



中裕燃氣控股有限公司

ZHONGYU GAS HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock Code : 8070)

FIRST QUARTERLY RESULTS REPORT

FOR THE THREE MONTHS ENDED

31ST MARCH, 2009

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This report, for which the directors of Zhongyu Gas Holdings Limited (the “Company”) collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company and its subsidiaries (collectively the “Group”). The directors of the Company (the “Directors”), having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

FINANCIAL HIGHLIGHTS

- Turnover for the three months ended 31st March, 2009 amounted to approximately HK\$160,695,000, representing an increase of approximately 31.1% over the corresponding period in 2008.
- Gross profit for the three months ended 31st March, 2009 amounted to approximately HK\$36,334,000, representing an increase of approximately 26.47% over the corresponding period in 2008.
- Profit attributable to equity holders of the Company for the three months ended 31st March, 2009 was approximately HK\$12,252,000.
- The Group's Adjusted EBITDA was approximately HK\$15,275,000 for the three months ended 31st March, 2009, representing an increase of 30.0% as compared with that of approximately HK\$11,754,000 for the corresponding period in 2008.
- The Board does not recommend the payment of any dividend for the three months ended 31st March, 2009.

The board of Directors (the “Board”) is pleased to announce the unaudited consolidated results of the Group for the three months ended 31st March, 2009, together with the comparative figures for the corresponding period in 2008, which are set out as follows:

CONSOLIDATED RESULTS (UNAUDITED)

		Three months ended 31st March,	
	<i>NOTES</i>	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i> (re-presented)
Turnover	3	160,695	122,574
Cost of sales		(124,361)	(93,844)
Gross profit		36,334	28,730
Other income	5	2,290	3,971
Other gains and losses	6	30,614	(461)
Selling and distribution costs		(5,209)	(4,795)
Administrative expenses		(25,718)	(24,166)
Share-based payment		(1,891)	—
Finance costs	7	(15,399)	(13,563)
Profit (Loss) before tax		21,021	(10,284)
Income tax expenses	8	(6,147)	(704)
Profit (Loss) for the period		14,874	(10,988)
Attributable to:			
Equity holders of the Company		12,252	(11,603)
Minority interests		2,622	615
		14,874	(10,988)
Dividends	9	—	—
Earnings (Loss) per share	10		
Basic (HK cent per share)		0.6335	(0.5967)
Diluted (HK cent per share)		0.6281	N/A

Notes:

1. PRESENTATION OF CONSOLIDATED Results

The presentation currency of the consolidated results is Hong Kong dollars. The Directors consider this presentation is more appropriate as the Company is listed on the Stock Exchange.

2. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The consolidated results have been prepared on the historical cost basis and in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated results include applicable disclosures required by the GEM Listing Rules and by the Hong Kong Companies Ordinance. The principal policies adopted are the same as those adopted in the audited consolidated financial statements of the Group for the year ended 31st December, 2008.

3. TURNOVER

Turnover represents the net amounts received and receivable for goods sold and services rendered by the Group to outside customers, net of discounts and related taxes. An analysis of the Group's turnover for the three months ended 31st March, 2009:

	Three months ended	
	31st March,	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales of piped gas	127,302	91,234
Connection revenue from gas pipeline construction	19,262	20,166
Sales of liquefied petroleum gas	6,929	7,203
Operation of compressed natural gas ("CNG") filling station	6,574	3,280
Sales of stoves and related equipment	628	691
	160,695	122,574

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purpose, the Group is currently organised into five major operating divisions: sales of piped gas, connection revenue from gas pipeline construction, sales of liquefied petroleum gas, operation of CNG filling station and sales of coalbed methane (“CBM”). These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

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

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

Income statement for the three months ended 31st March, 2008

	Sales of piped gas <i>HK\$'000</i>	Connection revenue from gas pipeline construction <i>HK\$'000</i>	Sales of liquefied petroleum gas <i>HK\$'000</i>	Operation of CNG filling stations <i>HK\$'000</i>	Sales of CBM <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Total <i>HK\$'000</i>
Turnover	91,234	20,166	7,203	3,280	—	691	122,574
Segment results	<u>15,357</u>	<u>12,208</u>	<u>515</u>	<u>557</u>	<u>—</u>	<u>93</u>	<u>28,730</u>
Unallocated corporate income							3,971
Unallocated corporate expenses							(28,961)
Finance costs							(13,563)
Change in fair value of derivative financial instruments							<u>(461)</u>
Loss before tax							(10,284)
Income tax expense							<u>(704)</u>
Loss for the period							<u><u>(10,988)</u></u>

