



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

(incorporated in the Cayman Islands with limited liability)  
(Stock Code : 3633)

**INTERIM REPORT**  
**FOR THE SIX MONTHS ENDED**  
**30TH JUNE, 2013**

## FINANCIAL HIGHLIGHTS

	For the six months ended 30th June,		
	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>	% <i>change</i>
Turnover	<b>1,444,030</b>	1,236,654	16.8%
Sales of piped gas	<b>1,129,968</b>	967,018	16.9%
Connection revenue from gas pipeline construction	<b>197,553</b>	165,735	19.2%
Operation of CNG filling stations	<b>105,044</b>	81,379	29.1%
Gross profit (Gross margin)	<b>317,070</b> <b>(22.0%)</b>	267,530 (21.6%)	18.5% (+0.4%)
Profit attributable to owners of the Company	<b>97,155</b>	80,011	21.4%
Earnings per share			
Basic	<b>HK3.85 cents</b>	HK3.24 cents	18.8%
Diluted	<b>HK3.85 cents</b>	HK3.21 cents	19.9%
EBITDA	<b>245,981</b>	208,370	18.1%
Net assets value per share	<b>HK\$0.60</b>	HK\$0.55	9.1%

The board of directors (the “Board” or the “Directors”) of Zhongyu Gas Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30th June, 2013, together with the comparative figures for the corresponding period in 2012, which are set out as below. The Group is 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 vehicles; and (iii) the exploration, exploitation and development of coalbed methane gas (“CBM”) in The People’s Republic of China (“PRC”).

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30TH JUNE, 2013 (UNAUDITED)

	Notes	Three months ended 30th June,		Six months ended 30th June,	
		2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
Turnover	3	735,110	609,360	1,444,030	1,236,654
Cost of sales		(555,227)	(467,578)	(1,126,960)	(969,124)
Gross profit		179,883	141,782	317,070	267,530
Other gains and losses		7	2,554	1,088	2,554
Other income	5	2,503	1,962	7,453	7,573
Selling and distribution costs		(13,395)	(9,030)	(26,689)	(18,443)
Administrative expenses		(49,197)	(41,173)	(96,553)	(89,436)
Finance costs	6	(12,062)	(10,767)	(22,715)	(23,967)
Profit before tax		107,739	85,328	179,654	145,811
Income tax expenses	7	(41,027)	(32,098)	(61,393)	(50,324)
Profit for the period	8	66,712	53,230	118,261	95,487
Other comprehensive income					
Exchange differences arising on translation		17,300	(11,514)	22,530	(11,668)
Total comprehensive income for the period		84,012	41,716	140,791	83,819
Profit for the period attributable to:					
Owners of the Company		56,761	42,946	97,155	80,011
Non-controlling interests		9,951	10,284	21,106	15,476
		66,712	53,230	118,261	95,487
Total comprehensive income attributable to:					
Owners of the Company		71,549	31,524	117,173	68,435
Non-controlling interests		12,463	10,192	23,618	15,384
		84,012	41,716	140,791	83,819
Earnings per share	9				
Basic		HK2.25 cents	HK1.70 cents	HK3.85 cents	HK3.24 cents
Diluted		HK2.25 cents	HK1.70 cents	HK3.85 cents	HK3.21 cents

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 30TH JUNE, 2013**

	<b>30th June, 2013 (unaudited) HK\$'000</b>	31st December, 2012 (audited) HK\$'000
<i>Notes</i>		
<b>Non-current assets</b>		
Investment properties	7,696	7,589
Property, plant and equipment	11 2,149,114	1,955,577
Goodwill	110,261	110,261
Other intangible assets	480,553	478,521
Deposits paid for acquisition of property, plant and equipment	240,311	84,080
Prepaid lease payments	227,152	178,072
Available-for-sale investment	3,790	3,738
	<u>3,218,877</u>	<u>2,817,838</u>
<b>Current assets</b>		
Inventories	100,743	74,409
Trade and bills receivables	12 130,046	155,990
Deposits, prepayments and other receivables	189,885	114,170
Prepaid lease payments	5,550	5,473
Amounts due from customers for contract work	9,724	13,562
Pledged bank deposit	18,951	18,689
Bank balances and cash	599,857	348,570
	<u>1,054,756</u>	<u>730,863</u>
<b>Current liabilities</b>		
Deferred income and advance received	343,007	242,951
Trade payables	13 218,606	248,517
Other payables and accrued charges	181,178	203,369
Amounts due to customers for contract work	9,509	10,369
Bank borrowings	526,080	660,852
Tax payables	43,907	51,647
	<u>1,322,287</u>	<u>1,417,705</u>
<b>Net current liabilities</b>	<u>(267,531)</u>	<u>(686,842)</u>
<b>Total assets less current liabilities</b>	<u>2,951,346</u>	<u>2,130,996</u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 30TH JUNE, 2013 – continued**

