



**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, 2014**

## FINANCIAL HIGHLIGHTS

	For the six months ended 30th June,		
	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>	% <i>change</i>
Turnover	<b>1,572,648</b>	1,444,030	8.9%
Gross profit (Gross margin)	<b>362,114</b> <b>(23.0%)</b>	317,070 (22.0%)	14.2% (+1.0%)
Profit attributable to owners of the Company (Net profit margin)	<b>127,460</b> <b>(8.1%)</b>	97,155 (6.7%)	31.2% (+1.4%)
Earnings per share			
Basic	<b>HK5.05 cents</b>	HK3.85 cents	31.2%
Diluted	<b>HK5.05 cents</b>	HK3.85 cents	31.2%
EBITDA	<b>304,211</b>	245,981	23.7%
Net assets value per share	<b>HK70 cents</b>	HK67 cents	4.5%

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, 2014, together with the comparative figures for the corresponding period in 2013, 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 or liquefied natural gas (“CNG/LNG”) 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 PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30TH JUNE, 2014 (UNAUDITED)**

		For the six months ended 30th June,	
		2014	2013
Notes		HK\$'000	HK\$'000
<b>Turnover</b>	3	<b>1,572,648</b>	1,444,030
Cost of sales		<b>(1,210,534)</b>	(1,126,960)
<b>Gross profit</b>		<b>362,114</b>	317,070
Other gains and losses		-	1,088
Other income	5	<b>3,302</b>	7,453
Selling and distribution costs		<b>(24,212)</b>	(26,689)
Administrative expenses		<b>(93,296)</b>	(96,553)
Finance costs	6	<b>(26,868)</b>	(22,715)
<b>Profit before tax</b>		<b>221,040</b>	179,654
Income tax expenses	7	<b>(67,882)</b>	(61,393)
<b>Profit for the period</b>	8	<b>153,158</b>	118,261
<b>Profit for the period attributable to:</b>			
Owners of the Company		<b>127,460</b>	97,155
Non-controlling interests		<b>25,698</b>	21,106
		<b>153,158</b>	118,261
<b>Earnings per share</b>	9		
Basic		<b>HK5.05 cents</b>	HK3.85 cents
Diluted		<b>HK5.05 cents</b>	HK3.85 cents

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30TH JUNE, 2014 (UNAUDITED) – continued**

	For the six months ended 30th June,	
<i>Notes</i>	2014 <b>HK\$'000</b>	2013 <i>HK\$'000</i>
<b>Profit for the period</b>	<b>153,158</b>	118,261
<b>Other comprehensive income</b>		
<b>Item that may be reclassified subsequently to profit or loss:</b>		
Exchange differences arising on translation	<b>(61,205)</b>	22,530
<b>Total comprehensive income for the period</b>	<b>91,953</b>	140,791
<b>Total comprehensive income attributable to:</b>		
Owners of the Company	<b>72,588</b>	117,173
Non-controlling interests	<b>19,365</b>	23,618
	<b>91,953</b>	140,791

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 30TH JUNE, 2014**

		<b>30th June, 2014</b>	31st December, 2013
		<b>(unaudited)</b>	(audited)
	<i>Notes</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Non-current assets</b>			
Investment properties		8,791	9,016
Property, plant and equipment	11	2,678,439	2,559,305
Goodwill		121,784	122,001
Other intangible assets		767,221	695,003
Deposit paid for acquisition of a subsidiary		–	10,367
Deposits paid for acquisition of property, plant and equipment and prepaid lease payments		258,259	133,446
Prepaid lease payments		290,630	283,994
Available-for-sale investment		3,744	3,840
		<b>4,128,868</b>	<b>3,816,972</b>
<b>Current assets</b>			
Inventories		105,258	81,468
Trade and bills receivables	12	176,366	178,542
Deposits, prepayments and other receivables		316,138	174,769
Prepaid lease payments		8,015	8,220
Pledged bank deposit		7,754	9,397
Bank balances and cash		409,270	429,546
		<b>1,022,801</b>	<b>881,942</b>
<b>Current liabilities</b>			
Deferred income and advance received		271,766	314,662
Trade payables	13	231,830	317,007
Other payables and accrued charges		285,230	213,551
Amounts due to customers for contract work		187,394	23,347
Bank borrowings		747,017	528,215
Tax payables		52,705	61,994
		<b>1,775,942</b>	<b>1,458,776</b>
<b>Net current liabilities</b>		<b>(753,141)</b>	<b>(576,834)</b>
<b>Total assets less current liabilities</b>		<b>3,375,727</b>	<b>3,240,138</b>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 30TH JUNE, 2014 – continued**

	<b>30th June, 2014 (unaudited) HK\$'000</b>	31st December, 2013 (audited) HK\$'000
<b>Capital and reserves</b>		
Share capital	25,250	25,240
Reserves	<u>1,729,244</u>	<u>1,667,240</u>
Equity attributable to owners of the Company	<u>1,754,494</u>	1,692,480
Non-controlling interests	<u>252,495</u>	<u>236,194</u>
Total equity	<u>2,006,989</u>	<u>1,928,674</u>
<b>Non-current liabilities</b>		
Deferred income and advance received	6,680	6,851
Bank Borrowings	1,338,563	1,280,903
Deferred taxation	<u>23,495</u>	<u>23,710</u>
	<u>1,368,738</u>	<u>1,311,464</u>
<b>Total equity and non-current liabilities</b>	<u><u>3,375,727</u></u>	<u><u>3,240,138</u></u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30TH JUNE, 2014

