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)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31ST DECEMBER, 2011

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

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

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

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

FINANCIAL HIGHLIGHTS

– The Group's audited turnover in 2011 amounted to approximately HK$1,794,319,000, representing an increase of 53.4% as compared with that of approximately HK$1,169,469,000 in 2010.

– The Group's gross profit in 2011 was approximately HK$428,595,000, representing an increase of 36.1% as compared with that of approximately HK$314,915,000 in 2010.

– The Group's adjusted EBITDA was approximately HK$274,541,000 in 2011, representing an increase of 33.6% as compared with that of approximately HK$205,513,000 in 2010.

– The Group's profit attributable to owners of the Company in 2011 was approximately HK$86,114,000, representing an increase of 277.5% as compared with that of approximately HK$22,811,000 in 2010.

– The Group's basic and diluted earnings per share attributable to the owners of the Company were HK3.82 cents and HK3.77 cents respectively in 2011, as compared with that of HK1.16 cents and HK1.14 cents respectively in 2010.

– The Group's net assets value per share attributable to the owners of the Company was HK$0.5 in 2011, representing an increase of 25% as compared with that of HK$0.4 in 2010.

– The Board does not recommend the payment of any dividend for the year ended 31st December, 2011.

CHAIRMAN'S STATEMENTS

On behalf of the Board of Directors of Zhongyu Gas Holdings Limited, I am pleased to announce that overall encouraging annual results have been recorded for the year ended 31st December, 2011 (the "Year"). The Group's natural gas operations continued to develop steadily during the Year. Turnover amounted to approximately HK$1,794,319,000 in 2011, representing a growth of 53.4% as compared to HK$1,169,469,000 in 2010. The outstanding revenue growth was mainly attributable to the continuous expansion of the Group's downstream gas distribution in the People's Republic of China (the "PRC"), comprising of sales of piped gas and connection revenue from gas pipeline construction. Profit attributable to owners of the Company reached approximately HK$86,114,000, with basic earnings per share of HK3.82 cents.

Business Review

The past year was a challenging but fruitful period for the Group. The Chinese government announced an increase of natural gas wellhead prices in June 2010. As the Group did not obtain an approval from local authorities to raise its selling prices charged to residential customers until 9th December, 2011, the Group's residential selling prices remained unchanged until late December 2011. The delay of the price increase brought much pressure to our operating performance during the Year.

However, as China's economy continues its rapid pace of development in 2011, the significant growth of domestic consumption and household disposal income have correspondingly boosted the sales of piped gas. Against this backdrop, the Group's downstream gas sales volume reached 574,468,000 m^3 in 2011, significantly increased by 47.0% over 390,926,000 m^3 in 2010.

The Chinese automobile market has been the world's largest since 2009. The growth of disposal income and the rate of urbanization continued to boost automobile consumption in the PRC and generate demand for natural gas and compressed natural gas ("CNG") filling stations. During the Year, four new CNG filling stations of the Group have come into operation, bringing the total number of the Group's CNG refilling stations to nine. The Group believes that the construction of CNG filling stations will provide a solid foundation for further development of its vertically integrated value chain, and expects additional investment in this area in the coming years. Against this backdrop, the Group has commenced construction of six additional CNG refilling stations in the PRC in order to increase the Group's market share, among which three CNG refilling stations will commence operation in the second half of 2012.

Meanwhile, due to continued urbanization and relatively rapid economic growth in the PRC, demand of natural gas from residential households as well as commercial customers also realized steady growth during the Year. In Henan and Shandong Provinces, the Group achieved record penetration rates.

In addition, Zhongyu (Henan) Energy Holdings Limited ("Zhongyu Henan"), a wholly-owned subsidiary of the Company, entered into an agreement (the "Capital Injection Agreement") on 4th November, 2011 with 鄭州大田投資有限公司 (Zhengzhou Datian Investment Company Limited) ("Zhengzhou Datian"), 葉建斌 ("Ye Jianbin") and 卓雲震 ("Zhuo Yunzhen"), in respect of the proposed injection 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. Immediately after completion of the Capital Injection Agreement, Wuyishan Zhong Min is an indirect non wholly-owned subsidiary of the Company. Wuyishan Zhong Min will tender a bid to obtain an exclusive right granted by the Peoples' Government of Wuyishan City to engage in the construction and operation of piped natural gas projects in Wuyishan City.

On 6th May, 2011, Yongcheng China-Gas Heating Explore Company Limited, a non-wholly owned subsidiary of the Company, entered into an agreement with 永城市產業集聚區管委會 (Council of Yongcheng City Industry Cluster) to obtain rights 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 above agreements 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 second pipeline network of the West-East natural gas transmission project has commenced gas supply on 30th June, 2011. It is believed that this project will ensure a secure future gas supply in Henan Province, where the Group operates, and further boost its downstream business by capturing opportunities from the surging demand of natural gas for commercial use and public transportation.

Regarding its upstream business, the exploration of coalbed methane 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.

Prospects

The Group is confident in its future prospects as the steady growth of the natural gas market in the PRC is expected to be maintained. The favorable domestic business environment and the growing demand for piped gas consumption arising from progressing urbanization and increasing consumption of automobiles will also serve to drive growth. 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 currently operating in.

The stable supply of piped natural gas to Sanmenxia City, Henan Province, the PRC 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 significantly, which will facilitate the Group to connect with more end users, increase the Group's turnover and in turn, enhance its earning base in the near future.

In addition, the Group obtained the Notice on Problems Relating to the Piped Natural Gas Prices in Henan Province (關於河南省管道天然氣價格有關問題的通知) (the "Notice") issued by Henan Province Development and Reform Commission (the "Henan DRC") on 9th December, 2011. Pursuant to the Notice, a price link mechanism between the upstream and selling prices of natural gas for residential users (the "Price Link Mechanism") was established. Currently the Group has fifteen exclusive downstream projects, among which, twelve are located in Henan province. The Directors are of the view that the Price Link Mechanism could benefit the Group to pass the upward gas procurement cost to residential users and maintain its profit margins.

Under the 12th Five-year Plan (2011-2015) of the PRC, it is expected that the annual domestic gas consumption will reach 260 billion cubic meters (cu m), representing an 8.3 percent share in the primary energy mix in 2015. Currently, gas demand in the PRC just reached approximately 100 billion cubic metres a year. The implementation of beneficial policies by the State and strong economic growth will continuously boost the domestic gas demand and support the steady expansion of the Group's overall business.

In addition to its vertical integration 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 strategically increase our market penetration. We believe that Zhongyu Gas is well-positioned to capture the opportunities arising from the economic development in the PRC and maximize our shareholders' returns.

Finally, I would like to extend my greatest appreciation to our management team and staff for their dedication and contribution. I would also like to take this opportunity to express appreciation to our shareholders and customers for their continuous support and confidence in the Group.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December, 2011

	NOTES	**2011**	2010
		HK$'000	*HK$'000*
Turnover	*3*	**1,794,319**	1,169,469
Cost of sales		**(1,365,724)**	(854,554)
Gross profit		**428,595**	314,915
Other gains and losses	*5*	**(11,208)**	(10,984)
Other income	*6*	**11,547**	8,308
Selling and distribution costs		**(34,268)**	(29,641)
Administrative expenses			
– General administrative expenses		**(164,560)**	(131,238)
– Equity-settled share option expenses		**(23,632)**	(6,038)
Research and development costs		**(1,575)**	(9,306)
Finance costs	*7*	**(19,198)**	(43,466)
Profit before tax		**185,701**	92,550
Income tax expenses	*8*	**(57,397)**	(35,425)
Profit for the year	*9*	**128,304**	57,125
Other comprehensive income			
Exchange differences arising on translation		**48,017**	35,371
Total comprehensive income for the year		**176,321**	92,496
Profit for the year attributable to:			
Owners of the Company		**86,114**	22,811
Non-controlling interests		**42,190**	34,314
		128,304	57,125
Total comprehensive income attributable to:			
Owners of the Company		**127,483**	53,637
Non-controlling interests		**48,838**	38,859
		176,321	92,496
Earnings per share	*11*		
Basic		**HK3.82 cents**	HK1.16 cents
Diluted		**HK3.77 cents**	HK1.14 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December, 2011

	NOTES	2011 HK$'000	2010 HK$'000
Non-current assets			
Investment properties		**6,570**	6,245
Property, plant and equipment	*12*	**1,514,801**	1,130,829
Goodwill		**109,066**	104,568
Other intangible assets	*13*	**146,672**	150,598
Deposits paid for acquisition of property, plant and equipment	*14*	**180,891**	227,203
Prepaid lease payments		**146,476**	115,196
Available-for-sale investment		**3,697**	2,954
		2,108,173	1,737,593
Current assets			
Inventories	*15*	**65,867**	45,304
Trade and bills receivables	*16*	**141,381**	53,340
Deposits, prepayments and other receivables	*16*	**130,939**	67,346
Prepaid lease payments		**4,448**	3,676
Amounts due from customers for contract work	*17*	**–**	2,334
Pledged bank deposits		**34,582**	13,978
Bank balances and cash		**351,275**	351,963
		728,492	537,941
Current liabilities			
Deferred income and advance received	*18*	**198,513**	129,581
Trade and bills payables	*18*	**275,711**	161,551
Other payables and accrued charges	*18*	**169,378**	126,887
Amounts due to customers for contract work	*17*	**13,861**	14,066
Bank borrowings		**422,493**	390,447
Tax payables		**33,475**	22,456
		1,113,431	844,988
Net current liabilities		**(384,939)**	(307,047)
Total assets less current liabilities		**1,723,234**	1,430,546