	<b>30th June, 2013 (unaudited) HK\$'000</b>	31st December, 2012 (audited) HK\$'000
<b>Capital and reserves</b>		
Share capital	25,240	25,240
Reserves	<u>1,482,168</u>	<u>1,364,995</u>
Equity attributable to owners of the Company	<b>1,507,408</b>	1,390,235
Non-controlling interests	<u>189,765</u>	<u>171,227</u>
Total equity	<u>1,697,173</u>	<u>1,561,462</u>
<b>Non-current liabilities</b>		
Deferred income and advance received	25,372	25,372
Bank Borrowings	1,213,785	525,181
Deferred taxation	<u>15,016</u>	<u>18,981</u>
	<u>1,254,173</u>	<u>569,534</u>
<b>Total equity and non-current liabilities</b>	<u><u>2,951,346</u></u>	<u><u>2,130,996</u></u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30TH JUNE, 2013

	Attributable to owners of the Company										
	Share Capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Share option reserve <i>HK\$'000</i>	Property revaluation reserve <i>HK\$'000</i>	Other reserve <i>HK\$'000</i>	Statutory surplus reserve <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Accumulated profit <i>HK\$'000</i>	Total <i>HK\$'000</i>	Non- controlling interests <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance at 1st January, 2012 (audited)	23,982	816,047	19,143	1,128	1,049	42,462	182,975	1,655	1,088,441	140,699	1,229,140
Profit for the period	-	-	-	-	-	-	-	80,011	80,011	15,476	95,487
Other comprehensive income for the period	-	-	-	-	-	-	(11,576)	-	(11,576)	(92)	(11,668)
Total comprehensive income for the period	-	-	-	-	-	-	(11,576)	80,011	68,435	15,384	83,819
Transfer to statutory surplus reserve	-	-	-	-	-	159	-	(159)	-	-	-
Exercise of share options	1,248	78,325	(18,421)	-	-	-	-	-	61,152	-	61,152
Dividends paid by subsidiaries to non-controlling interests	-	-	-	-	-	-	-	-	-	(430)	(430)
Balance at 30th June, 2012 (unaudited)	<u>25,230</u>	<u>894,372</u>	<u>722</u>	<u>1,128</u>	<u>1,049</u>	<u>42,621</u>	<u>171,399</u>	<u>81,507</u>	<u>1,218,028</u>	<u>155,653</u>	<u>1,373,681</u>
Balance at 1st January, 2013 (audited)	25,240	895,054	520	1,128	1,049	55,746	197,106	214,392	1,390,235	171,227	1,561,462
Profit for the period	-	-	-	-	-	-	-	97,155	97,155	21,106	118,261
Other comprehensive income for the period	-	-	-	-	-	-	20,018	-	20,018	2,512	22,530
Total comprehensive income for the period	-	-	-	-	-	-	20,018	97,155	117,173	23,618	140,791
Transfer to statutory surplus reserve	-	-	-	-	-	5,223	-	(5,223)	-	-	-
Dividends paid by subsidiaries to non-controlling interests	-	-	-	-	-	-	-	-	-	(5,080)	(5,080)
Balance at 30th June, 2013 (unaudited)	<u>25,240</u>	<u>895,054</u>	<u>520</u>	<u>1,128</u>	<u>1,049</u>	<u>60,969</u>	<u>217,124</u>	<u>306,324</u>	<u>1,507,408</u>	<u>189,765</u>	<u>1,697,173</u>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE SIX MONTHS ENDED 30TH JUNE, 2013**

	<b>Six months ended 30th June,</b>	
	<b>2013</b>	2012
	<b>(unaudited)</b>	(unaudited)
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Net cash from operating activities</b>	<b>121,084</b>	63,337
<b>Net cash used in investing activities</b>	<b>(384,031)</b>	(215,514)
<b>Net cash from financing activities</b>	<b>514,234</b>	232,574
	<hr/>	<hr/>
<b>Net increase in cash and cash equivalents</b>	<b>251,287</b>	80,397
<b>Cash and cash equivalents at 1st January</b>	<b>348,570</b>	351,275
	<hr/>	<hr/>
<b>Cash and cash equivalents at 30th June, represented by bank balances and cash</b>	<b>599,857</b>	431,672
	<hr/> <hr/>	<hr/> <hr/>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION

The condensed consolidated financial statements for the six months ended 30th June, 2013 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31st December, 2012, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

### 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, 2013. HKFRSs comprise HKFRS and HKAS and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current period and prior years.

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

### 3. TURNOVER

Turnover represents the net amounts received and receivable for goods sold and services rendered by the Group to outside customers, net of discounts and related taxes. An analysis of the Group's turnover for the six months ended 30th June, 2013 is as follows:

	Six months ended 30th June,	
	2013	2012
	HK\$'000	HK\$'000
Sales of piped gas	1,129,968	967,018
Connection revenue from gas pipeline construction	197,553	165,735
Operation of CNG filling station	105,044	81,379
Sales of liquefied petroleum gas	8,109	20,873
Sales of stoves and related equipment	3,356	1,649
	<u>1,444,030</u>	<u>1,236,654</u>



#### 4. BUSINESS AND GEOGRAPHICAL SEGMENTS

##### Business segments

The Company'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 the investment, operation and management of city gas pipeline infrastructure, distribution of piped gas to residential, industrial and commercial users; the construction and operation of CNG filling stations for vehicles and the exploration, exploitation and development of CBM in the PRC. Nearly all identifiable assets of the Group are located in the PRC. Information reported to the Company's executive directors for the purpose of resources allocation and assessment of performance is focused on the type of products or services. Each type of product or service is managed by a unique business unit within the Group whose performance is assessed independently. No operating segments identified by the chief operating decision makers have been aggregated in arriving at the reportable segments of the Group. 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 CBM
- (f) sales of stoves and related equipment

