



中裕燃氣控股有限公司
ZHONGYU GAS HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)
(Stock Code : 3633)

THIRD QUARTERLY REPORT
FOR THE NINE MONTHS ENDED
30TH SEPTEMBER, 2012

FINANCIAL HIGHLIGHTS

	For the nine months ended 30th September,		
	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>	% change
Turnover	1,848,467	1,069,779	72.8%
Sales of piped gas	1,418,241	756,187	87.6%
Connection revenue from gas pipeline construction	278,944	195,854	42.4%
Operation of CNG filling stations	124,316	86,014	44.5%
Gross profit (Gross margin)	407,922 (22.1%)	232,968 (21.8%)	75.1% (0.3%)
Profit attributable to owners of the Company	112,316	17,569	539.3%
Earnings per share			
Basic	HK4.51 cents	HK0.79 cent	470.9%
Diluted	HK4.49 cents	HK0.78 cent	475.6%
EBITDA	294,412	125,938	133.8%

The board of directors (the “Board” or the “Directors”) of Zhongyu Gas Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively the “Group”) for the nine months ended 30th September, 2012, together with the comparative figures for the corresponding period in 2011, which are set out as below. The Group is principally engaged in (i) the investment, operation and management of city gas pipeline infrastructure, distribution of piped gas to residential, industrial and commercial users; (ii) the construction and operation of compressed natural gas (“CNG”) filling stations for vehicles; and (iii) the exploration, exploitation and development of coalbed methane gas (“CBM”) in The People’s Republic of China (“PRC”).

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE NINE MONTHS ENDED 30TH SEPTEMBER, 2012 (UNAUDITED)

	Notes	Three months ended 30th September,		Nine months ended 30th September,	
		2012 HK\$'000	2011 HK\$'000 (re-presented)	2012 HK\$'000	2011 HK\$'000 (re-presented)
Turnover	3	611,813	377,350	1,848,467	1,069,779
Cost of sales		(471,421)	(289,858)	(1,440,545)	(836,811)
Gross profit		140,392	87,492	407,922	232,968
Other gains and losses		34	1	2,588	45
Other income	5	3,664	1,830	11,237	4,564
Selling and distribution costs		(11,433)	(8,765)	(29,876)	(22,380)
Administrative expenses		(52,289)	(43,287)	(141,725)	(123,827)
Share-based payment		-	(3,095)	-	(6,190)
Finance costs	6	(12,069)	(6,226)	(36,036)	(23,857)
Profit before tax		68,299	27,950	214,110	61,323
Income tax expenses	7	(21,797)	(12,776)	(72,121)	(28,054)
Profit for the period	8	46,502	15,174	141,989	33,269
Other comprehensive income					
Exchange differences arising on translation		11,819	(756)	151	16,301
Total comprehensive income for the period		58,321	14,418	142,140	49,570
Profit for the period attributable to:					
Owners of the Company		32,305	11,103	112,316	17,569
Non-controlling interests		14,197	4,071	29,673	15,700
		46,502	15,174	141,989	33,269
Total comprehensive income attributable to:					
Owners of the Company		44,032	10,834	112,467	31,378
Non-controlling interests		14,289	3,584	29,673	18,192
		58,321	14,418	142,140	49,570
Earnings per share	9				
Basic		HK1.28 cents	HK0.47 cent	HK4.51 cents	HK0.79 cent
Diluted		HK1.28 cents	HK0.46 cent	HK4.49 cents	HK0.78 cent

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 30TH SEPTEMBER, 2012

1. BASIS OF PREPARATION

The condensed consolidated financial statements for the nine months ended 30th September, 2012 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31st December, 2011, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

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, 2012. HKFRSs comprise HKFRS and 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, 2012 is as follows:

	Three months ended 30th September,		Nine months ended 30th September,	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Sales of piped gas	451,223	258,391	1,418,241	756,187
Connection revenue from gas pipeline construction	113,209	73,961	278,944	195,854
Operation of CNG filling stations	42,937	35,104	124,316	86,014
Sales of liquefied petroleum gas	3,734	8,770	24,607	28,867
Sales of stoves and related equipment	710	1,124	2,359	2,857
	<u>611,813</u>	<u>377,350</u>	<u>1,848,467</u>	<u>1,069,779</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 the 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) operation of CNG filling stations
- (d) sales of liquefied petroleum gas
- (e) sales of CBM
- (f) Sales of stoves and related equipment

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

Segment information about these businesses is presented below:

Income statement for the nine months ended 30th September, 2012

	Sales of piped gas	Connection revenue from gas pipeline construction	Operation of CNG filling stations	Sales of liquefied petroleum gas	Sales of CBM	Other operations	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue	<u>1,418,241</u>	<u>278,944</u>	<u>124,316</u>	<u>24,607</u>	<u>-</u>	<u>2,359</u>	<u>1,848,467</u>
Segment profit (loss)	<u>99,670</u>	<u>157,520</u>	<u>22,853</u>	<u>221</u>	<u>(6,706)</u>	<u>(487)</u>	273,071
Other income and other gains and losses							13,825
Central corporate expenses							(36,750)
Finance costs							<u>(36,036)</u>
Profit before tax							214,110
Income tax expenses							<u>(72,121)</u>
Profit for the period							<u>141,989</u>