	NOTES	2011 HK$'000	2010 HK$'000
Capital and reserves			
Share capital	*19*	**23,982**	19,740
Reserves		**1,064,459**	749,571
Equity attributable to owners of the Company		**1,088,441**	769,311
Non-controlling interests		**140,699**	133,096
Total equity		**1,229,140**	902,407
Non-current liabilities			
Deferred income and advance received	*18*	**25,549**	24,220
Bank borrowings		**453,537**	343,384
Shareholder loan	*20*	**–**	144,355
Deferred taxation		**15,008**	16,180
		494,094	528,139
		1,723,234	1,430,546

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2011

	Attributable to owners of the Company										
	Share capital	Share premium	Share option reserve	Property revaluation reserve	Other reserve	Statutory surplus reserve	Translation reserve	Accumulated (losses) profit	Total	Non-controlling interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Note a)	*(Note b)*					
At 1st January, 2010	19,490	625,142	24,258	1,128	7,607	22,386	110,780	(116,994)	693,797	119,964	813,761
Profit for the year	–	–	–	–	–	–	–	22,811	22,811	34,314	57,125
Other comprehensive income for the year	–	–	–	–	–	–	30,826	–	30,826	4,545	35,371
Total comprehensive income for the year	–	–	–	–	–	–	30,826	22,811	53,637	38,859	92,496
Transfer to statutory surplus reserve	–	–	–	–	–	10,031	–	(10,031)	–	–	–
Recognition of equity-settled share-based payments	–	–	6,038	–	–	–	–	–	6,038	–	6,038
Shares issued upon conversion of convertible bonds	112	9,893	–	–	–	–	–	–	10,005	–	10,005
Exercise of share options	138	4,428	(496)	–	–	–	–	–	4,070	–	4,070
Cancellation of share options	–	–	(29,800)	–	–	–	–	29,800	–	–	–
Dividend paid by subsidiaries to non-controlling interests	–	–	–	–	–	–	–	–	–	(20,204)	(20,204)
Deemed acquisition of additional interest of a subsidiary *(note 21)*	–	–	–	–	1,764	–	–	–	1,764	(7,934)	(6,170)
Capital contribution from non-controlling interest of a subsidiary	–	–	–	–	–	–	–	–	–	2,411	2,411
At 31st December, 2010	19,740	639,463	–	1,128	9,371	32,417	141,606	(74,414)	769,311	133,096	902,407
Profit for the year	–	–	–	–	–	–	–	86,114	86,114	42,190	128,304
Other comprehensive income for the year	–	–	–	–	–	–	41,369	–	41,369	6,648	48,017
Total comprehensive income for the year	–	–	–	–	–	–	41,369	86,114	127,483	48,838	176,321
Transfer to statutory surplus reserve	–	–	–	–	–	10,045	–	(10,045)	–	–	–
Recognition of equity-settled share-based payments	–	–	23,632	–	–	–	–	–	23,632	–	23,632
Issue of shares under placement *(note 19)*	3,940	159,619	–	–	–	–	–	–	163,559	–	163,559
Transaction costs attributable to issue of shares	–	(2,019)	–	–	–	–	–	–	(2,019)	–	(2,019)
Exercise of share options	302	18,984	(4,489)	–	–	–	–	–	14,797	–	14,797
Dividend paid by subsidiaries to non-controlling interests	–	–	–	–	–	–	–	–	–	(30,542)	(30,542)
Acquisition of additional interest of a subsidiary *(note 22)*	–	–	–	–	(8,322)	–	–	–	(8,322)	(11,926)	(20,248)
Additional capital contribution from non-controlling interest of a subsidiary	–	–	–	–	–	–	–	–	–	1,233	1,233
At 31st December, 2011	23,982	816,047	19,143	1,128	1,049	42,462	182,975	1,655	1,088,441	140,699	1,229,140

Notes:

(a) Prior to 1st January, 2010, other reserve represents the discount on acquisition arising from the acquisition of China City Gas Construction Explore Company Limited and China City Gas Construction Holdings Company Limited from Hezhong Investment Holding Company Limited ("Hezhong"), the then ultimate holding company which has been accounted for by the Group as a deemed contribution and credited to other reserve.

During the year ended 31st December, 2010, the increase in the Group's share of net assets resulted from deemed acquisition of additional interest of Luohe Zhongyu Gas Co., Ltd. ("Luohe Zhongyu") was credited to other reserve. Details of deemed acquisition are set out in note 21.

During the year ended 31st December, 2011, the difference between the consideration paid and the carrying amount of the additional interest effectively hold by the Group of HK$8,322,000 resulted from the acquisition of additional interest in Linyi Shanlin Gas Company Limited ("Linyi Shanlin") was debited to other reserve. Details of the acquisition are set out in note 22.

(b) The article of association of the Company's subsidiaries incorporated in the People's Republic of China (the "PRC") states that it may make an appropriation of 10% of its profit for the year (prepared under generally accepted accounting principles in the PRC) each year to the statutory surplus reserve until the balance reaches 50% of the paid-in capital. The statutory surplus reserve shall only be used for making good losses, capitalisation into paid-in capital and expansion of its production and operation.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st December, 2011

	2011	2010
	HK$'000	*HK$'000*
Operating activities		
Profit before tax	**185,701**	92,550
Adjustments for:		
Depreciation of property, plant and equipment	**54,287**	37,618
Equity-settled share option expenses	**23,632**	6,038
Amortisation of other intangible assets	**5,821**	6,140
Amortisation of prepaid lease payments	**3,703**	2,148
Gain on repurchase and redemption of convertible bonds	**–**	(2,365)
Loss (gain) on disposal/written off of property, plant and equipment	**6,476**	(652)
Allowance for doubtful debts		
– trade receivables	**329**	619
– other receivables	**2,317**	1,928
Net reversal of impairment loss recognised on amounts due from customers for contract work	**(3,173)**	(6,367)
Net impairment loss recognised on other intangible assets	**5,831**	30,751
Interest income	**(2,389)**	(1,455)
Finance costs	**19,198**	43,466
Change in fair value of derivative financial instruments	**–**	(12,360)
Change in fair value of investment properties	**(56)**	(450)
Operating cash flows before movements in working capital	**301,677**	197,609
Increase in inventories	**(20,563)**	(9,087)
Increase in trade and bills receivables	**(88,370)**	(24,432)
Increase in deposits, prepayments and other receivables	**(51,428)**	(31,302)
Decrease in amounts due from customers for contract work	**5,507**	10,114
Increase in deferred income and advance received	**63,514**	45,380
Increase in trade and bills payables	**101,836**	59,664
Increase in other payables and accrued charges	**60,648**	4,841
(Decrease) increase in amounts due to customers for contract work	**(205)**	2,044
Cash generated from operations	**372,616**	254,831
Interest received	**2,389**	1,455
Income taxes and withholding tax paid	**(48,248)**	(34,605)
Net cash from operating activities	**326,757**	221,681

	NOTES	2011 HK$'000	2010 HK$'000
Investing activities			
Purchases of property, plant and equipment		**(134,471)**	(355,439)
Proceeds from disposal of property, plant and equipment		**2,107**	4,748
Withdrawal of pledged bank deposits		**8,000**	–
Placement of pledged bank deposits		**(28,604)**	(504)
Addition of prepaid lease payments		**(30,084)**	(2,753)
Deposit paid for acquisition of property, plant and equipment		**(180,891)**	(227,203)
Purchase of intangible assets		**(1,810)**	–
Increase in available-for-sale investment		**(616)**	–
Increase in loan receivables		**(14,482)**	–
Settlement of other payables and accrued charges obtained from acquisition of assets and liabilities	14	**–**	(32,339)
Government grants received for depreciable assets		**–**	7,820
Net cash used in investing activities		**(380,851)**	(605,670)
Financing activities			
Acquisition of additional interest in a subsidiary	22	**(19,334)**	–
Interest paid		**(35,747)**	(38,981)
(Repayment) raise of shareholder loan		**(150,564)**	144,355
New borrowings raised		**272,615**	714,121
Repayments of borrowings		**(161,980)**	(304,415)
Proceeds from issue of shares under placement		**163,559**	–
Transaction costs paid on issue of shares under placement		**(2,019)**	–
Proceeds from issue of shares upon exercise of share options		**14,797**	4,070
Dividend paid by subsidiaries to its non-controlling interest		**(30,542)**	(20,204)
Capital contribution from non-controlling interest of a subsidiary		**1,233**	2,411
Redemption/repurchase of convertible bonds		**–**	(181,579)
Net cash from financing activities		**52,018**	319,778
Net decrease in cash and cash equivalents		**(2,076)**	(64,211)
Cash and cash equivalents at 1st January		**351,963**	413,779
Effect of foreign exchange rate changes		**1,388**	2,395
Cash and cash equivalents at 31st December, represented by bank balances and cash		**351,275**	351,963

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2011

1. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, a number of new and revised Standards and Interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are mandatorily effect for 2011 financial year ends.

