中裕燃氣控股有限公司

ZHONGYU GAS HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8070)

FIRST QUARTERLY RESULTS ANNOUNCEMENT FOR THE THREE MONTHS ENDED 31ST MARCH, 2012

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

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

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

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This announcement, for which the directors of Zhongyu Gas Holdings Limited (the "Company") collectively and individually accept full 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 the information contained in this announcement is accurate and complete in all material respects and not misleading and deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

FINANCIAL HIGHLIGHTS

	For the three months ended 31st March,		
	2012 *HK$'000*	2011 *HK$'000*	**% of changes**
Turnover	**627,294**	312,578	100.7%
Sales of piped gas	**510,931**	239,206	113.6%
Connection revenue from gas pipeline construction	**65,507**	32,914	99.0%
Revenue from operation of CNG filling stations	**39,349**	29,989	31.2%
Gross profit (Gross margin)	**125,748** **(20.0%)**	44,669 (14.3%)	181.5% (5.7%)
Profit (Loss) attributable to owners of the Company	**37,065**	(13,974)	365.2%
Earning (Loss) per share Basic Diluted	 **HK1.53 cents** **HK1.51 cents**	 (HK0.71 cents) (HK0.71 cents)	 316.2% 313.0%
EBITDA	**87,381**	12,559	595.8%

The board of Directors (the "Board") is pleased to announce the unaudited consolidated results of the Group for the three months ended 31st March, 2012, together with the comparative figures for the corresponding period in 2011, which are set out as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE THREE MONTHS ENDED 31ST MARCH, 2012 (UNAUDITED)

		Three months ended 31st March,	
		2012	2011
	NOTES	***HK$'000***	*HK$'000*
Turnover	*3*	**627,294**	312,578
Cost of sales		**(501,546)**	(267,909)
Gross profit		**125,748**	44,669
Other income and gains	*5*	**5,611**	932
Selling and distribution costs		**(9,413)**	(7,371)
Administrative expenses		**(48,263)**	(39,015)
Finance costs	*6*	**(13,200)**	(8,298)
Profit (Loss) before tax		**60,483**	(9,083)
Income tax expenses	*7*	**(18,226)**	(3,134)
Profit (Loss) for the period		**42,257**	(12,217)
Other comprehensive loss			
Exchange difference arising on translation		**(154)**	(2,802)
Total comprehensive profit (loss) for the period		**42,103**	(15,019)
Profit (Loss) for the period attributable to:			
Owners of the Company		**37,065**	(13,974)
Minority interests		**5,192**	1,757
		42,257	(12,217)
Total comprehensive profit (loss) attributable to:			
Owners of the Company		**36,911**	(16,776)
Minority interests		**5,192**	1,757
		42,103	(15,019)
Earning (Loss) per share	*9*		
Basic (HK cent per share)		**1.53**	(0.71)
Diluted (HK cent per share)		**1.51**	(0.71)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31ST MARCH, 2012

1. BASIS OF PREPARATION

These condensed consolidated financial information for the three months ended 31st March, 2012 has been prepared in accordance with Hong Kong Accounting Standards 34 "Interim financial reporting" issued by the Hong Kong Institute of Certificate Public Accountants (the "HKICPA") and the applicable disclosures required by the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31st December, 2011, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current period, the Group has adopted all the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for its accounting period beginning on 1st January, 2012. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting polices, presentation of the Group's financial statements and amounts reported for the current period and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

3. TURNOVER

Turnover represents the net amounts received and receivable for goods sold and services rendered by the Group to outside customers, net of discounts and related taxes. An analysis of the Group's turnover for the three months ended 31st March, 2012 is as follow:

	Three months ended 31st March,	
	2012	2011
	HK$'000	*HK$'000*
Sales of piped gas	**510,931**	239,206
Connection revenue from gas pipeline construction	**65,507**	32,914
Operation of compressed natural gas ("CNG") filling station	**39,349**	29,989
Sales of liquefied petroleum gas	**10,935**	9,344
Sales of stoves and related equipment	**572**	1,125
	627,294	312,578