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

##### For the six months ended 30th June, 2013

	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	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue	<u>1,129,968</u>	<u>197,553</u>	<u>105,044</u>	<u>8,109</u>	-	<u>3,356</u>	<u>1,444,030</u>
Segment profit (loss)	<u>90,768</u>	<u>109,427</u>	<u>20,847</u>	<u>1,458</u>	<u>(3,923)</u>	<u>1,171</u>	219,748
Other income							7,453
Central corporate expenses							(24,832)
Finance costs							<u>(22,715)</u>
Profit before tax							179,654
Income tax expenses							<u>(61,393)</u>
Profit for the period							<u>118,261</u>

## For the six months ended 30th June, 2012

	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	Total HK\$'000
Segment revenue	<u>967,018</u>	<u>165,735</u>	<u>81,379</u>	<u>20,873</u>	<u>-</u>	<u>1,649</u>	<u>1,236,654</u>
Segment profit (loss)	<u>73,644</u>	<u>95,668</u>	<u>16,537</u>	<u>234</u>	<u>(4,677)</u>	<u>(18)</u>	181,388
Other income and other gains and losses							10,127
Central corporate expenses							(21,737)
Finance costs							<u>(23,967)</u>
Profit before tax							145,811
Income tax expenses							<u>(50,324)</u>
Profit for the period							<u>95,487</u>

## 5. OTHER INCOME

	Six months ended 30th June,	
	2013 HK\$'000	2012 HK\$'000
Bank interest income	933	1,405
Government subsidies ( <i>Note</i> )	3,758	4,912
Sundry income	<u>2,762</u>	<u>1,256</u>
	<u>7,453</u>	<u>7,573</u>

*Note:* During the six months ended 30th June, 2013, the Group has received subsidies of HK\$3,758,000 (2012: HK\$4,912,000) from the relevant PRC governments for promoting the use of natural gas. There are no conditions attached to the subsidies granted to the Group.

## 6. FINANCE COSTS

	Six months ended 30th June,	
	2013 HK\$'000	2012 HK\$'000
Interest on bank borrowings	46,205	33,784
Less: Amounts capitalised in construction in progress	<u>(23,490)</u>	<u>(9,817)</u>
	<u>22,715</u>	<u>23,967</u>

## 7. INCOME TAX EXPENSES

	Six months ended 30th June,	
	2013	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
PRC Enterprise Income Tax	61,393	50,324
PRC withholding tax	3,966	1,222
Deferred taxation	(3,966)	(1,222)
	<u>61,393</u>	<u>50,324</u>

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 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 relevant periods.

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.

## 8. PROFIT FOR THE PERIOD

	Six months ended 30th June,	
	2013	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period has been arrived at after charging:		
Depreciation of property, plant and equipment	36,836	32,483
Amortisation of other intangible assets	2,612	2,597
Amortisation of prepaid lease payment	4,164	3,512
	<u>43,612</u>	<u>38,592</u>

## 9. EARNINGS PER SHARE

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

	Three months ended 30th June,		Six months ended 30th June,	
	2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
<u>Earnings</u>				
Earnings for the purposes of basic and diluted earnings per share, being profit for the period attributable to owners of the Company	<u>56,761</u>	<u>42,946</u>	<u>97,155</u>	<u>80,011</u>
	As at 30th June,		As at 30th June,	
	2013 '000	2012 '000	2013 '000	2012 '000
<u>Number of shares</u>				
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,524,008	2,523,008	2,524,008	2,472,265
Effect of dilutive potential ordinary shares:				
Share options issued by the Company (Note)	<u>2,348</u>	<u>1,850</u>	<u>2,299</u>	<u>19,488</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>2,526,356</u>	<u>2,524,858</u>	<u>2,526,307</u>	<u>2,491,753</u>

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

## 10. DIVIDENDS

No dividend was paid or proposed during the six months ended 30th June, 2013, nor has any dividend been proposed since the end of the reporting period (2012: nil).

## 11. PROPERTY, PLANT AND EQUIPMENT

During the period under review, the addition to property, plant and equipment was approximately HK\$251,745,000 (2012: HK\$140,069,000).

## 12. TRADE AND BILLS RECEIVABLES

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

	<b>30th June, 2013 HK\$'000</b>	31st December, 2012 HK\$'000
0 - 30 days	<b>108,089</b>	136,360
31 - 90 days	<b>1,069</b>	186
91 - 180 days	<b>1,332</b>	1
181 - 360 days	<b>70</b>	547
	<hr/>	<hr/>
Trade receivables	<b>110,560</b>	137,094
	<hr/>	<hr/>
0 - 90 days	<b>13,145</b>	18,585
91 - 180 days	<b>6,341</b>	311
	<hr/>	<hr/>
Bills receivables	<b>19,486</b>	18,896
	<hr/>	<hr/>
Trade and bills receivables	<b>130,046</b>	155,990
	<hr/> <hr/>	<hr/> <hr/>

## 13. TRADE PAYABLES

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

	<b>30th June, 2013 HK\$'000</b>	31st December, 2012 HK\$'000
0 - 30 days	<b>169,731</b>	194,328
31 - 90 days	<b>16,789</b>	31,313
91 - 180 days	<b>11,250</b>	4,602
Over 180 days	<b>20,836</b>	18,274
	<hr/>	<hr/>
Trade payables	<b>218,606</b>	248,517
	<hr/> <hr/>	<hr/> <hr/>

## 14. ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENTS

Save as disclosed in the Section Headed "Business Review" in this report, the Group had no acquisitions, disposals nor significant investments for the six months ended 30th June, 2013.

