



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

(incorporated in the Cayman Islands with limited liability)  
(Stock Code : 8070)

**INTERIM REPORT**  
**FOR THE SIX MONTHS ENDED**  
**30TH JUNE, 2011**

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

**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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

## FINANCIAL HIGHLIGHTS

	For the six months ended 30th June,		
	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>	% of <i>changes</i>
Turnover	<b>692,429</b>	476,717	45.2%
Sales of piped gas	<b>497,796</b>	329,183	51.2%
Connection revenue from gas pipeline construction	<b>121,893</b>	88,236	38.1%
Revenue from operation of CNG filling stations	<b>50,910</b>	34,587	47.2%
Gross profit (Gross margin)	<b>145,476</b> <b>(21.0%)</b>	118,184 (24.8%)	23.1%
Profit for the period	<b>18,095</b>	12,149	48.9%
Profit attributable to owners of the Company	<b>6,466</b>	2,376	172.1%
EBITDA	<b>77,669</b>	56,831	36.7%

The board of Directors (the “Board”) is pleased to announce the unaudited condensed consolidated results of the Group for the six months ended 30th June, 2011, together with the comparative figures for the corresponding period in 2010, which are set out as follows:

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30TH JUNE, 2011 (UNAUDITED)**

	Notes	Three months ended 30th June,		Six months ended 30th June,	
		2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Turnover	3	379,851	257,995	692,429	476,717
Cost of sales		(279,044)	(188,673)	(546,953)	(358,533)
Gross profit		100,807	69,322	145,476	118,184
Other income		1,846	138	2,778	3,077
Other gains and losses		-	11,840	-	14,203
Selling and distribution costs		(6,244)	(6,849)	(13,615)	(13,472)
Administrative expenses		(41,525)	(29,388)	(80,540)	(66,119)
Share-based payment		(3,095)	(783)	(3,095)	(2,077)
Finance costs	5	(9,333)	(17,384)	(17,631)	(25,130)
Profit before tax		42,456	26,896	33,373	28,666
Income tax expenses	6	(12,144)	(13,084)	(15,278)	(16,517)
Profit for the period	7	30,312	13,812	18,095	12,149
Other comprehensive income					
Exchange differences arising on translation		19,859	5,749	17,057	5,749
Total comprehensive income for the period		50,171	19,561	35,152	17,898
Profit for the period attributable to:					
Owners of the Company		20,440	7,281	6,466	2,376
Non-controlling interests		9,872	6,531	11,629	9,773
		30,312	13,812	18,095	12,149
Total comprehensive income attributable to:					
Owners of the Company		37,320	13,030	20,544	8,125
Non-controlling interests		12,851	6,531	14,608	9,773
		50,171	19,561	35,152	17,898
Earnings per share	8				
Basic (HK cent per share)		0.8909	0.3688	0.3028	0.1206
Diluted (HK cent per share)		0.8768	0.3688	0.2977	0.1194

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 30TH JUNE, 2011**

	<i>Notes</i>	<b>30/6/2011 (unaudited) HK\$'000</b>	31/12/2010 (audited) HK\$'000
<b>Non-current assets</b>			
Investment properties		6,370	6,245
Property, plant and equipment	10	1,275,457	1,130,829
Goodwill		104,568	104,568
Other intangible assets		147,244	150,598
Deposits paid for acquisition of property, plant and equipment		200,670	227,203
Prepaid lease payments		117,500	115,196
Available-for-sale investment		3,013	2,954
		<u>1,854,822</u>	<u>1,737,593</u>
<b>Current assets</b>			
Inventories		78,308	45,304
Trade receivables	11	83,634	53,340
Deposits, prepayments and other receivables		99,112	67,346
Prepaid lease payments		3,749	3,676
Amounts due from customers for contract work		1,830	2,334
Pledged bank deposit		14,258	13,978
Bank balances and cash		269,907	351,963
		<u>550,798</u>	<u>537,941</u>
<b>Current liabilities</b>			
Deferred income and advance received		182,755	129,581
Trade payables	12	186,576	161,551
Other payables and accrued charges		141,145	126,887
Amounts due to customers for contract work		15,033	14,066
Bank borrowings		428,654	390,447
Tax payables		13,292	22,456
		<u>967,455</u>	<u>844,988</u>
<b>Net current liabilities</b>		<u>(416,657)</u>	<u>(307,047)</u>
<b>Total assets less current liabilities</b>		<u>1,438,165</u>	<u>1,430,546</u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 30TH JUNE, 2011 – continued**

