



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

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

THIRD QUARTERLY REPORT
FOR THE NINE MONTHS ENDED
30TH SEPTEMBER, 2011

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

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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 nine months ended 30th September,		
	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>	% of changes
Turnover	1,069,779	751,203	42.4%
Sales of piped gas	756,187	505,321	49.6%
Connection revenue from gas pipeline construction	195,854	151,054	29.7%
Revenue from operation of CNG filling stations	86,014	58,825	46.2%
Gross profit (Gross margin)	232,968 (21.8%)	192,517 (25.6%)	21.0% (-3.8%)
Profit attributable to owners of the Company	17,569	16,075	9.3%
EBITDA	125,938	100,056	25.9%

The board of Directors (the “Board”) is pleased to announce the unaudited condensed consolidated results of the Group for the nine months ended 30th September, 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 NINE MONTHS ENDED 30TH SEPTEMBER, 2011 (UNAUDITED)

	Notes	Three months ended 30th September,		Nine months ended 30th September,	
		2011 HK\$'000	2010 HK\$'000 (re-presented)	2011 HK\$'000	2010 HK\$'000 (re-presented)
Turnover	3	377,350	274,486	1,069,779	751,203
Cost of sales		(289,858)	(200,153)	(836,811)	(558,686)
Gross profit		87,492	74,333	232,968	192,517
Other income and gains	5	1,831	8,390	4,609	25,670
Selling and distribution costs		(8,765)	(7,619)	(22,380)	(21,091)
Administrative expenses		(43,287)	(34,587)	(123,827)	(100,706)
Share-based payment		(3,095)	(261)	(6,190)	(2,338)
Finance costs	6	(6,226)	(12,137)	(23,857)	(37,267)
Profit before tax		27,950	28,119	61,323	56,785
Income tax expenses	7	(12,776)	(8,042)	(28,054)	(24,559)
Profit for the period	8	15,174	20,077	33,269	32,226
Other comprehensive income					
Exchange differences arising on translation		(756)	172	16,301	5,921
Total comprehensive income for the period		14,418	20,249	49,570	38,147
Profit for the period attributable to:					
Owners of the Company		11,103	13,699	17,569	16,075
Non-controlling interests		4,071	6,378	15,700	16,151
		15,174	20,077	33,269	32,226
Total comprehensive income attributable to:					
Owners of the Company		10,834	13,871	31,378	21,996
Non-controlling interests		3,584	6,378	18,192	16,151
		14,418	20,249	49,570	38,147
Earnings per share	9				
Basic (HK cent per share)		0.4689	0.6950	0.7937	0.8152
Diluted (HK cent per share)		0.4616	0.6950	0.7841	0.8148

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 30TH SEPTEMBER, 2011

1. BASIS OF PREPARATION

These condensed consolidated financial information for the nine months ended 30th September 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 nine months ended 30th September, 2011 is as follow:

	Three months ended 30th September,		Nine months ended 30th September,	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Sales of piped gas	258,391	176,138	756,187	505,321
Connection revenue from gas pipeline construction	73,961	62,818	195,854	151,054
Revenue from operation of compressed natural gas ("CNG") filling stations	35,104	24,238	86,014	58,825
Sales of liquefied petroleum gas	8,770	8,399	28,867	27,444
Sales of stoves and related equipment	1,124	2,893	2,857	8,559
	<u>377,350</u>	<u>274,486</u>	<u>1,069,779</u>	<u>751,203</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 an 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 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 nine months ended 30th September, 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>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
Interest income and other gain							4,609
Central corporate expenses							(42,509)
Finance costs							(23,857)
Change in fair value of derivative financial instruments							-
Gain on the repurchase of convertible bonds							<u>-</u>
Profit before tax							61,323
Income tax expenses							<u>(28,054)</u>
Profit for the period							<u>33,269</u>