5. OTHER INCOME

	Three months ended 31st March,	
	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Bank interest income	925	2,176
Other interest income	—	771
Sundry income	<u>1,365</u>	<u>1,024</u>
	<u><u>2,290</u></u>	<u><u>3,971</u></u>

6. OTHER GAINS AND LOSS

	Three months ended	
	31st March,	
	2009	2008
	HK\$'000	HK\$'000
Change in fair value of derivative financial instruments	21,154	(461)
Gain on repurchase of convertible bonds (Note)	9,460	—
	<u>30,614</u>	<u>(461)</u>

Note:

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

7. FINANCE COSTS

	Three months ended	
	31st March,	
	2009	2008
	HK\$'000	HK\$'000
Interest on bank borrowings:		
- wholly repayable within five years	7,147	5,895
Effective interest expense on convertible bonds	8,252	7,668
	<u>15,399</u>	<u>13,563</u>

8. INCOME TAX EXPENSES

	Three months ended 31st March,	
	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
PRC Enterprise Income Tax	2,113	704
Dividend Withholding Tax	4,034	—
	<u>6,147</u>	<u>704</u>

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

On 16th March, 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6th December, 2007, the State Council of the PRC issued Implementation Regulation of the New Law. Under the New Law and Implementation Regulation, the Enterprise Income Tax of the Group's subsidiaries in the PRC was reduced from 33% to 25% from 1st January, 2008 onwards. Therefore, the PRC Enterprise Income Tax is calculated at a tax rate of 25%, which is the prevailing tax rate in the PRC.

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

Pursuant to the relevant laws and regulations in the PRC, certain PRC subsidiaries of the Group and the jointly controlled entity 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.

9. DIVIDENDS

No dividend was paid or proposed during the three months ended 31st March, 2009, nor has any dividend been proposed since 31st March, 2009 (2008: nil).

10. EARNINGS (LOSS) PER SHARE

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

	Three months ended 31st March,	
	2009	2008
	HK\$'000	HK\$'000
<u>Earnings (Loss)</u>		
Earnings (Loss) for the purposes of basic earnings/(loss) per share	12,252	(11,603)
	=====	=====
	As at 31st March,	
	2009	2008
	'000	'000
<u>Number of shares</u>		
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	1,934,402	1,944,614
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	16,312	—
	=====	=====
Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share	1,950,714	NA
	=====	=====

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

Notes:

Diluted loss per share has not been presented for the three months ended 31st March, 2008 because:

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

11. RESERVES

Attributable to equity holders of the Company

	Share premium <i>HK\$'000</i>	Share option reserve <i>HK\$'000</i>	Property revaluation reserve <i>HK\$'000</i>	Other reserve <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January, 2008	623,920	14,071	1,128	7,607	52,302	(21,871)	677,157
Loss for the period	—	—	—	—	—	(10,988)	(10,988)
At 31st March, 2008	<u>623,920</u>	<u>14,071</u>	<u>1,128</u>	<u>7,607</u>	<u>52,302</u>	<u>(32,859)</u>	<u>666,169</u>
At 31st January, 2009	617,376	20,971	1,128	7,607	104,032	(114,668)	636,446
Profit for the period	—	—	—	—	—	12,252	12,252
At 31st March, 2009	<u>617,376</u>	<u>20,971</u>	<u>1,128</u>	<u>7,607</u>	<u>104,032</u>	<u>(102,416)</u>	<u>648,698</u>

12. ACQUISITIONS, DISPOSAL AND SIGNIFICANT INVESTMENTS

The Group had no acquisitions, disposals nor significant investments for the three months ended 31st March, 2009.

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

As at 31st March, 2009, the Directors did not have any future plans for material investment or capital assets.

COMPETING INTEREST

During the period under review, none of the directors, the management shareholders or substantial shareholders of the Company or their respective associates (as defined in the GEM Listing Rules) had any interest in a business which competed with or might compete with the business of the Group.