The application of the new and revised HKFRSs in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

The Group has not early applied the following new or revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRS 7	Disclosures – Transfers of financial assets[1]
Amendments to HKFRS 7	Disclosures – Offsetting financial assets and financial liabilities[2]
Amendments to HKFRS 9 and HKFRS 7	Mandatory effective date of HKFRS 9 and transition disclosures[3]
HKFRS 9	Financial instruments[3]
HKFRS 10	Consolidated financial statements[2]
HKFRS 11	Joint arrangements[2]
HKFRS 12	Disclosure of interests in other entities[2]
HKFRS 13	Fair value measurement[2]
Amendments to HKAS 1	Presentation of items of other comprehensive income[5]
Amendments to HKAS 12	Deferred tax – Recovery of underlying assets[4]
HKAS 19 (as revised in 2011)	Employee benefits[2]
HKAS 27 (as revised in 2011)	Separate financial statements[2]
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures[2]
Amendments to HKAS 32	Offsetting financial assets and financial liabilities[6]
HK(IFRIC) – INT 20	Stripping costs in the production phase of a surface mine[2]

1 Effective for annual periods beginning on or after 1st July, 2011.
2 Effective for annual periods beginning on or after 1st January, 2013.
3 Effective for annual periods beginning on or after 1st January, 2015.
4 Effective for annual periods beginning on or after 1st January, 2012.
5 Effective for annual periods beginning on or after 1st July, 2012.
6 Effective for annual periods beginning on or after 1st January, 2014.

HKFRS 9 Financial instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

The directors of the Company anticipate that the adoption of HKFRS 9 in the future will have impact on the classification and measurement in respect of the Group's available-for-sale investments but not on the Group's other financial assets and financial liabilities.

Amendments to HKAS 1 Presentation of items of other comprehensive income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for the Group for annual periods beginning on or after 1st January, 2013. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

Other than as described above, the directors of the Company anticipate that the application of the other new or revised HKFRSs will have no material impact on the results and the financial position of the Group.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by GEM Listing Rules and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments, which are measured at fair values. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

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 year is as follows:

	2011	2010
	HK$'000	*HK$'000*
Sales of piped gas	**1,231,876**	721,374
Connection revenue from gas pipeline construction	**394,470**	305,205
Operation of compressed natural gas ("CNG") filling stations	**123,373**	88,765
Sales of liquefied petroleum gas	**40,974**	38,379
Sales of stoves and related equipment	**3,626**	15,746
	1,794,319	1,169,469

4. SEGMENT INFORMATION

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

(a) sales of piped gas

(b) connection revenue from gas pipeline construction

(c) operation of CNG filling stations

(d) sales of liquefied petroleum gas

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

(f) sales of stoves and related equipment

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable segment.

For the year ended 31st December, 2011

	Sales of piped gas *HK$'000*	Connection revenue from gas pipeline construction *HK$'000*	Operation of CNG filling stations *HK$'000*	Sales of liquefied petroleum gas *HK$'000*	Sales of CBM *HK$'000*	Sales of stoves and related equipment *HK$'000*	Consolidated *HK$'000*
Segment revenue	**1,231,876**	**394,470**	**123,373**	**40,974**	**–**	**3,626**	**1,794,319**
Segment profit (loss)	**52,273**	**205,880**	**9,843**	**(47)**	**(18,175)**	**(113)**	**249,661**
Interest income and other gains							**3,741**
Central corporate expenses							**(48,503)**
Finance costs							**(19,198)**
Profit before tax							**185,701**

For the year ended 31st December, 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$'000*	Sales of stoves and related equipment *HK$'000*	Consolidated *HK$'000*
Segment revenue	721,374	305,205	88,765	38,379	–	15,746	1,169,469
Segment profit (loss)	38,912	139,131	(23,260)	217	(12,596)	9,044	151,448
Interest income and other gains							4,270
Central corporate expenses							(32,062)
Finance costs							(43,466)
Change in fair value of derivative financial instruments							12,360
Profit before tax							92,550

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit (loss) represents the profit earned by/loss from each segment without allocation of central administration costs, directors' salaries, share option expenses, bank interest income, gain on redemption/repurchase of convertible bonds and increase in fair value of investment properties, finance cost, change in fair value of derivatives financial instruments and income tax expenses. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segment:

As at 31st December, 2011

	Sales of piped gas *HK$'000*	Connection revenue from gas pipeline construction *HK$'000*	Operation of CNG filling stations *HK$'000*	Sales of liquefied petroleum gas *HK$'000*	Sales of CBM *HK$'000*	Sales of stoves and related equipment *HK$'000*	Consolidated *HK$'000*
ASSETS							
Segment assets	**2,187,957**	**60,356**	**110,082**	**27,041**	**2,154**	**1,944**	**2,389,534**
Investment properties							**6,570**
Available-for-sale investment							**3,697**
Buildings for corporate use							**39,441**
Prepaid lease payments for corporate use							**3,549**
Pledged bank deposits							**34,582**
Bank balances and cash							**351,275**
Other assets							**8,017**
Consolidated assets							**2,836,665**
LIABILITIES							
Segment liabilities	**483,945**	**166,261**	**8,317**	**12,138**	**–**	**4,949**	**675,610**
Tax payables							**33,475**
Bank borrowings							**876,030**
Deferred tax liabilities							**15,008**
Other liabilities							**7,402**
Consolidated liabilities							**1,607,525**

As at 31st December, 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$'000*	Sales of stoves and related equipment *HK$'000*	Consolidated *HK$'000*
ASSETS							
Segment assets	1,671,704	42,348	104,661	25,548	7,044	1,400	1,852,705
Investment properties							6,245
Available-for-sale investment							2,954
Buildings for corporate use							38,250
Prepaid lease payments for corporate use							3,318
Pledged bank deposits							13,978
Bank balances and cash							351,963
Other assets							6,121
Consolidated assets							2,275,534
LIABILITIES							
Segment liabilities	292,562	132,750	6,157	12,554	–	4,416	448,439
Tax payables							22,456
Bank borrowings							733,831
Deferred tax liabilities							16,180
Shareholder loan							144,355
Other liabilities							7,866
Consolidated liabilities							1,373,127

For the purpose of monitoring segment performances and allocating resources between reportable segments:

- all assets are allocated to operating segments, other than investment properties, available-for-sale investment, buildings and prepaid lease payments for corporate use, certain corporate deposits, prepayments and other receivables, pledged bank deposits and bank balances and cash.

- all liabilities are allocated to operating segments, other than tax payables, certain corporate other payables and accrued charges, bank borrowings, shareholder loan and deferred tax liabilities.

Other segment information

2011

	Sales of piped gas *HK$'000*	Connection revenue from gas pipeline construction *HK$'000*	Operations of CNG filling stations *HK$'000*	Sales of liquefied petroleum gas *HK$'000*	Sales of CBM *HK$'000*	Sales of stoves and related equipment *HK$'000*	Segment total *HK$'000*	Unallocated *HK$'000*	Consolidated *HK$'000*
Amounts included in the measure of segment profit or loss or segment assets:									
Capital additions	**404,492**	**–**	**4,168**	**5,641**	**2,934**	**–**	**417,235**	**2,654**	**419,889**
Loss on disposal/written off of property, plant and equipment	**55**	**–**	**–**	**–**	**6,421**	**–**	**6,476**	**–**	**6,476**
Amortisation of prepaid lease payment	**3,375**	**–**	**328**	**–**	**–**	**–**	**3,703**	**–**	**3,703**
Depreciation of property, plant and equipment	**43,839**	**–**	**2,392**	**2,601**	**2,024**	**–**	**50,856**	**3,431**	**54,287**
Amortisation of other intangible assets	**3,915**	**–**	**1,906**	**–**	**–**	**–**	**5,821**	**–**	**5,821**
Net reversal of impairment loss recognised on amounts due from customers for contract work	**–**	**3,173**	**–**	**–**	**–**	**–**	**3,173**	**–**	**3,173**
Allowance for doubtful debts	**329**	**–**	**–**	**–**	**–**	**–**	**329**	**2,317**	**2,646**
Research and development costs	**–**	**–**	**–**	**–**	**1,575**	**–**	**1,575**	**–**	**1,575**
Net impairment loss recognised on other intangible assets	**–**	**–**	**5,831**	**–**	**–**	**–**	**5,831**	**–**	**5,831**

Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profits or loss:

Income tax expenses	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**57,397**	**57,397**