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

	Sales of piped gas <i>HK\$'000</i>	Connection revenue from gas pipeline construction <i>HK\$'000</i>	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>505,321</u>	<u>151,054</u>	<u>58,825</u>	<u>27,444</u>	<u>-</u>	<u>8,559</u>	<u>751,203</u>
Segment profit (loss)	<u>31,226</u>	<u>71,830</u>	<u>10,359</u>	<u>(447)</u>	<u>(3,222)</u>	<u>4,649</u>	114,395
Interest income and other gain							10,945
Central corporate expenses							(46,013)
Finance costs							(37,267)
Change in fair value of derivative financial instruments							12,360
Gain on the repurchase of convertible bonds							<u>2,365</u>
Profit before tax							56,785
Income tax expenses							<u>(24,559)</u>
Profit for the period							<u>32,226</u>

5. OTHER INCOME AND GAINS

	Nine months ended 30th September,	
	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Bank interest income	1,599	736
Change in fair value of derivative financial instruments <i>(Note)</i>	-	12,360
Gain on the repurchase of convertible bonds <i>(Note)</i>	-	2,365
Sundry income	<u>3,010</u>	<u>10,209</u>
	<u>4,609</u>	<u>25,670</u>

Note:

On 25th June, 2010, according to the Amendment Agreement dated on 25th March, 2009, the Group made a mandatory redemption of 22% of the outstanding Bonds in an aggregate principal amount of US\$4,400,000 (“the Redeemed Bonds”) from the bond holders at redemption amount representing 110% of the principal amount of the Redeemed Bonds, together with all accrued and unpaid interest on the Redeemed Bonds.

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

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

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

6. FINANCE COSTS

	Nine months ended 30th September,	
	2011 HK\$'000	2010 HK\$'000
Interest on bank borrowings	21,471	16,722
Interest on shareholder loan	2,386	421
Effective interest expense on convertible bonds	—	20,124
	<u>23,857</u>	<u>37,267</u>

7. INCOME TAX EXPENSES

	Nine months ended 30th September,	
	2011 HK\$'000	2010 HK\$'000
PRC Enterprise Income Tax	26,962	20,228
Dividend Withholding Tax	5,383	4,331
Deferred taxation	(4,291)	—
	<u>28,054</u>	<u>24,559</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. During the nine months ended 30th September, 2011, withholding tax amounted to HK\$5,383,000 (2010: HK\$4,331,000) was charged by the PRC tax authority which levied on the dividends paid to overseas group entities.

8. PROFIT FOR THE PERIOD

	Nine months ended 30th September,	
	2011	2010
	HK\$'000	<i>HK\$'000</i>
Profit for the period has been arrived at after charging:		
Depreciation of property, plant and equipment	39,113	26,756
Amortisation of other intangible assets	3,950	3,581
Amortisation of prepaid lease payments	2,304	1,337
	<hr/>	<hr/>
Total depreciation and amortisation	<u>45,367</u>	<u>31,674</u>

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,	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
<u>Earnings</u>				
Earnings for the purposes of basic earnings per share	<u>11,103</u>	<u>13,699</u>	<u>17,569</u>	<u>16,075</u>
	As at 30th September,		As at 30th September,	
	2011 '000	2010 '000	2011 '000	2010 '000
<u>Number of shares</u>				
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>2,368,008</u>	1,970,965	<u>2,213,583</u>	1,971,991
Effect of dilutive potential ordinary shares:				
Share options issued by the Company (Note)	<u>37,562</u>	—	<u>27,013</u>	971
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>2,405,570</u>	<u>1,970,965</u>	<u>2,240,596</u>	<u>1,972,962</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, 2011, nor has any dividend been proposed since 30th September, 2011 (2010: nil).

11. PROPERTY, PLANT AND EQUIPMENT

During the period under review, the addition to property, plant and equipment was approximately HK\$233,782,000 (2010: HK\$428,044,000).

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, 2011.

