



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, 2010

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

	For the nine months ended 30th September,		
	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>	% of changes
Turnover	751,203	543,787	38.1%
Sales of piped gas	510,300	338,705	50.7%
Connection revenue from gas pipeline construction	151,054	132,371	14.1%
Gross profit (Gross margin)	192,517 (25.6%)	165,548 (30.4%)	16.3%
Profit attributable to owners of the Company	16,075	40,123	(59.9%)
EBITDA	100,056	95,368	4.9%

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, 2010, together with the comparative figures for the corresponding period in 2009, which are set out as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE NINE MONTHS ENDED 30TH SEPTEMBER, 2010 (UNAUDITED)

	Notes	Three months ended 30th September,		Nine months ended 30th September,	
		2010 HK\$'000	2009 HK\$'000 (re-presented)	2010 HK\$'000	2009 HK\$'000 (re-presented)
Turnover	3	274,486	195,874	751,203	543,787
Cost of sales		(200,153)	(128,957)	(558,686)	(378,239)
Gross profit		74,333	66,917	192,517	165,548
Other income		7,868	5,706	10,945	9,403
Other gains and losses	5	522	(2,679)	14,725	41,099
Selling and distribution costs		(7,619)	(5,401)	(21,091)	(15,733)
Administrative expenses		(34,587)	(30,689)	(100,706)	(79,414)
Share-based payment		(261)	(1,892)	(2,338)	(5,674)
Finance costs	6	(12,137)	(12,524)	(37,267)	(36,671)
Profit before tax		28,119	19,438	56,785	78,558
Income tax charge	7	(8,042)	(5,735)	(24,559)	(20,047)
Profit for the period	8	20,077	13,703	32,226	58,511
Other comprehensive income					
Exchange differences arising on translation		172	–	5,921	63
Total comprehensive income for the period		<u>20,249</u>	<u>13,703</u>	<u>38,147</u>	<u>58,574</u>
Profit for the period attributable to:					
Owners of the Company		13,699	5,036	16,075	40,123
Minority interests		6,378	8,667	16,151	18,388
		<u>20,077</u>	<u>13,703</u>	<u>32,226</u>	<u>58,511</u>
Total comprehensive income attributable to:					
Owners of the Company		13,871	5,036	21,996	40,186
Minority interests		6,378	8,667	16,151	18,388
		<u>20,249</u>	<u>13,703</u>	<u>38,147</u>	<u>58,574</u>
Earnings per share	9				
Basic (HK cent per share)		<u>0.6950</u>	<u>0.2604</u>	<u>0.8152</u>	<u>2.0746</u>
Diluted (HK cent per share)		<u>0.6950</u>	<u>0.2578</u>	<u>0.8148</u>	<u>2.0579</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 30TH SEPTEMBER, 2010

1. BASIS OF PREPARATION

These condensed consolidated financial information for the nine months ended 30th September 2010 has been prepared in accordance with Hong Kong Accounting Standards 34 “Interim financial reporting” issued by the Hong Kong Institute of Certificate Public Accountants (the “HKICPA”) and the applicable disclosures required by the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31st December 2009, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current period, the Group has adopted all the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for its accounting period beginning on 1st January 2010. HKFRSs comprise Hong Kong Financial Reporting Standards (“HKFRS”); Hong Kong Accounting Standards (“HKAS”); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group’s accounting policies, presentation of the Group’s financial statements and amounts reported for the current period and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

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 nine months ended 30th September, 2010 is as follow:

	Three months ended		Nine months ended	
	30th September,		30th September,	
	2010	2009	2010	2009
	HK\$’000	HK\$’000	HK\$’000	HK\$’000
Sales of piped gas	181,117	109,564	510,300	338,705
Connection revenue from				
gas pipeline construction	62,818	55,641	151,054	132,371
Sales of liquefied petroleum gas	8,399	8,170	27,444	22,366
Operation of compressed natural				
gas (“CNG”) filling stations	19,259	18,491	53,846	41,126
Sales of stoves and related				
equipment	2,893	4,008	8,559	9,219
	<u>274,486</u>	<u>195,874</u>	<u>751,203</u>	<u>543,787</u>

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

The Group's executive directors are the chief operating decision makers as they collectively make strategic decisions on resources allocation and performance assessment. The Group is principally engaged in development, construction and operation of natural gas and coalbed gas projects in the PRC. Nearly all identifiable assets of the Group are located in PRC. Information reported to the Group's executive directors for the purpose of resources allocation and assessment of performance focuses on the type of products or services. Each type of product or service is managed by a unique business unit within the Group whose performance is assessed independently. The Group's operating segments under HKFRS 8 are therefore as follows:

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

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

Segment information about these businesses is presented below:

Income statement for the nine months ended 30th September, 2010

	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	<u>510,300</u>	<u>151,054</u>	<u>27,444</u>	<u>53,846</u>	<u>-</u>	<u>8,559</u>	<u>751,203</u>
Segment results	<u>5,408</u>	<u>71,954</u>	<u>(427)</u>	<u>36,026</u>	<u>(3,222)</u>	<u>4,656</u>	114,395
Interests and other income							10,945
Central corporate expenses							(46,013)
Finance costs							(37,267)
Change in fair value of derivative financial instruments							12,360
Gain on the repurchase of convertible bonds							<u>2,365</u>
Profit before tax							56,785
Income tax charge							<u>(24,559)</u>
Profit for the period							<u>32,226</u>

Income statement for the nine months ended 30th September, 2009

	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	<u>338,705</u>	<u>132,371</u>	<u>22,366</u>	<u>41,126</u>	<u>-</u>	<u>9,219</u>	<u>543,787</u>
Segment results	<u>17,519</u>	<u>66,836</u>	<u>184</u>	<u>9,542</u>	<u>(3,226)</u>	<u>4,446</u>	95,301
Interests and other income							9,403
Central corporate expenses							(30,574)
Finance costs							(36,671)
Change in fair value of derivative financial instruments							37,362
Gain on the repurchase of convertible bonds							<u>3,737</u>
Profit before tax							78,558
Income tax charge							<u>(20,047)</u>
Profit for the period							<u>58,511</u>

5. OTHER GAINS AND LOSSES

	Nine months ended 30th September,	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Change in fair value of derivative financial instruments	12,360	37,362
Gain on the repurchase of convertible bonds (<i>Note</i>)	<u>2,365</u>	<u>3,737</u>
	<u>14,725</u>	<u>41,099</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.

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

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

On 25th June, 2010, according to the Amendment Agreement, the Group made a mandatory redemption of 22% of the outstanding Bonds in an aggregate principal amount of US\$4,400,000 (“the Redeemend Bonds”) from the Bond Holders B at redemption amount representing 110% of the principal amount of the Redeemend Bonds, together with all accrued and unpaid interest on the Redeemend Bonds.

Reference is made to the recent voluntary general offer (“General Offer”) by Macquarie Capital Securities Limited on behalf of Rich Legend International Limited, a wholly-owned subsidiary of China Gas Holdings Limited to acquire all of the outstanding convertible bonds, share options and issued shares in the share capital of the Company which became unconditional, further details of which are set out in the announcements dated 23rd July, 2010 issued by China Gas Holdings Limited and the announcement dated 6th August, 2010 jointly issued by the Company and China Gas Holdings Limited. As stated in the Company’s response document to the General Offer dated 31st May, 2010, in the event of a change of control (whereby, amongst other things, any person or persons acting together, other than Hezhong Investment Holding Company Limited, acquires more than 50% voting rights in the issued share capital of the Company), the holders of the convertible bonds (“Convertible Bonds”) due 2012 issued by the Company on 25th June, 2007 (to which the terms of which were amended pursuant to an amendment agreement dated 25th March, 2009) will have the right to require the Company to redeem in whole or in part such outstanding Convertible Bonds pursuant to the terms of thereof.

Pursuant to the terms of the Convertible Bonds, the Company had issued a notice of the change of control in the Company to the holders of the Convertible Bonds and the holders of the Convertible Bonds had exercised their right to require the Company to redeem the Convertible Bonds. Accordingly, on 13th September, 2010, the Company completed the redemption (“Redemption”) of an aggregate principle amount of US\$18,507,044.40, being the early redemption amount payable on the outstanding principal amount of all the Convertible Bonds together with all accrued and unpaid interest, in accordance with the terms and conditions of the Convertible Bonds. The Redemption Amount of the Convertible Bonds is funded by a shareholder’s loan granted by China Gas Holdings Limited to the Company. The details of shareholder’s loan was disclosed in the Section Headed “Connected Transaction” in this announcement.

Upon the Redemption, all of the outstanding Convertible Bonds will be forthwith cancelled and the holders of the Convertible Bonds shall cease to hold any Convertible Bonds issued by the Company.