Income statement for the nine months ended 30th September, 2011

	Sales of piped gas HK\$'000	Connection revenue from gas pipeline construction HK\$'000	Operation of CNG filling stations HK\$'000	Sales of liquefied petroleum gas HK\$'000	Sales of CBM HK\$'000	Other operations HK\$'000	Total HK\$'000
Segment revenue	<u>756,187</u>	<u>195,854</u>	<u>86,014</u>	<u>28,867</u>	<u>-</u>	<u>2,857</u>	<u>1,069,779</u>
Segment profit (loss)	<u>14,157</u>	<u>102,337</u>	<u>15,459</u>	<u>115</u>	<u>(9,094)</u>	<u>106</u>	123,080
Other income and other gains and losses							4,609
Central corporate expenses							(42,509)
Finance costs							<u>(23,857)</u>
Profit before tax							61,323
Income tax expenses							<u>(28,054)</u>
Profit for the period							<u>33,269</u>

5. OTHER INCOME AND GAINS

	Nine months ended 30th September,	
	2012 HK\$'000	2011 HK\$'000
Bank interest income	3,328	1,599
Government subsidies <i>(Note)</i>	5,343	623
Sundry income	<u>2,566</u>	<u>2,342</u>
	<u>11,237</u>	<u>4,564</u>

Note: During the nine months ended 30th September, 2012, the Group has received subsidies of HK\$5,343,000 (2011: HK\$623,000) from the relevant PRC governments for promoting the use of natural gas. There are no conditions attached to the subsidies granted to the Group.

6. FINANCE COSTS

	Nine months ended 30th September,	
	2012 HK\$'000	2011 HK\$'000
Interest on bank borrowings	36,036	21,471
Interest on shareholder loan	—	2,386
	<u>36,036</u>	<u>23,857</u>

7. INCOME TAX EXPENSES

	Nine months ended 30th September,	
	2012 HK\$'000	2011 HK\$'000
PRC Enterprise Income Tax	69,594	26,962
Dividend Withholding Tax	6,423	5,383
Deferred taxation	(3,896)	(4,291)
	<u>72,121</u>	<u>28,054</u>

Under the Law of the PRC 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.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods. 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 for both periods.

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. According to current PRC law, the tax concession arrangement will not be granted to all new applicants incorporated after 16th March, 2007. Existing group entities that are entitled to such tax concessions 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 incentives into account. The tax concession arrangements relating to the subsidiaries in Jiaozuo City and Jiyuan City expired in 2011 and all PRC subsidiaries of the Group do not enjoy reduced tax rates in 2012.

Under the EIT Law of the PRC, withholding tax is imposed on dividends 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, 2012, such withholding tax levied by PRC tax authorities on dividends paid to overseas group entities amounted to HK\$6,423,000 (2011: HK\$5,383,000).

8. PROFIT FOR THE PERIOD

	Nine months ended	
	30th September,	
	2012	2011
	HK\$'000	<i>HK\$'000</i>
Profit for the period has been arrived at after charging:		
Depreciation of property, plant and equipment	51,765	39,113
Amortisation of other intangible assets	3,893	3,950
Amortisation of prepaid lease payments	2,433	2,304
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Total depreciation and amortisation	58,091	45,367
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9. EARNINGS PER SHARE

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

	Three months ended 30th September,		Nine months ended 30th September,	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
<u>Earnings</u>				
Earnings for the purposes of basic earnings per share	<u>32,305</u>	<u>11,103</u>	<u>112,316</u>	<u>17,569</u>
	As at 30th September,		As at 30th September,	
	2012 '000	2011 '000	2012 '000	2011 '000
<u>Number of shares</u>				
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>2,523,008</u>	<u>2,368,008</u>	<u>2,489,302</u>	<u>2,213,583</u>
Effect of dilutive potential ordinary shares:				
Share options issued by the Company (Note)	<u>2,121</u>	<u>37,562</u>	<u>13,684</u>	<u>27,013</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>2,525,129</u>	<u>2,405,570</u>	<u>2,502,986</u>	<u>2,240,596</u>

Note: Weighted average number of ordinary shares for the purpose of the computation of diluted earnings per shares has taken into account the effect of the options with dilutive effect.

10. DIVIDENDS

No dividend was paid or proposed during the nine months ended 30th September, 2012, nor has any dividend been proposed since 30th September, 2012 (2011: nil).

11. PROPERTY, PLANT AND EQUIPMENT

During the period under review, the addition to property, plant and equipment was approximately HK\$242,155,000 (2011: HK\$233,782,000).

12. ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENTS

Save as disclosed in the Section Headed "Business Review" in this report, the Group had no acquisitions, disposals nor significant investments for the nine months ended 30th September, 2012.

13. Reserve

	Share option 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) profit HK\$'000	Total HK\$'000
Balance at 1st January, 2011 (audited)	639,463	-	1,128	9,371	32,417	141,606	(74,414)	749,571
Profit for the period	-	-	-	-	-	-	17,569	17,569
Other comprehensive income for the period	-	-	-	-	-	13,809	-	13,809
Total comprehensive income for the period	-	-	-	-	-	13,809	17,569	31,378
Transfer to statutory surplus reserve	-	-	-	-	9,823	-	(9,823)	-
Recognition of equity-settled share-based payments	-	6,190	-	-	-	-	-	6,190
Issue of shares	155,581	-	-	-	-	-	-	155,581
Transaction costs attributable to issue of shares	2,019	-	-	-	-	-	-	2,019
Deemed acquisition of additional interest of subsidiary	-	-	-	(8,322)	-	-	-	(8,322)
Balance at 30th September, 2011 (unaudited)	797,063	6,190	1,128	1,049	42,240	155,415	(66,668)	936,417
Balance at 1st January, 2012 (audited)	816,047	19,143	1,128	1,049	42,462	182,975	1,655	1,064,459
Profit for the period	-	-	-	-	-	-	112,316	112,316
Other comprehensive income for the period	-	-	-	-	-	151	-	151
Total comprehensive income for the period	-	-	-	-	-	151	112,316	112,467
Transfer to statutory surplus reserve	-	-	-	-	9,459	-	(9,459)	-
Recognition of equity-settled share-based payments	74,441	(18,421)	-	-	-	-	-	56,020
Balance at 30th September, 2012 (unaudited)	890,488	722	1,128	1,049	51,921	183,126	104,512	1,232,946

14. EVENTS AFTER THE REPORTING PERIOD

On 8th October, 2012, 鄭州東信鋁業有限公司 Zhengzhou Dongxin Aluminum Company Limited (“Zhengzhou Dongxin”) as transferor, and Zhongyu (Henan) Energy Holdings Limited (“Zhongyu Henan”), a wholly owned subsidiary of the Company, as transferee, entered into the equity transfer agreement pursuant to which Zhengzhou Dongxin agreed to transfer to Zhongyu Henan 100% of the equity interest in 南京晶橋能源投資管理有限公司 Nanjing Jingqiao Energy Investment Management Company Limited (“Nanjing Jingqiao”) held by it.

After completion of the transactions contemplated under the equity transfer agreement, Zhongyu Henan will own the entire equity interest in Nanjing Jingqiao.

Nanjing Jingqiao was established in 2010 in Nanjing, the PRC with limited liability. It is principally engaged in the business of constructing natural gas reserves and related pipeline infrastructure projects in Jingqiao Town, Nanjing, the PRC. Nanjing Jingqiao obtained the concession right from local authorities of Nanjing, the PRC, to operate the sales and distribution of natural gas and compressed natural gas filling stations in Jingqiao Town, Nanjing, the PRC. The concession right is for a period of 30 years and has been granted for exclusive operations since 21st June, 2010.

Jingqiao Town is a major industrial town in Nanjing, Jiangsu Province, the PRC. The total area and population of the town is 150 square kilometers and 44,000 respectively. The industry sector in Jingqiao Town has developed rapidly and its comprehensive economic strength keeps growing. There are 170 industrial enterprises in town with industrial output value of 2.52 billion yuan.

The Directors are of the view that the transaction will enhance the earning base and enlarge the geographical coverage of the Group. To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, Zhengzhou Dongxin and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

The consideration of RMB130 million (equivalent to approximately HK\$160 million) was determined after arm's length negotiation between the parties to the equity transfer agreement with reference to the net asset value of Nanjing Jingqiao and its business prospects.

RMB10 million (equivalent to approximately HK\$12 million) was paid by Zhongyu Henan to Zhengzhou Dongxin on the date of the equity transfer agreement. The balance of RMB120 million (equivalent to approximately HK\$148 million) is payable within 60 days from the date of completion of the transaction. The Group intends that the consideration payable under the equity transfer agreement will be funded by internal resources.

As all of the applicable percentage ratios in respect of the transaction were less than 5%, the transaction did not constitute a discloseable transaction of the Company under the Listing Rules and no announcement was made in this respect.

TRANSFER OF LISTING

The Board is pleased to announce that the Company has successfully transferred its listing from the Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) to the Main Board of the Stock Exchange (the “Main Board”) under the new stock code “3633” on 11 July 2012 (the “Transfer of Listing”).

