中裕燃氣控股有限公司

ZHONGYU GAS HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock Code : 8070)

FIRST QUARTERLY REPORT
FOR THE THREE MONTHS ENDED
31ST MARCH, 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

- Turnover for the three months ended 31st March, 2011 amounted to approximately HK$312,578,000, representing an increase of approximately 42.9% over the corresponding period in 2010.
- Gross profit for the three months ended 31st March, 2011 amounted to approximately HK$44,669,000, representing an decrease of approximately 8.6% over the corresponding period in 2010.
- Loss attributable to owners of the Company for the three months ended 31st March, 2011 was approximately HK$13,974,000.
- The Group's Adjusted EBITDA was approximately HK$12,559,000 for the three months ended 31st March, 2011, representing an decrease of 16.7% as compared with that of approximately HK$15,068,000 for the corresponding period in 2010.
- The Board does not recommend the payment of any dividend for the three months ended 31st March, 2011.

The board of Directors (the "Board") is pleased to announce the unaudited consolidated results of the Group for the three months ended 31st March, 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 THREE MONTHS ENDED 31ST MARCH, 2011 (UNAUDITED)

		Three months ended 31st March,	
		2011	2010
	NOTES	***HK$'000***	*HK$'000*
Turnover	*3*	**312,578**	218,722
Cost of sales		**(267,909)**	(169,860)
Gross profit		**44,669**	48,862
Other income and gains	*5*	**932**	5,302
Selling and distribution costs		**(7,371)**	(6,623)
Administrative expenses		**(39,015)**	(36,731)
Share-based payment		**–**	(1,294)
Finance costs	*6*	**(8,298)**	(7,746)
(Loss) Profit before tax		**(9,083)**	1,770
Income tax expenses	*7*	**(3,134)**	(3,433)
Loss for the period		**(12,217)**	(1,663)
Other comprehensive loss			
Exchange difference arising on translation		**(2,802)**	–
Total comprehensive loss for the period		**(15,019)**	(1,663)
Loss for the period attributable to:			
Owners of the Company		**(13,974)**	(4,905)
Minority interests		**1,757**	3,242
		(12,217)	(1,663)
Total comprehensive loss attributable to:			
Owners of the Company		**(16,776)**	(4,905)
Minority interests		**1,757**	3,242
		(15,019)	(1,663)
Loss per share	*8*		
Basic (HK cent per share)		**(0.7079)**	(0.2485)
Diluted (HK cent per share)		**(0.7079)**	(0.2485)

Notes:

1. PRESENTATION OF CONSOLIDATED RESULTS

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

2. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The consolidated results have been prepared on the historical cost basis and in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated results include applicable disclosures required by the GEM Listing Rules and by the Hong Kong Companies Ordinance. The principal policies adopted are the same as those adopted in the audited consolidated financial statements of the Group for the year ended 31st December, 2010.

3. TURNOVER

Turnover represents the net amounts received and receivable for goods sold and services rendered by the Group to outside customers, net of discounts and related taxes. An analysis of the Group's turnover for the three months ended 31st March, 2011:

	Three months ended 31st March,	
	2011	2010
	HK$'000	*HK$'000*
Sales of piped gas	**239,206**	147,582
Connection revenue from gas pipeline construction	**32,914**	34,965
Operation of compressed natural gas ("CNG") filling station	**29,989**	23,883
Sales of liquefied petroleum gas	**9,344**	9,301
Sales of stoves and related equipment	**1,125**	2,991
	312,578	218,722

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) sales of liquefied petroleum gas

(d) operation of CNG filling stations

(e) sales of coalbed methane gas ("CBM")

(f) Sales of stoves and related equipment

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

Segment information about these businesses is presented below:

Income statement for the three months ended 31st March, 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*
Turnover	239,206	32,914	29,989	9,344	-	1,125	312,578
Segment results	(6,755)	14,371	5,272	(60)	(3,747)	351	9,432
Other income and gains							932
Central corporate expenses							(11,149)
Finance costs							(8,298)
Loss before tax							(9,083)
Income tax expenses							(3,134)
Loss for the period							(12,217)