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

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

(a) sales of piped gas

(b) connection revenue from gas pipeline construction

(c) operation of CNG filling stations

(d) sales of liquefied petroleum gas

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

(f) Sales of stoves and related equipment

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

For the three months ended 31st March, 2012

	Sales of piped gas	Connection revenue from gas pipeline construction	Operation of CNG filling stations	Sales of liquefied petroleum gas	Sales of CBM	Sales of stoves and related equipment	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	510,931	65,507	39,349	10,935	–	572	627,294
Segment profit (loss)	34,148	38,333	11,973	147	(2,817)	(455)	81,329
Other income and gains							5,611
Central corporate expenses							(13,257)
Finance costs							(13,200)
Profit before tax							60,483
Income tax expense							(18,226)
Profit for the period							42,257

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

5. OTHER INCOME AND GAINS

	Three months ended 31st March, 2012 *HK$'000*	2011 *HK$'000*
Bank interest income	**453**	545
Government subsidies *(Note)*	**4,437**	–
Sundry income	**721**	387
	5,611	932

Note: During the three months ended 31st March, 2012, the Group has received subsidies of HK$4,437,000 (2011: nil) from the relevant PRC governments for promoting the use of natural gas. There are no conditions attached to the subsidies granted to the Group.

6. FINANCE COSTS

	Three months ended 31st March,	
	2012	2011
	HK$'000	*HK$'000*
Interest on bank borrowings	**13,200**	6,493
Interest on shareholder loan	**–**	1,805
	13,200	8,298

7. INCOME TAX EXPENSES

	Three months ended 31st March,	
	2012	2011
	HK$'000	*HK$'000*
PRC Enterprise Income Tax	**18,226**	3,134

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

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

Pursuant to the relevant laws and regulations in the PRC, certain PRC subsidiaries of the Group are exempted from the EIT Law for two years starting from their first profit-making year, followed by a 50% reduction for the next three years. 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. The tax concession arrangement of the subsidiaries in Jiaozuo City and Jiyuan City was expired in 2011 and all PRC subsidiaries of the Group would not enjoy reduction of tax rate in 2012.

8. PROFIT FOR THE PERIOD

	Three months ended 31st March, 2012 HK$'000	2011 HK$'000
Profit for the period has been arrived at after charging:		
Depreciation of property, plant and equipment	**16,166**	11,379
Amortisation of other intangible assets	**1,299**	1,304
Amortisation of prepaid lease payments	**1,844**	1,593
Total depreciation and amortisation	**19,309**	14,276

9. EARNINGS (LOSS) PER SHARE

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

	Three months ended 31st March, 2012 HK$'000	2011 HK$'000
Earnings (loss)		
Earnings (loss) for the purposes of basic earnings per share	**37,065**	(13,974)

	As at 31st March, 2012 '000	2011 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	**2,421,522**	1,974,008
Effect of dilutive potential ordinary shares:		
Share options issued by the Company *(Note)*	**37,103**	–
Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share	**2,458,625**	1,974,008

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

10. DIVIDENDS

No dividend was paid or proposed during the three months ended 31st March, 2012, nor has any dividend been proposed since 31st March, 2012 (2011: nil).

11. RESERVES

	Share premium	Share options reserve	Property revaluation options reserve	Other reserve	Statutory surplus reserve	Translation reserve	Accumulated profit	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1st January, 2011 (audited)	639,463	–	1,128	9,371	32,417	141,606	(74,414)	749,571
Loss for the period	–	–	–	–	–	–	(13,974)	(13,974)
Exchange differences arising on translation of foreign operations	–	–	–	–	–	(2,802)	–	(2,802)
Total comprehensive loss for the period	–	–	–	–	–	(2,802)	(13,974)	(16,776)
Balance at 31st March, 2011 (unaudited)	639,463	–	1,128	9,371	32,417	138,804	(88,388)	732,795
Balance At 1st January, 2012 (audited)	816,047	19,143	1,128	1,049	42,462	182,975	1,655	1,064,459
Profit for the period	–	–	–	–	–	–	37,065	37,065
Exchange differences arising on translation of foreign operations	–	–	–	–	–	(154)	–	(154)
Total comprehensive profit for the period	–	–	–	–	–	(154)	37,065	36,911
Exercise of share option	78,325	(18,421)	–	–	–	–	–	59,904
Balance at 31st March, 2012 (unaudited)	**894,372**	**722**	**1,128**	**1,049**	**42,462**	**182,821**	**38,720**	**1,161,274**

12. ACQUISITIONS, DISPOSAL AND SIGNIFICANT INVESTMENTS

The Group had no acquisitions, disposals nor significant investments for the three months ended 31st March, 2012.