2010

	Sales of piped gas *HK$'000*	Connection revenue from gas pipeline construction *HK$'000*	Operations of CNG filling stations *HK$'000*	Sales of liquefied petroleum gas *HK$'000*	Sales of CBM *HK$'000*	Sales of stoves and related equipment *HK$'000*	Segment total *HK$'000*	Unallocated *HK$'000*	Consolidated *HK$'000*
Amounts included in the measure of segment profit or loss or segment assets:									
Capital additions	493,960	–	1,517	10,380	–	–	505,857	–	505,857
Gain on disposal of property, plant and equipment	652	–	–	–	–	–	652	–	652
Amortisation of prepaid lease payment	1,903	–	245	–	–	–	2,148	–	2,148
Depreciation of property, plant and equipment	29,272	–	2,170	1,646	1,808	–	34,896	2,722	37,618
Amortisation of other intangible assets	3,776	–	2,364	–	–	–	6,140	–	6,140
Net reversal of impairment loss recognised on amounts due from customers for contract work	–	6,367	–	–	–	–	6,367	–	6,367
Allowance for doubtful debts	619	–	–	–	–	–	619	1,928	2,547
Research and development costs	–	–	–	–	9,306	–	9,306	–	9,306
Impairment loss recognised on other intangible assets	–	–	30,751	–	–	–	30,751	–	30,751

Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profits or loss:

Income tax expenses	–	–	–	–	–	–	–	35,425	35,425

Geographical information

All the turnover of the Group for both years are derived from the PRC. None of the customers contributes over 10% of total revenue of the Group.

All the non-current assets (other than financial instruments) of the Group located in the PRC.

5. OTHER GAINS AND LOSSES

	2011	2010
	HK$'000	*HK$'000*
Allowance for doubtful debts		
– trade receivables	**(329)**	(619)
– other receivables	**(2,317)**	(1,928)
Change in fair value of derivative financial instruments	**–**	12,360
Exchange gain	**516**	120
Increase in fair value of investment properties	**56**	450
Net impairment loss recognised on other intangible assets	**(5,831)**	(30,751)
Net reversal of impairment loss recognised on amounts due from customers for contract work	**3,173**	6,367
Gain on repurchase and redemption of convertible bonds	**–**	2,365
(Loss) gain on disposal/written off of property, plant and equipment	**(6,476)**	652
	(11,208)	(10,984)

6. OTHER INCOME

	2011	2010
	HK$'000	*HK$'000*
Bank interest income	**2,389**	1,455
Government subsidies *(note)*	**4,104**	1,278
Sundry income	**5,054**	5,575
	11,547	8,308

Note: During the year ended 31st December, 2011, the Group has received subsidies of HK$4,104,000 (2010: HK$1,278,000) from the relevant PRC governments for promoting the use of natural gas. There are no conditions attached to the subsidies granted to the Group.

7. FINANCE COSTS

	2011	2010
	HK$'000	*HK$'000*
Interest on bank borrowings:		
– wholly repayable within five years	**27,049**	26,738
– over five years	**6,312**	7,931
Effective interest expense on convertible bonds	**–**	20,124
Interest on shareholder loan	**2,386**	2,225
Total borrowing costs	**35,747**	57,018
Less: Amounts capitalised in construction in progress	**(16,549)**	(13,552)
	19,198	43,466

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 8.49% (2010: 6.98%) per annum to expenditure on qualifying assets.

8. INCOME TAX EXPENSES

	2011	2010
	HK$'000	*HK$'000*
PRC Enterprise Income Tax:		
Current tax	**53,657**	34,757
Underprovision in prior years	**227**	830
PRC withholding tax	**1,092**	4,331
	54,976	39,918
Deferred tax:		
Current year	**2,421**	(4,493)
	57,397	35,425

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

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

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 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.

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 year ended 31st December, 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/payable to overseas group entities.

The tax charge for the year can be reconciled to the (loss) profit before tax per the consolidated statement of comprehensive income as follows:

	Hong Kong		**PRC**		**Total**	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
(Loss) profit before tax	**(44,910)**	(32,124)	**230,611**	124,674	**185,701**	92,550
Taxation at the domestic income tax rate	**(7,410)**	(5,300)	**57,652**	31,169	**50,242**	25,869
Tax effect of expenses not deductible for tax purpose	**4,545**	7,344	**3,577**	4,569	**8,122**	11,913
Tax effect of income not taxable for tax purpose	**–**	(2,651)	**(681)**	(1,306)	**(681)**	(3,957)
Underprovision in respect of prior years	**–**	–	**227**	830	**227**	830
Tax effect of estimated tax losses not recognised	**2,865**	607	**7,498**	5,834	**10,363**	6,441
Utilisation of estimated tax losses previously not recognised	**–**	–	**(1,345)**	(3,755)	**(1,345)**	(3,755)
Income tax on concessionary rate	**–**	–	**(14,519)**	(8,818)	**(14,519)**	(8,818)
Withholding tax levied on dividend paid previously not recognised	**1,092**	4,331	**–**	–	**1,092**	4,331
Deferred tax on undistributed earnings of subsidiaries	**3,896**	2,571	**–**	–	**3,896**	2,571
Tax charge for the year	**4,988**	6,902	**52,409**	28,523	**57,397**	35,425

9. PROFIT FOR THE YEAR

	2011	2010
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging (crediting):		
Auditor's remuneration	**1,650**	1,690
Amortisation of other intangible assets (included in cost of sales)	**5,821**	6,140
Amortisation of prepaid lease payments	**3,703**	2,148
Depreciation of property, plant and equipment	**54,287**	37,618
Employee benefits expenses, other than directors (including contributions to retirement benefits schemes of HK$14,279,000 (2010: HK$9,823,000))	**135,619**	102,954
Operating lease rentals in respect of rented premises	**3,299**	2,850
Cost of inventories recognised as expenses in respect of:		
Contract cost for gas pipeline construction	**134,003**	80,513
Cost of inventories recognised as expenses in respect of sales of piped gas, liquefied petroleum gas and stoves equipment	**1,008,982**	612,570
	1,142,985	693,083
Gross rental income from investment properties with minimal outgoings	**(378)**	(386)
Gross rental income from equipment with minimal outgoings	**(511)**	(519)

10. DIVIDENDS

No dividend was paid or proposed during 2011, nor has any dividend been proposed since the end of the reporting period (2010: nil).

11. 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:

	2011	2010
	HK$'000	*HK$'000*
Earnings		
Earnings for the purposes of basic and diluted earnings per share, being profit for the year attributable to owners of the Company	**86,114**	22,811

	2011	2010
	'000	*'000*
Number of shares		
Weighted average number of shares for the purpose of basic earnings per share	**2,255,650**	1,972,359
Effect of dilutive potential ordinary shares:		
Share options issued by the Company *(note)*	**30,571**	22,227
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,286,221**	1,994,586

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

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Construction in progress	Leasehold improvements	Pipelines	Machinery and equipment	Furniture and fixtures	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST								
At 1st January, 2010	97,508	49,854	14,131	494,803	78,347	5,112	36,181	775,936
Exchange adjustments	3,955	5,790	444	22,833	2,819	151	1,214	37,206
Additions	8,755	335,308	664	40,706	36,998	737	19,636	442,804
Disposals	(1,513)	(2,555)	–	–	(668)	(32)	(4,897)	(9,665)
Transfer	3,881	(124,237)	–	112,176	8,180	–	–	–
At 31st December, 2010	112,586	264,160	15,239	670,518	125,676	5,968	52,134	1,246,281
Exchange adjustments	5,320	9,580	609	41,696	7,240	315	2,567	67,327
Additions	48	348,734	–	4,282	22,498	1,070	11,363	387,995
Disposals/written off	–	(6,421)	–	–	(1,579)	(144)	(956)	(9,100)
Transfer	7,099	(426,768)	–	383,616	36,053	–	–	–
At 31st December, 2011	125,053	189,285	15,848	1,100,112	189,888	7,209	65,108	1,692,503
DEPRECIATION								
At 1st January, 2010	9,095	–	2,116	34,703	18,686	1,742	12,892	79,234
Exchange adjustments	457	–	30	1,360	816	28	662	3,353
Provided for the year	4,887	–	130	16,914	8,376	740	6,571	37,618
Eliminated on disposals	(562)	–	–	–	(304)	(3)	(3,884)	(4,753)
At 31st December, 2010	13,877	–	2,276	52,977	27,574	2,507	16,241	115,452
Exchange adjustments	1,047	–	70	3,592	1,874	182	2,727	9,492
Provided for the year	5,958	–	344	26,261	12,519	921	8,284	54,287
Eliminated on disposals	–	–	–	–	(766)	(76)	(687)	(1,529)
At 31st December, 2011	20,882	–	2,690	82,830	41,201	3,534	26,565	177,702
CARRYING VALUES								
At 31st December, 2011	104,171	189,285	13,158	1,017,282	148,687	3,675	38,543	1,514,801
At 31st December, 2010	98,709	264,160	12,963	617,541	98,102	3,461	35,893	1,130,829

The buildings of the Group are situated outside Hong Kong under medium-term leases.