	Attributable to owners of the Company										
	Share Capital	Share premium	Share option reserve	Property revaluation reserve	Other reserve	Statutory surplus reserve	Translation reserve	Accumulated profit	Total	Non- controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
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>
Balance at 1st January, 2014 (audited)	25,240	895,054	520	1,128	1,049	61,905	237,103	470,481	1,692,480	236,194	1,928,674
Profit for the period	-	-	-	-	-	-	-	127,460	127,460	25,698	153,158
Other comprehensive income for the period	-	-	-	-	-	-	(54,872)	-	(54,872)	(6,333)	(61,205)
Total comprehensive income for the period	-	-	-	-	-	-	(54,872)	127,460	72,588	19,365	91,953
Transfer to statutory surplus reserve	-	-	-	-	-	137	-	(137)	-	-	-
Exercise of share options	10	682	(201)	-	-	-	-	-	491	-	491
Dividends paid by subsidiaries to non-controlling interests	-	-	-	-	-	-	-	-	-	(365)	(365)
Acquisition of additional interest of a subsidiary	-	-	-	-	(4,732)	-	-	-	(4,732)	(9,032)	(13,764)
Balance at 30th June, 2014 (unaudited)	<u>25,250</u>	<u>895,736</u>	<u>319</u>	<u>1,128</u>	<u>(3,683)</u>	<u>62,042</u>	<u>182,231</u>	<u>597,804</u>	<u>1,760,827</u>	<u>246,162</u>	<u>2,006,989</u>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE SIX MONTHS ENDED 30TH JUNE, 2014**

	For the six months ended 30th June,	
	2014 (unaudited) HK\$'000	2013 (unaudited) HK\$'000
Net cash from operating activities	188,565	121,084
Net cash used in investing activities	(441,066)	(384,031)
Net cash from financing activities	242,301	509,346
Net (decrease) increase in cash and cash equivalents	(10,200)	246,399
Cash and cash equivalents at 1st January	429,546	348,570
Effect of foreign exchange rate changes	(10,076)	4,888
Cash and cash equivalents at 30th June, represented by bank balances and cash	<u>409,270</u>	<u>599,857</u>



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1. BASIS OF PREPARATION

The condensed consolidated financial statements for the six months ended 30th June, 2014 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, 2013, 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, 2014. 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, 2014 is as follows:

	<b>For the six months ended 30th June,</b>	
	<b>2014</b>	2013
	<b>HK\$’000</b>	HK\$’000
Sales of piped gas	<b>1,163,242</b>	1,129,968
Connection revenue from gas pipeline construction	<b>202,496</b>	197,553
Operation of CNG filling station	<b>195,729</b>	105,044
Sales of liquefied petroleum gas	<b>8,654</b>	8,109
Sales of stoves and related equipment	<b>2,527</b>	3,356
	<b>1,572,648</b>	1,444,030

#### 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/LNG 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 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 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/LNG filling stations;
- (d) sales of liquefied petroleum gas;
- (e) sales of CBM; and
- (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, 2014**

	Sales of piped gas HK\$'000	Connection revenue from gas pipeline construction HK\$'000	Operation of CNG/LNG 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>1,163,242</u>	<u>202,496</u>	<u>195,729</u>	<u>8,654</u>	<u>-</u>	<u>2,527</u>	<u>1,572,648</u>
Segment profit (loss)	<u>112,066</u>	<u>113,888</u>	<u>43,850</u>	<u>4</u>	<u>(2,387)</u>	<u>1,751</u>	<u>269,172</u>
Other income							2,729
Central corporate expenses							(23,993)
Finance costs							(26,868)
Profit before tax							<u>221,040</u>

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

	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>1,129,968</u>	<u>197,553</u>	<u>105,044</u>	<u>8,109</u>	<u>-</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>	<u>219,748</u>
Other income							7,453
Central corporate expenses							(24,832)
Finance costs							(22,715)
Profit before tax							<u>179,654</u>

## 5. OTHER INCOME

	For the six months ended 30th June,	
	2014 HK\$'000	2013 HK\$'000
Bank interest income	965	933
Government subsidies <i>(Note)</i>	759	3,758
Sundry income	1,578	2,762
	<u>3,302</u>	<u>7,453</u>

*Note:* During the six months ended 30th June, 2014, the Group has received subsidies of HK\$759,000 (2013: HK\$3,758,000) 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

	For the six months ended 30th June,	
	2014 HK\$'000	2013 HK\$'000
Interest on bank borrowings	54,624	46,205
Less: Amounts capitalised in construction in progress	(27,756)	(23,490)
	<u>26,868</u>	<u>22,715</u>

## 7. INCOME TAX EXPENSES

	For the six months ended 30th June,	
	2014 HK\$'000	2013 HK\$'000
PRC Enterprise Income Tax	67,882	61,393
PRC withholding tax	-	3,966
Deferred taxation	-	(3,966)
	<u>67,882</u>	<u>61,393</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%.

