



**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, 2015**

## FINANCIAL HIGHLIGHTS

	For the six months ended 30th June,		
	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>	changes %
Turnover	<b>1,564,802</b>	1,572,648	(0.5)%
Sales of piped gas	<b>1,081,308</b>	1,163,242	(7.0)%
Connection revenue from gas pipeline construction	<b>262,767</b>	202,496	29.8%
Operation of CNG/LNG vehicle filling stations	<b>214,808</b>	195,729	9.7%
Gross profit (Gross margin)	<b>376,572</b> <b>(24.1%)</b>	362,114 (23.0%)	4.0% (+1.1%)
Profit attributable to owners of the Company (Net profit margin)	<b>131,916</b> <b>(8.4%)</b>	127,460 (8.1%)	3.5% (+0.3%)
Earnings per share			
Basic	<b>HK5.22 cents</b>	HK5.05 cents	3.4%
Diluted	<b>HK5.22 cents</b>	HK5.05 cents	3.4%
EBITDA	<b>352,996</b>	304,211	16.0%

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, 2015, together with the comparative figures for the corresponding period in 2014, which are set out 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; and (ii) the construction and operation of compressed natural gas or liquefied natural gas (“CNG/LNG”) vehicle filling stations in the People’s Republic of China (the “PRC”).

## **CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (UNAUDITED)**

*For the six months ended 30th June, 2015*

		<b>For the six months ended 30th June,</b>	
	<i>Notes</i>	<b>2015 HK\$'000</b>	<b>2014 HK\$'000</b>
<b>Turnover</b>	3	<b>1,564,802</b>	1,572,648
Cost of sales		<b>(1,188,230)</b>	(1,210,534)
<b>Gross profit</b>		<b>376,572</b>	362,114
Other income	5	<b>21,719</b>	3,302
Selling and distribution costs		<b>(30,420)</b>	(24,212)
Administrative expenses		<b>(87,021)</b>	(93,296)
Finance costs	6	<b>(52,174)</b>	(26,868)
Share of results of a joint venture		<b>528</b>	–
<b>Profit before tax</b>		<b>229,204</b>	221,040
Income tax expenses	7	<b>(67,261)</b>	(67,882)
<b>Profit for the period</b>	8	<b>161,943</b>	153,158
Other comprehensive income (expense)			
Item that will not be reclassified subsequently to profit or loss:			
Exchange differences arising on translation		<b>1,349</b>	(61,205)
Total comprehensive income for the period		<b>163,292</b>	91,953
Profit for the period attributable to:			
Owners of the Company		<b>131,916</b>	127,460
Non-controlling interests		<b>30,027</b>	25,698
		<b>161,943</b>	153,158

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (UNAUDITED)**

*(Continued)*

*For the six months ended 30th June, 2015*

		<b>For the six months ended 30th June,</b>	
	<i>Notes</i>	<b>2015</b>	2014
		<b>HK\$'000</b>	<b>HK\$'000</b>
Total comprehensive income attributable to:			
Owners of the Company		133,334	72,588
Non-controlling interests		29,958	19,365
		<u>163,292</u>	<u>91,953</u>
Earnings per share	10		
Basic		<u>HK5.22 cents</u>	<u>HK5.05 cents</u>
Diluted		<u>HK5.22 cents</u>	<u>HK5.05 cents</u>

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June, 2015

	<b>30th June, 2015</b>	31st December, 2014
	<b>(unaudited)</b>	(audited)
<i>Notes</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Non-current assets</b>		
Investment properties	9,369	9,365
Property, plant and equipment	3,397,986	3,144,809
Goodwill	141,453	141,442
Other intangible assets	783,068	788,836
Long-term deposits, prepayments and other receivables	390,497	363,976
Prepaid lease payments	341,768	335,369
Interest in a joint venture	398,533	398,005
Available-for-sale investments	6,524	6,523
	<b>5,469,198</b>	<b>5,188,325</b>
<b>Current assets</b>		
Inventories	108,044	91,541
Trade and bills receivables	202,227	204,066
Deposits, prepayments and other receivables	359,310	262,467
Entrusted loan receivable	25,361	25,352
Amount due from a joint venture	324,526	286,742
Prepaid lease payments	9,789	9,775
Amounts due from customers for contract work	303	2,365
Bank balances and cash	645,265	828,189
	<b>1,674,825</b>	<b>1,710,497</b>
<b>Current liabilities</b>		
Deferred income and advance received	448,166	464,396
Trade payables	264,285	339,825
Other payables and accrued charges	219,120	205,353
Amounts due to customers for contract work	11,990	11,814
Bank and other borrowings	816,638	424,211
Tax payables	55,016	79,923
	<b>1,815,215</b>	<b>1,525,522</b>
<b>Net current (liabilities) assets</b>	<b>(140,390)</b>	<b>184,975</b>
<b>Total assets less current liabilities</b>	<b>5,328,808</b>	<b>5,373,300</b>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION** *(Continued)*