The Transfer of Listing had no effect on the existing share certificates in respect of the Shares which continues to be good evidence of legal title and are valid for trading, settlement and registration purposes and did not involve any transfer or exchange of the existing share certificates. As announced by the Company on 18 June 2012, the board lot size for trading in the Shares was changed from 2,000 Shares to 4,000 Shares with effect on 10 July 2012. As from 10 July 2012, being the effective date of new board lots of 4,000 Shares, new share certificates will be issued in new board lot size of 4,000 Shares. Save for the change in board lot size, no change was made to the English and Chinese stock short names of the Company, the existing share certificates, the trading currency of the Shares and the Hong Kong branch share registrar and transfer office of the Company following the Transfer of Listing.

The Board believes that the listing of the Shares on the Main Board will enhance the profile of the Group and improve the trading liquidity of the Shares. The Board is of the view that the Transfer of Listing will be beneficial to the future growth and business development of the Group. As at the date of this report, the Board has no immediate plan to change the nature of business of the Group following the Transfer of Listing. The Transfer of Listing did not involve the issue of any new Shares by the Company.

BUSINESS REVIEW

During the period under review, we were principally engaged in (i) the investment, operation and management of city gas pipeline infrastructure, distribution of piped gas to residential, industrial and commercial users; (ii) the construction and operation of CNG filling stations for vehicle; and (iii) the exploration, exploitation and development of CBM in the PRC.

Downstream Piped Gas Distribution

Nanjing Jingqiao Project

On 8th October, 2012, Zhengzhou Dongxin as transferor and Zhongyu Henan, a wholly owned subsidiary of the Company, as transferee entered into the equity transfer agreement pursuant to which Zhengzhou Dongxin agreed to transfer to Zhongyu Henan 100% of the equity interest in Nanjing Jingqiao held by it.

Nanjing Jingqiao was established in 2010 in Nanjing, the PRC with limited liability. It is principally engaged in the business of constructing natural gas reserves and related pipeline infrastructure projects in Jingqiao Town, Nanjing, the PRC. Nanjing Jingqiao obtained the concession right from local authorities of Nanjing, the PRC to operate the sales and distribution of natural gas and compressed natural gas filling stations in Jingqiao Town, Nanjing, the PRC. The concession right is for a period of 30 years and has been granted for exclusive operations since 21st June, 2010.

The Directors are of the view that the transaction will enhance the earning base and enlarge the geographical coverage of the Group. Details of the transaction are disclosed in the Section Headed “Events After The Reporting Period” in this report.

Wuyishan Project

Reference is made to the Annual Report 2011 of the Company dated 21st March, 2012 in which the Company mentioned that Zhongyu Henan, a wholly-owned subsidiary of the Company, entered into an agreement (the “Capital Injection Agreement”) on 4th November, 2011 with 鄭州大田投資有限公司 (Zhengzhou Datian Investment Company Limited) (“Zhengzhou Datian”), 葉建斌 (“Ye Jianbin”) and 卓雲震 (“Zhuo Yunzhen”), in respect of the proposed injection of registered capital into 武夷山中閩天然氣有限公司 (Wuyishan City Zhong Min Natural Gas Company Limited) (“Wuyishan Zhong Min”) by Zhongyu Henan. Immediately after completion of the Capital Injection Agreement, Wuyishan Zhong Min became an indirect non wholly-owned subsidiary of the Company. Wuyishan Zhong Min bid to obtain an exclusive right granted by the Peoples’ Government of Wuyishan City to engage in the construction and operation of piped natural gas projects in Wuyishan City. Wuyishan Zhong Min has been approved by the local government as an eligible candidate. As at the date of this report, the local government is carrying out overall urban and city gas planning. After such planning is finished, Wuyishan Zhong Min plans to submit a bid to the local government for that project in 2013.

Second West-East Gas Pipeline Project

The main pipeline of second West-East Gas Pipeline has been completed and commenced gas supply in July 2011. As a result, piped gas supply for the Group's project located in the following cities described below has increased significantly, enabling the Group to connect with more end users, increasing the Group's turnover and in turn, enhancing its earning base.

The supply of piped natural gas to Sanmenxia City and Luohe City from the second West-East Gas Pipeline commenced in July 2011 and September 2011 respectively. This has greatly increased the sales of piped gas to Sanmenxia City and Luohe City.

The connection and supply of gas to Yanshi City from the sub-pipeline of second West-East Gas Pipeline was completed and commenced supply in late of October 2012. Moreover, in order to match the upstream connection, we expect the connection and supply of piped natural gas to Xinmi City from the sub-pipeline of second West-East Gas Pipeline will be completed and commence in the first half of 2013. After supply commences, the Directors believe that the sales of piped gas to Yanshi City and Xinmi City will increase greatly.

Price Link Mechanism

In addition, the Group obtained the Notice on Problems Relating to the Piped Natural Gas Prices in Henan Province(關於河南省管道天然氣價格有關問題的通知) (the "Notice") issued by Henan Province Development and Reform Commission on 9 December 2011. Pursuant to the Notice, a price link mechanism between the upstream and selling prices of natural gas for residential users (the "Price Link Mechanism") was established. As a result, the selling price of natural gas for residential users of the Group's subsidiaries in Jiaozuo City, Luohe City and Jiyuan City increased during the period under review.