Income statement for the three months ended 31st March, 2010

	Sales of piped gas HK$'000	Connection revenue from gas pipeline construction HK$'000	Operation of CNG filling stations HK$'000	Sales of liquefied petroleum gas HK$'000	Sales of CBM HK$'000	Other operations HK$'000	Total HK$'000
Turnover	147,582	34,965	23,883	9,301	–	2,991	218,722
Segment results	162	15,630	5,050	(525)	(2,457)	1,501	19,361
Other income and gains							5,302
Central corporate expenses							(15,147)
Finance costs							(7,746)
Profit before tax							1,770
Income tax expense							(3,433)
Loss for the period							(1,663)

5. OTHER INCOME AND GAINS

	Three months ended 31st March, 2011 HK$'000	2010 HK$'000
Bank interest income	**545**	509
Change in fair value of derivative financial instruments *(Note)*	**–**	2,363
Sundry income	**387**	2,430
	932	5,302

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 B 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

	Three months ended 31st March,	
	2011	2010
	HK$'000	*HK$'000*
Interest on bank borrowings	**6,493**	5,574
Interest on shareholder loan	**1,805**	–
Effective interest expense on convertible bonds	**–**	2,172
	8,298	7,746

7. INCOME TAX EXPENSES

	Three months ended 31st March,	
	2011	2010
	HK$'000	*HK$'000*
PRC Enterprise Income Tax	**3,134**	3,433

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 for both period.

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 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 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.

8. LOSS PER SHARE

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

	Three months ended 31st March,	
	2011	2010
	HK$'000	*HK$'000*
Loss		
Loss for the purposes of basic and diluted loss per share	**(13,974)**	(4,905)

	As at 31st March,	
	2011	2010
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**1,974,008**	1,974,008

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

9. DIVIDENDS

No dividend was paid or proposed during the three months ended 31st March, 2011, nor has any dividend been proposed since 31st March, 2011 (2010: nil).

10. RESERVES

	Share premium HK$'000	Share options reserve HK$'000	Property revaluation options 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
Loss for the period	-	-	-	-	-	-	(4,905)	(4,905)
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	-	-
Total comprehensive loss for the period	-	-	-	-	-	-	(4,905)	(4,905)
Exercise of share option	5,252	(1,106)	-	-	-	-	-	4,146
Share conversion	8,949	-	-	-	-	-	-	8,949
Equity-settled share-based payments	-	1,294	-	-	-	-	-	1,294
Balance at 31st March, 2010 (unaudited)	639,343	24,446	1,128	7,607	22,386	110,780	(121,899)	683,791
Balance at 1st January, 2011 (audited)	639,463	-	1,128	9,371	32,417	141,606	(74,414)	749,571
Loss for the period	-	-	-	-	-	-	(13,974)	(13,974)
Exchange differences arising on translation of foreign operations	-	-	-	-	-	(2,802)	-	(2,802)
Total comprehensive loss for the period	-	-	-	-	-	(2,802)	(13,974)	(16,776)
Balance at 31st March, 2011 (unaudited)	**639,463**	**-**	**1,128**	**9,371**	**32,417**	**138,804**	**(88,388)**	**732,795**

11. ACQUISITIONS, DISPOSAL AND SIGNIFICANT INVESTMENTS

The Group had no acquisitions, disposals nor significant investments for the three months ended 31st March, 2011.

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

As at 31st March, 2011, the Directors did not have any future plans for material investment or capital assets.

COMPETING INTEREST

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

BUSINESS REVIEW

Overall

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

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 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.

Upstream CBM Exploration

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

As at 31st March, 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.

Downstream Natural Gas Distribution

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

As at 31st March, 2011, the Group secured eleven exclusive gas projects, three in Shandong Province, the PRC and eight in Henan Province, the PRC.

The cities in which the Group's gas projects operate currently have a total connectable urban population of approximately 3,525,000. It is estimated that there are an aggregate of approximately 992,200 connectable residential households in such cities.

With the aim to enhance the Group's turnover and results, the Group has commenced to develop CNG vehicle gas filling business in the PRC since September 2007. As at 31st March, 2011, the Group had five CNG filling stations, one in Nanjing city, three in Henan Province and one in Shandong Provinces respectively. The group has completed the construction of a new CNG filling station in Luohe City, Henan Province, the PRC, and such CNG filling station is scheduled to commence its operation by the end of May 2011.