At 30th June, 2015

	<b>30th June, 2015 (unaudited) HK\$'000</b>	31st December, 2014 (audited) HK\$'000
<b>Capital and reserves</b>		
Share capital	25,250	25,250
Reserves	<u>2,102,132</u>	<u>1,968,798</u>
<b>Equity attributable to owners of the Company</b>	<b>2,127,382</b>	1,994,048
Non-controlling interests	<u>323,867</u>	<u>298,692</u>
<b>Total equity</b>	<b><u>2,451,249</u></b>	<u>2,292,740</u>
<b>Non-current liabilities</b>		
Deferred income and advance received	6,411	6,409
Bank and other borrowings	2,825,507	3,028,519
Deferred taxation	<u>45,641</u>	<u>45,632</u>
	<u>2,877,559</u>	<u>3,080,560</u>
	<b><u>5,328,808</u></b>	<b><u>5,373,300</u></b>

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2015

	Attributable to owners of the Company								Non-controlling interests	Total	
	Share capital	Share premium	Share option reserve	Property revaluation reserve	Other reserve	Statutory surplus reserve	Translation reserve	Accumulated profits			Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (Note)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
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 expense 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
Dividend paid by subsidiaries to non-controlling interests	-	-	-	-	-	-	-	-	-	(365)	(365)
Acquisition of additional interests of a subsidiary	-	-	-	-	(4,732)	-	-	-	(4,732)	(9,032)	(13,764)
At 30th June, 2014 (unaudited)	25,250	895,736	319	1,128	(3,683)	62,042	182,231	597,804	1,760,827	246,162	2,006,989
At 1st January, 2015 (audited)	25,250	895,736	319	1,128	(3,685)	62,042	228,361	784,897	1,994,048	298,692	2,292,740
Profit for the period	-	-	-	-	-	-	-	131,916	131,916	30,027	161,943
Other comprehensive income for the period	-	-	-	-	-	-	1,418	-	1,418	(69)	1,349
Total comprehensive income for the period	-	-	-	-	-	-	1,418	131,916	133,334	29,958	163,292
Transfer to statutory surplus reserve	-	-	-	-	-	5,677	-	(5,677)	-	-	-
Dividend paid by subsidiaries to non-controlling interests	-	-	-	-	-	-	-	-	-	(8,587)	(8,587)
Capital contribution from non-controlling interest of a subsidiary	-	-	-	-	-	-	-	-	-	3,804	3,804
At 30th June, 2015 (unaudited)	25,250	895,736	319	1,128	(3,685)	67,719	229,779	911,136	2,127,382	323,867	2,451,249

Note: The articles of association of the Company's subsidiaries incorporated in the PRC state that they may make an appropriation of 10% of their profit for each year (prepared under generally accepted accounting principles in the PRC) to the statutory surplus reserve until the balance reaches 50% of the paid-in capital. The statutory surplus reserve shall only be used for making good losses, capitalisation into paid-in capital and expansion of their production and operation.

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30th June, 2015

	For the six months ended 30th June,	
	2015 (unaudited) HK\$'000	2014 (unaudited) HK\$'000
Net cash from operating activities	102,682	188,565
Net cash used in investing activities	(387,402)	(441,066)
Net cash from financing activities	100,506	242,301
Net decrease in cash and cash equivalents	(184,214)	(10,200)
Cash and cash equivalents at 1st January	828,189	429,546
Effect of foreign exchange rate changes	1,290	(10,076)
Cash and cash equivalents at 30th June, represented by bank balances and cash	<u>645,265</u>	<u>409,270</u>



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1. BASIS OF PREPARATION

The condensed consolidated financial statements for the six months ended 30th June, 2015 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, 2014, 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, 2015. 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, 2015 is as follows:

	For the six months ended	
	30th June,	
	2015	2014
	HK\$’000	HK\$’000
Sales of piped gas	1,081,308	1,163,242
Connection revenue from gas pipeline construction	262,767	202,496
Operation of CNG/LNG vehicle filling stations	214,808	195,729
Sales of liquefied petroleum gas	125	8,654
Sales of stoves and related equipment	5,794	2,527
	<u>1,564,802</u>	<u>1,572,648</u>

#### 4. SEGMENT INFORMATION

The Group's executive directors are the chief operating decision makers as they collectively make strategic decisions on resources allocation and performance assessment. The Group is principally engaged in (i) the investment, operation and management of city gas pipeline infrastructure, distribution of piped gas to residential, industrial and commercial users; and (ii) the construction and operation of CNG/LNG vehicle filling stations in the PRC. Nearly all identifiable assets of the Group are located in the PRC. Information is 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 maker 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 vehicle filling stations;
- (d) sales of liquefied petroleum gas; and
- (e) sales of stoves and related equipment.

During the year ended 31 December, 2014, the operating and reportable segment of sales of coalbed methane gas ("CBM") business has ceased for operation. Starting from last financial year, the segment information reported does not include any amounts for this CBM operation. Accordingly, the comparatives of segment information are represented to conform to current period presentation.