BUSINESS REVIEW

Overall

We are an early mover in developing a vertically integrated gas operation from upstream resource development to downstream distribution in the PRC. During the year under review, we are principally engaged in (i) the exploration, exploitation and development of coalbed methane (“CBM”) and (ii) the development, construction of gas pipeline network and sales of piped gas and sales of natural gas from compressed natural gas (“CNG”) filling station for vehicles in the People’s Republic of China (the “PRC”).

Upstream CBM Exploration

With the aim to ensure sufficient and cost-effective gas supply for the Group’s downstream gas projects located in Henan Province, the PRC and enhance the Group’s profitability, the Group tapped into the upper stream CBM supply market in the PRC in 2007.

As at 31st March, 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 31st March, 2009, the Group successfully completed drilling of 33 vertical wells in Jiaozuo and all of them have entered into dewatering and releasing process since third quarter 2008 and some are showing positive result until now. In April 2008, the Group has appointed Netherland, Sewell & Associates, Inc. (“NSAI”), a renowned energy research firm, to prepare an independent report confirming the extent of the Group’s CBM deposits. The estimated low, medium and high gas volumes in Jiaozuo CBM block as of 1st April, 2008 were approximately 4,166.9 BCF (approximately 118.0 bln m³), 5,916.3 BCF (approximately 167.5 bln m³) and 9,275.6 BCF (approximately 262.7 bln m³) respectively. The result indicates an enormous CBM reserves located in our Jiaozuo CBM block, and approximates to the preliminary gas volume estimation which was conducted by the related domestic CBM exploration institutions and announced by the Group before. Going onward, the Group will further extend the trial and exploration in Jiaozuo CBM blocks as well as to better master its reserve estimates, with the aim of hastening the commercial production of the CBM.

Downstream Natural Gas Distribution

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

As at 31st March, 2009, the Group secured nine exclusive gas projects, two in Shandong Province, the PRC and seven in Henan Province, the PRC.

The cities in which the Group's gas projects operate currently have a total connectable urban population of approximately 3,084,000. 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 filling business in the PRC since September 2007. In September 2007, one CNG filling station has been erected and commenced its operation in Linyi City, Shandong Province, the PRC. In October 2008, the Group has completed construction of a new CNG filling station in Luohe City, Henan Province, the PRC. The commercial operation of such CNG filling station has been commenced from the end of November 2008. In March 2009, the Group has completed the construction of a new CNG filling station in Jiyuan City, Henan Province, the PRC, and such CNG filling station commenced commercial operation on 1st April, 2009. As at 31st March, 2009, one more CNG filling station located in Sanmenxia City, Henan Province, the PRC is under construction. We anticipate that the construction works of such CNG filling station will be completed by the second quarter at 2009. In future, the Group plans to erect five new CNG filling station in Luohe City, Jiyuan City and Senmenxia respectively by 2010 in order to increase the Group's market share.

In order to ease shortage of the natural gas supply and to meet robust demand for clean energy, the construction works for building of West-East natural gas transmission project Project's second pipeline progresses commenced in 2008. The construction works were projected to be completed at the end of 2009 and the commercial operation was planned to be commenced in early 2010. With the aim to secure the Group's future natural gas supply and further develop the Group's downstream natural gas distribution business in Luohe City, Jiyuan City and Senmenxia City, where West-East natural gas pipeline branch networks will cover, the Group has entered into 3 outline agreements of natural gas sales and transportation with the local natural gas suppliers respectively.

Sales of Piped Gas

Approximately 90% of total sales of piped gas for the three months ended 31st March, 2009 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 52,100,000 m³ (2008: 40,333,000 m³).

Gas Pipeline Construction

During the three months ended 31st March, 2009, the Group made new gas pipeline connection for 6,125 residential households (2008: 6,208 residential households) and 32 industrial/commercial customers (2008: 33 industrial/commercial customers). As at 31st March, 2009, the Group have the accumulated number of residential households of 272,283 (2008: 222,075 residential households) and industrial/commercial customers of 1,083 (2008: 751 industrial/commercial customers). As at 31st March, 2009, the Group's penetration rate reached 30% (2008: 25%) (represented by the percentage of accumulated number of residential households to estimated an aggregate of connectable residential households).

Sales of Natural Gas From CNG Filling Stations

During the period under review, the total unit of CNG provided by the Group to its customers was approximately 3,184,000 m³ (2008: 1,009,000 m³).