6. FINANCE COSTS

	Nine months ended	
	30th September,	
	2010	2009
	<i>HK\$’000</i>	<i>HK\$’000</i>
Interest on bank borrowings		
– wholly repayable within five years	16,722	14,995
Effective interest expense		
on convertible bonds	20,124	21,676
Interest on shareholder loan	421	–
	<u>37,267</u>	<u>36,671</u>

7. INCOME TAX CHARGE

	Nine months ended 30th September,	
	2010	2009
	HK\$'000	HK\$'000
PRC Enterprise Income Tax	20,228	13,408
Dividend Withholding Tax	4,331	6,639
	<u>24,559</u>	<u>20,047</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.

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

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

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

Under the EIT Law of the PRC, withholding tax is imposed on the dividend declared to non PRC tax residents in respect of profits earned by PRC subsidiaries from 1st January, 2008 onwards. During the nine months ended 30th September, 2010, withholding tax amounted to HK\$4,331,000 (2009: HK\$6,640,000) was charged by the PRC tax authority which levied on the dividends paid to overseas group entities.

8. PROFIT FOR THE PERIOD

	Nine months ended 30th September,	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period has been arrived at after charging:		
Depreciation of property, plant and equipment	26,756	26,082
Amortisation of other intangible assets	4,918	4,559
	<u>31,674</u>	<u>30,641</u>
Total depreciation and amortisation	<u><u>31,674</u></u>	<u><u>30,641</u></u>

9. EARNINGS PER SHARE

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

	Three months ended 30th September,		Nine months ended 30th September,	
	2010	2009	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<u>Earnings</u>				
Earnings for the purposes of basic earnings per share	<u>13,699</u>	<u>5,036</u>	<u>16,075</u>	<u>40,123</u>
	As at 30th September,	As at 30th September,	As at 30th September,	As at 30th September,
	2010	2009	2010	2009
	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>
<u>Number of shares</u>				
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,970,965	1,933,912	1,971,991	1,934,039
Effect of dilutive potential ordinary shares:				
Share options issued by the Company	<u>–</u>	<u>19,651</u>	<u>971</u>	<u>15,676</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>1,970,965</u>	<u>1,953,563</u>	<u>1,972,962</u>	<u>1,949,715</u>

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

10. DIVIDENDS

No dividend was paid or proposed during the nine months ended 30th September, 2010, nor has any dividend been proposed since 30th September, 2010 (2009: nil).

11. PROPERTY, PLANT AND EQUIPMENT

During the period under review, the addition to property, plant and equipment was approximately HK\$375,394,000 (2009: HK\$63,273,000).

12. CONVERTIBLE BONDS

The movement of embedded derivative of the convertible bonds during the nine months ended 30th September, 2010 is set out below:

	Liability <i>HK\$'000</i>	Embedded derivatives <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January, 2010	142,647	45,625	188,272
Repurchased during the period, net of cost incurred (<i>Note</i>)	(153,820)	(30,125)	(183,945)
Conversion during the period	(6,864)	(3,140)	(10,004)
Interest charged	20,124	–	20,124
Interest paid	(2,087)	–	(2,087)
Gain arising on change in fair value	–	(12,360)	(12,360)
	<u>–</u>	<u>(12,360)</u>	<u>(12,360)</u>
At 30th September, 2010	<u>–</u>	<u>–</u>	<u>–</u>

Note:

The details of the Redemption was disclosed in the note 5 of Other Gains and Losses in this announcement.

13. ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENTS

Save as disclosed in the Section Headed “Business Review” in this announcement, the Group had no acquisitions, disposals nor significant investments for the nine months ended 30th September, 2010.