Major Operational Data

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

The major operational data of the Group for the period under review together with the comparative figures for the corresponding period last year are as follows:

	Nine months ended 30th September, (unaudited)		
	2012	2011	Increase/ (Decrease)
Number of Exclusive Gas Projects <i>(Note a)</i>	15	15	–
– Henan Province	12	12	–
– Shandong Province	3	3	–
Connectable urban population ('000) <i>(Note b)</i>	4,308	3,525	22.2%
Connectable residential households ('000)	1,231	992	24.1%
No of new piped gas connections made during the period			
– Residential households	69,890	53,504	30.6%
– Industrial customers	49	31	58.1%
– Commercial customers	298	238	25.2%
Accumulated number of connected piped gas customers			
– Residential households	602,127	484,946	24.2%
– Industrial customers	394	308	27.9%
– Commercial customers	2,082	1,654	25.9%
Penetration rates of residential pipeline connection <i>(Note c)</i>	49%	49%	–
Unit of piped natural gas sold ('000 m ³)	495,881	254,548	94.8%
– Residential households	53,663	36,914	45.4%
– Industrial customers	392,729	183,771	113.7%
– Commercial customers	37,363	26,359	41.7%
– Wholesale customers	12,125	7,505	61.6%
The piped natural gas usage per customer (m ³)			
– Residential household	99	87	13.8%
– Industrial customer	1,118,886	892,090	25.4%
– Commercial customer	20,002	18,073	10.7%
Unit of piped mixed gas sold ('000 m ³)	30,359	28,666	5.9%
Unit of piped coal gas sold ('000 m ³)	50,930	65,099	(21.8%)
Number of CNG Filling Stations			
– Accumulated	9	9	–
– Under construction	11	6	5
Unit of natural gas sold to vehicles ('000 m ³)	29,473	21,416	37.6%
The natural gas usage per station ('000 m ³)	3,275	1,072	205.5%
Unit of bottle LPG sold (ton)	3,209	3,912	(18.0%)
Total length of existing intermediate and main pipelines (km)	2,327	1,913	21.6%

Note a: The number of Exclusive Gas Projects represents the contracts which grant the Group an exclusive right for sales and distribution of piped gas by relevant local authorities.

Note b: The information is quoted from the website of PRC government. The increase in connectable urban population is due to the increase in urban area and jurisdictional region of the cities.

Note c: The penetration rates of residential pipeline connection represented by the percentage of accumulated number of the Group's residential households to the estimated aggregate number of connectable residential households.

Upstream CBM Exploration

With the aim of ensuring sufficient and cost-effective gas supply for the Group's downstream gas projects located in Henan Province, the PRC, and enhancing the Group's profitability, the Group tapped into the upper stream CBM supply market in the PRC in 2007.

As at 30th September, 2012, 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.

Regarding its upstream business, the exploration of CBM in Henan Province has gone smoothly. The dewatering and release process of the operating wells are monitored and evaluated by professionals. The Group will continue to update investors on the latest exploration progress.

FINANCIAL REVIEW

Overall

The Group's results for the nine months ended 30th September, 2012 was mainly driven by organic growth of the businesses. Benefitting from the gas supply ramp-up since the second half of 2011, the Group's turnover for the period under review increased substantially to HK\$1,848,467,000 (2011: HK\$1,069,779,000). The Group's profit attributable to owners of the Company reached HK\$112,316,000 (2011: HK\$17,569,000).

Turnover

An analysis of the Group's turnover for the period under review, together with the comparative figures for the corresponding period last year are as follows:

	Nine months ended 30 September,				
	2012 (HK\$'000)	% of total	2011 (HK\$'000)	% of total	Increase/ (Decrease)
Turnover					
- Sales of piped gas	1,418,241	76.8%	756,187	70.7%	87.6%
- Connection revenue from gas pipeline construction	278,944	15.1%	195,854	18.3%	42.4%
- Operation of CNG filling station	124,316	6.7%	86,014	8.0%	44.5%
- Sales of liquefied petroleum gas	24,607	1.3%	28,867	2.7%	(14.8%)
- Sales of stoves and related equipment	2,359	0.1%	2,857	0.3%	(17.4%)
	1,848,467	100%	1,069,779	100%	72.8%

The turnover for the period under review increased by 72.8% to approximately HK\$1,848,467,000 from approximately HK\$1,069,779,000 for the corresponding period last year. The significant growth in turnover was mainly attributable to the robust growth in sales of piped gas and connection revenue from gas pipeline construction as well as the operation of CNG filling stations.

Sales of Piped Gas

Sales of piped gas for the nine months ended 30th September, 2012 amounted to approximately HK\$1,418,241,000, representing an increase of approximately 87.6% over the corresponding period last year.