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

	<b>For the six months ended 30th June,</b>	
	<b>2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
Profit for the period has been arrived at after charging:		
Depreciation of property, plant and equipment	46,212	36,836
Amortisation of other intangible assets	5,302	2,612
Amortisation of prepaid lease payment	4,789	4,164
	<u>56,303</u>	<u>43,612</u>
Total depreciation and amortisation	<u>56,303</u>	<u>43,612</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:

	<b>For the six months ended 30th June,</b>	
	<b>2014</b>	2013
	<b>HK\$'000</b>	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>127,460</u>	<u>97,155</u>

	<b>As at 30th June,</b>	
	<b>2014</b>	2013
	<b>'000</b>	'000
<u>Number of shares</u>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,524,185	2,524,008
Effect of dilutive potential ordinary shares:		
Share options issued by the Company (Note)	2,198	2,299
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>2,526,383</u>	<u>2,526,307</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, 2014, nor has any dividend been proposed since the end of the reporting period (2013: nil).

## 11. PROPERTY, PLANT AND EQUIPMENT

During the period under review, the Group acquired property, plant and equipment of approximately HK\$238,782,000 (2013: HK\$672,480,000) of which property, plant and equipment with carrying amount of HK\$20,725,000 (2013: HK\$60,053,000) were acquired through acquisition of business or subsidiaries.

## 12. TRADE AND BILLS RECEIVABLES

The Group allows an average credit period of 30 days (2013: 30 days) to its trade customers. As at 30th June, 2014, the bills receivables are matured within the range of 30 days to 90 days (2013: 30 days to 180 days). The following is an aged analysis of trade and bills receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates for sales of piped gas and the billing dates for work performed for construction contracts:

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

	<b>30th June, 2014</b>	31st December, 2013
	<b>HK\$'000</b>	<b>HK\$'000</b>
0 – 30 days	<b>134,369</b>	136,886
31 – 90 days	<b>1,060</b>	331
91 – 180 days	<b>2,404</b>	1,121
181 – 360 days	<b>13,973</b>	50
Trade receivables	<b>151,806</b>	138,388
0 – 90 days	<b>24,560</b>	30,287
91 – 180 days	–	9,867
Bills receivables	<b>24,560</b>	40,154
Trade and bills receivables	<b>176,366</b>	178,542

As at 30th June, 2014, trade receivables of HK\$17,437,000 (2013: HK\$1,502,000) were past due but not provided for as there has not been a significant change in credit quality. These customers are mainly local reputable real estate developers in Henan and Shangdong provinces and no significant counterparty default was noted in the past. Moreover, the real estate developers must settle the outstanding fee before connection. Thus, the amounts are still considered recoverable. The Group does not hold any collateral over these balances. As at 30th June, 2014, the allowance for doubtful debts of trade receivable is HK\$3,084,000 (2013: HK\$3,084,000).

### 13. TRADE PAYABLES

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

	<b>30th June, 2014</b>	31st December, 2013
	<b>HK\$'000</b>	<i>HK\$'000</i>
0 – 30 days	<b>146,520</b>	238,521
31 – 90 days	<b>19,617</b>	33,499
91 – 180 days	<b>22,431</b>	7,399
Over 180 days	<b>43,262</b>	37,588
	<hr/>	<hr/>
Trade payables	<b>231,830</b>	317,007
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The average credit period on purchase of goods is 90 days (2013: 90 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

### 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, 2014.

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

### **Liquidity**

As at 30th June, 2014, the Group's net current liabilities increased by approximately HK\$176,307,000 or 30.6% to approximately HK\$753,141,000 (2013: HK\$576,834,000).

The increase was mainly attributable to incline in the carrying amount of bank borrowings repayable within one year from approximately HK\$528,215,000 in 2013 to HK\$747,017,000 in 2014, which was offset by the increase of 80.9% in deposits, prepayments and other receivables to approximately HK\$316,138,000 in 2014 from approximately HK\$174,769,000 in 2013.

As at 30th June, 2014, the Group's current ratio, represented by a ratio of total current assets to total current liabilities, was approximately 0.6 (2013: 0.6).

As at 30th June, 2014, the total assets increased by approximately HK\$452,755,000 or 9.6% to HK\$5,151,669,000 (2013: HK\$4,698,914,000).

As at 30th June, 2014, the total bank borrowings increased by approximately HK\$276,462,000 or 15.3% to HK\$2,085,580,000 (2013: HK\$1,809,118,000).

As at 30th June, 2014, the Group had total net debts of approximately HK\$1,676,310,000 (2013: HK\$1,379,572,000), measured as total bank borrowings minus the bank balances and cash. As at 30th June, 2014, the Group had net gearing ratio of approximately 83.5% (2013: 71.5%), measured as total net debts to total equity of approximately HK\$2,006,989,000 (2013: HK\$1,928,674,000).

### **Financial resources**

On 14th April, 2014, the Company entered into a loan agreement in Hong Kong with The Hongkong and Shanghai Banking Corporation Limited ("HSBC"), pursuant to which the HSBC made available to the Company a loan facility of up to US\$30,000,000. The Company has made the partially drawing of US\$20,000,000 as at 30th June, 2014.

On 21st July, 2014, the Company entered into a syndicated loan agreement with nineteen banks including HSBC (the "Lenders") in Hong Kong, pursuant to which the Lenders made available to the Company a loan facility of up to US\$300,000,000. The Company has made a partial drawing of US\$270,000,000 as at the date of this report. The subsequent utilisation is expected to be made within six months from the loan agreement date. The loan proceeds are used for refinancing the existing indebtedness of the Group, financing the working capital and capital expenditure of the Group.

During the six months ended 30th June, 2014, the Group generally financed its operations with internally generated resources and bank borrowings. As at 30th June, 2014, 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's monetary assets and liabilities are principally denominated in either Renminbi or the United States dollars and the Group conducted its business transactions principally in Renminbi. The Group has not experienced any material difficulties or effects on its operations or liquidity as a result of fluctuations in currency exchange rates during the six months ended 30th June 2014, thus the Group did not employ any financial instruments for hedging purposes.