BUSINESS REVIEW

During the period under review, we are principally engaged in (i) the investment, operation and management of city gas pipeline infrastructure, distribution of piped gas to residential, industrial and commercial users; (ii) the construction and operation of compressed natural gas ("CNG") filling stations for vehicle; and (iii) the exploration, exploitation and development of coalbed methane ("CBM") in the People's Republic of China (the "PRC").

Overall

Transfer of listing

The board of directors of the Company (the "Board") is pleased to announce that the Company has submitted a formal application to the Stock Exchange on 5th April, 2012 for the proposed transfer (the "Proposed Transfer") of listing of the Shares from the Growth Enterprise Market of the Stock Exchange to the Main Board of the Stock Exchange (the "Main Board") pursuant to the relevant provisions of the GEM Listing Rules and the Rules Governing the Listing of Securities on the Stock Exchange. The Proposed Transfer will not involve the issue of any new Shares by the Company.

The Board believes that the listing of the Shares on the Main Board will enhance the profile of the Group and improve the trading liquidity of the Shares. The Board is of the view that the Proposed Transfer will be beneficial to the future growth and business development of the Group. As at the date of this announcement, the Board has no immediate plan to change the nature of business of the Group following the Proposed Transfer.

The implementation of the Proposed Transfer is subject to, among other things, the granting of the relevant approval by the Stock Exchange. There is no assurance that permission will be obtained from the Stock Exchange for the Proposed Transfer. As at the date of this announcement, review of the case for granting the relevant approval by the Stock Exchange has commenced and is ongoing.

Wuyishan project

Reference is made to the Annual Report 2011 of the Company dated 21st March, 2012 in which the Company mentioned that Zhongyu (Henan) 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 would 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. In April 2012, Wuyishan Zhong Min has submitted a formal application to the local government for being eligible candidate and Wuyishan Zhong Min will tender a bid after approving the application by the local government.

Second West-East Gas Pipeline project

The main pipeline of second West-East Gas Pipeline has been completed and commenced gas supply in July 2011. As a result, piped gas supply for the Group's project located 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.

The supply of piped natural gas to Sanmenxia City and Luohe City from the second West-East Gas Pipeline has commenced in July 2011 and September 2011 respectively. Benefit from such gas ramp-up, the piped gas sale and supply for the Group's project located in the Sanmenxia City and Luohe City has increased greatly.

We expect the connection and supply of piped natural gas to Yanshi City and Xinmi City from the sub-pipeline of second West-East Gas Pipeline will be completed and commenced in the second half of 2012. It is believed that this project piped gas sales and supply for the Group's project located in the Yanshi City and Xinmi City will increase greatly.

Price Link Mechanism

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

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 period under review together with the comparative figures for the corresponding period last year are as follows:

	Three months ended 31st March, (unaudited)		
	2012	2011	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	–
No. of new piped gas connections made during the period			
– Residential households	**16,662**	9,741	71.1%
– Industrial customers	**15**	3	400.0%
– Commercial customers	**58**	47	23.4%
Accumulated number of connected piped gas customers			
– Residential households	**548,336**	441,183	24.3%
– Industrial customers	**360**	280	28.6%
– Commercial customers	**1,842**	1,463	25.9%
Natural gas penetration rate	**55.4%**	43.5%	11.9%
Unit of piped natural gas sold ('000 m^3)	**175,941**	86,696	102.9%
– Residential households	**26,292**	18,210	44.4%
– Industrial customers	**124,541**	51,998	139.5%
– Commercial customers	**18,953**	12,982	46.0%
– Wholesale customers	**6,155**	3,506	75.5%
Unit of piped mixed gas sold ('000 m^3)	**13,651**	11,304	20.8%
Unit of piped coal gas sold ('000 m^3)	**19,111**	23,891	(20.0%)
Number of CNG Filling Stations			
– Accumulated	**9**	8	1
– Under construction	**6**	7	(1)
Unit of natural gas sold to vehicles ('000 m^3)	**9,272**	6,156	50.6%
Unit of bottle LPG sold (ton)	**1,421**	1,342	5.9%
Total length of existing intermediate and main pipelines (km)	**2,122**	1,655	28.2%

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.