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

### **Liquidity**

As at 30th June, 2013, the Group had consolidated current assets of approximately HK\$1,054,746,000 (2012: HK\$730,863,000) and its current ratio was approximately 0.8 (2012: 0.5). As at 30th June, 2013, the Group has total net debts of approximately HK\$1,140,008,000 (2012: HK\$837,463,000), measured as consolidated bank borrowings of approximately HK\$1,739,865,000 (2012: HK\$1,186,033,000) minus consolidated bank balances and cash of approximately HK\$599,857,000 (2012: HK\$348,570,000). As at 30th June, 2013, the Group had net gearing ratio of approximately 67.2% (2012: 53.6%), measured as total net debts to consolidated total equity of approximately HK\$1,697,173,000 (2012: HK\$1,561,462,000). The consolidated trade and bills receivables amounted to approximately HK\$130,046,000 (2012: HK\$155,990,000) while consolidated trade payables amounted to approximately HK\$218,606,000 (2012: HK\$248,517,000).

### **Financial resources**

On 26th April, 2013, the Company entered into a loan agreement in Hong Kong with a bank based in Taiwan (the “Bank”), pursuant to which the Bank made available to the Company a loan facility of up to US\$15,000,000. The Company has made the full drawing of US\$15,000,000 as at 30th June, 2013.

On 5th June, 2013, the Company entered into a syndicated loan agreement with seven banks based in Taiwan and one bank based in China (the “Lenders”) in Hong Kong, pursuant to which the Lenders made available to the Company a loan facility of up to US\$72,000,000. The Company has made a partial drawing of US\$67,000,000 as at 30th June, 2013. The subsequent utilisation is expected to be made within six months from the loan agreement date.

During the six months ended 30th June, 2013, the Group generally financed its operations with internally generated resources and bank borrowings. As at 30th June, 2013, all of the bank borrowings were secured or unsecured and on normal commercial basis.

### **Working capital**

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

## **EXPOSURE TO EXCHANGE RATE FLUCTUATIONS**

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

## EMPLOYEE INFORMATION

As at 30th June, 2013, the Group had a total of 2,310 employees (2012: 2,188) in Hong Kong and the PRC, and the total employee benefit expenses (other than directors) for the period under review was approximately HK\$89,775,000 (2012: HK\$72,686,000). More than 99.8% of the Group's employees are located in the PRC. The Group's remuneration and bonus policies are basically determined by the performance of individual employees.

The emoluments of the Directors are decided by the Remuneration Committee of the Company, having regard to the Company's operating results, their duties and responsibilities within the Group and comparable market statistics.

## SHARE OPTION SCHEME

On 24th October, 2003, the Company adopted a share option scheme ("Old Share Option Scheme") pursuant to which the Directors were authorised to grant share option to its employees (including executive directors and employees of any of its subsidiaries) or any person who has contributed or will contribute to the Group. The Old Share Option Scheme was terminated and replaced by a new share option scheme ("New Share Options Scheme") on 3 May 2013 by an ordinary resolution passed by the shareholders of the Company at the annual general meeting held on 3 May 2013.

Under the New Share Option Scheme, the Directors may offer to any employees or any person who has contributions to the Group share options to subscribe for shares in the Company in accordance with the terms of the Share Option Scheme. The exercise price is determined by the Directors, and shall not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

The following table discloses movements of the Company's share options granted under the Old Share Option Scheme (no options have yet been granted under the New Share Option Scheme) and movements in such holdings during the period under review:

Name and status of participants	Date of grant	Exercise period	Exercise price HK\$	Number of share options				Outstanding at 30th June, 2013
				As at 1st January, 2013	Granted during the period under review	Exercised during the period under review	Lapsed/Cancelled during the period under review	
Directors, chief executives and substantial shareholders and their respective connected persons								
Xu Yongxuan	11th April, 2011	11th April, 2011 to 10th April, 2021	0.49	1,000,000	-	-	-	1,000,000
Li Chunyan	11th April, 2011	11th April, 2011 to 10th April, 2021	0.49	1,000,000	-	-	-	1,000,000
Luo Yongtai	11th April, 2011	11th April, 2011 to 10th April, 2021	0.49	1,000,000	-	-	-	1,000,000
				<u>3,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,000,000</u>
Exercisable at the end of the period								<u>3,000,000</u>
Weighted average exercise price				<u>HK\$0.49</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>HK\$0.49</u>

The closing price of the Shares on 8th April, 2011 was HK\$0.48, which was the date immediately before the date on which the share options were granted on 11th April, 2011. No share options were exercised during the period under review.

Save as disclosed above, at no time during the period under review was the Company, its subsidiaries, its ultimate holding company or any subsidiaries of its ultimate holding company a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

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

At 30th June, 2013, the Group has pledged certain buildings and pipelines in the PRC having carrying value of approximately HK\$29,882,000 (2012: HK\$29,469,000) and HK\$391,067,000 (2012: 385,659,000) respectively, to secure certain bank borrowings granted to the Group.