The above items of property, plant and equipment other than construction in progress are depreciated on a straight-line basis at the following rates per annum:

Buildings	Over the shorter of 30 years or the remaining terms of leases
Leasehold improvements	Over the remaining term of leases
Pipelines	Over the shorter of 30 years or operation period of the relevant company
Machinery and equipment	6% – 30%
Furniture and fixtures	20%
Motor vehicles	10% – 18%

At 31st December, 2011, the Group is in process of obtaining title deeds from relevant government authority for its buildings in the PRC amounting to HK$25,756,000 (2010: HK$24,702,000). In the opinion of the directors, the Group is not required to incur additional cost in obtaining the title deeds for its buildings in the PRC.

The Group has pledged certain buildings in the PRC having a carrying value of approximately HK$24,707,000 (2010: HK$24,655,000) to secure certain bank borrowings granted to the Group.

Due to the anticipated delay in de-watering and releasing process of the commercial production of CBM, the expected future economic benefits associated with this cash-generating unit is considered as less than probable. Accordingly, the management wrote-off the related construction in progress of HK$6,421,000 during the year ended 31st December, 2011.

13. OTHER INTANGIBLE ASSETS

	Development costs	Exclusive rights of operation	Other operating rights	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
COST				
At 1st January, 2010	42,484	101,244	165,564	309,292
Exchange adjustments	1,248	2,974	4,862	9,084
At 31st December, 2010	43,732	104,218	170,426	318,376
Exchange adjustments	2,238	3,283	7,683	13,204
Additions	–	1,810	–	1,810
At 31st December, 2011	45,970	109,311	178,109	333,390
AMORTISATION AND IMPAIRMENT				
At 1st January, 2010	42,484	10,227	72,582	125,293
Exchange adjustments	1,248	543	3,803	5,594
Charge for the year	–	3,776	2,364	6,140
Impairment loss recognised	–	–	30,751	30,751
At 31st December, 2010	43,732	14,546	109,500	167,778
Exchange adjustments	2,238	673	4,377	7,288
Charge for the year	–	3,915	1,906	5,821
Impairment loss recognised	–	–	5,831	5,831
At 31st December, 2011	45,970	19,134	121,614	186,718
CARRYING VALUES				
At 31st December, 2011	–	90,177	56,495	146,672
At 31st December, 2010	–	89,672	60,926	150,598

Development costs represent costs incurred for extraction of CBM in the PRC, and the costs were fully impaired in prior years.

The exclusive rights of operation represent sales and distribution of natural gas in certain cities in Henan province and Linyi City and are amortised on a straight-line method over the period of 30 years, which is the period being granted for exclusive operations in the relevant cities.

Other operating rights represent the licences possessed by the Group's subsidiaries, Jiyuan Yulian Compressed Gas Co. Ltd ("JYCG"), Luohe Yulian Compressed Gas Co. Ltd ("LYCG"), Sanmenxia Yulian Compressed Gas Co. Ltd. ("SYCG") and Nanjing Yulian Compressed Gas Co. Ltd. ("NYCS") to operate sixteen CNG filling stations in Jiyuan City, Luohe City, Sanmenxia City and Nanjing City and are amortised on a straight-line method over a period of 30 years, which is the period of the licenses being granted for operating CNG filling stations.

The Group tests intangible assets annually or more frequently if there are indications that intangible assets might be impaired.

For the purposes of impairment testing, the carrying amounts of intangible assets have been allocated to the cash-generating unit as follow:

	2011	2010
	HK$'000	*HK$'000*
Subsidiaries engaged in sales of piped gas ("Unit A")	**90,177**	89,672
Operation of CNG filling stations ("Unit C")	**56,495**	60,926
Sales of CBM ("Unit D")	**Nil**	Nil

Impairment testing on Unit A

Unit A consisted of several CGUs. The recoverable amount of these CGUs (comprising intangible assets of HK$90,177,000 (2010: HK$89,672,000), goodwill of HK$53,760,000 (2010: HK$51,543,000), property, plant and equipment of HK$839,800,000 (2010: HK$618,223,000) and prepaid lease payments of HK$90,777,000 (2010: HK$89,914,000)) has been determined individually based on a value in use calculation using the following assumptions for 2011 and 2010:

Period of cash flow projections	12 years (2010: 13 years)
Growth rate beyond 5-year period extrapolated in the financial budgets approved by the management	2%
Discount rate	13%

This growth rate is based on the relevant industry growth forecast and does not exceed the average long-term growth rate for the relevant industry. Another key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the unit's past performance and management's expectations for the market development. At the end of reporting period, the recoverable amount of individual CGU of Unit A exceeded the relevant carrying amount, no impairment is considered necessary.

Impairment testing on Unit C

Unit C consisted of several CGUs which represent individual subsidiaries engaging in the operation of CNG filling stations. The recoverable amount of Unit C (comprising intangible assets of HK$56,495,000 (2010: HK$60,926,000) and property, plant and equipment of HK$39,566,000 (2010: HK$28,300,000) and prepaid lease payments of HK$11,632,000 (2010: HK$11,473,000) have been determined individually based on a value in use calculation using the following assumptions for 2011 and 2010:

Period of cash flow projections	26 years (2010: 27 years)
Growth rate beyond 5-year period extrapolated in the financial budgets approved by the management	0%
Discount rate	16%

This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Another key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the unit's past performance and management's expectations for the market development.

Due to the insufficient quantities of natural gas to be supplied to the CNG filling stations in the PRC, one of the gas stations of Unit C ("CGU1") that was originally expected to commence operation in the near future needs to postpone its operation plan and is not expected to commence operations in the near future and hence the expected future cash flows for this gas station could not be realised. Accordingly, an impairment of HK$30,751,000 was recognised in the year ended 31st December, 2010. Based on the revised estimates of the expected cash inflows, as at 31st December, 2011, the carrying amount of CGU1 exceeds its relevant recoverable amount based on the cash flow projections. A further impairment of HK$16,871,000 was recognised due to the further postpone of the operation plan.

And due to one CNG filling station of Unit C ("CGU2") commenced operation in current year, based on the revised estimates of the expected cash inflows, at the end of the reporting period, the recoverable amount of this CGU exceeds its carrying amount based on the cash flow projections. A credit of HK$11,040,000 was recognised during the year ended 31st December, 2011, which represented a partial reversal of previously recognised impairment loss of CGU2.

Impairment testing on Unit D

Due to the anticipated delay in de-watering and releasing process of the commercial production of CBM, the expected future economic benefits associated with Unit D is considered as less than probable. Accordingly, the management recognised full impairment on the carrying amount of the development costs in prior years.

During the year ended 31st December, 2011, the Group continues the de-watering process. The management is unable to demonstrate the technical feasibility of completing the extraction process for the purpose of commercial production in the near future. As a result, the additional cost incurred for Unit D amounting to HK$1,575,000 (2010: HK$9,306,000) was charged to profit or loss as research and development cost.

14. DEPOSITS PAID FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

On 5th March, 2009, the Group entered into a sales and purchase agreement with the 焦作市建設投資(控股)有限公司 ("Seller") for the acquisition of certain assets and liabilities ("Original Assets"), which is mainly comprised of gas pipeline network in the area of Jiaozuo City, with a total consideration of HK$54,271,000 (equivalent to RMB47,649,000). Deposits of HK$42,881,000 (equivalent to RMB37,649,000) were already paid to Finance Bureau of Jiaozuo City and included in deposits paid for acquisition of property, plant and equipment as at 31st December, 2009. The Original Assets are stated-owned which require approval by State-owned Assets Supervision and Administration Commission of Jiaozuo City 焦作市國有資產委員會 ("Jiaozuo SASAC"), such approval was not yet obtained as at 31st December, 2009, and was subsequently used to settle the overall consideration during the year ended 31st December, 2010.

On 6th September, 2010, the Group entered into a framework agreement ("Framework Agreement") with Jiaozuo SASAC. The Framework Agreement was entered into to secure the approval from the Jiaozuo SASAC to acquire the Original Assets and agreed to further acquire certain assets from the Seller for an aggregate consideration (included the consideration for the acquisition of Original Assets) of HK$87,711,000 (equivalent to RMB76,270,000). The acquisition was completed and the remaining consideration of HK$46,753,000 after offsetting against, the deposits made in prior years, will be settled upon the proper transfer of legal title of the assets acquired.

The assets and liabilities acquired at the date of the completion were as follow:

	HK$'000
Property, plant and equipment	70,597
Prepaid lease payments	60,300
Deposits, prepayments and other receivables	1,799
Other payables and accrued charges *(Note)*	(38,069)
Bank borrowings	(6,916)
	87,711

Note: During the year ended 31st December, 2010, HK$32,339,000 of these other payables and accrued changes were settled by the Group and the cash outflow was considered as investing activities.

As at 31st December, 2011, deposit of RMB124,099,000 (2010: RMB191,582,000) (equivalent to HK$152,944,000 (2010: HK$226,376,000)) was paid to a supplier for acquisition of construction materials mainly for construction of the Group's pipeline in Jiyuan, Jiaozuo, Luohe and Xinmi Cities.