Upstream CBM Exploration

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

As at 31st March, 2012, the Group secured eight coal blocks, situated at Jiaozuo, Zhengzhou, Pingdingshan (including Yuzhou and Ruzhou), Hebi, Yima, Yongxia, Henan Province, the PRC to explore, exploit, develop and produce CBM.

Regarding its upstream business, the exploration of CBM in Henan Province is still being operated. 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

Overall

The Group's results for the three months ended 31st March, 2012 was driven by organic growth. Benefit from the gas supply ramp-up since second half of 2011, the Group's turnover for the period under review increased substantially to HK$627,294,000 (2011: HK$312,578,000). The Group's profit attributable to owners of the Company reached HK$37,065,000 (2011: HK$13,974,000 loss).

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

	Three months ended 31st March,				
	2012 ***(HK$'000)***	**% of total**	2011 *(HK$'000)*	% of total	Increase/ (Decrease)
Turnover					
– Sales of piped gas	**510,931**	**81.5%**	239,206	76.5%	113.6%
– Connection revenue from gas pipeline construction	**65,507**	**10.4%**	32,914	10.5%	99.0%
– Operation of CNG filling station	**39,349**	**6.3%**	29,989	9.6%	31.2%
– Sales of liquefied petroleum gas	**10,935**	**1.7%**	9,344	3.0%	17.0%
– Sales of stoves and related equipment	**572**	**0.1%**	1,125	0.4%	(49.2%)
	627,294	**100%**	312,578	100%	100.7%

Turnover

The turnover for the period under review increased by 100.7% to approximately HK$627,294,000 from approximately HK$312,578,000 for the corresponding period last year. The significant growth in turnover was mainly attributable to the robust growth in sales of piped gas and connection revenue from gas pipeline construction.

Major source of turnover

Sales of Piped Gas

Sales of piped gas for the three months ended 31st March, 2012 amounted to approximately HK$510,931,000, representing an increase of approximately 113.6% over the corresponding period last year. Nearly 91% of the total sales of piped gas was derived from provision of natural gas. The rapid growth in sales of piped gas was mainly attributable to the increase in gas sales volume by 102.9% to 175,941,000 m^3 from 86,696,000 m^3. 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 has increased greatly, which facilitates the Group to connect more industrial users in order to increase the Group's turnover and in turn, enhance its earning base. The incline in gas consumption of industrial users drove the gas sales increment.

The selling price of natural gas for residential users increased by 26.8% when comparing the corresponding period last year, which has pushed up the sales during the period. Moreover, the selling price of natural gas for industrial and commercial users of the Group's subsidiaries in Jiaozuo City and Jiyuan City increased in late of 2011 which caused the sales incline.

Sales of piped gas for the period under review contributed approximately 81.5% of the total turnover of the Group. As compared with the percentage of approximately 76.5% during the corresponding period last year, sales of piped gas continued to become the major source of turnover of the Group.

Gas Pipeline Construction

Connection revenue from gas pipeline construction for the three months ended 31st March, 2012 amounted to approximately HK$65,507,000, representing an increase of approximately 99.0% over the corresponding period last year. The increase in connection revenue from gas pipeline construction was mainly attributable to the increase in construction work of gas pipeline connection completed for residential households to 16,662 from 9,741. As the second West-East Gas Pipeline has been commenced in July 2011, the piped gas supply for the Group's project located in the Sanmenxia City and Luohe City increased significantly, which facilitate the Group to connect with more end users, it caused more construction work of gas pipeline connection completed for residential users. The average connection fee for industrial and commercial customers was determined on a case basis, which increased by 84.9% to push up the sales during the period.

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

During the period under review, the connection revenue from gas pipeline construction contributed approximately 10.4% of the total turnover of the Group. As compared with the percentage of approximately 10.5% during the corresponding period last year, the connection revenue from gas pipeline construction continued to be one of major source of turnover of the Group.

As at 31st March, 2012, the Group's natural gas penetration rate reached 55.4% (2011: 43.5%) (represented by the percentage of accumulated number of residential households to estimated on aggregate of connectable residential households).

Operation of CNG Filling Station

Revenue from operation of CNG filling station for the three months ended 31st March, 2012 amounted to approximately HK$39,349,000, representing an increase of approximately 31.2% over the corresponding period last year. The increase was mainly due to increase the number of CNG filling station to nine from eight and the selling price increment to RMB4.07 per meter cubed from RMB3.81 per meter cubed in Nanjing City.