At 30th June, 2013, the Group has pledged certain prepaid lease payments in the PRC having carrying value of HK\$14,963,000 (2012: HK\$14,756,000) to secure certain bank borrowings granted to the Group.

As at 30th June, 2013, pursuant to a letter of undertaking, the Group is required to maintain deposits of HK\$18,951,000 (2012: HK\$18,689,000) with a bank as a condition precedent to a bank borrowing. The pledged bank deposits carry interest at average market rate of 3.00% (2012: 3.00%) per annum.

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

As at 30th June, 2013, the Board did not have any specific plans for material investment or capital assets.

#### **Capital Commitments**

As at 30th June, 2013, 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\$51,265,000 (2012: HK\$64,998,000).

#### **Contingent Liabilities**

As at 30th June, 2013, the Group did not have any contingent liabilities.

### **BUSINESS REVIEW**

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



## **Downstream Piped Gas Distribution**

### *Gas Sources from the West-East Gas Pipeline*

The main pipeline of the Second West-East Gas Pipeline has completed and commenced gas supply in July 2011. As a result, piped gas supply for the Group's projects located in various cities has increased significantly, enabling the Group to connect with more end users, increasing the Group's turnover and in turn, enhancing its earning base.

The connection and supply of gas to Yanshi City and Xinmi City from the sub-pipeline of the Second West-East Gas Pipeline completed and commenced supply in October 2012 and March 2013 respectively. As a result, the sales of piped gas to Yanshi City and Xinmi City has greatly increased. The gas in most of the gas projects of the Group except the gas projects in Yongcheng City, Nanjing City and Shaowu City, are connected and supplied through the First and Second West-East Gas Pipeline.

### *Donghai County Project*

On 4th June, 2013, Linyi Zhongyu Energy Company Limited ("Linyi Zhongyu Energy"), a non-wholly-owned subsidiary of the Company, established a company, namely 東海縣中裕燃氣有限公司 (Donghai County Zhongyu Gas Company Limited) ("Donghai County Zhongyu") with two individual parties in Donghai County, Lianyungang City, Jiangsu Province, the PRC. To the best of Directors' knowledge, information and belief having made all reasonable enquiries, such two individual parties are third parties independent of the Company and its connected persons ("Independent Third Parties").

Donghai County Zhongyu is owned as to 67% by Linyi Zhongyu Energy and the remaining 33% by the aforesaid Independent Third Parties. The registered capital of Donghai County Zhongyu is RMB10,000,000 and is contributed as to RMB6,700,000 by Linyi Zhongyu Energy in cash and the remaining RMB3,300,000 by the aforesaid Independent Third Parties in cash. Upon establishment, Donghai County Zhongyu becomes an indirect non-wholly-owned subsidiary of the Company. Donghai County Zhongyu is engaged principally in the construction and operation of piped natural gas projects on exclusive basis for 30 years in Shilianghe Town of Donghai County, Lianyungang City, Jiangsu Province, the PRC since 11th April, 2013. Shilianghe Town is an industrial zone.

The Directors are of the view that the transaction will enhance the earning base and enlarge the geographical coverage of the Group. As all of the applicable percentage ratios in respect of the transaction were less than 5%, the transaction did not constitute a discloseable transaction of the Company under the Listing Rules and no announcement was made in this respect.

### *Adjustment for the non-residential natural gas price of gate stations*

The National Development and Reform Commission of the PRC has adjusted the non-residential natural gas price of gate stations since 10th July, 2013. The national average gate station price has increased by 15% to RMB1.95 per cubic meter from RMB1.69 per cubic meter. The residential natural gas price of gate stations has not been adjusted.

### *Disposal of part of a liquefied petroleum gas business*

During the period under review, the Group disposed part of a liquefied petroleum gas business in Sanmenxia City and Jiaozuo City in order to focus the Group's resources in other businesses. As a result, the sales of liquefied petroleum gas has decreased greatly by 61.2%. As all of the applicable percentage ratios in respect of the transaction were less than 5%, the transaction did not constitute a discloseable transaction of the Company under the Listing Rules and no announcement was made in this respect.

### *Major Operational Data*

The downstream natural gas distribution business of the Group comprises primarily 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:

	Six months ended		Increase/ (Decrease)
	2013	2012	
Number of Exclusive Gas Projects <i>(Note a)</i>	<b>18</b>	15	3
– Henan Province	<b>12</b>	12	–
– Shandong Province	<b>3</b>	3	–
– Jiangsu Province	<b>2</b>	–	2
– Fujian Province	<b>1</b>	–	1
Connectable urban population ('000) <i>(Note b)</i>	<b>4,528</b>	4,308	5.1%
Connectable residential households ('000)	<b>1,294</b>	1,231	5.1%
New piped gas connections made during the period			
– Residential households	<b>50,333</b>	41,017	22.7%
– Industrial customers	<b>34</b>	29	17.2%
– Commercial customers	<b>164</b>	175	(6.3%)
Accumulated number of connected piped gas customers			
– Residential households	<b>720,217</b>	573,254	25.6%
– Industrial customers	<b>456</b>	374	21.9%
– Commercial customers	<b>2,398</b>	1,959	22.4%
Penetration rates of residential pipeline connection <i>(Note c)</i>	<b>55.7%</b>	46.6%	9.1%