## **EMPLOYEE INFORMATION**

As at 30th June, 2014, the Group had a total of 2,185 employees (2013: 2,310) in Hong Kong and the PRC, and the total employee benefit expenses (other than directors) for the period under review was approximately HK\$82,049,753 (2013: HK\$89,775,000). More than 99.7% 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 3rd May 2013 by an ordinary resolution passed by the shareholders of the Company at the annual general meeting held on 3rd 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 New 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.

On 11th April, 2011, share options to subscribe for an aggregate of 159,000,000 ordinary shares at par value HK\$0.01 each of the Company were granted to the eligible participants by the Company pursuant to the Old Share Option Scheme. The exercise price of share options granted was HK\$0.49 per share. The share options granted shall be valid for a period of ten years from the date of grant. No options have yet been granted under the New Share Option Scheme.

The following table discloses movements of the Company's share options granted under the Old 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	Number of share options			Outstanding at 30th June, 2014	
				As at 1st January, 2014	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>(1,000,000)</u>	<u>-</u>	<u>2,000,000</u>
Exercisable at the end of the period								<u>2,000,000</u>
Weighted average exercise price				<u>HK\$0.49</u>	<u>-</u>	<u>HK\$0.49</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. In respect of the share options exercised during the six months ended 30th June, 2014, the weighted average closing share price immediately before the date of exercise is HK\$2.29.

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, 2014, the Group has pledged certain buildings in the PRC having carrying value of HK\$9,935,000 to secure certain bank borrowings granted to the Group.

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

At 30th June, 2014, the Group has pledged certain prepaid lease payments in the PRC having carrying value of HK\$19,938,000 (2013: HK\$14,963,000) to secure certain bank borrowings granted to the Group.

As at 30th June, 2014, pursuant to a letter of undertaking, the Group is required to maintain deposits of USD1,000,000 (equivalent to HK\$7,754,000) (2013: RMB15,000,000 (equivalent to HK\$18,951,000)) with a bank as a condition precedent to a bank borrowing. The pledged bank deposits in 2014 carry no interest. The pledged bank deposits in 2013 carried interest at average market rate of 3.00% per annum.

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

As at 30th June, 2014, the Board did not have any specific plans for material investment or capital assets.

## **CAPITAL COMMITMENTS**

As at 30th June, 2014, the capital expenditure in respect of the acquisition of property, plant and equipment and prepaid lease payments contracted for but not provided in the consolidated financial statements is HK\$61,467,000 (2013: HK\$51,265,000).

## **CONTINGENT LIABILITIES**

As at 30th June, 2014, the Group did not have any contingent liabilities.

## **BUSINESS REVIEW**

During the period under review, the Group 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/LNG filling stations for vehicle; and (iii) the exploration, exploitation and development of CBM in the PRC.

### **Downstream Piped Gas Distribution**

#### *New Gas Projects Expansion*

##### Sino Gas Project

References are made to the announcements of the Company dated 3rd April, 2014, 17th April, 2014 and 4th June, 2014 (each an “Announcement” and together, the “Announcements”) in relation to the Proposed Privatization of Sino Gas. Unless otherwise defined, capitalised terms used in this report shall have the same meanings as defined in the Announcements. The Group will participate in the Proposed Privatization with MSPEA Gas Holdings Limited (“MSPEA”) and Mr. Yuchuan Liu (“Mr. Liu”) (the “Co-investors”) by way of the Proposed Subscription at the subscription price of US\$37,445,741.45 for 28,804,417 ordinary shares in Harmony Gas. The subscription price will be satisfied in cash by the Company and funded by the internal resources of the Group and/or external financing.

The Co-investors will participate in the Proposed Privatization by way of subscription for (i) ordinary shares in Harmony Gas by MSPEA in exchange for equity contribution from ESPEA in the amount of US\$28,964,315.25; and (ii) ordinary shares in Harmony Gas by Mr. Liu, the subscription price of which will be satisfied by way of a contribution of 6,524,174 shares of common stock in Sino Gas held by Mr. Liu to Prosperity Gas pursuant to the terms of the Contribution Agreement. Upon the Subscriptions Completion, the Company, MSPEA and Mr. Liu will indirectly or directly own 50%, 38.7% and 11.3% shareholding interests in Harmony Gas, respectively. Upon Completion, the Company will indirectly hold 50% shareholding interests in the privatized Sino Gas, which will become a jointly controlled entity of the Company.

To the best of the Directors’ knowledge, information and belief and having made all reasonable enquiries, each of Sino Gas, Harmony Gas, Prosperity Gas, Merger Sub, MSPEA (and their respective ultimate beneficial owners) and Mr. Liu is a third party independent of the Company and its connected persons.

The terms of the relevant agreements under the Proposed Transactions have been agreed upon arm's length negotiations between the parties thereto. The Directors (including the independent non-executive Directors) are of view that the terms of the Proposed Transactions are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Due to the steady growth in the natural gas market in the PRC, the Group is confident in its prospects in this market. The Directors are of the view that the Proposed Transactions could provide an opportunity for the Group to further invest in natural gas business in the PRC in order to enhance its earning base and expand the geographical coverage of its operations.

