinary shares for the purposes of diluted earnings (loss) per share	<u>1,935,762</u>	<u>1,885,651</u>	<u>1,940,607</u>	<u>1,915,437</u>

10. RESERVES

	Attributable to equity holders of the parent							Total HK\$'000
	Share premium HK\$'000	Share option reserve HK\$'000	Merger reserve HK\$'000	Property revaluation reserve HK\$'000	Other reserve HK\$'000	Translation reserve HK\$'000	Accumulated profits (losses) HK\$'000	
At 1st January, 2007	145,901	4,816	3,740	—	7,607	7,436	572	170,072
Issue of shares on placement	414,180	—	—	—	—	—	—	414,180
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 to presentation currency	—	—	—	—	—	(1,046)	—	(1,046)
Loss for the period	—	—	—	—	—	—	(4,133)	(4,133)
At 30th September, 2007	<u>561,029</u>	<u>13,668</u>	<u>—</u>	<u>—</u>	<u>7,607</u>	<u>6,390</u>	<u>179</u>	<u>588,873</u>
At 1st January, 2008	623,920	14,071	—	1,128	7,607	52,302	(21,871)	677,157
Shares repurchased and cancelled	(4,793)	—	—	—	—	—	—	(4,793)
Recognition of equity-settled share based payment	—	5,917	—	—	—	—	—	5,917
Exchange differences arising on translation to presentation currency	—	—	—	—	—	53,473	—	53,473
Profit for the period	—	—	—	—	—	—	744	744
At 30th September, 2008	<u>619,127</u>	<u>19,988</u>	<u>—</u>	<u>1,128</u>	<u>7,607</u>	<u>105,775</u>	<u>(21,127)</u>	<u>732,498</u>

The merger reserve of the Group represents the difference between the nominal value of the share capital of a subsidiary acquired pursuant to the group reorganization completed on 21st May, 2001 and the nominal value of the share capital of the Company issued in exchange thereof.

11. ACQUISITIONS, DISPOSAL, SIGNIFICANT INVESTMENTS AND FUND RAISING ACTIVITIES

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

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, sales of piped gas and sales of natural gas from CNG vehicle gas refueling station.

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 has tapped into the upper stream CBM supply market in the PRC since 2007.

As at 30th September, 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 September, 2008, the Group successfully completed drilling of 33 vertical wells in Jiaozuo. All of the foresaid 33 vertical wells have entered into dewatering and releasing process, the last phase in CBM extraction, and have shown positive results. Among the aforesaid 33 vertical wells, 26 have started to produce CBM by the end of 30th September, 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 2009. 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 natural gas from CNG vehicle gas refueling station. As at 30th September, 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.

With the aim to enhance the Group's turnover and results, the Group has commenced to develop CNG vehicle gas refueling business in the PRC since September 2007. As at 30th September, 2008, the Group operated one CNG vehicle gas refueling 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 refueling stations in aforesaid locations. As at 30th September, 2008, construction works for building three CNG vehicle gas refueling stations including one in Jiyuan City, one in Luohe City and one in Sanmenxia City have been commenced and the construction of the CNG vehicle gas refueling station in Luohe City has also been finished. The commercial operation of the CNG vehicle gas refueling station in Luohe City will commence soon from the end of November 2008. We anticipate that the respective construction works of the other two CNG vehicle gas refueling stations will be completed by the end of 2008.

Sales of Piped Gas

Approximately 90% of total sales of piped gas for the nine months ended 30 September, 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 130,529,000 m³ (2007: 31,904,000 m³).

Gas Pipeline Construction

During the nine months ended 30th September, 2008, the Group made new gas pipeline connection for 36,154 residential households (2007: 28,688 residential households) and 168 industrial/commercial customers (2007: 137 industrial/commercial customers). As at 30th June, 2008, the Group have the accumulated number of residential households of 234,782 (2007: 199,053 residential households) and industrial/commercial customers of 955 (2007: 785 industrial/commercial customers). As at 30th September, 2008, the Group's penetration rate reached 27% (2007: 24%) (represented by the percentage of accumulated number of residential households to estimated an aggregate of connectable residential households).

Sales of Natural Gas from CNG Vehicle Gas Refueling Station

During the period under review, the total unit of CNG provided by the Group to its customers was approximately 1,835,000 m³ (2007: Nil).

FINANCIAL REVIEW

For the nine months ended 30th September, 2008, turnover increased by 263.8% to approximately HK\$436,916,000 from approximately HK\$120,104,000 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 nine months ended 30th September, 2008 amounted to approximately HK\$275,613,000, representing an increase of approximately 358.3% 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.