#### 4. SEGMENT INFORMATION (Continued)

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, 2015

	Sales of piped gas HK\$'000	Connection revenue from gas pipeline construction HK\$'000	Operation of CNG/LNG vehicle filling stations HK\$'000	Sales of liquefied petroleum gas HK\$'000	Sales of stoves and related equipment HK\$'000	Consolidated HK\$'000
Segment revenue	<u>1,081,308</u>	<u>262,767</u>	<u>214,808</u>	<u>125</u>	<u>5,794</u>	<u>1,564,802</u>
Segment profit (loss)	<u>110,732</u>	<u>154,363</u>	<u>26,552</u>	<u>(35)</u>	<u>3,402</u>	<u>295,014</u>
Unallocated other income						21,719
Unallocated central corporate expenses						(35,883)
Share of results of a joint venture						528
Finance costs						(52,174)
Profit before tax						<u>229,204</u>

##### 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 vehicle filling stations HK\$'000	Sales of liquefied petroleum gas HK\$'000	Sales of stoves and related equipment HK\$'000	Consolidated HK\$'000
Segment revenue	<u>1,163,242</u>	<u>202,496</u>	<u>195,729</u>	<u>8,654</u>	<u>2,527</u>	<u>1,572,648</u>
Segment profit	<u>112,066</u>	<u>113,888</u>	<u>43,850</u>	<u>4</u>	<u>1,751</u>	<u>271,559</u>
Unallocated other income						3,302
Unallocated central corporate expenses						(26,953)
Finance costs						(26,868)
Profit before tax						<u>221,040</u>

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit represents the profit earned by each segment without allocation of central administration costs, directors' salaries, interest income, foreign exchange difference, certain sundry income, share of results of a joint venture, finance costs and income tax expenses. This is the measure reported to the chief operating decision makers for the purposes of resources allocation and performance assessment.

## 5. OTHER INCOME

	For the six months ended 30th June,	
	2015 HK\$'000	2014 HK\$'000
Bank interest income	4,510	965
Interest income on amount due from a joint venture	11,659	-
Government subsidies ( <i>Note</i> )	2,531	759
Interest income from investments in life insurance contracts	984	-
Sundry income	2,035	1,578
	<u>21,719</u>	<u>3,302</u>

*Note:* During the six months ended 30th June, 2015, the Group has received subsidies of HK\$2,531,000 (2014: HK\$759,000) 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,	
	2015 HK\$'000	2014 HK\$'000
Interests on bank borrowings	70,225	54,624
Interests on finance lease	2,673	-
Amortisation on loan facilities fees relating to bank borrowings	13,696	-
Total borrowing costs	86,594	54,624
Less: Amounts capitalised in construction in progress	(34,420)	(27,756)
	<u>52,174</u>	<u>26,868</u>

## 7. INCOME TAX EXPENSES

	For the six months ended 30th June,	
	2015 HK\$'000	2014 HK\$'000
PRC Enterprise Income Tax	67,261	67,882

## 7. INCOME TAX EXPENSES (Continued)

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. During the six months ended 30th June, 2015, no withholding tax (2014: nil) was charged by the PRC tax authority which levied on the dividends payable to overseas group entities in the current period.

## 8. PROFIT FOR THE PERIOD

	For the six months ended	
	30th June,	
	2015	2014
	HK\$'000	HK\$'000
Profit for the period has been arrived at after charging:		
Amortisation of other intangible assets (included in cost of sales)	5,191	5,302
Release of prepaid lease payments	5,706	4,789
Depreciation of property, plant and equipment	60,721	46,212
Cost of inventories recognised as expenses in respect of contract cost for gas pipeline construction	63,825	51,335
Cost of inventories recognised as expenses in respect of sales of piped gas, liquefied petroleum gas and stoves equipment	962,198	1,031,221

## 9. DIVIDENDS

No dividend was paid or proposed during the six months ended 30th June, 2015, nor has any dividend been proposed since the end of the reporting period (2014: nil).

## 10. 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:

	For the six months ended 30th June,	
	2015 HK\$'000	2014 HK\$'000
<b>Earnings</b>		
Earnings for the purposes of basic and diluted earnings per share, being profit for the period attributable to owners of the Company	<u>131,916</u>	<u>127,460</u>

	For the six months ended 30th June,	
	2015 '000	2014 '000
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,525,008	2,524,185
Effect of dilutive potential ordinary shares: Share options issued by the Company ( <i>Note</i> )	<u>1,543</u>	<u>2,198</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>2,526,551</u>	<u>2,526,383</u>

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

## 11. TRADE AND BILLS RECEIVABLES

The Group allows an average credit period of 30 days (2014: 30 days) to its trade customers. As at 30th June, 2015, the bills receivables are matured within the range of 30 days to 180 days (2014: 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:

	<b>30th June, 2015</b>	31st December, 2014
	<b>HK\$'000</b>	HK\$'000
0 – 30 days	<b>137,484</b>	131,915
31 – 90 days	<b>5,014</b>	3,478
91 – 180 days	<b>1,987</b>	7,347
181 – 360 days	<b>27,977</b>	16,576
	<hr/>	<hr/>
Trade receivables	<b>172,462</b>	159,316
	<hr/>	<hr/>
0 – 90 days	<b>13,958</b>	36,814
91 – 180 days	<b>15,807</b>	7,936
	<hr/>	<hr/>
Bills receivables	<b>29,765</b>	44,750
	<hr/>	<hr/>
Trade and bills receivables	<b>202,227</b>	204,066
	<hr/> <hr/>	<hr/> <hr/>

Trade receivables of HK\$137,484,000 (2014: HK\$131,915,000) and bills receivables of HK\$29,765,000 (2014: HK\$44,750,000) were neither past due nor impaired. These customers are mainly local reputable real estate developers, corporate entities and local government in Henan and Shandong provinces and no significant counterparty default was noted in the past.

As at 30th June, 2015, trade receivables of HK\$34,978,000 (2014: HK\$27,401,000) were past due but not provided for as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. As at 30th June, 2015, the allowance for doubtful debts of trade receivable is HK\$2,330,000 (2014: HK\$2,330,000).

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

## 11. TRADE AND BILLS RECEIVABLES *(Continued)*

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

## 12. 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, 2015</b>	31st December, 2014
	<b>HK\$'000</b>	<b>HK\$'000</b>
0 – 30 days	<b>145,082</b>	259,003
31 – 90 days	<b>34,851</b>	22,723
91 – 180 days	<b>24,500</b>	12,318
Over 180 days	<b>59,852</b>	45,781
	<hr/>	<hr/>
Trade payables	<b>264,285</b>	339,825
	<hr/> <hr/>	<hr/> <hr/>

The average credit period on purchase of goods is 90 days (2014: 90 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

## 13. ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENTS

Save as disclosed in the Sections Headed “Business Review” in this report, the Group had no acquisitions, disposals nor significant investments for the six months ended 30th June, 2015.



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

### **Liquidity**

As at 30th June, 2015, the total assets increased by approximately HK\$245,201,000 or 3.6% to HK\$7,144,023,000 (2014: HK\$6,898,822,000).

As at 30th June, 2015, the Group has net current liabilities of approximately HK\$140,390,000 (2014: net current assets of HK\$184,975,000). It was mainly due to increase in bank and other borrowings which are repayable within one year.

As at 30th June, 2015, the Group's current ratio, represented by a ratio of total current assets to total current liabilities, was approximately 0.9 (2014: 1.1).

As at 30th June, 2015, the total bank and other borrowings increased by approximately HK\$189,415,000 or 5.5% to HK\$3,642,145,000 (2014: HK\$3,452,730,000).

As at 30th June, 2015, the Group had total net debts of approximately HK\$2,996,880,000 (2014: HK\$2,624,541,000), measured as total bank and other borrowings minus the bank balances and cash. As at 30th June, 2015, the Group had net gearing ratio of approximately 122.3% (2014: 114.5%), measured as total net debts to total equity of approximately HK\$2,451,249,000 (2014: HK\$2,292,740,000).

### **Financial resources**

On 16th June, 2015, the Company entered into a loan agreement in Hong Kong with China Construction Bank (Asia) Corporation Limited ("CCB"), pursuant to which the CCB made available to the Company a loan facility of up to US\$20,000,000. The Company has drawn-down the full amount as at 30th June, 2015.

During the six months ended 30th June, 2015, the Group generally financed its operations with internally generated resources and bank and other borrowings. As at 30th June, 2015, all of the bank and other 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 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, 2015, thus the Group did not employ any financial instruments for hedging purposes.

## **EMPLOYEE INFORMATION**

As at 30th June, 2015, the Group had a total of 2,464 employees (2014: 2,185) in Hong Kong and the PRC, and the total employee benefit expenses (other than directors) for the period under review was approximately HK\$99,012,000 (2014: HK\$82,050,000). The increase was mainly due to the increase in the number of headcount of the Group's subsidiaries and salary increment. More than 99.8% of the Group's employees are located in the PRC.

The Group's remuneration and bonus policies are 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.

As at the date of this report, there were a total of 2,000,000 share options (as at the date of the annual report of the Company for the year ended 31st December, 2014: 2,000,000) outstanding under the Old Share Option Scheme, the full conversion of which will result in the issue of 2,000,000 shares in the Company, representing approximately 0.08% of the number of issued shares of the Company as at the date of this report (as at the date of the annual report of the Company for the year ended 31st December, 2014: 0.08%).

The New Share Option Scheme shall be valid and effective for a period of ten years commencing on 3rd May, 2013 and will expire on 2nd May, 2023. As at the date of this report, no share options have been granted under the New Share Option Scheme and the maximum number of share options which may be granted under the New Share Option Scheme is 252,400,768. These share options, if granted and converted in full, represent approximately 9.996% of the number of issued shares of the Company as at the date of this report (as at the date of the annual report of the Company for the year ended 31st December, 2014: 9.996%).