The shares of Sino Gas are traded on the OTCBB, which is a US public company formed under the laws of the State of Utah and it is proposed that Sino Gas be privatized and taken off from public trading by way of a merger. Based on the quarterly report of Sino Gas for the six months period ended 30th June, 2014, Sino Gas and its subsidiaries own and operate distribution systems in 34 small and medium size cities serving approximately 390,527 residential and sixteen industrial customers. The facilities of Sino Gas and its subsidiaries include approximately 2,496 kilometers of pipeline and delivery networks (including delivery trucks) with a daily capacity of approximately 186,400 cubic meters of natural gas.

As one or more of the applicable percentage ratios (as defined under the Listing Rules) are more than 5% but less than 25%, the Proposed Transactions constitute a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

As at the date of this report, pursuant to the Merger Agreement, Completion is subject to satisfaction or waiver of the Conditions. The Company is informed that on 6th August, 2014, Sino Gas has obtained the Shareholders' Approval in relation to the Merger and one of the Conditions (the "Shareholders' Approval Condition") has been satisfied. The Company is further informed that the application for the approval of the applicable governmental authority under the anti-monopoly law of the PRC for the consummation of the transactions contemplated by the Merger Agreement (the "AML Approval") is being processed, and the Condition in relation to obtaining the AML Approval as disclosed in the Announcement dated 4th June, 2014, remains to be satisfied. As the Conditions (other than the Shareholders' Approval Condition) remain to be satisfied, further announcement will be made if and when appropriate in connection with the satisfaction or waiver of the Conditions and in relation to Completion.

## Zhejiang Zhongyu Project

On 28th March, 2014, the Company entered into an agreement with 岱山縣人民政府 The People's Government of Daishan County in respect of the proposed development for constructing and operating piped natural gas projects exclusively in Daishan Economic Development District located in Daishan County, Zhejiang Province, the PRC (the "Development Agreement"). Pursuant to the Development Agreement, after obtaining the specific land located in Daishan Economic Development District, The People's Government of Daishan County will grant the concession right in coming months to operate the sales and distribution of natural gas in Daishan Economic Development District and the concession right is for a period of 30 years.

Zhongyu Gas Investment Limited, a wholly-owned subsidiary of the Company, established a company, namely 浙江中裕燃氣有限公司 (Zhejiang Zhongyu Gas Company Limited) (Zhejiang Zhongyu) in Zhoushan City, Zhejiang Province, the PRC, to engage aforesaid project. The registered capital of Zhejiang Zhongyu is USD8,500,000, which is contributed in cash and funded by the internal resources of the Group and/or external financing. As at the date of this report, Zhejiang Zhongyu has obtained a land on 8th August, 2014 in Daishan Economic Development District to build the LNG gasification station.

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.

## Dezhou Wangyuan Project

Reference is made to the Annual Report 2013 of the Company dated 13th March, 2014 in which Zhongyu (Henan) Energy Holdings Limited ("Zhongyu Henan"), a wholly-owned subsidiary of the Company, entered into an equity transfer agreement with independent third parties to acquire 100% equity interest in 德州旺源燃氣有限公司 Dezhou Wangyuan Gas Company Limited ("Dezhou Wangyuan") at a total cash consideration of RMB81,000,000 (equivalent to HK\$103,673,000). Dezhou Wangyuan is principally engaged in exclusively sales of piped gas in Tianqu industrial zone of Dezhou City, Shangdong Province, the PRC. The transaction is completed during the period under review. As at 30th June, 2014, the unsettled consideration for the acquisition of RMB40,500,000 (equivalent to HK\$50,543,000) is included in other payables and would be settled upon the proper transfer of legal title of the land acquired and acceptance notice for commencing operation of gas filling station to be obtained.

The initial accounting for this acquisition has been determined provisionally, awaiting the receipt of professional valuations in relation to certain underlying assets and liabilities of the acquisition.

## Additional interest of Xiuwu Zhongyu

On 26th March, 2014, 焦作眾合建設投資有限公司 (Jiaozuo Zhonghe Construction Investment Company Limited) (“Jiaozuo Zhonghe”) as transferor and Zhongyu Henan, a wholly-owned subsidiary of the Company, as transferee entered into the equity transfer agreement (the “Equity Transfer Agreement”) pursuant to which Jiaozuo Zhonghe has agreed to transfer to Zhongyu Henan all of its 40% of the equity interest in 修武中裕燃氣發展有限公司 (Xiuwu Zhongyu Gas Development Company Limited) (“Xiuwu Zhongyu”) held by it in accordance with the terms of the Equity Transfer Agreement at a consideration of RMB11,800,000 (equivalent to approximately HK\$14,726,000) (the “Consideration”).

The Consideration was determined after arm’s length negotiation between the parties to the Equity Transfer Agreement. As at 30th June, 2014, the Consideration was paid by Zhongyu Henan to Jiaozuo Zhonghe in cash and funded by the internal resources of the Group. The transaction was completed.

Upon completion of the Equity Transfer Agreement, the Group holds approximately 95.9% shareholding interests in Xiuwu Zhongyu, the remaining approximately 4.1% shareholding interests is held by an independent third party of the Company and its connected persons.