In order to ease shortage of the natural gas supply and to meet robust demand for clean energy in the future, the Central Government has implemented the construction works for building of the second pipeline network of the West-East natural gas transmission project in 2008. With the aim to secure the Group's future natural gas supply and further develop the Group's downstream natural gas distribution business in Luohe City, Jiyuan City and Sanmenxia City, where West-East natural gas pipeline branch networks will cover, the Group entered into 3 outline agreements of natural gas sales and transportation with the local natural gas suppliers respectively. The construction work of second pipeline network in Luohe City and Sanmenxia City was completed and was planned to commence gas supply in June 2011. The construction work of second pipeline network in Jiyuan City was projected to be completed by the end of 2011 and the commercial operation was planned to commence in the first half of 2012.

Sales of Piped Gas

Approximately 86% of total sales of piped gas for the three months ended 31st March, 2011 was derived from provision of natural gas. During the period under review, the total unit of natural gas provided by the Group to its customers was approximately 86,696,000 m^3 (2010: 61,235,000 m^3) among which, sales volume to its residential customers was approximately 18,210,000 m^3 (2010: 13,414,000 m^3); to its industrial customers was approximately 51,998,000 m^3 (2010: 32,085,000 m^3); to its commercial customers was approximately 12,982,000 m^3 (2010: 10,583,000 m^3); to its wholesale customers was approximately 3,506,000 m^3 (2010: 5,153,000 m^3).

Gas Pipeline Construction

During the three months ended 31st March, 2011, the Group made new gas pipeline connection for 9,741 residential households (2010: 10,851 residential households), 3 industrial customers (2010: 4 industrial customers) and 47 commercial customers (2010: 38 commercial customers). As at 31st March, 2011, the Group have the accumulated number of residential households of 441,183 (2010: 354,621 residential households), industrial customers of 280 (2010: 220 industrial customers) and commercial customers of 1,463 (2010: 1,142 commercial customers). As at 31st March, 2011, the Group's penetration rate reached 44% (2010: 38%) (represented by the percentage of accumulated number of residential households to estimated an aggregate of connectable residential households).

Sales of Natural Gas From CNG Filling Stations

During the period under review, the total unit of CNG provided by the Group to its customers was approximately 6,156,000 m^3 (2010: 5,718,000 m^3).

Sales of LPG

Sales of LPG are not a core business of the Group. During the period under review, the Group sold approximately 1,342 tons of bottled LPG (2010: 1,543 tons).

FINANCIAL REVIEW

For the three months ended 31st March, 2011, turnover increased by 42.9% to approximately HK$312,578,000 from approximately HK$218,722,000 for the corresponding period in 2010. The growth in turnover was mainly attributable to the robust growth in sales of piped gas.

Sales of piped gas for the three months ended 31st March, 2011 amounted to approximately HK$239,206,000, representing an increase of approximately 62.1% over the corresponding period in 2010. The rapid growth in sales of piped gas was mainly attributable to the increase in the number of households and industrial/commercial users connected as well as the increase in the total gas consumption.

Connection revenue from gas pipeline construction for the three months ended 31st March, 2011 amounted to approximately HK$32,914,000, representing a decrease of approximately 5.9% over the corresponding period in 2010. The decrease in connection revenue from gas pipeline construction was mainly attributable to the decrease in construction work of gas pipeline connection completed for residential households during the period under review.

Operation of CNG filling station for the three month ended 31st March, 2011 amounted to approximately HK$29,989,000, representing an increase of approximately 25.6% over the corresponding period in 2010. The increase was mainly due to increase the sales volume in Sanmenxia City and the selling price increment in Nanjing City.

Gross profit margin

The overall gross profit margin for the three months ended 31st March, 2011 amounted to approximately 14.3% (2010: 22.3%). 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 76.5% for the year ended 31st March, 2011 from approximately 67.5% for the corresponding period in 2010 and the decrease in the gross profit margin of revenue from sales of piped gas to residential customers resulted from the increase in gas purchase price in June 2010. Accordingly, the gas selling price for industrial and commercial customers was increased and the increment in gas selling price for residential customers is waiting approval from the relevant authorities. The slightly decrease in the gross profit margin of connection revenue from gas pipeline construction to approximately 55.7% for the three months ended 31st March, 2011 from approximately 58.7% for the corresponding period in 2010, resulting from the surge of material cost.