Under the New Share Option Scheme, the Directors may offer to any employees or any eligible person, who has made or will make 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 share options were exercised during the period under review.

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 of Directors	Date of grant	Exercise period	Exercise price  HK\$	Number of share options				
				As at 1st January, 2015	Granted during the period under review	Exercised during the period under review	Lapsed/ Cancelled during the period under review	Outstanding at 30th June, 2015
Xu Yongxuan	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>2,000,000</u>	<u>-</u>	<u>-</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>-</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 business day immediately before the date on which the share options were granted on 11th April, 2011.

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**

As at 30th June, 2015, the Group has pledged certain buildings in the PRC having a carrying value of HK\$2,667,000 (2014: HK\$3,530,000) to secure certain bank borrowings granted to the Group.

As at 30th June, 2015, the Group has pledged certain prepaid lease payments in the PRC having a carrying value of HK\$26,363,000 (2014: HK\$48,614,000) to secure certain bank borrowings granted to the Group.

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

As at 30th June, 2015, the Board did not have any specific plans for material investment or capital assets.

## **CAPITAL COMMITMENTS**

As at 30th June, 2015, 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\$54,447,000 (2014: HK\$61,818,000).

## **CONTINGENT LIABILITIES**

As at 30th June, 2015, the Group did not have any contingent liabilities.

## **BUSINESS REVIEW**

During the period under review, the Group was principally engaged in (i) the investment, operation and management of city gas pipeline infrastructure, distribution of piped gas to residential, industrial and commercial users; and (ii) the construction and operation of CNG/LNG vehicle filling stations in the PRC.

### **Downstream Piped Gas Distribution**

#### *Dezhou Wangyuan Project*

In 2014, the Group acquired 100% equity interest in 德州旺源燃氣有限公司 Dezhou Wangyuan Gas Company Limited (“Dezhou Wangyuan”). During the six months ended 30th June, 2015, the Group further made capital injection of RMB15,000,000 to Dezhou Wangyuan. Dezhou Wangyuan is principally engaged in exclusively sales of piped gas in Tianqu industrial zone of Dezhou City, Shandong Province, the PRC. After developing for over a decade, Tianqu industrial zone is growing stronger. The zone is divided into six districts, being the modern logistic district, chemical district, electronic information district, textile district, food processing district and the Tianqu business district respectively.

## *New CNG/LNG Vehicle Filling Stations Expansion*

Newly established CNG/LNG vehicle filling stations

The Group continued to develop vehicles natural gas filling station business actively. During the period under review, 2 additional CNG/LNG vehicle filling stations were 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 vehicle filling stations.

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>		
	<b>30th June, (unaudited)</b>		Increase/ (Decrease)
	<b>2015</b>	2014	
Number of operational locations <i>(Note a)*</i>	<b>52</b>	29	23
– Henan Province	<b>21</b>	21	–
– Hebei Province	<b>15</b>	–	15
– Jiangsu Province	<b>5</b>	2	3
– Shandong Province	<b>4</b>	4	–
– Jilin Province	<b>2</b>	–	2
– Fujian Province	<b>1</b>	1	–
– Heilongjiang Province	<b>1</b>	1	–
– Zhejiang Province	<b>1</b>	–	1
– Anhui Province	<b>2</b>	–	2
Connectable urban population (‘000) <i>(Note b)*</i>	<b>9,697</b>	5,891	64.6%
Connectable residential households (‘000)*	<b>2,772</b>	1,683	64.7%
New piped gas connections by the Group made during the period			
– Residential households	<b>59,025</b>	48,745	21.1%
– Industrial customers	<b>75</b>	36	108.3%
– Commercial customers	<b>257</b>	225	14.2%
Accumulated number of connected piped gas customers*			
– Residential households	<b>1,447,084</b>	883,216	63.8%
– Industrial customers	<b>719</b>	542	32.7%
– Commercial customers	<b>4,558</b>	2,974	53.3%
Penetration rate of residential pipeline connection <i>(Note c)</i>	<b>52.2%</b>	52.5%	(0.3)%

	<b>Six months ended</b>		
	<b>30th June, (unaudited)</b>	2014	Increase/ (Decrease)
	<b>2015</b>		
Unit of piped natural gas sold ('000 m <sup>3</sup> )	<b>308,881</b>	355,823	(13.2)%
– Residential households	<b>75,872</b>	64,558	17.5%
– Industrial customers	<b>175,407</b>	241,073	(27.2)%
– Commercial customers	<b>38,501</b>	37,648	2.3%
– Wholesale customers	<b>19,101</b>	12,544	52.3%
Unit of piped mixed gas sold ('000 m <sup>3</sup> )	<b>14,206</b>	17,589	(19.2)%
Unit of piped coal gas sold ('000 m <sup>3</sup> )	<b>23,831</b>	22,823	4.4%
Number of CNG/LNG Vehicle Filling Stations			
– Accumulated	<b>46</b>	33	13
– Under construction	<b>21</b>	13	8
Unit of natural gas sold to vehicles ('000 m <sup>3</sup> )	<b>46,956</b>	41,734	12.5%
Unit of bottle LPG sold (ton)	<b>22</b>	1,068	(97.9)%
Total length of existing intermediate and main pipelines (km)*	<b>8,193</b>	4,653	76.1%
Average selling price of natural gas (pre-tax) (RMB per m <sup>3</sup> )			
– Residential households	<b>2.00</b>	1.96	2.0%
– Industrial customers	<b>2.89</b>	2.62	10.3%
– Commercial customers	<b>3.17</b>	2.99	6.0%
– Wholesale customers	<b>2.30</b>	1.94	18.6%
– CNG/LNG vehicle filling stations	<b>3.62</b>	3.73	(2.9)%
Average cost of natural gas (RMB per m <sup>3</sup> )	<b>2.31</b>	2.15	7.4%
Average connection fee for residential households (RMB)	<b>2,815</b>	2,890	(2.6)%