Xiuwu Zhongyu was established on 18th August, 2009 in Xiuwu County, Henan Province, the PRC with limited liability. It is principally engaged in the exclusive business of the sales and distribution of piped natural gas in Xiuwu County, Henan Province, the PRC. The Directors are of the view that the transaction will enhance the earning base of the Group. Accordingly, the Directors believe that the terms of the Equity Transfer Agreement are fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

Based on the financial statements of the Group and Xiuwu Zhongyu for the year ended 31st December, 2013, as total assets, profits and revenue of Xiuwu Zhongyu compared to those of the Group are less than 5% under the percentage ratios for the latest financial year, Xiuwu Zhongyu is therefore regard as an insignificant subsidiary of the Company pursuant to Chapter 14A of the Listing Rules. Accordingly, Jiaozuo Zhonghe is a person connected with the insignificant subsidiary of the Company. As such, the entering into the Equity Transfer Agreement is exempted from announcement, reporting and independent shareholders’ approval requirements under the Listing Rules.

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.

## *New CNG/LNG Filling Stations Expansion*

### Newly established CNG/LNG filling stations

The Group continued to develop vehicles natural gas filling station business actively. During the period under review, 6 addition CNG/LNG filling stations put into operation.

### *Major Operational Data*

The downstream natural gas distribution business of the Group primarily comprises sales of piped gas, gas pipeline construction and sales of natural gas from CNG/LNG 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:

	<b>Six months ended</b>		Increase/ (Decrease)
	<b>30th June, (unaudited)</b>	2013	
	<b>2014</b>		
Number of operational locations <i>(Note a)</i>	<b>29</b>	25	4
– Henan Province	<b>21</b>	19	2
– Shandong Province	<b>4</b>	3	1
– Jiangsu Province	<b>2</b>	2	0
– Fujian Province	<b>1</b>	1	0
– Heilongjiang Province	<b>1</b>	0	1
Connectable urban population (‘000) <i>(Note b)</i>	<b>5,891</b>	4,528	30.1%
Connectable residential households (‘000)	<b>1,683</b>	1,294	30.1%
New piped gas connections made during the period			
– Residential households	<b>48,745</b>	50,333	(3.2)%
– Industrial customers	<b>36</b>	34	5.9%
– Commercial customers	<b>225</b>	164	37.2%
Accumulated number of connected piped gas customers			
– Residential households	<b>883,216</b>	720,217	22.6%
– Industrial customers	<b>542</b>	456	18.9%
– Commercial customers	<b>2,974</b>	2,398	24.0%
Penetration rates of residential pipeline connection <i>(Note c)</i>	<b>52.5%</b>	55.7%	(3.2)%



	Six months ended		Increase/ (Decrease)
	30th June, (unaudited)	2013	
	2014	2013	(Decrease)
Unit of piped natural gas sold (‘000 m <sup>3</sup> )	<b>355,823</b>	397,407	(10.5)%
– Residential households	<b>64,558</b>	60,558	6.6%
– Industrial customers	<b>241,073</b>	295,655	(18.5)%
– Commercial customers	<b>37,648</b>	32,869	14.5%
– Wholesale customers	<b>12,544</b>	8,325	50.7%
The piped natural gas usage per day (‘000 m <sup>3</sup> )			
– Residential households	<b>357</b>	335	6.6%
– Industrial customers	<b>1,332</b>	1,633	(18.4)%
– Commercial customers	<b>208</b>	182	14.3%
– Wholesale customers	<b>69</b>	46	50.0%
Unit of piped mixed gas sold (‘000 m <sup>3</sup> )	<b>17,589</b>	19,416	(9.4)%
Unit of piped coal gas sold (‘000 m <sup>3</sup> )	<b>22,823</b>	18,452	23.7%
Number of CNG/LNG Filling Stations			
– Accumulated	<b>33</b>	14	19
– Under construction	<b>13</b>	15	(2)
Unit of natural gas sold to vehicles (‘000 m <sup>3</sup> )	<b>41,734</b>	24,801	68.3%
The natural gas usage per station (‘000 m <sup>3</sup> )	<b>1,776</b>	1,908	(6.9)%
Unit of bottle LPG sold (ton)	<b>1,068</b>	1,064	0.4%
Total length of existing intermediate and main pipelines (km)	<b>4,653</b>	2,827	64.6%

	<b>Six months ended</b>		Increase/ (Decrease)
	<b>30th June, (unaudited)</b>		
	<b>2014</b>	2013	
Average selling price of natural gas (pre-tax) (RMB per m <sup>3</sup> )			
– Residential households	<b>1.96</b>	1.96	–
– Industrial customers	<b>2.62</b>	2.22	18.0%
– Commercial customers	<b>2.99</b>	2.49	20.1%
– Wholesale customers	<b>1.94</b>	1.88	3.2%
– CNG/LNG filling stations	<b>3.73</b>	3.37	10.7%
Average cost of natural gas (RMB per m <sup>3</sup> )	<b>2.15</b>	1.88	14.4%
Average connection fee for residential households (RMB)	<b>2,890</b>	2,710	6.6%

*Note a:* The number of operational locations represents the gas projects with exclusive rights are operated in different cities and regions in Mainland China. Some operational locations are operated by one subsidiary.

*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 as well as the number of operational locations.

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

### **Upstream CBM Exploration**

As at 30th June, 2014, 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, 2014 was mainly driven by robust growth in sales of piped gas and operation of CNG/LNG filling stations. The Group's profit attributable to owners of the Company reached HK\$127,460,000 (2013: HK\$97,155,000).