<i>Notes</i>	<b>30/6/2011 (unaudited) HK\$'000</b>	31/12/2010 (audited) HK\$'000
<b>Capital and reserves</b>		
Share capital	<b>23,680</b>	19,740
Reserves	<b>930,810</b>	749,571
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Equity attributable to owners of the Company	<b>954,490</b>	769,311
Non-controlling interests	<b>117,836</b>	133,096
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Total equity	<b>1,072,326</b>	902,407
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<b>Non-current liabilities</b>		
Deferred income and advance received	<b>24,220</b>	24,220
Bank Borrowings	<b>328,498</b>	343,384
Shareholder loan	–	144,355
Deferred taxation	<b>13,121</b>	16,180
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	<b>365,839</b>	528,139
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<b>Total equity and liabilities</b>	<b>1,438,165</b>	1,430,546
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## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30TH JUNE, 2011

	Attributable to owners of the Company										
	Share Capital	Share premium	Share option reserve	Property revaluation reserve	Other reserve	Statutory surplus reserve	Translation reserve	Accumulated losses	Total	Non-controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1st January, 2010 (audited)	19,490	625,142	24,258	1,128	7,607	22,386	110,780	(116,994)	693,797	119,964	813,761
Profit for the period	-	-	-	-	-	-	-	2,376	2,376	9,773	12,149
Other comprehensive income for the period	-	-	-	-	-	-	5,749	-	5,749	-	5,749
Total comprehensive income for the period	-	-	-	-	-	-	5,749	2,376	8,125	9,773	17,898
Transfer to statutory surplus reserve	-	-	-	-	-	9,745	-	(9,745)	-	-	-
Recognition of equity-settled share-based payments	-	-	2,077	-	-	-	-	-	2,077	-	2,077
Exercise of share options	138	4,428	(496)	-	-	-	-	-	4,070	-	4,070
Dividends paid by subsidiaries to non-controlling interests	-	-	-	-	-	-	-	-	-	(19,629)	(19,629)
Shares issued upon conversion of convertible bonds	112	9,893	-	-	-	-	-	-	10,005	-	10,005
Balance at 30th June, 2010 (unaudited)	19,740	639,463	25,839	1,128	7,607	32,131	116,529	(124,363)	718,074	110,108	828,182
Balance at 1st January, 2011 (audited)	19,740	639,463	-	1,128	9,371	32,417	141,606	(74,414)	769,311	133,096	902,407
Profit for the period	-	-	-	-	-	-	-	6,466	6,466	11,629	18,095
Other comprehensive income for the period	-	-	-	-	-	-	14,078	-	14,078	2,979	17,057
Total comprehensive income for the period	-	-	-	-	-	-	14,078	6,466	20,544	14,608	35,152
Transfer to statutory surplus reserve	-	-	-	-	-	6,042	-	(6,042)	-	-	-
Recognition of equity-settled share-based payments	-	-	3,095	-	-	-	-	-	3,095	-	3,095
Issue of shares	3,940	155,581	-	-	-	-	-	-	159,521	-	159,521
Dividends paid by subsidiaries to non-controlling interests	-	-	-	-	-	-	-	-	-	(29,868)	(29,868)
Transaction costs attributable to issue of shares	-	2,019	-	-	-	-	-	-	2,019	-	2,019
Balance at 30th June, 2011 (unaudited)	23,680	797,063	3,095	1,128	9,371	38,459	155,684	(73,990)	954,490	117,836	1,072,326

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE SIX MONTHS ENDED 30TH JUNE, 2011**