Sales of LPG

Sales of LPG are not a core business of the Group. During the period under review, the Group sold approximately 1,545 tons of bottled LPG (2008: 1,290 tons).

FINANCIAL REVIEW

For the three months ended 31st March, 2009, turnover increased by 31.1% to approximately HK\$160,695,000 from approximately HK\$122,574,000 for the corresponding period in 2008. The growth in turnover was mainly attributable to the robust growth in sales of piped gas.

Sales of piped gas for the three months ended 31st March, 2009 amounted to approximately HK\$127,302,000, representing an increase of approximately 39.5% over the corresponding period in 2008. The rapid growth in sales of piped gas was mainly attributable to the increase in the number of households and industrial/commercial users connected as well as the increase in the total gas consumption.

Connection revenue from gas pipeline construction for the three months ended 31st March, 2009 amounted to approximately HK\$19,262,000, representing a decrease of approximately 4.5% over the corresponding period in 2008. The decrease in connection revenue from gas pipeline construction was mainly attributable to the decrease in construction work of gas pipeline connection completed for residential households during the period under review.

Gross profit margin

The overall gross profit margin for the three months ended 31st March, 2009 amounted to approximately 22.6% (2008: 23.4%). 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 79.2% for the three months ended 31st March, 2009 from approximately 77.1% for the corresponding period in 2008 and the decrease in the gross profit margin of connection revenue from gas pipeline construction to approximately 59.2% for the three months ended 31st March, 2009 from approximately 60.7% for the corresponding period in 2008, resulting from the surge of material cost.

Other income

Other income increased to approximately HK\$2,290,000 for the three months ended 31st March, 2009 from approximately HK\$3,971,000 for the corresponding period in 2008. The 2009 balance mainly represented the bank interest income of approximately HK\$925,000 and the sundry income of approximately HK\$1,365,000.

Other gains and loss

The Group recorded a non-cash gain arising on change in fair value of derivative financial instruments which was issued by the Company in June 2007 of approximately HK\$21,154,000 for the three months ended 31st March, 2009 (2008: Loss: HK\$461,000). Also the Group recorded a gain of approximately HK\$9,460,000 on repurchase of Bonds of USD5,000,000 during the period under review.

Operating expenses

Operating expenses, including selling and distribution costs and administrative expenses increased by 6.8% to approximately HK\$30,927,000 for the three months ended 31st March, 2009 from approximately HK\$28,961,000 for the corresponding period in 2008. The increase was mainly attributable to the increase in staff salary cost to approximately HK\$13,747,000 for the three months ended 31st March, 2009 (2008: HK\$10,971,000).

Share-based payment

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

Finance costs

Finance costs increased by 13.5% to approximately HK\$15,399,000 for the three months ended 31st March, 2009 from approximately HK\$13,563,000 for the corresponding period in 2008. The increase was mainly attributable to the increase in (i) non-cash effective interest expense charged on convertible bonds to approximately HK\$8,252,000 for the three months ended 31st March, 2009 (2008: HK\$7,668,000) and (ii) interest on bank borrowings to approximately HK\$7,147,000 for the three months ended 31st March, 2009 (2008: HK\$5,895,000) resulting from the increase in the average bank borrowings.

Income tax expenses

No provision of Hong Kong Profits Tax has been made as the Group had no assessable profits arising in Hong Kong for the year 2009 and 2008.

Pursuant to the relevant laws and regulations in the PRC, certain PRC subsidiaries of the Group and the jointly controlled entity 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.

The Group paid dividend withholding tax of approximately HK\$4,034,000 in the event of inter-group dividend distribution during the three months ended 31st March 2009 (2008: nil).

Accordingly, the income tax expenses for the three months ended 31st March, 2009 amounted to approximately HK\$6,147,000 (2008: HK\$704,000).

Profit attributable to equity holders

As a result of the above, profit attributable to equity holders of the parent amounted to approximately HK\$12,252,000 for the three months ended 31st March, 2009.

Adjusted Earnings from continuing operations before interests, taxation, depreciation, amortisation (“Adjusted EBITDA”)

Excluding other gains and loss, the Group's Adjusted EBITDA was approximately HK\$15,275,000 for the three months ended 31st March, 2009, representing an increase of 30.0% as compared with that of approximately HK\$11,754,000 for the corresponding period in 2008.