### Turnover

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:

	For the six months ended 30th June,				
	2014 HK\$'000	% of total	2013 HK\$'000	% of total	Increase/ (Decrease)
Sales of piped gas	1,163,242	74.0%	1,129,968	78.2%	2.9%
Connection revenue from gas pipeline construction	202,496	12.8%	197,553	13.7%	2.5%
Operation of CNG/LNG filling station	195,729	12.4%	105,044	7.3%	86.3%
Sales of stoves and related equipment	2,527	0.2%	3,356	0.2%	(24.7)%
Sub-total	1,563,994	99.4%	1,435,921	99.4%	8.9%
Sales of liquefied petroleum gas	8,654	0.6%	8,109	0.6%	6.7%
Total	1,572,648	100%	1,444,030	100%	8.9%

The turnover for the period under review increased by 8.9% to approximately HK\$1,572,648,000 from approximately HK\$1,444,030,000 for the corresponding period last year. The significant growth in turnover was mainly attributable to the robust growth in sales of piped gas and operation of CNG/LNG filling stations.

### *Sales of Piped Gas*

Sales of piped gas for the six months ended 30th June, 2014 amounted to approximately HK\$1,163,242,000, representing an increase of approximately 2.9% over the corresponding period last year. The growth in sales of piped gas was mainly attributable to the increase in sales of piped gas to residential households and commercial customers, which was offset by the decrease in sales of piped gas to industrial customers.

Nearly 97% of the total sales of piped gas was derived from the provision of natural gas. Sales of piped gas for the year contributed approximately 74.0% of the total turnover of the Group. As compared with the percentage of approximately 78.2% during the corresponding period last year, sales of piped gas continued to be the major source of turnover of the Group.

#### Residential households

The growth in sales of piped gas to residential households was supported by the Group's organic growth in population due to urbanization in its existing project cities in PRC as well as the number of operational locations increased. The Group provided new natural gas connections for 48,745 residential households. The average selling price of natural gas for residential households is unchanged for both periods. During the period under review, the piped natural gas usage per day provided by the Group to residential households was approximately 357,000 m<sup>3</sup> (2013: 335,000 m<sup>3</sup>).

#### Industrial customers

During the period under review, the Group connected 36 industrial customers. The Group obtained notice on the adjustment of natural gas selling prices to non-residential users in Linyi City in August 2013 and Henan Province in September 2013 and March 2014, thus the average selling price of natural gas for industrial customers was increased by 18.0% to RMB2.62 per m<sup>3</sup> (2013: RMB2.22 per m<sup>3</sup>) when compared to the corresponding period last year, which suppresses gas consumption of partly industrial customers. During the period under review, the piped natural gas usage per day provided by the Group to its industrial customers was approximately 1,332,000 m<sup>3</sup> (2013: 1,633,000 m<sup>3</sup>).

## Commercial customers

As such, in addition to fulfilling the demand of residential customers for natural gas, the Group stepped up gas connection for commercial customers. During the period under review, the Group connected 225 commercial customers. As at 30th June, 2014, the number of commercial customers of the Group reached 2,974, representing an increase of approximately 24.0% respectively as compared with the corresponding period last year.

The Group obtained notice on the adjustment of natural gas selling prices to non-residential users in Linyi City in August 2013 and Henan Province in September 2013 and March 2014, thus the average selling price of natural gas for commercial customers was increased by 20.1% to RMB2.99 per m<sup>3</sup> (2013: RMB2.49 per m<sup>3</sup>) when compared to the corresponding period last year, which pushed up the sales during the period under review. During the year, the piped natural gas usage per day provided by the Group to its commercial customers was approximately 208,000 m<sup>3</sup> (2013: 182,000 m<sup>3</sup>).

## *Gas Pipeline Construction*

Connection revenue from gas pipeline construction for the six months ended 30th June, 2014 amounted to approximately HK\$202,496,000, representing an increase of approximately 2.5% over the corresponding period last year. The increase in connection revenue from gas pipeline construction was mainly attributable to the increase in average connection fee for residential households from RMB2,710 to RMB2,890, which net off the effect of the decrease in construction work of gas pipeline connection completed for residential households to 48,745 from 50,333. 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 12.8% of the total turnover of the Group. As compared with the percentage of approximately 13.7% 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, 2014, the Group's penetration rates of residential pipeline connection reached 52.5% (2013: 55.7%) (represented by the percentage of accumulated number of the Group's residential households to the estimated aggregate number of connectable residential households in its operation regions).

### *Operation of CNG/LNG Filling Station*

Revenue from operation of CNG/LNG filling station for the six months ended 30th June, 2014 amounted to approximately HK\$195,729,000, representing an increase of approximately 86.3% over the corresponding period last year. The increase was mainly due to an increase the number of CNG/LNG filling stations from fourteen to thirty-three stations as well as the average selling price of natural gas for CNG/LNG filling stations was increased by 10.7% to RMB3.73 per m<sup>3</sup> (2013: RMB3.37 per m<sup>3</sup>) when compared to the corresponding period last year. The unit of natural gas sold to vehicles increased by 68.3% to approximately 41,734,000 m<sup>3</sup> for the six months ended 30th June, 2014 from approximately 24,801,000 m<sup>3</sup> for the corresponding period last year.

During the period under review, the turnover derived from operation of CNG/LNG filling stations accounted for approximately 12.4% of the total turnover of the Group. In addition, the Group commenced building an additional thirteen CNG/LNG refilling stations in the PRC. It is targeted that nine new CNG/LNG refilling stations will commence operation by the end of 2014. The remaining new CNG/LNG refilling stations are expected to commence operations in the first half of 2015.