	<b>Six months ended 30th June,</b>	
	<b>2011</b>	2010
	<b>(unaudited)</b>	(unaudited)
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Net cash from operating activities</b>	<b>52,265</b>	33,713
<b>Net cash used in investing activities</b>	<b>(90,143)</b>	(238,081)
<b>Net cash (used in) from financing activities</b>	<b>(44,178)</b>	286,568
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(82,056)</b>	82,200
<b>Cash and cash equivalents at 1st January</b>	<b>351,963</b>	413,779
<b>Cash and cash equivalents at 30th June, represented by bank balances and cash</b>	<b>269,907</b>	495,979



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION

These condensed consolidated financial information for the six months ended 30th June, 2011 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, 2010, 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, 2011. 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 polices, 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 six months ended 30th June, 2011:

	Six months ended 30th June,	
	2011	2010
	<i>HK\$’000</i>	<i>HK\$’000</i>
Sales of piped gas	497,796	329,183
Connection revenue from gas pipeline construction	121,893	88,236
Revenue from operation of compressed natural gas (“CNG”) filling station	50,910	34,587
Sales of liquefied petroleum gas	20,097	19,045
Sales of stoves and related equipment	1,733	5,666
	<u>692,429</u>	<u>476,717</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 and reportable segments 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 coalbed methane gas ("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 six months ended 30th June, 2011

	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>497,796</u>	<u>121,893</u>	<u>50,910</u>	<u>20,097</u>	<u>-</u>	<u>1,733</u>	<u>692,429</u>
Segment (loss) profit	<u>(4,057)</u>	<u>60,758</u>	<u>25,713</u>	<u>116</u>	<u>(6,806)</u>	<u>244</u>	75,968
Interests and other income							2,778
Central corporate expenses							(27,742)
Finance costs							<u>(17,631)</u>
Profit before tax							33,373
Income tax expenses							<u>(15,278)</u>
Profit for the period							<u>18,095</u>

## Income statement for the three months ended 30th June, 2010

	Sales of piped gas <i>HK\$'000</i>	Connection revenue from gas pipeline construction <i>HK\$'000</i>	Operation of CNG filling stations <i>HK\$'000</i>	Sales of liquefied petroleum gas <i>HK\$'000</i>	Sales of CBM <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue	<u>329,183</u>	<u>88,236</u>	<u>34,587</u>	<u>19,045</u>	<u>-</u>	<u>5,666</u>	<u>476,717</u>
Segment (loss) profit	<u>(1,389)</u>	<u>39,698</u>	<u>23,633</u>	<u>(784)</u>	<u>(2,150)</u>	<u>3,039</u>	62,047
Interests and other income							3,077
Central corporate expenses							(25,531)
Finance costs							(25,130)
Change in fair value of derivative financial instruments							13,652
Gain on repurchase of convertible bonds							<u>51</u>
Profit before tax							28,666
Income tax expenses							<u>(16,517)</u>
Profit for the period							<u>12,149</u>

## 5. FINANCE COSTS

	Six months ended 30th June,	
	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Interest on bank borrowings		
– wholly repayable within five years	15,245	10,175
Interest on shareholder loan	2,386	-
Effective interest expense on convertible bonds	-	14,955
	<u>17,631</u>	<u>25,130</u>

## 6. INCOME TAX EXPENSES

	Six months ended 30th June,	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
PRC Enterprise Income Tax	15,278	12,186
PRC withholding tax	3,058	4,331
Deferred taxation	(3,058)	–
	<u>15,278</u>	<u>16,517</u>

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.



## 9. DIVIDENDS

No dividend was paid or proposed during the six months ended 30th June, 2011, nor has any dividend been proposed since 30th June, 2011 (2010: nil).

## 10. PROPERTY, PLANT AND EQUIPMENT

During the period under review, the addition to property, plant and equipment was approximately HK\$82,172,000 (2010: HK\$226,358,000).

## 11. TRADE RECEIVABLES

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

	<b>30/6/2011</b> <i>HK\$'000</i>	30/12/2010 <i>HK\$'000</i>
Within 1 month	68,271	52,224
Over 1 month but within 3 months	6,129	1,116
Over 3 months but within 6 months	143	-
Over 6 months	9,091	-
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	<b>83,634</b>	<b>53,340</b>
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## 12. TRADE PAYABLES

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

	<b>30/6/2011</b> <i>HK\$'000</i>	30/12/2010 <i>HK\$'000</i>
0 - 30 days	107,735	105,200
31 - 90 days	12,907	9,013
91 - 180 days	14,310	18,664
Over 180 days	51,624	28,674
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	<b>186,576</b>	<b>161,551</b>
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## 13. ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENTS

Save as disclosed herein, the Group had no acquisitions, disposals nor significant investments for the six months ended 30th June, 2011.