Other income and gains

Other income and gains decreased to approximately HK$932,000 for the three months ended 31st March, 2011 from approximately HK$5,302,000 for the corresponding period in 2010. The 2011 balance mainly represented the bank interest income of approximately HK$545,000 and the sundry income of approximately HK$387,000. The decrease was mainly attributable to no government subsidies was received for the three months ended 31st March, 2011 (2010: HK$1,366,000) and no fair value gains of derivative financial instruments for the three month ended 31st March, 2011 (2010: HK$2,363,000) 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 6.5% to approximately HK$46,386,000 for the three months ended 31st March, 2011 from approximately HK$43,354,000 for the corresponding period in 2010. The increase was mainly attributable to the increase in staff salary cost to approximately HK$21,671,000 for the three months ended 31st March, 2011 (2010: HK$20,306,000) resulting from the salary increment. Moreover, the depreciation cost increased by 33.2% to approximately HK$4,442,000 for the three months ended 31st March, 2011 from approximately HK$3,336,000 for the corresponding period in 2010 resulting from the additional equipment for the business development in Jiaozuo City.

Share-based payment

No share-based payment expense for the share options granted on 3rd April, 2008 was recorded for the three months ended 31st March, 2011 (2010: 1,294,000). As the Offers closed on 6th August, 2010, all share options outstanding lapsed automatically. 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. The related share-based payment expense for the Share Option will be started to recognise in second quarter of 2011.

Finance costs

Finance costs increased by 7.1% to approximately HK$8,298,000 for the three months ended 31st March, 2011 from approximately HK$7,746,000 for the corresponding period in 2010. The increase was mainly attributable to the increase in interest on bank borrowings to approximately HK$6,493,000 for the three months ended 31st March, 2011 (2010: HK$5,574,000) resulting from 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 three months ended 31st March, 2011 amounted to approximately HK$3,134,000 (2010: HK$3,433,000).

Loss attributable to owners

As a result of the above, loss attributable to owners of the parent amounted to approximately HK$13,974,000 for the three months ended 31st March, 2011.

Earnings before interests, taxation, depreciation, amortisation ("EBITDA")

For the three months ended 31st March, 2011 excluding other income and gains, the Group's EBITDA decreased by 16.7% to approximately HK$12,559,000 from approximately HK$15,068,000 for the corresponding period in 2010.

Connected Transaction

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

The Loan shall be repaid in full in one lump sum together with all interest accrued thereon on the second anniversary of the drawdown date. The Loan will be for the sole and exclusive purpose of the full redemption of the Convertible Bonds. The aggregate outstanding redeemable amount of the Convertible Bonds as at the date of the Loan Agreement amounted to US$18,507,044.40. The Company made a drawing of US$18,507,044.40 on 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.

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 31st March, 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*	568,619,542	Beneficial and interest in corporation	28.81%

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. The remaining 1,166,000 Shares are directly held by Mr. Wang Wenliang.

Save as disclosed above, as at 31st March, 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 31st March, 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	56.33%
Rich Legend International Limited	*1*	Beneficial	1,111,934,142	56.33%
Hezhong	*2*	Beneficial	567,453,542	28.75%

Notes:

1. According to the disclosure of interests pages as shown in the website of the Stock Exchange, China Gas Holdings Limited holds as to 100% equity interests of Rich Legend International Limited. Apart from the information ascertained in the disclosure of interest pages as shown in the website of the Stock Exchange, the Company has no further information.

2. Hezhong is beneficially interested in 567,453,542 shares. Mr. Wang Wenliang and Mr. Hao Yu are beneficially interested in 60% and 40% of the issued share capital of Hezhong respectively.

Save as disclosed above, as at 31st March, 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 three months ended 31st March, 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 three months ended 31st March, 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 three months ended 31st March, 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, 13th May, 2011