14. RESERVE

	Share premium HK\$'000	Share option reserve HK\$'000	Property revaluation reserve HK\$'000	Other reserve HK\$'000	Statutory surplus reserve HK\$'000	Translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Balance at 1st January, 2009 (as restated)	<u>617,376</u>	<u>20,971</u>	<u>1,128</u>	<u>7,607</u>	<u>-</u>	<u>104,032</u>	<u>(114,668)</u>	<u>636,446</u>
Profit for the period	-	-	-	-	-	-	40,123	40,123
Other comprehensive income for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>63</u>	<u>-</u>	<u>63</u>
Total comprehensive income for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>63</u>	<u>40,123</u>	<u>40,186</u>
Exercise of share option	3,678	(168)	-	-	-	-	-	3,510
Shares repurchased and cancelled	(397)	-	-	-	-	-	-	(397)
Equity-settled share-based payments	-	5,674	-	-	-	-	-	5,674
Transfer	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,204</u>	<u>-</u>	<u>-</u>	<u>(20,204)</u>	<u>-</u>
Balance at 30th September, 2009 (unaudited)	<u><u>620,657</u></u>	<u><u>26,477</u></u>	<u><u>1,128</u></u>	<u><u>27,811</u></u>	<u><u>-</u></u>	<u><u>104,095</u></u>	<u><u>(94,749)</u></u>	<u><u>685,419</u></u>
Balance at 1st January, 2010 (as restated)	<u>625,142</u>	<u>24,258</u>	<u>1,128</u>	<u>7,607</u>	<u>22,386</u>	<u>110,780</u>	<u>(116,994)</u>	<u>674,307</u>
Profit for the period	-	-	-	-	-	-	16,075	16,075
Other comprehensive income for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,921</u>	<u>-</u>	<u>5,921</u>
Total comprehensive income for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,921</u>	<u>16,075</u>	<u>21,996</u>
Transfer to statutory surplus reserve	-	-	-	-	9,745	-	(9,745)	-
Recognition of equity-settled share-based payments	-	2,338	-	-	-	-	-	2,338
Exercise of share options	4,428	(496)	-	-	-	-	-	3,932
Cancellation of share options	-	(26,100)	-	-	-	-	26,100	-
Shares issued upon conversion of convertible bonds	<u>9,893</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,893</u>
Balance at 30th September, 2010 (unaudited)	<u><u>639,463</u></u>	<u><u>-</u></u>	<u><u>1,128</u></u>	<u><u>7,607</u></u>	<u><u>32,131</u></u>	<u><u>116,701</u></u>	<u><u>(84,564)</u></u>	<u><u>712,466</u></u>

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, 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”).

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

According to the announcement dated 23rd July, 2010 and 6th August, 2010, as all conditions as set out under the section headed “Conditions of the Offers” in the “Letter from MCSL” of the offer document have been satisfied or waived by the Rich Legend International Limited, a wholly owned subsidiary of China Gas (the “Offeror”), the Offeror announces that the Offers have become unconditional in all respects as at 23rd July, 2010. As at 6th August, 2010, the Offeror has received 56.33% and 98.60% form of acceptance for share offer and option offer respectively. No acceptance for convertible bond offer has been received. The Offeror has not extended or revised the Offer. Any Share Options outstanding thereafter lapsed automatically on 6th August, 2010.

However, Hezhong and the Management Owners have not tendered acceptances of the Share Offer in respect of all of the shares held by them, being 946,921,542 shares as stated in the Offer Document and the Response Document, and are consequently in breach of their respective obligations under the Irrevocable Undertaking to accept the Share Offer in respect of all of the shares held by them. The Offeror and China Gas remain in the process of reviewing their options in relation to this breach of the Irrevocable Undertaking and will take such actions, if any, as they may consider appropriate.

Following completion of the transfer of the 1,111,934,142 shares tendered for acceptance by the respective shareholders of the Company in respect the Share Offer to the Offeror, 292,454,000 shares of the Company will be held by the public who are independent of the directors, chief executive or substantial shareholders of the Company or its subsidiaries or any of their respective associates, representing approximately 14.82% of the issued share capital and voting rights of the Company, as at 6th August, 2010. Accordingly, the Company does not fulfill the minimum public float requirement as set out under Rule 11.23 of the Listing Rules. The Company has applied to the Stock Exchange

for a temporary waiver from strict compliance with the public float requirement under Rule 11.23 of the Listing Rules from 6th August, 2010 to 5th February, 2011. The Board of the Company will take appropriate steps to restore the minimum public float as required under Rule 11.23 of the Listing Rules as soon as possible.

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 30th September, 2010, the Group secured eight coal blocks, situated at Jiaozuo, Zhengzhou, Pingdingshan (including Yuzhou and Ruzhou), Hebi, Yima, Yongxia, Henan Province, the PRC to explore, exploit, develop and produce CBM.