## **LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

### **Liquidity**

As at 30th June, 2011, the Group had consolidated current assets of approximately HK\$550,798,000 and its current ratio was approximately 0.6 (2010: 0.6). As at 30th June, 2011, the Group had a gearing ratio of approximately 70.6% (2010: 97.3%), measured as total consolidated interest borrowings of approximately HK\$757,152,000 to consolidated total equity of approximately HK\$1,072,326,000. As at 30th June, 2011, the Group had consolidated bank balances and cash of approximately HK\$269,907,000. The consolidated trade receivables amounted to approximately HK\$83,634,000 while consolidated trade payables amounted to approximately HK\$186,576,000.

### **Financial resources**

During the six months ended 30th June, 2011, the Group generally financed its operations with internally generated resources and borrowings. As at 30th June, 2011, all of the borrowings were secured or unsecured and on normal commercial basis.

### **Working capital**

In view of the Group's current financial and liquidity positions and in the absence of unforeseen circumstances, the Directors are of the opinion that the Group has sufficient working capital for its present requirements.

## **EXPOSURE TO EXCHANGE RATE FLUCTUATIONS**

During the period under review, the Group experienced only immaterial exchange rates fluctuations as most of the Group's monetary assets and liabilities were denominated in either Renminbi or the United States dollars and the Group conducted its business transactions principally in Renminbi. The Group expects that the appreciation of Renminbi against the United States dollars will continue in the foreseeable future. Accordingly, the Group considered that as the exchange rate risk of the Group is considered to be minimal, the Group did not employ any financial instruments for hedging purposes.

## **EMPLOYEE INFORMATION**

As at 30th June, 2011, the Group had a total of 2,117 employees (2010: 1,958) in Hong Kong and the PRC, and the total remuneration for the period under review was approximately HK\$55,965,000 (2010: HK\$46,487,000). More than 99.8% of the Group's employees are located in the PRC. The Group's remuneration and bonus policies are basically determined by the performance of individual employees.

The emoluments of the Directors are decided by the Remuneration Committee of the Company, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme whereby certain employees of the Group and other individuals providing similar services may be granted options to acquire shares.

## **CHARGE ON THE GROUP'S ASSETS**

As at 30th June, 2011, the Group did not have any charges on the Group's assets.

## **DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS**

As at 30th June, 2011, the Directors did not have any future plans for material investment or capital assets.

### **Capital Commitments**

As at 30th June, 2011, the Group did not have any significant capital commitments.

### **Contingent Liabilities**

As at 30th June, 2011, the Group did not have any contingent liabilities.

## **BUSINESS REVIEW**

During the period under review, we are 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 vehicle; and (iii) the exploration, exploitation and development of coalbed methane ("CBM") in the People's Republic of China (the "PRC").

### **Overall**

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.



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 May, 2011. On 8th April, 2011, the Company entered into the placing agreement (the "Placing Agreement") relation to the placing of a maximum of 394,000,000 new Shares to be placed by the Company (the "Placing Share"), through Kingsway Financial Services Group Limited (the "Placing Agent") pursuant to the Placing Agreement (the "Placing").

The board of directors (the "Board") is pleased to announce that all conditions of the Placing have been fulfilled and the completion of the Placing took place on 18th April, 2011.

394,000,000 Placing Shares representing approximately 16.64% of the Company's entire issued share capital as enlarged by the Placing have been successfully placed by the Placing Agent to not less than six independent institutional, professional and/or other private investor procured by the Placing Agent to purchase any of the Placing Shares (the "Placees") pursuant to the terms and conditions of the Placing Agreement, at the placing price of HK\$0.41 per Placing Share.