13. Reserve

	Share option premium reserve HK\$'000	Share option revaluation reserve HK\$'000	Property revaluation reserve HK\$'000	Other reserve HK\$'000	Statutory surplus reserve HK\$'000	Translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Balance at 1st January, 2010 (audited)	625,142	24,258	1,128	7,607	22,386	110,780	(116,994)	674,307
Profit for the period	-	-	-	-	-	-	16,075	16,075
Other comprehensive income for the period	-	-	-	-	-	5,921	-	5,921
Total comprehensive income for the period	-	-	-	-	-	5,921	16,075	21,996
Transfer to statutory surplus reserve	-	-	-	-	9,745	-	(9,745)	-
Recognition of equity-settled share-based payments	-	2,338	-	-	-	-	-	2,338
Exercise of share options	4,428	(496)	-	-	-	-	-	3,932
Cancellation of share options	-	(26,100)	-	-	-	-	26,100	-
Shares issued upon conversion of convertible bonds	9,893	-	-	-	-	-	-	9,893
Balance at 30th September, 2010 (unaudited)	<u>639,463</u>	<u>-</u>	<u>1,128</u>	<u>7,607</u>	<u>32,131</u>	<u>116,701</u>	<u>(84,564)</u>	<u>712,466</u>
Balance at 1st January, 2011 (audited)	<u>639,463</u>	<u>-</u>	<u>1,128</u>	<u>9,371</u>	<u>32,417</u>	<u>141,606</u>	<u>(74,414)</u>	<u>749,571</u>
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)	<u>797,063</u>	<u>6,190</u>	<u>1,128</u>	<u>1,049</u>	<u>42,240</u>	<u>155,415</u>	<u>(66,668)</u>	<u>936,417</u>

14. EVENT AFTER THE REPORTING PERIOD

On 4th November, 2011, Zhongyu (Henan) Energy Holdings Limited (“Zhongyu Henan”), a wholly-owned subsidiary of the Company, entered into an agreement (the “Capital Injection Agreement”) 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”), of which all of them are third parties independent of the Company and its connected persons and are not connected persons of the Company, in respect of the proposed injection in registered capital of 武夷山市中閩天然氣有限公司 (Wuyishan City Zhong Min Natural Gas Company Limited) (“Wuyishan Zhong Min”) by Zhongyu Henan. Pursuant to the Capital Injection Agreement, the registered capital of Wuyishan Zhong Min will be increased by RMB29,000,000 from RMB1,000,000 to RMB30,000,000. Among the total increase in the registered capital of Wuyishan Zhong Min, as to RMB15,300,000 will be contributed by Zhongyu Henan in cash and as to the remaining RMB13,700,000 will be contributed by Zhengzhou Datian in cash. Zhongyu Henan will finance its part of capital contribution from its internal funds. The Directors consider that the capital injection in Wuyishan Zhong Min would not have any material adverse impact on the Group’s net assets. Apart from the contribution towards the increase in registered capital as set out above, there are no further capital commitments that are required to be contributed by the Group to Wuyishan Zhong Min at this stage. Should there is any further material capital commitments to be contributed by the relevant parties to Wuyishan Zhong Min, further announcement will be made if and when appropriate to comply with the requirements under the GEM Listing Rules.

Wuyishan Zhong Min is a limited liability company established in Wuyishan City, Fujian Province, the PRC on 19th January, 2011 by the aforesaid three independent third parties. The original registered capital of Wuyishan Zhong Min is RMB1,000,000, as to RMB950,000 contributed by Zhengzhou Datian and as to the remaining RMB50,000 contributed by Ye Jianbin and Zhuo Yunzhen.

Immediately after completion of the Capital Injection Agreement, Wuyishan Zhong Min will be owned as to 51% by Zhongyu Henan, as to 48.83% by Zhengzhou Datian and as to the remaining 0.17% by Ye Jianbin and Zhuo Yunzhen. Wuyishan Zhong Min will be an indirect non wholly-owned subsidiary of the Company. Wuyishan Zhong Min will tender a bid to obtain an exclusive right granted by Peoples’ Government of Wuyishan City to engage in the construction and operation of piped natural gas projects in Wuyishan City.

The Directors are of the view that the entering into of the Capital Injection 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. The Directors, including the independent non-executive Directors, consider that the Capital Injection Agreement is entered into upon normal commercial terms after arm’s length negotiations among the parties and the terms of the Capital Injection Agreement are fair and reasonable and are in the interests of the Company and the Shareholders of the Company as a whole.