As at 30th September, 2010, the Group successfully completed drilling of 33 vertical wells in Jiaozuo and all of them have entered into dewatering and releasing process since third quarter 2008 and some are showing positive result until now. In April 2008, the Group has appointed Netherland, Sewell & Associates, Inc. ("NSAI"), a renowned energy research firm, to prepare an independent report confirming the extent of the Group's CBM deposits. The estimated low, medium and high gas volumes in Jiaozuo CBM block as of 1st April, 2008 were approximately 4,166.9 BCF (approximately 118.0 bln m³), 5,916.3 BCF (approximately 167.5 bln m³) and 9,275.6 BCF (approximately 262.7 bln m³) respectively. The result indicates an enormous CBM reserves located in our Jiaozuo CBM block, and approximates to the preliminary gas volume estimation which was conducted by the related domestic CBM exploration institutions and announced by the Group before. Going onward, the Group will further extend the trial and exploration in Jiaozuo CBM blocks as well as to better master its reserve estimates, with the aim of hastening the commercial production of the CBM.

Downstream Natural Gas Distribution

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

As at 30th September, 2010, the Group secured eleven exclusive gas projects, three in Shandong Province, the PRC and eight in Henan Province, the PRC.

On 6th September, 2010, 焦作中燃城市燃氣發展有限公司("Zhongyu JVC", a sino-foreign joint-venture subsidiary of the Company) entered into a framework agreement ("Framework Agreement") with the State-owned Assets Supervision and Administration Commission of Jiaozuo City of the People's Republic of China ("**Commission**") in respect of, among other things, the sale and purchase of certain assets and liabilities, which mainly comprise of gas pipeline networks in the area of Jiaozuo City.

The Framework Agreement was entered into to secure the approval from the Commission for Zhongyu JVC to acquire the Assets together with the Liabilities from the PRC state-owned government enterprise operating the Assets prior to the establishment of Zhongyu JVC (“Government Enterprise”) through 焦作市建設投資(控股)有限公司 (“JV Partner”, a wholly-owned subsidiary of the Government Enterprise). As part of the legal formalities to affect the Framework Agreement, separate agreements have been simultaneously entered into between the JV Partner and Zhongyu JVC in relation to the matters set out in the Framework Agreement on the same date as the Framework Agreement. The details of the acquisition are disclosed in the Company’s announcement dated 7th September, 2010.

The Board believes that it is in the interest of the Group to acquire the Assets instead of paying leasing expenses to use the Assets. The Board also considers that the terms of the Framework Agreement are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

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. Two CNG filling stations erected and commenced its operation in Linyi City, Shandong Province and Luohe City, Henan Province, the PRC. In March 2009, the Group has completed the construction of a new CNG filling station in Jiyuan City, Henan Province, the PRC, and such CNG filling station commenced commercial operation on 1st April, 2009. In December 2009, one CNG filling station has been completed construction and commenced its operation in Sanmenxia City, Henan Province, the PRC.

On 7th September, 2009, the group acquired the entire equity interest of 南京裕聯壓縮氣有限公司 (Nanjing Yulian Compressed Gas Company Limited) (“Nanjing Yulian”), a company established in the PRC with limited liability. Nanjing Yulian is an investment holding company and has no other business save for the holding of 70% equity interests in 南京裕聯天然氣加氣有限公司 (Nanjing Yulian Natural Gas Filling Company Limited) (“Nanjing Yulian NG Filling”). Nanjing Yulian obtained approval from local authorities of Nanjing, the PRC to construct a total of eight CNG filling stations in Nanjing. Nanjing Yulian NG Filling has erected one CNG filling station and commenced its operation in Nanjing, the PRC during the year.

In future, the Group plans to erect one new CNG filling station in Luohe City by early 2011 in order to increase the Group’s market share.

In order to ease shortage of the natural gas supply and to meet robust demand for clean energy, the construction works for building of West-East natural gas transmission project second pipeline progresses were projected to be completed at the end of 2010 and the commercial operation was planned to be commenced in early 2011. With the aim to secure the Group’s future natural gas supply and further develop the Group’s downstream natural gas distribution business in Luohe City, Jiyuan City and 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 89% of total sales of piped gas for the nine months ended 30th September, 2010 was derived from provision of natural gas. During the period under review, the total unit of natural gas provided by the Group to its customers was approximately 214,081,100 m³ (2009: 162,580,000 m³).

Gas Pipeline Construction

During the nine months ended 30th September, 2010, the Group made new gas pipeline connection for 45,406 residential households (2009: 45,751 residential households) and 211 industrial/commercial customers (2009: 169 industrial/commercial customers). As at 30th September, 2010, the Group have the accumulated number of residential households of 389,176 (2009: 282,813 residential households) and industrial/commercial customers of 1,531 (2009: 1,195 industrial/commercial customers). As at 30th September, 2010, the Group's penetration rate reached 42% (2009: 32%) (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 17,858,600 m³ (2009: 12,713,000 m³).