Connection revenue from gas pipeline construction for the nine months ended 30th September, 2008 amounted to approximately HK\$125,650,000, representing an increase of approximately 186.8% 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.

With the aim to enhance the Group's turnover and results, the Group has commenced to develop compressed natural gas vehicle gas refueling business in the PRC since September 2007. Sales for the nine months ended 30th September, 2008 amounted to HK\$5,943,000 (2007: nil), all derived from the operation of one gas CNG vehicle gas refueling station in Linyi City, Shangdong Province, the PRC.

Gross profit margin

The overall gross profit margin for the nine months ended 30th September, 2008 amounted to approximately 28.2% (2007: 34.8%). 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 63.1% for the nine months ended 30th September, 2008 from approximately 49.3% for the corresponding period in 2007 and the decrease in the gross profit margin of connection revenue from gas pipeline construction to approximately 55.4% for the nine months ended 30th September, 2008 from approximately 64.6% for the corresponding period in 2007, resulting from the surge of material cost.

Other income

Other income increased to approximately HK\$10,565,000 for the nine months ended 30th September, 2008 from approximately HK\$5,804,000 for the corresponding period in 2007. The 2008 balance mainly represented the bank interest income of approximately HK\$3,812,000 and the sundry income of approximately HK\$6,753,000.

Operating expenses

Operating expenses, including selling and distribution costs and administrative expenses increased by 126.6% to approximately HK\$80,506,000 for the nine months ended 30th September, 2008 from approximately HK\$35,133,000 for the corresponding period in 2007. The increase was mainly attributable to the increase in (i) staff costs and related expenses to approximately HK\$38,846,000 for the nine months ended 30th September, 2008 (2007: HK\$14,289,000) as a result of the increase in headcount, (ii) insurance to approximately HK\$4,090,000 for the nine months ended 30th September, 2008 (2007: HK\$1,930,000), (iii) depreciation to approximately HK\$5,567,000 for the nine months ended 30th September, 2008 (2007: HK\$1,866,000) (iv) stamp duties to approximately HK\$3,109,000 for the nine months ended 30th September 2008 (2007: HK\$173,000), and vehicle expense to HK\$4,407,000 for the nine months ended 30th September 2008 (2007: HK\$1,886,000), all resulting from the acquisition of Newly Acquired Projects in August 2007.

Finance costs

Finance costs increased by 377.7% to approximately HK\$32,584,000 for the nine months ended 30th September, 2008 from approximately HK\$6,821,000 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\$13,777,000 for the nine months ended 30th September, 2008 (2007: Nil) (ii) interest charged on convertible bonds to approximately HK\$1,560,000 for the nine months ended 30th September, 2008 (2007: Nil) and (iii) interest on bank borrowings to approximately HK\$17,247,000 for the nine months ended 30th September, 2008 (2007: HK\$6,821,000) 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\$4,989,000 for the nine months ended 30th September, 2008 (2007: gain HK\$436,000).

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 nine months ended 30th September, 2008 amounted to approximately HK\$4,318,000 (2007: HK\$168,000).

Profit attributable to equity holders

As a result of the above, profit attributable to equity holders of the parent amounted to approximately HK\$744,000 for the nine months ended 30th September, 2008.

Excluding non-cash items (i) Fair value changes on convertible bonds of approximately HK\$4,989,000 and (ii) Effective interest expense on convertible bonds of approximately HK\$13,777,000, profit attributable to equity holders of the parent for the period under review is approximately HK\$19,510,000.

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 2009.

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 refueling 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 September, 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	<i>Notes</i>	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 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. 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 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 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 September, 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 September, 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	387,222,665	20.00%
Perry Capital LLC	Deemed/Beneficial	387,222,665	20.00%
Perry Corp.	Deemed/Beneficial	387,222,665	20.00%
Perry Richard Cayne	Deemed/Beneficial	387,222,665	20.00%
Perry Partners International, Inc.	Beneficial	321,553,290	16.61%

Note:

1. Hezhong is beneficially interested in 955,737,542 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 September, 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 nine months ended 30th September, 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 nine months ended 30th September, 2008.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the nine months ended 30th September, 2008, the Company has purchased a total of 8,852,000 Shares on the Stock Exchange at a price range from HK\$0.73 to HK\$0.83 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, 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, 10th November, 2008

This announcement will remain on the GEM website at <http://www.hkgem.com> on the "Latest Company Announcements" page for seven days from the date of its publication and on the Company's website at www.zygas.com.cn