	<b>Six months ended</b>		Increase/ (Decrease)
	<b>30th June, (unaudited)</b>		
	<b>2013</b>	2012	
Unit of piped natural gas sold ('000 m <sup>3</sup> )	<b>397,407</b>	335,695	18.4%
– Residential households	<b>60,558</b>	40,191	50.7%
– Industrial customers	<b>295,655</b>	258,672	14.3%
– Commercial customers	<b>32,869</b>	27,734	18.5%
– Wholesale customers	<b>8,325</b>	9,098	(8.5%)
The piped natural gas usage per day (m <sup>3</sup> )			
– Residential households	<b>335</b>	221	51.6%
– Industrial customers	<b>1,633</b>	1,421	14.9%
– Commercial customers	<b>182</b>	152	19.7%
– Wholesale customers	<b>46</b>	50	(8.0%)
Unit of piped mixed gas sold ('000 m <sup>3</sup> )	<b>19,416</b>	22,960	(15.4%)
Unit of piped coal gas sold ('000 m <sup>3</sup> )	<b>18,452</b>	36,645	(49.6%)
Number of CNG Filling Stations			
– Accumulated	<b>14</b>	9	5
– Under construction	<b>15</b>	9	6
Unit of natural gas sold to vehicles ('000 m <sup>3</sup> )	<b>24,801</b>	19,222	29.0%
The natural gas usage per station ('000 m <sup>3</sup> )	<b>1,908</b>	1,011	88.7%
Unit of bottle LPG sold (ton)	<b>1,064</b>	2,693	(60.5%)
Total length of existing intermediate and main pipelines (km)	<b>2,827</b>	2,216	27.6%

*Note a:* The number of Exclusive Gas Projects represents the contracts which grant the Group an exclusive right for sales and distribution of piped gas by relevant local authorities.

*Note b:* The information is quoted from the website of PRC government. The increase in connectable urban population is due to the increase in urban area and jurisdictional region of the cities.

*Note c:* The penetration rates of residential pipeline connection represented by the percentage of accumulated number of the Group's connected residential households to the estimated aggregate number of connectable residential households in operation regions.

### **Upstream CBM Exploration**

With the aim of ensuring sufficient and cost-effective gas supply to the Group's downstream gas projects located in the PRC and enhancing the Group's profitability, the Group tapped into the upper stream CBM supply market in the PRC in 2007.

As at 30th June, 2013, 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. The Group will continue to update investors on the latest exploration progress.

## FINANCIAL REVIEW

### Overall

The Group's results for the six months ended 30th June, 2013 was mainly driven by organic growth. The Group's profit attributable to owners of the Company reached HK\$97,155,000 (2012: HK\$80,011,000).

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

	Six months ended 30th June,				
	2013 HK\$'000	% of total	2012 HK\$'000	% of total	Increase/ (Decrease)
Turnover					
- Sales of piped gas	1,129,968	78.2%	967,018	78.2%	16.9%
- Connection revenue from gas pipeline construction	197,553	13.7%	165,735	13.4%	19.2%
- Operation of CNG filling station	105,044	7.3%	81,379	6.6%	29.1%
- Sales of liquefied petroleum gas	8,109	0.6%	20,873	1.7%	(61.2%)
- Sales of stoves and related equipment	3,356	0.2%	1,649	0.1%	103.5%
	<u>1,444,030</u>	<u>100%</u>	<u>1,236,654</u>	<u>100%</u>	<u>16.8%</u>

### Turnover

The turnover for the period under review increased by 16.8% to approximately HK\$1,444,030,000 from approximately HK\$1,236,654,000 for the corresponding period last year. The significant growth in turnover was mainly attributable to the robust growth in sales of piped gas to industrial and residential customers as well as connection revenue from gas pipeline construction of residential customers.

#### *Sales of Piped Gas*

Sales of piped gas for the six months ended 30th June, 2013 amounted to approximately HK\$1,129,968,000, representing an increase of approximately 16.9% over the corresponding period last year.

Nearly 97% 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 18.4% to 397,407,000 m<sup>3</sup> from 335,695,000 m<sup>3</sup>. The connection and supply of gas to Yanshi City from the sub-pipeline of Second West-East Gas Pipeline was completed and commenced supply in October 2012. As a result, piped gas supply for the Group's project located in the Yanshi City has increased greatly, which facilitates the Group to connect more industrial users in order to increase the Group's turnover. Moreover, the increase in gas consumption of industrial customers in Jiaozuo City, Linyi City and Luohe City drove the gas sales increment.

During the period under review, the piped natural gas usage per day provided by the Group (i) to its residential household was approximately 335 m<sup>3</sup> (2012: 221 m<sup>3</sup>); (ii) to its industrial customer was approximately 1,633 m<sup>3</sup> (2012: 1,421 m<sup>3</sup>); (iii) to its commercial customer was approximately 182 m<sup>3</sup> (2012: 152 m<sup>3</sup>).

Sales of piped gas for the period under review and the corresponding period last year contributed approximately 78.2% of the total turnover of the Group. 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 six months ended 30th June, 2013 amounted to approximately HK\$197,553,000, representing an increase of approximately 19.2% 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 50,333 from 41,017.