Sales of LPG

Sales of LPG are not a core business of the Group. During the period under review, the Group sold approximately 4,522 tons of bottled LPG (2009: 4,900 tons).

FINANCIAL REVIEW

For the nine months ended 30th September, 2010, turnover increased by 38.1% to approximately HK\$751,203,000 from approximately HK\$543,787,000 for the corresponding period in 2009. The growth in turnover was mainly attributable to the robust growth in sales of piped gas, connection revenue from gas pipeline construction and sales of natural gas from operation of CNG filling stations.

Sales of piped gas for the nine months ended 30th September, 2010 increased by approximately 50.7% to approximately HK\$510,300,000, accounting for approximately 67.9% of the Group's total turnover. 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 nine months ended 30th September, 2010 increased by approximately 14.1% to approximately HK\$151,054,000, accounting for approximately 20.1% of the Group's total turnover. The increase in connection revenue from gas pipeline construction was mainly attributable to the increase in construction work of gas pipeline connection completed for residential households during the period under review.

Sales of natural gas from CNG filling stations for the nine months ended 30th September, 2010 increased by approximately 30.9% to approximately HK\$53,846,000, accounting for approximately 7.2% of the Group's total turnover. Such increase was mainly attributable to the increase in two vehicle gas refueling stations in Nanjing and Sanmenxia City in September and December 2009 respectively.

Gross profit margin

The overall gross profit margin for the nine months ended 30th September, 2010 amounted to approximately 25.6% (2009: 30.4%). 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 67.9% for the year ended 30th September, 2010 from approximately 62.3% for the corresponding period in 2009. Besides, the decrease in the gross profit margin of revenue from sales of piped gas resulted from the increase in gas purchase price in June 2010.

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\$12,360,000 for the nine months ended 30th September, 2010 (2009: HK\$37,362,000). Also the Group recorded a gain of approximately HK\$2,365,000 on the repurchase of Bonds of USD4,400,000 and USD15,600,000 during the period under review.

Operating expenses

Operating expenses, including selling and distribution costs and administrative expenses increased by 28.0% to approximately HK\$121,797,000 for the nine months ended 30th September, 2010 from approximately HK\$95,147,000 for the corresponding period in 2009. The increase was mainly attributable to the increase in PRC staff salary cost resulting from the salary and bonus increment.

Share-based payment

Share-based payment expense decrease by 60.6% to approximately HK\$2,338,000 for the share options granted on 3rd April, 2008 for the nine months ended 30th September, 2010 from approximately HK\$5,674,000 for the share options granted on 29th March, 2007 and 3rd April, 2008 for the corresponding period in 2009. As the Offers closed on 6th August, 2010, all share options outstanding lapsed automatically.

Finance costs

Finance costs increase by 1.6% to approximately HK\$37,267,000 for the nine months ended 30th September, 2010 from approximately HK\$36,671,000 for the corresponding period in 2009. The increase was mainly attributable to the increase in interest on bank borrowings resulting from the increase in the average borrowings.

Income tax expenses

No provision of Hong Kong Profits Tax has been made as the Group had no assessable profits arising in Hong Kong for the year 2010 and 2009.

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

The Group paid dividend withholding tax of approximately HK\$4,331,000 in the event of inter-group dividend distribution during the nine months ended 30th September, 2010 (2009: 6,639,000).

Accordingly, the income tax expenses for the nine months ended 30th September, 2010 amounted to approximately HK\$20,228,000 (2009: HK\$13,408,000).

Profit attributable to equity holders of the Company

As a result of the above, profit attributable to equity holders of the Company amounted to approximately HK\$16,075,000 for the nine months ended 30th September, 2010 (2009: HK\$40,123,000).

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

For the nine months ended 30th September, 2010 excluding other income and other gains and loss, the Group's EBITDA increased by 4.9% to approximately HK\$100,056,000 from approximately HK\$95,368,000 for the corresponding period in 2009.

Connected Transaction

On 9th September, 2010, the Company entered into a loan agreement (the “Loan Agreement”) with China Gas Holdings Limited (“China Gas”), the controlling shareholder of the Company and whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited, pursuant to which China Gas agrees to make available to the Company a loan facility (the “Shareholder's Loan”) of up to US\$19,000,000 at an interest rate of 5% per annum.