As none of the applicable percentage ratios in respect of the transaction contemplated under the Capital Injection Agreement exceeds 5%, such transaction does not constitute a notifiable transaction of the Company under the GEM Listing Rules.

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 the (“Board”) 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 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 becomes 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 are 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) are 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 mentioned that China Gas accepted the cashier's cheque for partial payment of the sum due and owing to China Gas (including for expenses incurred, loss/damaged suffered) under the loan agreement and China Gas reserve all rights for demanding the payment of the outstanding sums due to China Gas.

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 respected of acquisition of 100% shareholding of 深圳市鵬凱吉星貿易有限公司 ("深圳市鵬凱吉星貿易"). The consideration of RMB100,000 is contributed by Zhonyu (Henan) in cash, which is the registered capital of 深圳市鵬凱吉星貿易. 深圳市鵬凱吉星貿易 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:

	Nine months ended 30th September, (unaudited)		
	2011	2010	Increase/ (Decrease)
Number of Exclusive Gas Projects <i>(Note)</i>	15	14	1
– Henan Province	12	11	1
– Shandong Province	3	3	–
Connectable urban population ('000)	3,525	3,284	7.3%
Connectable residential households ('000)	992	925	7.2%
New piped gas connections made during the period			
– Residential households	53,504	45,406	17.8%
– Industrial customers	31	27	14.8%
– Commercial customers	238	184	29.3%
Accumulated number of connected piped gas customers			
– Residential households	465,056	389,176	19.5%
– Industrial customers	308	243	26.7%
– Commercial customers	1,654	1,288	28.4%
Natural gas penetration rate	49%	42%	7.0%
Unit of piped natural gas sold ('000 m ³)	254,548	214,081	18.9%
– Residential households	36,914	28,477	29.6%
– Industrial customers	183,771	132,939	38.2%
– Commercial customers	26,359	22,670	16.3%
– Wholesale customers	7,505	29,995	(75.0%)
Unit of piped mixed gas sold ('000 m ³)	28,666	31,598	(9.3%)
Unit of piped coal gas sold ('000 m ³)	65,099	40,591	60.4%
Number of CNG Filling Stations			
– Accumulated	9	5	4
– Under construction	6	4	2
Unit of natural gas sold to vehicles ('000 m ³)	21,416	17,859	19.9%
Unit of bottle LPG sold (ton)	3,912	4,522	(13.5%)
Total length of existing intermediate and main pipelines (km)	1,913	1,503	27.3%

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 September, 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:

	Nine months ended 30 September,				
	2011 (HK\$'000)	% of total	2010 (HK\$'000)	% of total	Increase/ (Decrease)
Turnover					
- Sales of piped gas	756,187	70.7%	505,321	67.3%	49.6%
- Connection revenue from gas pipeline construction	195,854	18.3%	151,054	20.1%	29.7%
- Operation of CNG filling station	86,014	8.0%	58,825	7.8%	46.2%
- Sales of liquefied petroleum gas	28,867	2.7%	27,444	3.7%	5.2%
- Sales of stoves and related equipment	2,857	0.3%	8,559	1.1%	(66.6%)
	<u>1,069,779</u>	<u>100%</u>	<u>751,203</u>	<u>100%</u>	<u>42.4%</u>

Turnover

For the nine months ended 30th September, 2011, turnover increased by 42.4% to approximately HK\$1,069,779,000 from approximately HK\$751,203,000 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 nine months ended 30th September, 2011 amounted to approximately HK\$756,187,000, representing an increase of approximately 49.6% over the corresponding period last year. Nearly 88% of the total sales of piped gas was derived from provision of natural gas. The rapid growth in sales of piped gas was mainly attributable to the increase in the number of households, industrial and commercial users connected as well as the increase in the total gas consumption.

Sales of piped gas for the period under review contributed approximately 70.7% of the total turnover of the Group. As compared with the percentage of approximately 67.3% 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, industrial and 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 nine months ended 30th September, 2011 amounted to approximately HK\$195,854,000, representing an increase of approximately 29.7% 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 period under review.