*Note a:* The number of operational locations represents the gas projects with exclusive rights which are operated by the Group and the joint venture in different cities and regions in Mainland China. According to the information provided by the joint venture, there were 15 gas projects in Hebei Province, 3 gas projects in Jiangsu Province, 2 gas projects in Jilin Province and 2 gas projects in Anhui Province operated by the joint venture. The statistics provided by the joint venture has not been verified independently by the Company's management.

*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 its operation regions.

\* The information in 2015 is including the statistics of the joint venture, which has not been verified independently by the Company's management.

## FINANCIAL REVIEW

### Overall

The Group's results for the six months ended 30th June, 2015 was mainly driven by organic growth of the businesses. The Group's profit attributable to owners of the Company reached HK\$131,916,000 (2014: HK\$127,460,000).

### Turnover

An analysis of the Group's turnover by business segment 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,				
	2015 HK\$'000	% of total	2014 HK\$'000	% of total	Increase/ (Decrease)
Sales of Piped Gas	1,081,308	69.1%	1,163,242	74.0%	(7.0)%
Connection revenue from Gas					
Pipeline Construction	262,767	16.8%	202,496	12.8%	29.8%
Operation of CNG/LNG Vehicle					
Filling Stations	214,808	13.7%	195,729	12.4%	9.7%
Sales of Stoves and					
Related Equipment	5,794	0.4%	2,527	0.2%	129.3%
Sub-total	1,564,677	100.0%	1,563,994	99.4%	0.0%
Sales of Liquefied Petroleum Gas	125	0.0%	8,654	0.6%	(98.6)%
Total	1,564,802	100%	1,572,648	100%	(0.5)%

The turnover for the period under review amounted to approximately HK\$1,564,802,000 (2014: HK\$1,572,648,000). The continuous growth in (i) sales of piped gas to commercial and residential customers, (ii) connection revenue from gas pipeline construction as well as (iii) sales of natural gas from CNG/LNG vehicle filling stations were offset by the decrease in sales of piped gas to industrial customers.

## Sales of Piped Gas

Sales of piped gas for the six months ended 30th June, 2015 amounted to approximately HK\$1,081,308,000, representing a decrease of approximately 7.0% over the corresponding period last year.

Nearly 97% of the total sales of piped gas was derived from the provision of natural gas. The drop in sales of piped gas was mainly attributable to the decrease in gas sales volume to industrial customers.

Sales of piped gas for the period under review contributed approximately 69.1% of the total turnover of the Group. As compared with the percentage of approximately 74.0% during the corresponding period last year, sales of piped gas continued to be the major source of turnover of the Group. The following table set forth the breakdown of sales of piped gas by customers.

Sales of piped gas by customers:

	For the six months ended 30th June,				Increase/ (Decrease)
	2015 HK\$'000	% of total	2014 HK\$'000	% of total	
Industrial customers	667,452	61.7%	816,529	70.2%	(18.3)%
Residential households	202,429	18.7%	172,748	14.9%	17.2%
Commercial customers	155,813	14.4%	143,381	12.3%	8.7%
Wholesale customers	55,614	5.2%	30,584	2.6%	81.8%
<b>Total</b>	<b>1,081,308</b>	<b>100%</b>	<b>1,163,242</b>	<b>100%</b>	<b>(7.0)%</b>

### Industrial customers

The sales of piped gas to its industrial customers for the period under review decreased by 18.3% to approximately HK\$667,452,000 from approximately HK\$816,529,000 for the corresponding period last year. During the period under review, the Group connected 75 industrial customers. The average selling price of natural gas for industrial customers was increased by 10.3% to RMB2.89 per m<sup>3</sup> (2014: RMB2.62 per m<sup>3</sup>) when compared to the corresponding period last year, which suppressed the gas consumption of industrial customers. During the period under review, the piped natural gas usage provided by the Group to its industrial customers reduced to approximately 175,407,000 m<sup>3</sup> (2014: 241,073,000 m<sup>3</sup>) as a result of the slowdown of economic growth of PRC.

The sales of piped gas to its industrial customers for the period under review contributed approximately 61.7% of the total sales of piped gas of the Group. As compared with the percentage of approximately 70.2% during the corresponding period last year, it continued to be the major source of sales of piped gas of the Group.