### **Gross profit margin**

The overall gross profit margin for the six months ended 30th June, 2014 was approximately 23.0% (2013: 22.0%). The gross profit margin for the sales of piped natural gas was 17.2% (2013: 16.0%); for the gas pipeline construction was 63.2% (2013: 62.9%); and for the operation of CNG/LNG filling stations was 25.9% (2013: 26.3%).

The National Development and Reform Commission of the PRC adjusted the non-residential natural gas price of gate stations in July 2013 and the Group also obtained notice on the adjustment of natural gas selling prices to non-residential users in Linyi City in August 2013 and Henan Province in September 2013 and March 2014. The cost increase from upstream natural gas price can be transferred to non-residential customers and the rate of selling price increase in greater than that of cost increase, thus the gross profit margin for the sales of piped gas increase. The gross profit of connection revenue from gas pipeline construction and of operation of CNG/LNG filling station is not material changed.

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

Other income and other gains and losses decreased to approximately HK\$3,302,000 for the six months ended 30th June, 2014 compared to approximately HK\$8,541,000 for the corresponding period last year. The decrease was mainly due to the decrease in government subsidies to approximately HK\$759,000 (2013: HK\$3,758,000) and no 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, 2014 (2013: HK\$1,088,000).

## **Operating expenses**

Operating expenses, including selling and distribution costs and administrative expenses decreased by 4.6% to approximately HK\$117,580,000 for the six months ended 30th June, 2014 compared to approximately HK\$123,242,000 for the corresponding period last year. The decrease was mainly attributable to the decrease in staff salary cost to approximately HK\$56,690,000 for the six months ended 30th June, 2014 (2013: HK\$64,884,000) as a result of no bonus paid in 2014. The decrease was offset by (i) the increase in facility fee by 445.5% to approximately HK\$1,663,000 for the six months ended 30th June, 2014 compared to approximately HK\$305,000 for the corresponding period last year resulting from the arrangement fee and facility fee of the new USD bank borrowings and (ii) the increase in depreciation by 37.9% to approximately HK\$7,402,000 for the six months ended 30th June, 2014 compared to approximately HK\$5,369,000 for the corresponding period last year resulting from a new office in use and more office equipment acquired.

## **Finance costs**

Finance costs increased by 18.3% to approximately HK\$26,868,000 for the six months ended 30th June, 2014 compared to approximately HK\$22,715,000 for the corresponding period last year. The increase was mainly attributable to the increase in average bank borrowings.

## **Income tax expenses**

Under EIT Law and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

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, 2014 amounted to approximately HK\$67,882,000 (2013: HK\$61,393,000).

## **Profit attributable to owners of the Company**

As a result of the above, profit attributable to owners of the Company was approximately HK\$127,460,000 for the six months ended 30th June, 2014 representing an increase of 31.2% as compared with that of approximately HK\$97,155,000 for the corresponding period last year.

## **Net Profit Margin**

As at 30th June, 2014, the net profit margin, represented a ratio of profit attributable to owners of the Company to turnover, was approximately 8.1% (2013: 6.7%).

### **Earnings per share**

The basic and diluted earnings per share attributable to the owners of the Company was HK5.05 cents for the six months ended 30th June, 2014, as compared with that of HK3.85 cents for the corresponding period last year.

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

For the six months ended 30th June, 2014, the Group's EBITDA increased by 31.2% to approximately HK\$304,211,000 from approximately HK\$245,981,000 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 HK70 cents for the six months ended 30th June, 2014, representing an increase of 4.5% as compared with the corresponding period last year.

The net assets value represents total assets minus total liabilities.

### **Prospects**

The Group is confident in its future prospects as the steady growth of the natural gas market in the PRC is expected to be maintained. The favorable domestic business environment and the growing demand for piped gas consumption arising from the progressing urbanization and increasing consumption of automobiles will also serve to drive growth. In the future, the Group will expand its downstream natural gas distribution with a focus on high margin commercial and industrial users and CNG/LNG filling stations, with the goal of increasing its penetration rate in the areas it is currently 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 strategically 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 capture the opportunities arising from the economic development in the PRC and maximize our shareholders' returns.



## DISCLOSURE OF INTERESTS

### (a) Interests of Directors

As at 30th June, 2014, 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	Notes	Nature of Shares and/or underlying Shares	Type of Interests	Approximate percentage of issued share capital (Note 4)
Mr. Wang Wenliang	1	584,125,542	Beneficial and interest in controlled corporation	23.13%
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	3	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 15,112,000 Shares and 1,560,000 Shares are directly held by Mr. Wang Wenliang and his spouse respectively.
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, 2014, the total issued share capital of the Company was 2,525,007,684.

Save as disclosed above, as at 30th June, 2014, 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, 2014, 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*

<b>Name of Shareholder</b>	<b>Notes</b>	<b>Type of interests</b>	<b>Number of Shares</b>	<b>Approximate percentage of interests</b> <i>(Note 3)</i>
China Gas Holdings Limited	1	Interest of controlled corporation	1,111,934,142	44.04%
Rich Legend International Limited	1	Beneficial	1,111,934,142	44.04%
Hezhong	2	Beneficial	567,453,542	22.47%

*Notes:*

1. According to the disclosure of interests pages as shown in the website of the Stock Exchange as at 30th June, 2014, 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, 2014, the total issued share capital of the Company was 2,525,007,684.

Save as disclosed above, as at 30th June, 2014, 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, as far as the Directors are aware, 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:

The 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 (with similar roles and responsibilities as those of a chief executive) 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 23.13% 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, 2014. 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, 2014.

## **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 Director 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, 18th August, 2014