Connected Transaction

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

One of the Bond Holders B, Perry Capital LLC, is a substantial Shareholder of the Company which, as at 14th April 2009, being the latest practicable date prior to the printing of the Circular, holds 254,298,000 Shares, representing approximately 13.15% of the issued share capital of the Company. As such, the entering into by the Company of the Amendment Agreement with Perry Capital LLC constitutes a connected transaction for the Company under Rule 20.13(1)(a) of the GEM Listing Rules and is subject to independent Shareholders’ approval requirement pursuant to Rule 20.18 of the GEM Listing Rules.

The terms and conditions of the Bonds outstanding after completion of the Amendment Agreement, in an aggregate principal amount of US\$21,000,000 (the “Outstanding Bonds”) held by Bond Holders B have been amended, the coupon rate will be revised to 2% per annum, and will mature on 25th June, 2012. The mandatory redemption option held by the Bond Holders B has been cancelled. The Company must redeem a portion of the outstanding principal amount of the Outstanding Bonds in the amount and at the redemption prices set out below and in one of the following ways:

- a) on 25 June 2010, redeem not less than US\$1,050,000 in principal amount of the Outstanding Bonds, at the redemption price of 110% of the US\$ principal amount of Convertible Bonds so redeemed, together with any accrued and unpaid interest; and
- b) on 25 June 2011,
 - (i) if less than US\$2,100,000 in principal amount of the Outstanding Bonds were redeemed on 25 June 2010, redeem not less than US\$3,150,000 in principal amount of the Outstanding Bonds, at the redemption price of 120% of the US\$ principal amount of Convertible Bonds so redeemed, together with any accrued and unpaid interest; or

- (ii) if US\$2,100,000 or more in principal amount of the Outstanding Bonds were redeemed on 25 June 2010, redeem not less than US\$2,100,000 in principal amount of the Outstanding Bonds, at the redemption price of 110% of the US\$ principal amount of Convertible Bonds so redeemed, together with any accrued and unpaid interest.

The Bond Holders B can convert the remaining outstanding principal amount of the Outstanding Bonds into ordinary shares of the Company at HK\$0.7 per share from the completion date of the Amendment Agreement to 25th June, 2012.

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

The financial impact arising from the above transactions could not be determined at the date of report, awaiting the receipt of professional valuations in relation to the Bond.

Prospects

The Group is confident in its future prospects since the natural gas market in China will continue to boom amid the global economic downturn. Striving for energy independence, the Chinese government is supporting the exploration and development of domestic energy sources. Along with the rising awareness to environmental protection, the demand for clean energy in China will remain its growth momentum. In order to capture this growing demand, the Group is expanding its downstream natural gas distribution with a focus on high margin commercial and industrial users and compressed natural gas filling stations. It will also increase the number of residential users to further enhance its penetration rate in the nine cities it is operating in. Meanwhile, the Group will hasten the commercialization of its CBM production by advancing the exploration technology as well as extending the exploration of CBM to coal block outside Jiaozuo city, optimizing our vertically integrated value chain and rendering our future prospect promising. The constant revenue growth in the downstream projects coupled with the promising outlook of the upstream resources exploration, we are confident to further enhance our market position as well as our financial performance.

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

DISCLOSURE OF INTERESTS

(a) Interests of Directors

As at 31st March, 2009, the interests and short positions of the Directors and the Chief Executive of the Company and their associates in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the “SFO”)) (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, were as follows:

Long positions in the Shares of the Company:

Name of directors	Notes	Nature of shares and/or underlying shares	Type of interests	Approximate percentage of issued share capital
Mr. Wang Wenliang	1	956,923,542	Beneficial and interest in corporation	49.39%
Mr. Hao Yu	2	1,010,759,542	Beneficial and interest in corporation	52.16%
Mr. Lu Zhaoheng	3	8,004,000	Beneficial	0.41%
Mr. Xu Yongxuan	4	5,004,000	Beneficial	0.26%
Mr. Lui Siu Keung	5	12,000,000	Beneficial	0.62%
Dr. Luo Yongtai	6	2,000,000	Beneficial	0.10%
Mr. Hung, Randy King Kuen	6	2,000,000	Beneficial	0.10%

Notes:

1. Among these Shares and/or underlying Shares, 945,755,542 Shares are held by Hezhong Investment Holding Company Limited (“Hezhong”). Mr. Wang Wenliang is beneficially interested in 60% of the issued share capital of Hezhong. 10,002,000 of the remaining 11,168,000 underlying Shares are to be allotted and issued upon exercise the rights attaching to the share options granted at an exercise price of HK\$0.31 per share under the share option scheme adopted by the Company on 24th October, 2003.
2. Among these Shares and/or underlying Shares, 945,755,542 Shares are held by Hezhong. Mr. Hao Yu is interested in 40% of the issue share capital of Hezhong. The remaining 8,004,000 and 57,000,000 underlying Shares are to be allotted and issued upon exercise the rights attaching to the share options granted at an exercise price of HK\$0.31 per share and HK\$0.56 per share respectively under the share option scheme adopted by the Company on 30th September, 2003.
3. 5,004,000 and 3,000,000 underlying Shares are to be allotted and issued upon exercise the rights attaching to the share options granted at an exercise price of HK\$0.31 per share and HK\$0.80 per share respectively under the share option scheme adopted by the Company on 30th September, 2003.
4. 5,004,000 underlying Shares are to be allotted and issued upon exercise the rights attaching to the share options granted at an exercise price of HK\$0.31 per share under the share option scheme adopted by the Company on 30th September, 2003.
5. 9,000,000 and 3,000,000 underlying Shares entitle the holder thereof to subscribe for Shares at an exercise price of HK\$0.56 per share and HK\$0.80 per share respectively under the share option scheme adopted by the Company on 30th September, 2003.
6. These underlying Shares entitle the holders thereof to subscribe for Shares at an exercise price of HK\$0.80 per share under the share option scheme adopted by the Company on 30th September, 2003.

Save as disclosed above, as at 31st March, 2009, none of the Directors nor the chief executive of the Company had or was deemed to have any interests and short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) are required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

(b) Interests of substantial shareholders of the Company

So far as is known to the Directors, as at 31st March, 2009, the following entities (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

Long positions in the shares

Name of shareholder	Type of interest	Number of shares	Approximate percentage of interests
Hezhong	Beneficial	945,755,542	48.81%
Perry Capital (Asia) Limited	Investment manager	367,794,657	19.01%
Perry Capital LLC	Investment manager	367,794,657	19.01%
Perry Corp.	Investment manager	367,794,657	19.01%
Perry Richard Cayne	Interest in corporation	367,794,657	19.01%
Perry Partners International, Inc.	Beneficial	305,311,668	15.78%

Notes:

1. Hezhong is beneficially interested in 945,755,542 shares. Mr. Wang Wenliang and Mr. Hao Yu are beneficially interested in 60% and 40% of the issued share capital of Hezhong respectively.
2. According to the disclosure of interests pages as shown in the website of the Stock Exchange, Perry Richard Cayne holds as to 100% equity interests of Perry Corp. Perry Corp. holds as to 40% equity interest of Perry Capital LLC. Perry Capital LLC holds as to 100% equity interests of Perry Capital (Asia) Limited. Apart from the information ascertained in the disclosure of interests pages as shown in the website of the Stock Exchange, the Company has no further information.

Save as disclosed above, as at 31st March, 2009, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group.

CODE OF CORPORATE GOVERNANCE PRACTICES

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

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

AUDIT COMMITTEE

The Company's Audit Committee, comprising Mr. Wang Shunlong, Dr. Luo Yongtai and Mr. Hung, Randy King Kuen, as the independent non-executive Directors, has reviewed with the Company's management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited results of the Group for the three months ended 31st March, 2009.

BOARD PRACTICE AND PROCEDURES

The Company has complied with the requirement of Board Practices and Procedures as set out in Rule 5.34 of the GEM Listing Rules during the three months ended 31st March, 2009.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the shares during the three months ended 31st March, 2009.

BOARD OF DIRECTORS

As at the date of this report, the Board comprises Mr. Wang Wenliang (Chairman), Mr. Hao Yu (Chief Executive Officer), Mr. Lu Zhaoheng and Mr. Lui Siu Keung (Chief Financial Officer), as the executive Directors, Mr. Xu Yongxuan (Vice-Chairman), as the non-executive Director and Mr. Wang Shunlong, Dr. Luo Yongtai and Mr. Hung, Randy King Kuen, as the independent non-executive Directors.

By Order of the Board
Wang Wenliang
Chairman

Hong Kong, 15th May, 2009