For the period under review, the average connection fee for residential households was RMB2,710 which was higher compared to the corresponding period last year. The connection fee charged to industrial/commercial customers by the Group was significantly higher than that charged to residential households and was determined on a case-by-case basis.

During the period under review, the connection revenue from gas pipeline construction contributed approximately 13.7% of the total turnover of the Group. As compared with the percentage of approximately 13.4% 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 30th June, 2013, the Group's penetration rates of residential pipeline connection reached 55.7% (2012: 46.6%) (represented by the percentage of accumulated number of the Group's residential households to the estimated aggregate number of connectable residential households in operation regions).

#### *Operation of CNG Filling Station*

Revenue from operation of CNG filling station for the six months ended 30th June, 2013 amounted to approximately HK\$105,044,000, representing an increase of approximately 29.1% over the corresponding period last year. The increase was mainly due to an increase the number of CNG filling stations from nine to fourteen stations. The natural gas usage per station increased by 88.7% to approximately 1,908,000 m<sup>3</sup> for the six months ended 30th June, 2013 from approximately 1,011,000 m<sup>3</sup> for the corresponding period last year.

During the period under review, the turnover derived from operation of CNG filling stations accounted for approximately 7.3% of the total turnover of the Group. In addition, the Group commenced building an additional fifteenth CNG refilling stations in the PRC. It is targeted that twelve new CNG refilling stations will commence operation by the end of 2013. The remaining new CNG refilling stations are expected to commence operations in the first half of 2014.

## **Gross profit margin**

The overall gross profit margin for the six months ended 30th June, 2013 was approximately 22.0% (2012: 21.6%). The slight increase in overall gross profit margin resulted from the slight increase in proportion of turnover derived from connection revenue from gas pipeline construction, which in general has a relatively high profit margin. The Group's turnover attributable to connection revenue from gas pipeline construction increased to approximately 13.7% for the period (2012: 13.4%).

The gross profit margin for the sales of piped gas was 16.0% (2012: 15.9%); for the gas pipeline construction was 62.9% (2012: 65.1%); and for the operation of CNG filling stations was 26.3% (2012: 27.7%).

## **Other income and other gains and losses**

Other income and other gains and losses decreased to approximately HK\$8,541,000 for the six months ended 30th June, 2013 compared to approximately HK\$10,127,000 for the corresponding period last year. The decrease was mainly due to the gain on disposal of part of a liquefied petroleum gas business carried out by a subsidiary of the Company for the six months ended 30th June, 2013 amounting to approximately HK\$1,088,000, which was offset by (i) the decrease net gain on disposal/written off of property, plant and equipment to zero for the six months ended 30th June, 2013 compared to approximately HK\$2,554,000 for the corresponding period last year; (ii) the decrease in government subsidies to approximately HK\$3,758,000 (2012: HK\$4,912,000). Such government subsidies were for promoting the use of natural gas. There were no conditions attached to subsidies granted to the Group.

## **Operating expenses**

Operating expenses, including selling and distribution costs and administrative expenses increased by 14.2% to approximately HK\$123,242,000 for the six months ended 30th June, 2013 compared to approximately HK\$107,879,000 for the corresponding period last year. The increase was mainly attributable to the increase in staff salary cost to approximately HK\$64,884,000 for the six months ended 30th June, 2013 (2012: HK\$51,316,000) as a result of the salary increment in the third quarter of 2012. The increase was offset by the decrease in out-of-pocket expenses by 39.7% to approximately HK\$9,421,000 for the six months ended 30th June, 2013 compared to approximately HK\$15,624,000 for the corresponding period last year resulting from a cost control policy.

## **Finance costs**

Finance costs decreased by 5.2% to approximately HK\$22,715,000 for the six months ended 30th June, 2013 compared to approximately HK\$23,967,000 for the corresponding period last year. The decrease was mainly attributable to the increase in the amounts capitalised in construction in progress.

## **Income tax expenses**

Under 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 the relevant periods.

The income tax expenses for the six months ended 30th June, 2013 amounted to approximately HK\$61,393,000 (2012: HK\$50,324,000).

#### **Profit attributable to owners**

As a result of the above, profit attributable to owners of the Company was approximately HK\$97,155,000 for the six months ended 30th June, 2013 representing an increase of 21.4% as compared with that of approximately HK\$80,011,000 for the corresponding period last year.

#### **Earnings per share**

The basic and diluted earnings per share attributable to the owners of the Company was HK3.85 cents for the six months ended 30th June, 2013, as compared with that of HK3.24 cents (basic earnings per share) and HK3.21 cents (diluted earnings per share) respectively for the corresponding period last year.

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

For the six months ended 30th June, 2013, the Group's EBITDA increased by 18.1% to approximately HK\$245,981,000 from approximately HK\$208,370,000 for the corresponding period last year.

#### **Net assets value per share**

The net assets value per share attributable to the owners of the Company was HK\$0.60 for the six months ended 30th June, 2013, representing an increase of 9.1% as compared with that of HK\$0.55 for the corresponding period last year.

The net assets value represents total assets minus total liabilities.

#### **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 the Group is well-positioned to tackle the challenges imposed by the global economic environment and maximize our shareholders' returns.