The Loan shall be repaid in full in one lump sum together with all interest accrued thereon on the second anniversary of the drawdown date. The Loan will be for the sole and exclusive purpose of the full redemption of the Convertible Bonds. The aggregate outstanding redeemable amount of the Convertible Bonds as at the date of the Loan Agreement amounted to US\$18,507,044.40. The Company made a drawing of US\$18,507,044.40 on 10 September 2010. The Loan must be drawn in full by one lump sum. If the Loan shall then remain undrawn after 10 September 2010, it shall be forthwith cancelled and thereafter cease to be available to the Company.

Given that China Gas is the controlling shareholder of the Company, the provision of the Shareholder's Loan constitutes a connected transaction of the Company pursuant to Rule 20.13 of the GEM Listing Rules. As the Shareholder's Loan is a form of financial assistance provided by its connected person without security and the terms of the Loan Agreement are in fact more favourable to the Company than those available from independent third parties, the Loan Agreement fell within the exceptions of Rule 20.65(4) of the GEM Rules that such connected transaction is exempt from the reporting, announcement and independent shareholders' approval requirement as stated in chapter 20 of the GEM Listing rules.

Prospects

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

In addition to the abovementioned strategies, the Group is cautiously seeking for suitable investment opportunities. With our healthy financial position, 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 30th September, 2010, the interests and short positions of the Directors and the Chief Executive of the Company and their associates in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the “SFO”)) (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, were as follows:

Long positions in the Shares of the Company

Name of Directors	<i>Notes</i>	Nature of Shares and/or underlying Shares	Type of Interests	Approximate percentage of issued share capital
Mr. Wang Wenliang	<i>1</i>	568,619,542	Beneficial and interest in corporation	28.81%
Mr. Lu Zhaoheng	<i>2</i>	1,000,000	Beneficial	0.05%

Notes:

1. Among these Shares and/or underlying Shares, 567,453,542 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 1,166,000 Shares are directly held by Mr. Wang Wenliang.
2. The Shares are directly held by Mr. Lu Zhaoheng.

Save as disclosed above, as at 30th September, 2010, none of the Directors nor the chief executive of the Company had or was deemed to have any interests and short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) are required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

(b) Interests of substantial shareholders of the Company

So far as is known to the Directors, as at 30th September, 2010, the following entities (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

Long positions in the shares

Name of Shareholder	Type of interests	Number of Shares	Approximate percentage of interests
China Gas Holdings Limited	Beneficial	1,111,934,142	56.33%
Rich Legend International Limited	Beneficial	1,111,934,142	56.33%
Hezhong	Beneficial	567,453,542	28.75%

Notes:

1. According to the disclosure of interests pages as shown in the website of the Stock Exchange, China Gas Holdings Limited holds as to 100% equity interests of Rich Legend International Limited. Apart from the information ascertained in the disclosure of interest pages as shown in the website of the Stock Exchange, the Company has no further information.
2. Hezhong is beneficially interested in 567,453,542 shares. Mr. Wang Wenliang and Mr. Hao Yu are beneficially interested in 60% and 40% of the issued share capital of Hezhong respectively.

Save as disclosed above, as at 30th September, 2010, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group.

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.

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. Li Chunyan, 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, 2010.

Mr. Wang Shunlong has tendered his resignation as an independent non-executive Director, chairman of the Company's audit committee and remuneration committee with effect from 5th October 2010 so as to concentrate on his other personal commitments. The Board is pleased to announce the appointment of Mr. Li Chunyan as an independent non-executive Director, chairman of the Company's audit committee and remuneration committee with effect from 5th October 2010.

BOARD PRACTICE AND PROCEDURES

The Company has complied with the requirement of Board Practices and Procedures as set out in Rules 5.34 of the GEM Listing Rules during the nine months ended 30th September, 2010.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the shares during the nine months ended 30th September, 2010.

BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises Mr. Wang Wenliang (*Chairman and Chief Executive Officer*), Mr. Lu Zhaoheng, Mr. Lui Siu Keung (*Chief Financial Officer*) and Mr. Huang Yong, as the executive Directors, Mr. Xu Yongxuan (*Vice-Chairman*) and Mr. Xu Chao Ping, as the non-executive Directors and Mr. Li Chunyan, 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, 12th November, 2010

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