During the period under review, the connection revenue from gas pipeline construction contributed approximately 18.3% of the total turnover of the Group. As compared with the percentage of approximately 20.1% 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 RMB2,580 which was similar to that during the corresponding period last year.

As at 30th September, 2011, the Group's natural gas penetration rate reached 49.0% (2010: 42.0%) (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 nine months ended 30th September, 2011 amounted to approximately HK\$86,014,000, representing an increase of approximately 46.2% over the corresponding period last year. The increase was mainly due to increase the number of CNG filling station 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 8.0% 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 three new CNG refilling stations will commence their operation by the early of 2012. The remaining three new CNG refilling stations is expected to commence their operation in the second half of 2012.

Gross profit margin

The overall gross profit margin for the nine months ended 30th September, 2011 was approximately 21.8% (2010: 25.6%). 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 70.7% for the period under review (2010: 67.3%). 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 unchanged 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\$4,609,000 for the nine months ended 30th September, 2011 from approximately HK\$25,670,000 for the corresponding period last year. The 2011 balance mainly represented the bank interest income of approximately HK\$1,599,000 and the sundry income of approximately HK\$3,010,000. The substantially decrease was mainly attributable to the government subsidies for the nine months ended 30th September, 2011 decreased to approximately HK\$623,000 (2010: HK\$6,837,000), no fair value gains of derivative financial instruments and no gain on the repurchase of convertible bonds for the nine months ended 30th September, 2011 (2010: HK\$12,360,000 and HK\$2,365,000) 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 20.0% to approximately HK\$146,207,000 for the nine months ended 30th September, 2011 from approximately HK\$121,797,000 for the corresponding period last year. The increase was mainly attributable to the increase in staff salary cost to approximately HK\$65,017,000 for the nine months ended 30th September, 2011 (2010: HK\$51,940,000) resulting from the salary increment. The entertainment expenses increased by 40% to approximately HK\$18,911,000 for the nine months ended 30th September, 2011 from approximately HK\$13,507,000 for the corresponding period last year resulting from business opportunity seeking. Moreover, the depreciation cost increased by 45.9% to approximately HK\$13,810,000 for the nine months ended 30th September, 2011 from approximately HK\$9,464,000 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\$6,190,000 for the share options granted on 11th April, 2011 was recorded for the nine months ended 30th September, 2011 (2010: 2,338,000). 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 36.0% to approximately HK\$23,857,000 for the nine months ended 30th September, 2011 from approximately HK\$37,267,000 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 as all convertible bonds was redeemed on 13th September, 2010 (2010: HK\$20,124,000). For the period under review, the interest on bank borrowings increased by 28.4% to approximately HK\$21,471,000 from HK\$16,722,000 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 nine months ended 30th September, 2011 amounted to approximately HK\$28,054,000 (2010: HK\$24,559,000).

Profit attributable to owners

As a result of the above, profit attributable to owners of the parent amounted to approximately HK\$17,569,000 for the nine months ended 30th September, 2011 (2010: HK\$16,075,000).

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

For the nine months ended 30th September, 2011 excluding other income and gains, the Group’s EBITDA increased by 25.9% to approximately HK\$125,938,000 from approximately HK\$100,056,000 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 is 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 mentioned that China Gas accepted the cashier's cheque for partial payment of the sum due and owing to China Gas (including for expenses incurred, loss/damaged suffered) under the loan agreement and China Gas reserve all rights for demanding the payment of the outstanding sums due to China Gas.

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 owned 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 owns 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 September, 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	Notes	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 100% 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 September, 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 September, 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	<i>Notes</i>	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 is beneficially interested in 100% of the issued share capital of Hezhong.

Save as disclosed above, as at 30th September, 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.

COMPETING INTEREST

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

CODE OF CORPORATE GOVERNANCE PRACTICES

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

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

AUDIT COMMITTEE

The Company's Audit Committee, comprising Mr. Li Chunyan, Dr. Luo Yongtai and Mr. Hung, Randy King Kuen, as the independent non-executive Directors, has reviewed with the Company's management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited results of the Group for the nine months ended 30th September, 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 nine months ended 30th September, 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 nine months ended 30th September, 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, 14th November, 2011