## Residential households

The sales of piped gas to its residential households for the period under review increased by 17.2% to approximately HK\$202,429,000 from approximately HK\$172,748,000 for the corresponding period last year. 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 China. The Group provided new natural gas connections for 59,025 residential households. During the period under review, the piped natural gas usage provided by the Group to residential households was approximately 75,872,000 m<sup>3</sup> (2014: 64,558,000 m<sup>3</sup>).

The sales of piped gas to its residential households for the period under review contributed approximately 18.7% of the total sales of piped gas of the Group (2014: 14.9%).

## Commercial customers

In addition to fulfilling the demand of residential customers for natural gas, the Group stepped up gas connection for commercial customers. The sales of piped gas to its commercial customers for the period under review increased by 8.7% to approximately HK\$155,813,000 from approximately HK\$143,381,000 for the corresponding period last year. The sales of piped gas to its commercial customers for the period under review contributed approximately 14.4% of the total sales of piped gas of the Group (2014: 12.3%). During the period under review, the Group connected 257 commercial customers. As at 30th June, 2015, the number of commercial customers of the Group reached 4,558, representing an increase of approximately 11.7% as compared with 4,082 customers as at 31st December, 2014.

The average selling price of natural gas for commercial customers was increased by 6.0% to RMB3.17 per m<sup>3</sup> (2014: RMB2.99 per m<sup>3</sup>), which pushed up the sales during the period under review.

## Gas Pipeline Construction

Connection revenue from gas pipeline construction for the six months ended 30th June, 2015 amounted to approximately HK\$262,767,000, representing an increase of approximately 29.8% over the corresponding period last year. The following table set forth the breakdown of connection revenue from gas pipeline construction by customers.

Connection revenue from gas pipeline construction by customers

	For the six months ended 30th June,				Increase/ (Decrease)
	2015 HK\$'000	% of total	2014 HK\$'000	% of total	
Residential households	210,219	80.0%	172,047	85.0%	22.2%
Non-residential customers	52,548	20.0%	30,449	15.0%	72.6%
Total	<u>262,767</u>	<u>100%</u>	<u>202,496</u>	<u>100%</u>	<u>29.8%</u>

During the period under review, connection revenue from gas pipeline construction for residential households increased by 22.2% to approximately HK\$210,219,000 from approximately HK\$172,047,000 for the corresponding period last year. The increase in connection revenue from gas pipeline construction for residential households was mainly attributable to the increase in construction work for gas pipeline connection completed by the Group for residential households to 59,025 from 48,745 for 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, connection revenue from gas pipeline construction for non-residential customers increased by 72.6% to approximately HK\$52,548,000 from approximately HK\$30,449,000 for the corresponding period last year, benefited from the escalating awareness of clean energy.

As at 30th June, 2015, the Group's penetration rates of residential pipeline connection reached 52.2% (2014: 52.5%) (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 its operation regions).

#### *Operation of CNG/LNG Vehicle Filling Stations*

Revenue from operating CNG/LNG vehicle filling stations for the six months ended 30th June, 2015 amounted to approximately HK\$214,808,000, representing an increase of approximately 9.7% over the corresponding period last year as a result of increase in the number of CNG/LNG vehicle filling stations from 33 to 46. The average selling price of natural gas for CNG/LNG vehicle filling stations was slightly decreased by 2.9% to RMB3.62 per m<sup>3</sup> (2014: RMB3.73 per m<sup>3</sup>) when compared to the corresponding period last year. The unit of natural gas sold to vehicles increased by 12.5% to approximately 46,956,000 m<sup>3</sup> for the six months ended 30th June, 2015 from approximately 41,734,000 m<sup>3</sup> for the corresponding period last year.

During the period under review, the turnover derived from operating CNG/LNG vehicle filling stations accounted for approximately 13.7% of the total turnover of the Group. In addition, the Group commenced building an additional 21 CNG/LNG vehicle refilling stations in the PRC. It is targeted that all new CNG/LNG vehicle filling stations will commence operation in the second half year of 2015 or 2016.

#### **Gross profit margin**

The overall gross profit margin for the six months ended 30th June, 2015 was approximately 24.1% (2014: 23.0%). The gross profit margin for the sales of piped natural gas was 17.0% (2014: 17.2%); for the gas pipeline construction was 65.2% (2014: 63.2%); and for the operation of CNG/LNG vehicle filling stations was 16.1% (2014: 25.9%).

The gross profit margin for the sales of piped natural gas remained stable. The cost increase from upstream natural gas price can be transferred to non-residential customers. The improvement of the gross profit margin for the connection revenue from gas pipeline construction was mainly due to the increase in connection revenue from non-residential customers, that the Group has more flexibility to determine the price. The decrease in the gross profit margin for the operation of CNG/LNG vehicle filling stations was mainly due to (i) slight reduction in average selling price, (ii) rising cost from upstream natural gas price, and (iii) the newly acquired CNG/LNG vehicle filling station in 2014 which other intangible assets start to amortise in current year.