During the period under review, the turnover derived from operation of CNG filling stations accounted for approximately 6.3% of the total turnover of the Group.

During the period under review, the Group has built one 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 eight as compared with the corresponding period last year.

In addition, the Group has commenced to built additional six CNG refilling stations in the PRC. It is expected that three new CNG refilling stations will commence their operation by the second half of 2012. The remaining three new CNG refilling stations is expected to commence their operation in the early of 2013.

Gross profit margin

The overall gross profit margin for the three months ended 31st March, 2012 was approximately 20.0% (2011: 14.3%). The Price Link Mechanism benefits the Group to pass the upward gas procurements cost to our residential users caused the profit margins of gas sales to residential customers to incline which in turn attributed partially to the increase in the overall gross profit margin. The increase in the proportion of sales of piped gas for industrial and commercial users, which has a relatively higher profit margin, has improved the gross profit margin. Moreover, the selling price of natural gas for industrial and commercial users of the Group's subsidiaries in Jiaozuo City and Jiyuan City increased in late of 2011 which caused slightly increased in the gross profit margin for selling the natural gas to industrial and commercial customers.

In addition, the increase in gross profit margin was partially due to the increase in the turnover derived from connection revenue from gas pipeline construction, which in general has a relatively high profit margin, the connection revenue from gas pipeline construction increased by 99.0% to approximately HK$65,507,000 for the three months ended 31st March, 2012 from approximately HK$32,914,000 for the corresponding period last year. The gross profit margin of connection revenue from gas pipeline construction was increased by 5.6% when comparing the corresponding period last year. Such gross profit margin increment was mainly driven by the average connection fee for industrial and commercial customers incline.

Other income and gains

Other income and gains increased to approximately HK$5,611,000 for the three months ended 31st March, 2012 from approximately HK$932,000 for the corresponding period last year. The 2012 balance mainly represented the bank interest income of approximately HK$453,000, the government subsidies of approximately HK$4,437,000 and the sundry income of approximately HK$3,010,000. The substantially increase was mainly attributable to the government subsidies for the three months ended 31st March, 2012 increased to approximately HK$4,437,000 (2011: HK$nil). Such government subsidies was for promoting the use of natural gas. There are no conditions attached to subsidies granted to the Group.

Operating expenses

Operating expenses, including selling and distribution costs and administrative expenses increased by 24.3% to approximately HK$57,676,000 for the three months ended 31st March, 2012 from approximately HK$46,386,000 for the corresponding period last year. The increase was mainly attributable to the increase in staff salary cost to approximately HK$27,589,000 for the three months ended 31st March, 2012 (2011: HK$21,671,000) resulting from the salary increment in the second half of 2011. The entertainment expenses increased by 22.9% to approximately HK$8,147,000 for the three months ended 31st March, 2012 from approximately HK$6,630,000 for the corresponding period last year resulting from business opportunity seeking. Moreover, the depreciation cost increased by 19.9% to approximately HK$5,326,000 for the three months ended 31st March, 2012 from approximately HK$4,442,000 for the corresponding period last year resulting from the additional equipment for the business development.

Finance costs

Finance costs increased by 59.1% to approximately HK$13,200,000 for the three months ended 31st March, 2012 from approximately HK$8,298,000 for the corresponding period last year. For the period under review, the interest on bank borrowings increased by 103.3% to approximately HK$13,200,000 from HK$6,493,000 for the corresponding period last year. The increase was mainly attributable to the increase in the average bank borrowings and the decrease the amounts capitalised in construction in progress resulting from additions to construction in progress decline.

Income tax expenses

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

Pursuant to the relevant laws and regulations in the PRC, certain PRC subsidiaries of the Group are exempted from PRC Enterprise Income Tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years. 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 PRC Enterprise Income Tax for two years, followed by a 50% reduction for the next three years regardless of its reported results commencing from 1st January, 2008 and the charge of PRC Enterprise Income Tax for the year has been provided for after taking these tax incentive into account.

The tax concession arrangement of the subsidiaries in Jiaozuo City and Jiyuan City was expired in 2011 and the subsidiaries would not enjoy 50% reduction of tax rate in 2012. Accordingly, the income tax expenses for the three months ended 31st March, 2012 amounted to approximately HK$18,226,000 (2011: HK$3,134,000).