To the best of the directors of the company's knowledge, none of the Placees will become a substantial shareholder upon completion of the Placing and the Placees and their ultimate beneficial owners are independent third parties and are treated as public shareholders. Therefore, as a result of the completion of the Placing, there are 687,454,000 Shares (representing approximately 29.03% of the existing issued share capital of the Company) in public hands. Accordingly, the Company has fulfilled the minimum public float requirement under Rule 11.23 of the GEM Listing Rules.

The net proceeds from the Placing are approximately HK\$159.52 million and will be used to repay the loan of US\$18,507,044.4 made by China Gas Holdings Limited to the Company pursuant to a loan agreement date 10th September, 2010 (the "Shareholder's Loan") and all interest accrued thereon under the Shareholder's Loan. The remaining proceeds (if any) will be used for the general working capital of the Group.

Accordingly, the Company has sent a cashier's cheque dated 28th April, 2011 by registered post to China Gas for the outstanding principal amount of the Shareholder's Loan being US\$18,507,044.40 together with interest accrued on such amount (calculated from and including the drawdown date of the loan up to and including 29th April, 2011). China Gas sent a reply letter through its legal adviser mentioned that China Gas has not yet taken as an acceptance of early repayment of the Shareholder's Loan and all China Gas's rights under the Shareholder's Loan agreement are reserved.

On 15th February, 2011, Zhongyu (Henan) Energy Holdings Limited (“Zhongyu (Henan)”), a wholly owned subsidiary of the Company, entered into two share transfer agreements with two independent third parties in respect of acquisition of 100% shareholding of 深圳市鹏凯吉星贸易有限公司 (“深圳市鹏凯吉星贸易”). The consideration of RMB100,000 is contributed by Zhongyu (Henan) in cash, which is the registered capital of 深圳市鹏凯吉星贸易. 深圳市鹏凯吉星贸易 is engaged principally in providing business relationship development services.

### Downstream Natural Gas Distribution

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:

	Six months ended		Increase/ (Decrease)
	2011	2010	
Number of Exclusive Gas Projects <i>(Note)</i>	<b>15</b>	13	2
– Henan Province	<b>12</b>	10	2
– Shandong Province	<b>3</b>	3	–
Connectable urban population ('000)	<b>3,525</b>	3,284	7.3%
Connectable residential households ('000)	<b>992</b>	925	7.2%
New piped gas connections made during the period			
– Residential households	<b>33,614</b>	26,636	26.2%
– Industrial customers	<b>23</b>	13	76.9%
– Commercial customers	<b>138</b>	116	19.0%
Accumulated number of connected piped gas customers			
– Residential households	<b>465,056</b>	370,406	25.6%
– Industrial customers	<b>300</b>	229	31.0%
– Commercial customers	<b>1,554</b>	1,220	27.4%
Natural gas penetration rate	<b>47%</b>	40%	6.8%
Unit of piped gas sold ('000 m3)	<b>168,111</b>	141,566	18.7%
– Residential households	<b>28,419</b>	21,572	31.7%
– Industrial customers	<b>113,957</b>	81,728	39.4%
– Commercial customers	<b>19,553</b>	16,361	19.5%
– Wholesale customers	<b>6,182</b>	21,905	(71.6%)
Number of CNG Filling Stations			
– Accumulated	<b>9</b>	5	4
– Under construction	<b>6</b>	2	4
Unit of gas sold to vehicles ('000 m3)	<b>12,856</b>	11,449	12.3%
Unit of bottle LPG sold (ton)	<b>2,703</b>	3,103	(12.9%)
Total length of existing intermediate and main pipelines (km)	<b>1,774</b>	1,452	22.2%

*Note:* The number of Exclusive Gas Projects represents the contracts of exclusive right for sales and distribution of natural gas were signed by relevant local authorities.

## New Gas Project

On 6th May, 2011, Yongcheng China-Gas Heating Explore Company Limited, a non-wholly owned subsidiary of the Company, entered into the agreement with 永城市產業集聚區管委會 to obtain a right for constructing and operating of piped natural gas projects on an exclusive basis in the new industrial development district located in Yongcheng. The Directors are of the view that the entering into of the agreement could provide an opportunity for the Group to further invest in the natural gas business in the PRC in order to enlarge the geographical coverage of its operations.