Nearly 93% of the total sales of piped gas was derived from the provision of natural gas. The rapid growth in sales of piped gas was mainly attributable to the increase in gas sales volume by 94.8% to 495,881,000 m³ from 254,548,000 m³. The construction of natural gas pipeline connecting the second West-East Gas Pipeline and Sanmenxia City, Henan Province, the PRC, was completed and the supply of piped natural gas to Sanmenxia City from the second West-East Gas Pipeline commenced in July 2011. As a result, piped gas supply for the Group's project located in the Sanmenxia City increased greatly, which enables the Group to connect more industrial users in order to increase the Group's turnover and in turn, enhance its earning base. The increase in gas consumption of industrial users drove the gas sales increment.

During the period under review, the piped natural gas usage per customer provided by the Group to its residential household was approximately 99 m³ (2011: 87 m³); to its industrial customer was approximately 1,118,886 m³ (2011: 892,090 m³); to its commercial customer was approximately 20,002 m³ (2011: 18,073 m³).

The selling price of natural gas for residential users increased by 17.8% when compared to the corresponding period last year, which pushed up the sales during the period. Moreover, the selling price of natural gas for industrial and commercial users of the Group's subsidiaries in Jiaozuo City and Jiyuan City increased in late of 2011 which caused the sales increase.

Sales of piped gas for the period under review contributed approximately 76.8% of the total turnover of the Group. As compared with the percentage of approximately 70.7% during the corresponding period last year, sales of piped gas continued to become the major source of turnover of the Group.

Gas Pipeline Construction

Connection revenue from gas pipeline construction for the nine months ended 30th September, 2012 amounted to approximately HK\$278,944,000, representing an increase of approximately 42.4% over the corresponding period last year. The increase in connection revenue from gas pipeline construction was mainly attributable to the increase in completion of construction work for gas pipeline connection for residential households to 69,890 from 53,504. As the second West-East Gas Pipeline commenced operations in July 2011, the piped gas supply for the Group's project located in the Sanmenxia City and Luohe City increased significantly, which enables the Group to connect with more end users. The average connection fee for industrial and commercial customers was determined on a case-by-case basis, which increased by 21.9% and therefore increased the sales during the period under review.

For the period under review, the average connection fee for residential households was RMB2,651 (2011: RMB2,580) which was a slight increase when compared to that during the corresponding period last year. The connection fee charged to industrial/commercial customers by the Group was significantly higher than that charged to residential households and was determined on a case-by-case basis.

During the period under review, the connection revenue from gas pipeline construction contributed approximately 15.1% of the total turnover of the Group. As compared with the percentage of approximately 18.3% during the corresponding period last year, the connection revenue from gas pipeline construction continued to be one of major sources of turnover for the Group.

As at 30th September, 2012, the Group's penetration rates of residential pipeline connection reached 49% (2011: 49%) (represented by the percentage of accumulated number of the Group's residential households to the estimated aggregate number of connectable residential households).

Operation of CNG Filling Station

Revenue from operating the CNG filling stations for the nine months ended 30th September, 2012 amounted to approximately HK\$124,316,000, representing an increase of approximately 44.5% over the corresponding period last year. The increase was mainly due to a CNG filling stations in Luohe City which commenced operations in May 2011, which also resulted in an increase in turnover of approximately 40.2% in Luohe City over the corresponding period last year. The natural gas usage per station increased by 205.5% to approximately 3,275,000 m³ for the nine months ended 30th September, 2012 from approximately 1,072,000 m³ for the corresponding period last year. Moreover, the selling price increment in Nanjing City also lead to an increase in revenue from operating the CNG filling stations.

During the period under review, the turnover derived from operating the CNG filling station accounted for approximately 6.7% of the total turnover of the Group. The number of the Group's CNG filling stations is nine, which is the same as the corresponding period last year.

In addition, the Group commenced building an additional eleven CNG refilling stations in the PRC. It is expected that four new CNG refilling stations will commence operation in late of 2012. The remaining new CNG refilling stations are expected to commence operation in 2013.

Gross profit margin

The overall gross profit margin for the nine months ended 30th September, 2012 was approximately 22.1% (2011: 21.8%). The Price Link Mechanism enables the Group to pass the upward gas procurements cost to our residential users and resulted in the profit margins of gas sales to residential customers to increase which, in turn, contributed to the increase in the overall gross profit margin. The increase in the proportion of sales of piped gas for industrial and commercial users, which has a relatively higher profit margin, has improved the gross profit margin. Moreover, the selling price of natural gas for industrial and commercial users of the Group's subsidiary in Jiyuan City and the selling price of natural gas for commercial users of the Group's subsidiary in Jiaozuo City increased in late 2011, thereby slightly increasing the gross profit margin for sales of natural gas to industrial and commercial customers.