Profit attributable to owners

As a result of the above, the Group recorded the profit attributable to owners of the Company of approximately HK$37,065,000 for the three months ended 31st March, 2012 as compared to a loss of approximately HK$13,974,000 for the corresponding period in 2011.

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

For the three months ended 31st March, 2012 excluding other income and gains, the Group's EBITDA increased by 595.8% to approximately HK$87,381,000 from approximately HK$12,559,000 for the corresponding period last year.

Prospects

The Group is confident in its future prospects since the steady growth of the natural gas market in China is expected to be maintained due to the favorable domestic business environment and the growing demand for piped gas consumption arising from the progressing urbanization in China. In the future, the Group will expand its downstream natural gas distribution with a focus on high margin commercial and industrial users and gas refueling stations with the goal of increasing its penetration rate in the nine cities it is operating in.

In addition to the abovementioned strategies, the Group is cautiously seeking for suitable investment opportunities. With our healthy financial position, together with the constant cash inflow generated by our downstream projects, we believe that we would be able to prudently increase our market penetration. At the same time, we will strive to enhance our operation efficiency by cooperating with promising peers in the industry. We believe that Zhongyu Gas is well-positioned to tackle the challenges imposed by the global economic environment and maximize our shareholders' returns.

DISCLOSURE OF INTERESTS

(a) Interests of Directors

As at 31st March, 2012, the interests and short positions of the Directors and the Chief Executive of the Company and their associates in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO")) (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, were as follows:

Long positions in the Shares of the Company

Name of Directors	*Notes*	**Nature of Shares and/or underlying Shares**	**Type of Interests**	**Approximate percentage of issued share capital**
Mr. Wang Wenliang	*1*	578,619,542	Beneficial and interest in corporation	22.93%
Mr. Xu Yongxuan	*2*	1,000,000	Beneficial	0.04%
Mr. Lu Zhaoheng	*3*	3,000,000	Beneficial	0.12%
Mr. Lui Siu Keung	*3*	6,000,000	Beneficial	0.24%
Mr. Li Chunyan	*2*	1,000,000	Beneficial	0.04%
Mr. Luo Yongtai	*2*	1,000,000	Beneficial	0.04%
Mr. Hung, Randy King Kuen	*2*	1,000,000	Beneficial	0.04%

Note:

1. Among these Shares and/or underlying Shares, 567,453,542 Shares are held by Hezhong Investment Holding Company Limited ("Hezhong"). Mr. Wang Wenliang is beneficially interested in 100% of the issued share capital of Hezhong. The remaining 11,166,000 Shares are directly held by Mr. Wang Wenliang.

2. These underlying Shares are to be allotted and issued upon exercise 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 Share are directly held by the director.

Save as disclosed above, as at 31st March, 2012, none of the Directors nor the chief executive of the Company had or was deemed to have any interests and short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) are required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

(b) Interests of substantial shareholders of the Company

So far as is known to the Directors, as at 31st March, 2012, the following entities (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

Long positions in the shares

Name of Shareholder	*Notes*	**Type of interests**	**Number of Shares**	**Approximate percentage of interests**
China Gas Holdings Limited	*1*	Beneficial	1,111,934,142	44.07%
Rich Legend International Limited	*1*	Beneficial	1,111,934,142	44.07%
Hezhong	*2*	Beneficial	567,453,542	22.49%

Notes:

1. According to the disclosure of interests pages as shown in the website of the Stock Exchange, China Gas Holdings Limited holds as to 100% equity interests of Rich Legend International Limited. 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 March, 2012, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or 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.

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

As at 31st March, 2012, the Directors did not have any future plans for material investment or capital assets.

COMPETING INTEREST

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

CODE OF CORPORATE GOVERNANCE PRACTICES

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

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

AUDIT COMMITTEE

The Company's Audit Committee, comprising Mr. Li Chunyan, Dr. Luo Yongtai and Mr. Hung, Randy King Kuen, as the independent non-executive Directors, has reviewed with the Company's management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited results of the Group for the three months ended 31st March, 2012.

BOARD PRACTICE AND PROCEDURES

The Company has complied with the requirement of Board Practices and Procedures as set out in Rules 5.34 of the GEM Listing Rules during the three months ended 31st March, 2012.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the shares during the three months ended 31st March, 2012.

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 and Chief Executive Officer

Hong Kong, 4th May, 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.