## 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 June, 2011, 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 operated smoothly. The dewatering and releasing process of the operating wells are under monitoring and evaluation by professionals. The Group will continue to update investors on the latest exploration progress.

## FINANCIAL REVIEW

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:

	Six months ended 30 June (HK\$'000)				
	2011	% of total	2010	% of total	Increase/ (Decrease)
Turnover					
- Sales of piped gas	497,796	71.8%	329,183	69.0%	51.2%
- Connection revenue from gas pipeline construction	121,893	17.6%	88,236	18.5%	38.1%
- Operation of CNG filling station	50,910	7.4%	34,587	7.3%	47.2%
- Sales of liquefied petroleum gas	20,097	2.9%	19,045	4.0%	5.5%
- Sales of stoves and related equipment	1,733	0.3%	5,666	1.2%	(69.4%)
	<u>692,429</u>	<u>100%</u>	<u>476,717</u>	<u>100%</u>	<u>45.2%</u>

## **Turnover**

For the six months ended 30th June, 2011, turnover increased by 45.2% to approximately HK\$692,429,000 from approximately HK\$476,717,000 for the corresponding period last year. The growth in turnover was mainly attributable to the robust growth in sales of piped gas.

## **Sales of Piped Gas**

Sales of piped gas for the six months ended 30th June, 2011 amounted to approximately HK\$497,796,000, representing an increase of approximately 51.2% over the corresponding period last year. 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.

Sales of piped gas for the period under review contributed approximately 71.8% of the total turnover of the Group. As compared with the percentage of approximately 69.0% during the corresponding period last year, sales of piped gas continued to become the major source of turnover of the Group.

The construction of natural gas pipeline connecting between 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 has been commenced in July 2011. As a result, piped gas supply for the Group's project located in the Sanmenxia City will increase greatly, which will facilitate the Group to connect more end users, including both residential households and industrial/commercial customers in near future in order to increase the Group's turnover and in turn, enhance its earning base.

## **Gas Pipeline Construction**

Connection revenue from gas pipeline construction for the six months ended 30th June, 2011 amounted to approximately HK\$121,893,000, representing an increase of approximately 38.1% over the corresponding period last year. 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 second half of the period under review.

During the period under review, the connection revenue from gas pipeline construction contributed approximately 17.6% of the total turnover of the Group. As compared with the percentage of approximately 18.5% during the corresponding period last year, the connection revenue from gas pipeline construction continued to be one of major source of turnover of the Group.

For the period under review, the average connection fee for residential households were RMB2,500 which was similar to that during the corresponding period last year.

As at 30th June, 2011, the Group's penetration rate reached 47% (2010: 40%) (represented by the percentage of accumulated number of residential households to estimated on aggregate of connectable residential households).

## **Operation of CNG Filling Station**

Revenue from operation of CNG filling station for the six months ended 30th June, 2011 amounted to approximately HK\$50,910,000, representing an increase of approximately 47.2% over the corresponding period last year. The increase was mainly due to increase the sales volume in Sanmenxia City and the selling price increment in Nanjing City.

During the period under review, the turnover derived from operation of CNG filling stations accounted for approximately 7.4% of the total turnover of the Group.

During the period under review, the Group has built four CNG filling stations and they have come into operation. As a result, the number of the Group's CNG refilling stations increased to nine from five as compared with the corresponding period last year.

In addition, the Group has commenced to built additional six CNG refilling stations in the PRC. It is expected that such six new CNG refilling stations will commence their operation by the end of 2011.

## **Gross profit margin**

The overall gross profit margin for the six months ended 30th June, 2011 was approximately 21.0% (2010: 24.8%). The decrease was mainly due to the increase in the proportion of turnover derived from sales of piped gas, which in general has a relatively low profit margin, in the Group's total turnover to approximately 71.8% for the period under review (2010: 69.0%). In addition, the Chinese government had announced to increase a wellhead natural gas price in June 2010. As the Group is still waiting approval from the local relevant authorities to raise our selling price for residential customers, the Group's selling prices for residential customers remain unchange during the period under review. The failure to pass the increase in the wellhead natural gas price to our residential customers caused the profit margins of gas sales to residential customers to decline which in turn attributed partially to the decrease in the overall gross profit margin.