15. INVENTORIES

	2011	2010
	HK$'000	*HK$'000*
Construction materials	**60,355**	40,015
Finished goods	**5,512**	5,289
	65,867	45,304

16. TRADE AND BILLS RECEIVABLES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

The Group allows an average credit period of 30 days to its trade customers. The bills receivables are matured within the range of 60 days to 180 days for the year ended 31st December, 2011. The following is an aged analysis of trade and bills receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period:

	2011	2010
	HK$'000	*HK$'000*
0 – 30 days	**93,036**	52,224
31 – 90 days	**155**	1,116
91 – 180 days	**52**	–
181 – 360 days	**46**	–
Trade receivables	**93,289**	53,340
0 – 90 days	**30,466**	–
91 – 180 days	**17,626**	–
Bills receivables	**48,092**	–
Trade and bills receivables	**141,381**	53,340

Included in deposits, prepayments and other receivables is advance to suppliers of natural gas and construction materials for customer's gas pipeline construction amounting to HK$69,945,000 (2010: HK$39,899,000). At 31st December, 2011, there are loan receivables of HK$19,888,000 (2010: HK$4,726,000) due from independent third parties, bearing interest at market rate and are expected to be repaid in the next twelve months. Subsequent to the end of the reporting period, the loan receivables of HK$19,888,000 were wholly settled.

The trade receivables of HK$93,036,000 (2010: HK$52,224,000) and bills receivables of HK$48,092,000 (2010: nil) were neither past due nor impaired. These customers are local reputable real estate developers and corporate entities in Henan Province and no significant counterparty default was noted in the past.

As at 31st December, 2011, trade receivables of HK$253,000 (2010: HK$1,116,000) were past due but not provided for as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these trade receivables is 90 days (2010: 90 days).

Ageing of trade receivables which are past due but not impaired

	2011	2010
	HK$'000	*HK$'000*
31 – 90 days	**155**	1,116
91 – 180 days	**52**	–
181 – 360 days	**46**	–
	253	1,116

Movement in the allowance for doubtful debts

Trade receivables

	2011	2010
	HK$'000	*HK$'000*
Balance at beginning of year	**2,549**	1,930
Increase in allowance recognised in profit or loss	**329**	619
Balance at the end of year	**2,878**	2,549

Other receivables

	2011	2010
	HK$'000	*HK$'000*
Balance at beginning of year	**4,279**	2,351
Increase in allowance recognised in profit or loss	**2,317**	1,928
Balance at the end of year	**6,596**	4,279

Included in the allowance for doubtful debts are individually impaired trade receivables, which were either in the severe financial difficulties or overdue for a long period time. The Group has made full allowance on these receivables and considered that they are generally not recoverable.

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date of credit was initially granted up to the report date. The trade receivables past due but not impaired were either subsequently settled as at the date these consolidated financial statements were authorised for issuance or no historical default of payments by the respective customers. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors of the Company believe that there is no further credit provision required in excess of the allowance for doubtful debts.

17. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	2011	2010
	HK$'000	*HK$'000*
Contracts in progress at the end of the reporting period:		
Contract costs incurred plus recognised profits	**177,565**	174,492
Less: Progress billings	**(166,159)**	(157,784)
Less: Impairment losses recognised *(Note)*	**(25,267)**	(28,440)
	(13,861)	(11,732)
Analysed for reporting purposes as:		
Amounts due from customers for contract work	**–**	2,334
Amounts due to customers for contract work	**(13,861)**	(14,066)
	(13,861)	(11,732)

At 31st December, 2011, advances received from customers before the contract work is performed amounted to HK$120,452,000 (2010: HK$88,831,000) and were included in deferred income and advance received.

Note: The directors of the Company reviewed the recoverable amounts of the amounts due from customers for contract work and identified that certain projects are under slow construction progress. In the opinion of the directors, for such amounts that the recoverability are uncertain, impairment losses were recognised in full and for those amounts previously impaired but subsequently settled, impairment losses were reversed. Accordingly, during the year ended 31st December, 2011, the Group recognised a net reversal of impairment loss of HK$3,173,000 (2010: HK$6,367,000).

18. DEFERRED INCOME AND ADVANCE RECEIVED, TRADE AND BILLS PAYABLES, OTHER PAYABLES AND ACCRUED CHARGES

The following is an aged analysis of trade and bills payables presented based on the invoice date at the end of the reporting period:

	2011	2010
	HK$'000	*HK$'000*
0 – 30 days	**223,768**	105,200
31 – 90 days	**20,579**	9,013
91 – 180 days	**5,458**	18,664
Over 180 days	**13,582**	28,674
Trade payables	**263,387**	161,551
Bills payables – 0 – 90 days	**12,324**	–
Trade and bills payables	**275,711**	161,551

The average credit period on purchase of goods is 90 days. The Group has financial risk management policies in place to ensure that all payables within the credit timeframe.

Deferred income and advance received classified as current liabilities represent the amounts received from customers before the contract work is performed. Deferred income and advance received classified as non-current liabilities are government grants of HK$25,549,000 (2010: HK$24,220,000). Due to redevelopment of Jiaozuo city, Jiaozuo government subsidised the Group for enhancement and relocation of certain pipelines in Jiaozuo city.

Included in other payables and accrued charges are deposits received from customers in relation to gas supply business of HK$45,394,000 (2010: HK$12,087,000) and accrued expenses of HK$17,139,000 (2010: HK$18,203,000).

As at 31st December, 2011, the unsettled consideration for the acquisition of assets and liabilities from the Seller (as defined in note 14) of HK$46,753,000 (2010: HK$44,830,000) was include in other payables and accrued charges.

19. SHARE CAPITAL

	Number of shares		Amount	
	2011	2010	**2011**	2010
	'000	*'000*	***HK$'000***	*HK$'000*
Ordinary shares of HK$0.01 each				
Authorised	**10,000,000**	10,000,000	**100,000**	100,000
Issued and fully paid				
At beginning of year	**1,974,008**	1,949,010	**19,740**	19,490
Exercise of share options	**30,200**	13,822	**302**	138
Conversion of convertible bonds	**–**	11,176	**–**	112
Issue of new ordinary shares *(note)*	**394,000**	–	**3,940**	–
At end of year	**2,398,208**	1,974,008	**23,982**	19,740

Note: On 18th April, 2011, the Placing was completed, 394,000,000 ordinary shares of HK$0.01 each in the Company at the Placing price of HK$0.41 per share.

All the shares issued during the year ended 31st December, 2011 and 2010 rank pari passu with the then existing shares in all respects.

20. SHAREHOLDER LOAN

On 9th September, 2010, the Company entered into a loan agreement with China Gas, the then ultimate holding company of the Company after the completion of the Offer. Pursuant to which China Gas agreed to make available to the Company a loan facility of up to US$19,000,000 and the Company made a drawing of approximately US$18,507,000 (equivalent to HK$144,355,000) on 10th September, 2010. The shareholder loan was drawn for the sole and exclusive purpose of the redemption of convertible bonds, and the remaining undrawn facility was cancelled and ceased to be available to the Company.

The shareholder loan was unsecured, bear interest at 5% per annum and intended to be repaid in full in one lump sum together with all interest accrued thereon on the second anniversary of the drawdown date (i.e. 10th September, 2012).

During the year, the Company used part of the net proceeds from the Placing to repay the outstanding shareholder's loan and all interest accrued thereon.

21. DEEMED ACQUISITION OF ADDITIONAL INTERESTS OF A SUBSIDIARY

During the year ended 31st December, 2010, the Group and the non-controlling interest of Luohe Zhongyu entered into an agreement, pursuant to which, the non-controlling shareholder withdrew its portion of registered capital and the return of registered capital was satisfied by property, plant and equipment and prepaid lease payment with carrying amount of HK$816,000 and HK$5,354,000, respectively held by Luohe Zhongyu, which were approximately to their fair value. Thereafter, the Group's effective interest in Luohe Zhongyu increased from 71.9% to 77.3%. The transaction was accounted for as an equity transaction and the increase in the Group's share of net assets of HK$1,764,000 was credited to other reserve.

22. ACQUISITION OF ADDITIONAL INTEREST IN A SUBSIDIARY

On 22nd June, 2011, Linyi China Gas City Gas Construction Company Limited ("Linyi China Gas"), a non-wholly owned subsidiary of the Company, and Taian City Xusheng Electronics Technology Company Limited ("Xusheng"), the non-controlling interest of Linyi Shanlin entered into an equity transfer agreement, pursuant to which, Xusheng has agreed to transfer holding of 33% of the equity interest in Linyi Shanlin held by Xusheng to Linyi China Gas at consideration of RMB16,800,000 (equivalent to HK$20,248,000), including RMB774,000 (equivalent to HK$914,000) to be settled through the current account between Xusheng and Linyi Shanlin. Thereafter, the Group's effective interest in Linyi Shanlin increased from 66.9% to 99.89%. The transaction was accounted for as an equity transaction. The difference between the consideration paid and the carrying amount of the additional interest effectively hold by the Group of HK$8,322,000 was debited to equity as other reserve during the year ended 31st December, 2011.