In addition, the increase in gross profit margin was partially due to the increase in the gross profit margin of connection revenue from gas pipeline construction which increased by 1.4% when compared to the corresponding period last year. Such gross profit margin increment was mainly driven by the increase in average connection fee for residential and commercial customers. The overall gross profit margin remained steady because such increased margins were offset by the increase in the proportion of turnover derived from sales of piped gas, which in general has a relatively low profit margin. The Group's total turnover attributable to sales of piped gas increased to approximately 76.8% for the period under review (2011: 70.7%).

Other income

Other income increased to approximately HK\$11,237,000 for the nine months ended 30th September, 2012 from approximately HK\$4,564,000 for the corresponding period last year. The amount mainly represented the bank interest income of approximately HK\$3,328,000, the government subsidies of approximately HK\$5,343,000 and the sundry income of approximately HK\$2,566,000. The substantial increase was mainly attributable to the government subsidies for the nine months ended 30th September, 2012 which increased to approximately HK\$5,343,000 (2011: HK\$623,000). Such government subsidies were for promoting the use of natural gas. There are no conditions attached to subsidies granted to the Group.

Operating expenses

Operating expenses, including selling and distribution costs and administrative expenses increased by 17.4% to approximately HK\$171,601,000 for the nine months ended 30th September, 2012 from approximately HK\$146,207,000 for the corresponding period last year. The increase was mainly attributable to the increase in staff salary cost to approximately HK\$82,137,000 for the nine months ended 30th September, 2012 (2011: HK\$65,017,000) resulting from salary increments in the second half of 2011. Moreover, the depreciation cost increased by 10.1% to approximately HK\$15,209,000 for the nine months ended 30th September, 2012 from approximately HK\$13,810,000 for the corresponding period last year resulting from the additional equipment for the business development.

Share-based payment

Share-based payment expenses of HK\$6,190,000 for the share options granted on 11th April, 2011 was recorded for the nine months ended 30th September, 2011. On 11th April, 2011, the Company granted share options to eligible participants to subscribe for an aggregate of 159,000,000 ordinary shares in the Company pursuant to the share option scheme adopted by the shareholders of the Company on 24th October, 2003 (the "Share Option"). The exercise price of share options granted was HK\$0.490 per share. The share options granted are valid for a period of ten years from the date of grant. No such expense was recorded for the nine months ended 30th September, 2012 as no new share options were granted for the nine months ended 30th September, 2012.

Finance costs

Finance costs increased by 51.1% to approximately HK\$36,036,000 for the nine months ended 30th September, 2012 from approximately HK\$23,857,000 for the corresponding period last year. For the period under review, the interest on bank borrowings increased by 67.8% to approximately HK\$36,036,000 from HK\$21,471,000 for the corresponding period last year. The increase was mainly attributable to the increase in the average bank borrowings and the decrease in the amounts capitalised in construction in progress resulting from additions to construction in progress decline.

Income tax expenses

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

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. According to current PRC law, the tax concession arrangement will not be granted to all new applicants incorporated after 16th March, 2007. Existing group entities that are entitled to such tax concessions but have not commenced their first profit-making year they are 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 incentives into account. The tax concession arrangements relating to of the subsidiaries in Jiaozuo City and Jiyuan City expired in 2011 and all PRC subsidiaries of the Group do not enjoy reduced tax rates in 2012.

Accordingly, the income tax expenses for the nine months ended 30th September, 2012 amounted to approximately HK\$72,121,000 (2011: HK\$28,054,000).

Under the EIT Law of the PRC, withholding tax is imposed on dividends 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, 2012, such withholding tax levied by PRC tax authorities on dividends paid to overseas group entities amounted to HK\$6,423,000 (2011: HK\$5,383,000).

Profit attributable to owners

As a result of the above, the Group recorded the profit attributable to owners of the Company of approximately HK\$112,316,000 for the nine months ended 30th September, 2012 (2011: HK\$17,569,000).

Earnings per share

The basic and diluted earnings per share attributable to the owners of the Company were HK4.51 cents and HK4.49 cents respectively for the nine months ended 30th September, 2012, as compared with that of HK0.79 cent and HK0.78 cent respectively for the corresponding period last year.

Earnings (excluding other income and gains and losses) before interests, taxation, depreciation, amortisation (“EBITDA”)

For the nine months ended 30th September, 2012 excluding other income and gains and losses, the Group's EBITDA increased by 133.8% to approximately HK\$294,412,000 from approximately HK\$125,938,000 for the corresponding period last year.