## **Other income and gains**

Other income and gains decreased to approximately HK\$2,778,000 for the six months ended 30th June, 2011 from approximately HK\$17,280,000 for the corresponding period last year. The 2011 balance mainly represented the bank interest income of approximately HK\$1,006,000 and the sundry income of approximately HK\$1,772,000. The decrease was mainly attributable to no government subsidies was received for the six months ended 30th June, 2011 (2010: HK\$1,200,000) and no fair value gains of derivative financial instruments for the six months ended 30th June, 2011 (2010: HK\$13,652,000) as all of the outstanding convertible bonds was early redeemed on 13th September, 2010.

## **Operating expenses**

Operating expenses, including selling and distribution costs and administrative expenses increased by 18.3% to approximately HK\$94,155,000 for the six months ended 30th June, 2011 from approximately HK\$79,591,000 for the corresponding period last year. The increase was mainly attributable to the increase in staff salary cost to approximately HK\$41,034,000 for the six months ended 30th June, 2011 (2010: HK\$34,368,000) resulting from the salary increment. Moreover, the depreciation cost increased by 60.1% to approximately HK\$9,267,000 for the six months ended 30th June, 2011 from approximately HK\$5,790,000 for the corresponding period last year resulting from the additional equipment for the business development in Jiaozuo City.

## **Share-based payment**

Share-based payment expense of HK\$3,095,000 for the share options granted on 11th April, 2011 was recorded for the six months ended 30th June, 2011 (2010: 2,077,000). On 11th April, 2011, the Company granted the share options to the Grantees to subscribe for an aggregate of 159,000,000 ordinary shares at par value HK\$0.01 each of the Company were granted to the eligible participants by 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 shall be valid for a period of ten years from the date of grant.

## **Finance costs**

Finance costs decreased by 29.8% to approximately HK\$17,631,000 for the six months ended 30th June, 2011 from approximately HK\$25,130,000 for the corresponding period last year. The decrease was mainly attributable to the fact that none of effective interest expense on convertible bonds was recorded during the period under review (2010: HK\$14,955,000). For the period under review, the interest on bank borrowings increased by 49.8% to approximately HK\$15,245,000 from HK\$10,175,000 for the corresponding period last year. The increase was mainly attributable to the increase in the average bank borrowings.

## **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 period.

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 have been/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 to such tax concession 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 incentive into account.

Accordingly, the income tax expenses for the six months ended 30th June, 2011 amounted to approximately HK\$15,278,000 (2010: HK\$16,517,000).

### **Profit attributable to owners**

As a result of the above, profit attributable to owners of the parent amounted to approximately HK\$6,466,000 for the six months ended 30th June, 2011 (2010: HK\$2,376,000).

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

For the six months ended 30th June, 2011 excluding other income and gains, the Group’s EBITDA increased by 36.7% to approximately HK\$77,669,000 from approximately HK\$56,831,000 for the corresponding period last year.

### **Connected Transactions**

#### *Shareholder’s loan*

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 10th September, 2010. The Loan must be drawn in full by one lump sum. If the Loan shall then remain undrawn after 10th 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 in as stated chapter 20 of the GEM Listing rules.

Reference is made to the announcement of Zhongyu Gas Holdings Limited (the “Company”) dated 18th April, 2011 in relation to the completion of the placing of 394,000,000 new shares of the Company (the “Announcement”). Capitalised terms used in this report shall have the same meanings as those defined in the Announcement unless the context otherwise requires.

As stated in the Announcement, the Company would use part of the net proceeds from the Placing to repay the Shareholder's Loan and all interest accrued thereon. Accordingly, the Company has sent a cashier's cheque dated 28th April, 2011 by registered post to China Gas for the outstanding principal amount of the Shareholder's Loan being US\$18,507,044.40 together with interest accrued on such amount (calculated from and including the drawdown date of the loan up to and including 29th April, 2011). China Gas sent a reply letter through its legal adviser mentioned that China Gas has not yet taken as an acceptance of early repayment of the Shareholder's Loan and all China Gas's rights under the Shareholder's Loan agreement are reserved.