23. CAPITAL COMMITMENTS

As at 31st December, 2011, the capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements is HK$62,360,000 (2010: HK$2,883,000).

24. MAJOR NON-CASH TRANSACTIONS

During the year ended 31st December, 2010, the non-controlling shareholder of Luohe Zhongyu withdrew registered capital of HK$7,934,000 from Luohe Zhongyu resulting in deemed acquisition of additional interest in Luohe Zhongyu. The return of capital was satisfied by property, plant and equipment and prepaid lease payment held by Luohe Zhongyu with carrying amount of HK$816,000 and HK$5,354,000 respectively. Details are set out in note 21.

During the year ended 31st December, 2010, the Group acquired certain assets and liabilities from the Seller (define in note 14) at a total consideration of HK$87,711,000, of which deposit of HK$42,881,000 was paid in prior year and the remaining HK$44,830,000 was remain unsettled and included in other payables and accrued charges at 31st December, 2010.

LIQUIDITY, FINANCIAL RESOURCES AND WORKING CAPITAL

Liquidity

As at 31st December, 2011, the Group's net current liabilities increased by approximately HK$77,892,000 or 25.4% to approximately HK$384,939,000 (2010: HK$307,047,000).

The increase was mainly attributable to (i) incline the carrying amount of bank borrowings repayable within one year from approximately HK$390,447,000 in 2010 to HK$422,493,000 in 2011; (ii) the current deferred income and advance received increased by 53.2% to approximately HK$198,513,000 in 2011 from approximately HK$129,581,000 in 2010.

As at 31st December, 2011, the Group's current ratio, represented by a ratio of total current assets to total current liabilities, was approximately 0.7 (2010: 0.6).

As at 31st December, 2011, the total assets increased by approximately HK$561,131,000 or 24.7% to HK$2,836,665,000 (2010: HK$2,275,534,000).

As at 31st December, 2011, the total bank borrowings increased by approximately HK$142,199,000 or 19.4% to HK$876,030,000 (2010: HK$733,831,000).

All shareholder loan was repaid during the year ended 31st December, 2011. The shareholder loan amounted to approximately HK$144,355,000 at 31st December 2010.

Interest bearing loans and other borrowings represents bank borrowings and shareholder loan.

As at 31st December, 2011, the Group's gearing ratio, represented by a ratio of total interest-bearing loans and other borrowings to total equity, was 0.7 (2010: 1.0).

Financial resources

During the year under review, the Group generally financed its operations with internally generated resources and long term and short term bank borrowings.

Working capital

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

CONNECTED TRANSACTION

Shareholder 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 "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 Loan constitutes a connected transaction of the Company pursuant to Rule 20.13 of the GEM Listing Rules. As the 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 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 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.

EXPOSURE TO EXCHANGE RATE FLUCTUATIONS

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

EMPLOYEE INFORMATION

As at 31st December, 2011, the Group had a total of 2,160 employees (2010: 2,040) in Hong Kong and the PRC, and the total employee benefit expenses (other than director) for the year under review was approximately HK$135,619,000 (2010: HK$102,954,000). The increase was mainly due to share option expense and salary increment as well as the increase in the number of headcount resulting from the Group's business expansion. More than 99.8% of the Group's employees are located in the PRC.

The Group's remuneration and bonus policies are basically determined by the performance of individual employees.

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

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$0.49 per share. The share options granted shall be valid for a period of ten years from the date of grant.

CHARGE ON THE GROUP'S ASSETS

As at 31st December, 2011, the Group did not have any charges on the Group's assets.

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

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

BUSINESS REVIEW

Overall

During the year 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 PRC.

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 GEM 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 announcements 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 GEM 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 GEM 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 to the Company pursuant to a loan agreement date 10th September, 2010 and all interest accrued thereon under the 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 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 (Shenzhen Gity Peng Kai Ji Xing Trading Limited Company) ("Peng Kai Ji Xing"). The consideration of RMB100,000 is contributed by Zhonyu (Henan) in cash, which is the registered capital of Peng Kai Ji Xing. Peng Kai Ji Xing is engaged principally in providing business relationship development services.

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.

The major operational data of the Group for the year under review together with the comparative figures for 2010 are as follows:

	2011	2010	Increase/ (Decrease)
Number of Exclusive Gas Projects *(Note)*	**15**	14	1
– Henan Province	**12**	11	1
– Shandong Province	**3**	3	–
Connectable urban population ('000)	**3,525**	3,525	–
Connectable residential households ('000)	**992**	992	–
New piped gas connections made during the year			
– Residential households	**100,795**	87,672	15.0%
– Industrial customers	**68**	61	11.5%
– Commercial customers	**368**	312	18.0%
Accumulated number of connected piped gas customers			
– Residential households	**532,237**	431,442	23.4%
– Industrial customers	**345**	277	24.6%
– Commercial customers	**1,784**	1,416	26.0%
Natural gas penetration rate	**53%**	43%	7.0%
Unit of piped natural gas sold ('000 m^3)	**418,072**	271,707	50.1%
– Residential households	**52,568**	38,258	36.8%
– Industrial customers	**311,552**	185,320	64.3%
– Commercial customers	**40,924**	32,713	20.9%
– Wholesale customers	**13,028**	15,416	(25.5%)
Unit of piped mixed gas sold ('000 m^3)	**40,026**	42,905	(6.7%)
Unit of piped coal gas sold ('000 m^3)	**86,313**	53,334	61.8%
Number of CNG Filling Stations			
– Accumulated	**9**	5	4
– Under construction	**6**	4	2
Unit of natural gas sold to vehicles ('000 m^3)	**30,057**	22,980	30.8%
Unit of bottle LPG sold (ton)	**5,503**	6,120	(10.1%)
Total length of existing intermediate and main pipelines (km)	**2,052**	1,613	27.2

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

Sales of Piped Gas

Sales of piped gas to customers provide the Group with a recurring stream of revenue. Because of the huge usage of piped gas by our industrial/commercial customers and the increase in the accumulated number of residential customers, sales of piped gas has become the largest component of the Group's total turnover since 2007 and still the largest one in 2011. During the year under review, the Group's downstream piped gas sales volume reached 544,411,000 m^3 (2010: 367,946,000 m^3). Nearly 78% of total sales of piped gas for the year ended 31st December, 2011 were derived from provision of natural gas. Fees charged by the Group for provision of piped natural gas are required to obtain approval from local pricing bureaus.

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.

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"). The Directors are of the view that the transaction enhances the earning base of the Group. The detail of the transaction was disclosed in the Section Headed "Connected Transaction" in this report.

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 Limted) ("Wuyishan Zhong Min") by Zhongyu Henan. Pursuant to the Capital Injection Agreement, the registered capital of Wuyishan Zhong Min is 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 is contributed by Zhongyu Henan in cash and as to the remaining RMB13,700,000 will be contributed by Zhengzhou Datian in cash. Zhongyu Henan finances 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 is 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 is 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.

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.

In addition, the Group obtained the Notice on Problems Relating to the Piped Natural Gas Prices in Henan Province (關於河南省管道天然氣價格有關問題的通知) (the "Notice") issued by Henan Province Development and Reform Commission on 9th December, 2011. Pursuant to the Notice, a price link mechanism between the upstream and selling prices of natural gas for residential users (the "Price Link Mechanism") was established. The Directors are of the view that the Price Link Mechanism could benefit the Group to pass the upward gas procurement cost to residential users and maintain its profit margins.

Gas Pipeline Construction

Connection revenue from gas pipeline construction is one-off connection fees paid by residential households and industrial/commercial customers for the connection of their premises to the piped gas networks operated by the Group. Connection fees charged by the Group are required to obtain approval from local pricing bureaus. During the year under review, the average connection fees charged to residential households by the Group was approximately RMB2,680 (2010: RMB2,500). The connection fees charged to industrial/commercial customers by the Group was significantly higher amounts than that charged to residential households and was determined on a case basis. With the aim to minimize our risk on the recoverability of amounts due from customers of contract work, commencing from the year 2007, 20-40% of the contract sum is required to be paid in advance by our customers before the commencement of their premises to our piped gas networks. As a result, the Group successfully minimized the impairment loss recognised amounts due from customers for contract work in 2011. As the Group's downstream gas distribution business is still at the development stage, connection revenue from gas pipeline construction remained a significant component of the Group's turnover in 2011.

Sales of Natural Gas From CNG Filling Stations

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. During the year ended 31st December 2011, 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 last year, which are located in Nanjing city and Henan and Shandong Provinces respectively.

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 second half of 2012. The remaining three new CNG refilling stations are expected to commence their operation in the early of 2013.