## DISCLOSURE OF INTERESTS

### (a) Interests of Directors

As at 30th June, 2013, the interests and short positions of the Directors and the Joint Managing Directors 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 Futures 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 the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) contained in the Listing Rules were as follows:

#### *Long positions in the Shares of the Company*

Name of Directors	Note	Nature of Shares and/or underlying Shares	Type of Interests	Approximate percentage of issued share capital (Note 4)
Mr. Wang Wenliang	1	579,259,542	Beneficial and interest in controlled corporation	22.95%
Mr. Xu Yongxuan	2	1,000,000	Beneficial	0.04%
Mr. Lui Siu Keung	3	6,000,000	Beneficial	0.24%
Mr. Lu Zhaoheng	3	3,000,000	Beneficial	0.12%
Mr. Li Chunyan	2	1,000,000	Beneficial	0.04%
Mr. Luo Yongtai	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 11,806,000 Shares are directly held by Mr. Wang Wenliang.
2. These underlying Shares are to be allotted and issued upon exercise of the rights attaching to the share options 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 the Director.
4. As at 30th June, 2013, the total issued share capital of the Company was 2,524,007,684.



Save as disclosed above, as at 30th June, 2013, none of the Directors nor the Joint Managing Directors 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 the Model Code, to be notified to the Company and the Stock Exchange.

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

So far as is known to the Directors, as at 30th June, 2013, 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 which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

*Long positions in the Shares of the Company*

Name of Shareholder	Notes	Type of interests	Number of Shares	Approximate percentage of interests (Note 3)
China Gas Holdings Limited	1	Interest of controlled corporation	1,111,934,142	44.05%
Rich Legend International Limited	1	Beneficial	1,111,934,142	44.05%
Hezhong	2	Beneficial	567,453,542	22.48%

*Notes:*

1. According to the disclosure of interests pages as shown in the website of the Stock Exchange as at 31st March, 2013, China Gas Holdings Limited controlled 100% of Rich Legend International Limited ("Rich Legend") and is therefore deemed to be interested in the 1,111,934,142 Shares held by Rich Legend. This does not include an interest in 568,619,542 Shares which, based on such disclosure are not held beneficially by Rich Legend but are held by Rich Legend in a capacity described as "Other" in the relevant disclosure of interests pages. 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.
3. As at 30th June, 2013, the total issued share capital of the Company was 2,524,007,684.

Save as disclosed above, as at 30th June, 2013, 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 which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

## **COMPETING INTEREST**

China Gas Holdings Limited is a substantial shareholder of the Company. For the reasons stated in the Transfer of Listing announcement of the Company dated 29 June 2012, the Board is of the view that in so far as the existing pipeline gas projects of the Group in the PRC are concerned, the Group and China Gas Holdings Limited are not competing with each other due to the nature of the natural gas industry in the PRC. However, there may be competition between the Group and China Gas Holdings Limited in relation to the construction and operation of gas stations in the PRC in the future depending on the direction and expansion of the Group's operations and business in the PRC.

Save as stated in the Transfer of Listing announcement of the Company dated 29th June, 2012 and as mentioned above, 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 Listing Rules) had any interest in a business which competed with or might compete with the business of the Group.

## **CORPORATE GOVERNANCE CODE**

The Company has adopted the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Listing Rules. During the period under review, the Company has complied with all the applicable code provisions under the CG Code, except for the following deviation:

CG Code Provision A.2.1 provides that the roles of Chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and chief executive should be clearly established and set out in writing.

The Chairman of the Company is Mr. Wang Wenliang and the Joint Managing Directors (who have similar roles and responsibilities as those of a chief executive) consist of Mr. Wang Wenliang and Mr. Lui Siu Keung. As a result, the dual role that Mr. Wang Wenliang has as the Chairman and a Joint Managing Director may constitute a deviation from CG Code Provision A.2.1.

Mr. Wang Wenliang has been the Chairman and executive director of the Company since its listing on the Stock Exchange. The Board is of the view that it is in the best interests of the Group to adopt a single leadership structure which will avoid the decision-making process from being unnecessarily hindered and also ensures that the Group can respond to business opportunities efficiently and promptly.

Mr. Wang Wenliang is one of the largest shareholder of the Company who is deemed to hold approximately 22.95% of the total issued shares of the Company as at the date of this report. He is in charge of the Group's overall strategic decisions and has played a vital role in developing the business of the Group.

Major decisions made by Mr. Wang Wenliang as the Chairman and a Joint Managing Director are reviewed by the Board and the Board believes that Mr. Lui Siu Keung's appointment as the other Joint Managing Director also helps to put in place adequate safeguards to ensure a balance of power and authority, so that no one individual represents a considerable concentration of power.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted and complied with the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by Directors. Having made specific enquiry of all Directors, during the period under review, the Company confirms that the Directors complied with the required standard against which the Company.

## **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 financial reporting matters including a review of the unaudited consolidated results of the Group for the six months ended 30th June, 2013. There were no disagreements within the Audit Committee in relation to the accounting treatment adopted by the Company.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the shares during the six months ended 30th June, 2013.

## **BOARD OF DIRECTORS**

As at the date of this report, the Board comprises Mr. Wang Wenliang (*Chairman and Joint Managing Director*), Mr. Lui Siu Keung (*Joint Managing Director and Chief Financial Officer*) and Mr. Lu Zhaoheng, 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  
**ZHONGYU GAS HOLDINGS LIMITED**  
**Lui Siu Keung**  
*Joint Managing Director*

Hong Kong, 15th August, 2013