#### *Equity interest transfer*

On 22nd June, 2011, 泰安市旭升電子科技有限公司 (Taian City Xusheng Electronics Technology Company Limited) ("Xusheng") as transferor and 臨沂中燃城市燃氣建設發展有限公司 (Linyi China Gas City Gas Construction Company Limited) ("Linyi China Gas"), a non-wholly owned subsidiary of the Company, as transferee entered into the equity transfer agreement (the "Equity Transfer Agreement") pursuant to which Xusheng has agreed to transfer to Linyi China Gas 33% of the equity interest in 臨沂山林燃氣有限公司 (Linyi Shanlin Gas Company Limited) ("Linyi Shanlin") held by it in accordance with the terms of the Equity Transfer Agreement (the "Transaction"). For details, Please refer to the announcements of the Company dated 22nd June, 2011 and 23rd June, 2011 respectively.

Linyi Shanlin was established on 6th January, 2008 in Linshu County, Shandong Province, the PRC with limited liability. It is principally engaged in the business of the supply of pipeline natural gas and the sale and installation of gas equipment in the Economic Development Zone of Linshu County, Shandong Province, the PRC.

Linyi China Gas currently owns as to 67% of the total equity interest in Linyi Shanlin. After completion of the transactions contemplated under the Equity Transfer Agreement, Linyi China Gas will own the entire equity interest in Linyi Shanlin.

The Directors (including independent non-executive Directors) are of the view that the Transaction will enhance the earning base of the Group. Accordingly, the Directors (including independent non-executive Directors) believe that the terms of the Equity Transfer Agreement are fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

As Xusheng is a connected person of the Company and the relevant percentage ratios under the GEM Listing Rules do not exceed 5%, the Transaction only constitutes a connected transaction of the Company which is subject to reporting and announcement requirements but is exempt from independent shareholders' approval requirements set out in 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, 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 June, 2011, 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	Note	Nature of Shares and/or underlying Shares	Type of Interests	Approximate percentage of issued share capital
Mr. Wang Wenliang	1	578,619,542	Beneficial and interest in corporation	24.43%
Mr. Xu Yongxuan	2	1,000,000	Beneficial	0.04%
Mr. Lu Zhaoheng	2	3,000,000	Beneficial	0.13%
Mr. Lui Siu Keung	2	6,000,000	Beneficial	0.25%
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%

*Note:*

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. 10,000,000 underlying Shares are to be allotted and issued upon exercise the rights attaching to the share options granted at an exercise price of HK\$0.49 per share under the share option scheme adopted by the Company on 24th October, 2003. The remaining 1,166,000 Shares are directly held by Mr. Wang Wenliang.
2. These underlying Shares are to be allotted and issued upon exercise the rights attaching to the share options granted at an exercise price of HK\$0.49 per share under the share option scheme adopted by the Company on 24th October, 2003.

Save as disclosed above, as at 30th June, 2011, none of the Directors nor the chief executive of the Company had or was deemed to have any interests and short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) are required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

**(b) Interests of substantial shareholders of the Company**

So far as is known to the Directors, as at 30th June, 2011, 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	Notes	Type of interests	Number of Shares	Approximate percentage of interests
China Gas Holdings Limited	1	Beneficial	1,111,934,142	46.96%
Rich Legend International Limited	1	Beneficial	1,111,934,142	46.96%
Hezhong	2	Beneficial	567,453,542	23.96%

*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 June, 2011, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group.

## **CODE OF CORPORATE GOVERNANCE PRACTICES**

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

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

## **AUDIT COMMITTEE**

The Company's Audit Committee, comprising Mr. 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 six months ended 30th June, 2011.

## **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 six months ended 30th June, 2011.

## **PURCHASE, SALE OR REDEMPTION OF SHARES**

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the shares during the six months ended 30th June, 2011.

## **BOARD OF DIRECTORS**

As at the date of this report, the Board comprises Mr. Wang Wenliang (Chairman and Chief Executive Officer), Mr. Lu Zhaoheng and Mr. Lui Siu Keung (Chief Financial Officer), as the executive Directors, Mr. Xu Yongxuan (Vice-Chairman), as the non-executive 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, 11th August, 2011