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 December, 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

Turnover

	2011		2010		
		% of total		% of total	Changes
	HK$'000	**%**	*HK$'000*	%	%
Sales of piped gas	**1,231,876**	**68.6**	721,374	61.7	70.8
Connection revenue from gas pipeline construction	**394,470**	**22.0**	305,205	26.1	29.2
Operation of CNG filling stations	**123,373**	**6.9**	88,765	7.6	39.0
Sales of liquefied petroleum gas	**40,974**	**2.3**	38,379	3.3	6.8
Sales of stoves and related equipment	**3,626**	**0.2**	15,746	1.3	(77.0)
Total	**1,794,319**	**100.0**	1,169,469	100.0	53.4

Turnover increased by 53.4% to approximately HK$1,794,319,000 in 2011 from approximately HK$1,169,469,000 in 2010. The tremendous growth in turnover was mainly attributable to the robust growth in sales of piped gas, connection revenue from gas pipeline construction and operation of CNG filing stations.

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, which was mainly resulted from the organic growth of the Group's downstream gas distribution business in Linyi City, Sanmenxia City, Jiaozuo City and Jiyuan City, Shandong and Henan Province, the PRC.

The stable supply of piped natural gas to Sanmenxia City, Henan Province, the PRC 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 has increased significantly and has pushed up the sales during the year.

On the other hand, the continuous strong development in industrial region and many new residential properties are developed in recent year, which leaded to increase demand for natural gas from the new developed industrial and residential area.

The substantial increase in revenue from operation of CNG filing stations was mainly attributable to the increase in number of CNG vehicle gas refueling stations in Linyi City and Louhe City, Henan Province. Moreover. The organic growth of CNG filling station business in Nanjing has pushed the Group's revenue from operation of CNG filing stations.

Gross profit margin

The overall gross profit margin in 2011 amounted to approximately 23.9% (2010: 26.9%). 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 68.6% for the year ended 31st December, 2011 from approximately 61.7% in 2010. The Chinese government announced an increase of natural gas wellhead prices in June 2010. As the Group did not obtain an approval from local authorities to raise its selling prices charged to residential customers until 9th December, 2011, the Group's residential selling prices in some cities are changed in late December 2011. 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 gains and losses

Other losses increased by 2.0% to approximately HK$11,208,000 in 2011 from approximately HK$10,984,000 in 2010. Other gains for the year under review includes: (i) the exchange gain of approximately HK$516,000 in 2011 (2010: HK$120,000); (ii) increase in fair value of investment properties of approximately HK$56,000 in 2011 (2010: HK$450,000); (iii) net reversal of impairment loss recognised on amounts due from customers for contract work of approximately HK$3,173,000 in 2011 (2010: HK$6,367,000). Pursuant to the Group's accounting policy, amounts due from customers for contract work would be made impairment if those respective contract works are not completed within one year; which set off by other losses for the year under review includes allowance for doubtful debt in trade and other receivables of approximately HK$2,646,000 (2010: HK$2,547,000) and loss on disposal/written off of property, plant and equipment of approximately HK$6,476,000 (2010: gain on disposal of property, plant and equipment: HK$652,000). On the other hand, no gain on redemption/repurchase of convertible bonds for the year was recorded as all of the outstanding convertible bonds were early redeemed on 13th September, 2010.

In 2011, due to the uncertainty of sufficient natural gas to be supplied to the CNG filling stations and some of the gas stations are not expected to commerce operations in 2012, the group made an net impairment loss on the licences for operating CNG filling stations of approximately HK$5,831,000 (2010: HK$30,751,000). In the future, the recognised impairment loss can be subsequently reversed if the carrying amount of the other intangible assets is increased to the revised estimate of its recoverable amount, and the reversal of impairment loss is recorded as income immediately.

In 2010, the Group recorded a non-cash gain of HK$12,360,000 arising on change in fair value of derivative financial instruments which was issued by the Company in 2007. In the event of a change of control as the completion of Offer, all of the outstanding Convertible Bonds was redeemed on 13th September, 2010. Accordingly, the Group expects no such item will be recorded in the future.

Other income

Other income increased to approximately HK$11,547,000 in 2011 from approximately HK$8,308,000 in 2010. The 2011 balance represented the bank interest income of approximately HK$2,389,000 (2010: HK$1,455,000), government subsidies of approximately HK$4,104,000 (2010:HK$1,278,000) and sundry income of approximately HK$5,054,000 (2010: HK$5,575,000). The increase was mainly attributable to government subsidies increased by 221.1%.

Selling and distribution costs

Selling and distribution costs increased by 15.6% to approximately HK$34,268,000 in 2011 from approximately HK$29,641,000 in 2010. The increase was mainly attributable to the increase in staff costs and related expenses increased by 22.1% to approximately HK$22,372,000 from approximately HK$18,316,000 as a result of the increase in headcount as well as increased salary for PRC subsidiaries.

Administrative expenses

Administrative expenses increased by 37.1% to approximately HK$188,192,000 in 2011 from approximately HK$137,276,000 in 2010. The increase was mainly attributable to (i) staff costs and related expenses increased by 29.5% to approximately HK$73,592,000 in 2011 from approximately HK$56,817,000 in 2010 resulting from the increase in headcount as well as the salary increment; (ii) depreciation cost increased by 29.3% to approximately HK$17,980,000 in 2011 from approximately HK$13,910,000 in 2010 resulting from the additional equipment for the business development in Jiaozuo City; (iii) The entertainment expenses increased by 40.2% to approximately HK$28,131,000 in 2011 from approximately HK$20,066,000 in 2010 resulting from business opportunity seeking; (iv) one-off recognition of equity-settled share option expenses of approximately HK$23,632,000 resulting from the issuance of share options by the Company on 11th April, 2011 (2010: HK$6,038,000).

Other expense

The other expense represented development costs incurred for exploration of CBM in the PRC. It decreased by 83.1% to approximately HK$1,575,000 in 2011 from approximately HK$9,306,000 in 2010. Such development costs mainly include cost of technical services and studies, exploration drilling, fracturing and dewatering. Pursuant to the Group's accounting policy, development cost shall be treated as expenses if the discovery of commercial reserve is not confirmed within one year.

Finance costs

Finance costs decreased by 55.8% to approximately HK$19,198,000 in 2011 from approximately HK$43,466,000 in 2010. The decrease was mainly attributable to the decrease in non-cash effective interest expense charged on convertible bonds issued on 25th June, 2007 decreased to HK$nil in 2011 from approximately HK$20,124,000 in 2010, and the interest on bank borrowings decreased by 20.4% to approximately HK$16,812,000 in 2011 from approximately HK$21,117,000 in 2010 resulting from the increase in the amounts capitalised in construction in progress.

Income tax expenses

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

Hong Kong Profits Tax is calculated at 16.5% of the estimated profit for both years. No provision of Hong Kong Profits Tax has been made in the consolidated financial statements as the Group had no assessable profits arising in Hong Kong for the both years.

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 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.

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 year ended 31st December, 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.

Accordingly, the income tax expenses in 2011 amounted to approximately HK$57,397,000 (2010: HK$35,425,000).

Adjusted Earnings from continuing operations before interests, taxation, depreciation and amortisation ("Adjusted EBITDA")

Excluding impairment loss recognised on other intangible assets and change in fair value of derivative financial instruments, the Group's Adjusted EBITDA was approximately 274,541,000 in 2011, representing an increase of 33.6% as compared with that of approximately HK$205,513,000 in 2010.

Profit attributable to owners of the Company

As a result of the above, profit attributable to owners of the Company was approximately HK$86,114,000 in 2011, representing an increase of 277.5% as compared with that of approximately HK$22,811,000 in 2010.

Earnings per share

The basic and diluted earnings per share attributable to the owners of the Company were HK3.82 cents and HK3.77 cents respectively in 2011, as compared with that of HK1.16 cents and HK1.14 cents respectively in 2010.

Net assets value per share

The net assets value per share attributable to the owners of the Company was HK$0.5 in 2011, representing an increase of 25% as compared with that of HK$0.4 in 2010.

The net assets value represents total assets minus total liabilities.

DISCLOSURE OF INTERESTS

(a) Interests of Directors

As at 31st December, 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")) which (a) are 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) are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) are 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	24.13%
Mr. Xu Yongxuan	2	1,000,000	Beneficial	0.04%
Mr. Lu Zhaoheng	3	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%

Notes:

1. Among these Shares and/or underlying Shares, 567,453,542 Shares are held by Hezhong Investment Holding Company Limited ("Hezhong"). Mr. Wang Wenliang is beneficially interested in 100% of the issued share capital of Hezhong. 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.

3. The Shares are directly held by Mr. Lu Zhaoheng.

Save as disclosed above, as at 31st December, 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 (i) are 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 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 December, 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 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 member of the Group, or substantial Shareholder which were recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Long positions in the shares

Name of shareholder	**Type of interest**	**Number of shares**	**Approximate percentage of interests**
China Gas Holdings Limited	Beneficial	1,111,934,142	46.37%
Rich Legend International Limited	Beneficial	1,111,934,142	46.37%
Hezhong	Beneficial	567,453,542	23.66%

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 31st December, 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, or substantial Shareholder which were recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

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 audited results of the Group for the year ended 31st December, 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 year.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and the related notes thereto for the year ended 31st December, 2011 as set out in the Preliminary Announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the Preliminary Announcement.

BOARD OF DIRECTORS

As at the date of this announcement, 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 March, 2012

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