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 suitable investment opportunities. With our healthy financial position, together 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, 2012, 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 Futures 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 the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Listing Rules 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 (Note 4)
Mr. Wang Wenliang	1	578,619,542	Beneficial and interest in controlled corporation	22.93%
Mr. Xu Yongxuan	2	1,000,000	Beneficial	0.04%
Mr. Lui Siu Keung	3	6,000,000	Beneficial	0.24%
Mr. Lu Zhaoheng	3	3,000,000	Beneficial	0.12%
Mr. Li Chunyan	2	1,000,000	Beneficial	0.04%
Mr. Luo Yongtai	2	1,000,000	Beneficial	0.04%
Mr. Hung, Randy King Kuen	2	1,000,000	Beneficial	0.04%

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 100% of the issued share capital of Hezhong. The remaining 11,166,000 Shares are directly held by Mr. Wang Wenliang.
2. These underlying Shares are to be allotted and issued upon exercise of the rights attaching to the share options at an exercise price of HK\$0.49 per share under the share option scheme adopted by the Company on 24th October, 2003.
3. The Shares are directly held by the director.
4. As at 30th September, 2012, the total issued share capital of the Company was 2,523,007,684.

Save as disclosed above, as at 30th September, 2012, 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 the Model Code, 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, 2012, 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 which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

Long positions in the Shares of the Company

Name of Shareholder	Notes	Type of interests	Number of Shares	Approximate percentage of interests (Note 3)
China Gas Holdings Limited	1	Interest of controlled corporation	1,111,934,142	44.07%
Rich Legend International Limited	1	Beneficial	1,111,934,142	44.07%
Hezhong	2	Beneficial	567,453,542	22.49%

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. ("Rich Legend") and is therefore deemed to be interested in the 1,111,934,142 Shares held by Rich Legend. 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 is beneficially interested in 100% of the issued share capital of Hezhong respectively.
3. As at 30th September, 2012, the total issued share capital of the Company was 2,523,007,684.

Save as disclosed above, as at 30th September, 2012, 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 which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

COMPETING INTEREST

China Gas Holdings Limited is a substantial shareholder of the Company. For the reasons stated in the Transfer of Listing announcement of the Company dated 29 June 2012, the Board is of the view that in so far as the existing pipeline gas projects of the Group in the PRC are concerned, the Group and China Gas Holdings Limited are not competing with each other due to the nature of the natural gas industry in the PRC. However, there may be competition between the Group and China Gas Holdings Limited in relation to the construction and operation of gas stations in the PRC in the future depending on the direction and expansion of the Group's operations and business in the PRC.

Save as stated in the Transfer of Listing announcement of the Company dated 29th June, 2012 and as mentioned above, 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 Listing Rules) had any interest in a business which competed with or might compete with the business of the Group.

CORPORATE GOVERNANCE CODE

Since the Transfer of Listing, the Company has adopted the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Listing Rules. During the period under review, the Company has complied with all the applicable code provisions under the CG Code (after the Transfer of Listing) and the Corporate Governance Code set out in Appendix 15 of the Rules Governing the Listing of Securities on the GEM Board ("GEM Listing Rules") (for the period where the Company was listed on the GEM Board), except for the following deviation:

CG Code Provision A.2.1 provides that the roles of Chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and chief executive should be clearly established and set out in writing.

The Chairman of the Company is Mr. Wang Wenliang and the Joint Managing Directors (who have similar roles and responsibilities as those of a chief executive) consist of Mr. Wang Wenliang and Mr. Lui Siu Keung. As a result, the dual role that Mr. Wang Wenliang has as the Chairman and a Joint Managing Director may constitute a deviation from CG Code Provision A.2.1.

Mr. Wang Wenliang has been the Chairman and executive director of the Company since its listing on the Stock Exchange. The Board is of the view that it is in the best interests of the Group to adopt a single leadership structure which will avoid the decision-making process from being unnecessarily hindered and also ensures that the Group can respond to business opportunities efficiently and promptly.

Mr. Wang Wenliang is one of the largest shareholder of the Company who is deemed to hold approximately 22.93% of the total issued shares of the Company as at the date of this report. He is in charge of the Group's overall strategic decisions and has played a vital role in developing the business of the Group.

Major decisions made by Mr. Wang Wenliang as the Chairman and a Joint Managing Director are reviewed by the Board and the Board believes that Mr. Lui Siu Keung's appointment as the other Joint Managing Director also helps to put in place adequate safeguards to ensure a balance of power and authority, so that no one individual represents a considerable concentration of power.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

Since the Transfer of Listing, the Company has adopted and complied with the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by Directors. Having made specific enquiry of all Directors, during the period under review, the Company confirms that the Directors complied with the required standard against which the Company and Directors must measure their conduct regarding transactions in securities of the Company set out in Chapter 5 of the GEM Listing Rules (for the period where the Company was listed on the GEM Board).

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 financial reporting matters including a review of the unaudited consolidated results of the Group for the nine months ended 30th September, 2012.

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, 2012.

BOARD OF DIRECTORS

As at the date of this report, the Board comprises Mr. Wang Wenliang (Chairman and Joint Managing Director), Mr. Lui Siu Keung (Joint Managing Director and Chief Financial Officer) and Mr. Lu Zhaoheng, as the executive Directors, Mr. Xu Yongxuan (Vice-Chairman), 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
ZHONGYU GAS HOLDINGS LIMITED
Lui Siu Keung
Joint Managing Director

Hong Kong, 12th November, 2012