#### **Other income**

Other income increased to approximately HK\$21,719,000 for the six months ended 30th June, 2015 compared to approximately HK\$3,302,000 for the corresponding period last year. The balance in current period represented the bank interest income of approximately HK\$4,510,000 (2014: HK\$965,000), interest income on amount due from a joint venture of approximately HK\$11,659,000 (2014: nil), government subsidies of approximately HK\$2,531,000 (2014: HK\$759,000), interest income from investments in life insurance contracts of approximately HK\$984,000 (2014: nil) and sundry income of approximately HK\$2,035,000 (2014: HK\$1,578,000).

#### **Selling and distribution costs**

Selling and distribution costs increased by 25.6% to approximately HK\$30,420,000 in 2015 from approximately HK\$24,212,000 in 2014. The increase was mainly attributable to the staff costs and related expenses, which increased by 26.2% to approximately HK\$21,267,000 from approximately HK\$16,850,000 as a result of increased salary and number of headcount for PRC subsidiaries.

#### **Administrative expenses**

Administrative expenses decreased by 6.7% to approximately HK\$87,021,000 in 2015 from approximately HK\$93,296,000 in 2014. The decrease was mainly attributable to reduction in deed tax for acquisitions of land in PRC in current period and the cost-saving measures conducted by the Group to improve cost-efficiency.

#### **Finance costs**

Finance costs increased by 94.2% to approximately HK\$52,174,000 for the six months ended 30th June, 2015 compared to approximately HK\$26,868,000 for the corresponding period last year. The increase was mainly attributable to the increase in average bank and other borrowings and amortisation on loan facilities fees regarding to bank borrowings, after the new US\$300,000,000 loan facility was entered into in July 2014.

### **Income tax expenses**

Under the Law of the PRC on 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 Group had no assessable profits arising in Hong Kong for the 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. During the six months ended 30th June, 2015, no withholding tax (2014: nil) was charged by the PRC tax authority which levied on the dividends payable to overseas group entities in the current period.

Accordingly, the income tax expenses for the six months ended 30th June, 2015 amounted to approximately HK\$67,261,000 (2014: HK\$67,882,000).

### **Earnings from continuing operations before finance costs, taxation, depreciation and amortisation (“EBITDA”)**

The Group's EBITDA was approximately HK\$352,996,000 for the six months ended 30th June, 2015, representing an increase of 16.0% as compared with that of approximately HK\$304,211,000 for the corresponding period last year.

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

As a result of the above, profit attributable to owners of the Company was approximately HK\$131,916,000 for the six months ended 30th June, 2015, representing an increase of 3.5% as compared with that of approximately HK\$127,460,000 for the corresponding period last year.

### **Net Profit Margin**

For the six months ended 30th June, 2015, the net profit margin, representing a ratio of profit attributable to owners of the Company to turnover, was approximately 8.4% (2014: 8.1%).

### **Earnings per share**

The basic and diluted earnings per share attributable to the owners of the Company were HK5.22 cents and HK5.22 cents respectively for the six months ended 30th June, 2015, as compared with that of HK5.05 cents and HK5.05 cents respectively 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 HK84 cents as at 30th June, 2015, representing an increase of 6.7% as compared with that of HK79 cents as at 31st December, 2014.

The net assets value represents total assets minus total liabilities.

## Prospects

The Group is confident in its future prospects as the development of natural gas industry has been a priority for the energy planning of the PRC. The growing demand for piped gas consumption arising from the progressing urbanization and increasing consumption of automobiles will also serve to drive growth. Over the past few years, we have actively acquired a number of projects with exclusive rights to increase our market coverage. 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.

The Group is cautiously seeking for suitable investment opportunities. With our healthy financial position, 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, 2015, 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	Number of Shares and/or underlying Shares	Type of Interests	Approximate percentage of issued share capital (Note 4)
Mr. Wang Wenliang	1	588,133,542	Beneficial and interest in controlled corporation	23.29%
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%

*Notes:*

1. Among these shares and/or underlying shares, 567,453,542 shares are held by Hezhong Investment Holding Company Limited (“Hezhong”). Mr. Wang Wenliang is beneficially interested in 100% of the issued share capital of Hezhong. The remaining 16,112,000 shares and 4,568,000 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, 2015, the total issued share capital of the Company was 2,525,007,684.

Save as disclosed above, as at 30th June, 2015, 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, 2015, 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 4)
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%
Ms. Feng Haiyan	3	Interest of spouse	588,133,542	23.29%

*Notes:*

1. According to the disclosure of interests pages as shown in the website of the Stock Exchange as at 30th June, 2015, 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 respectively.
3. Ms. Feng Haiyan directly holds 4,568,000 shares and is deemed to be interested in 583,565,542 shares under the SFO as she is the spouse of Mr. Wang Wenliang.
4. As at 30th June, 2015, the total issued share capital of the Company was 2,525,007,684.

Save as disclosed above, as at 30th June, 2015, 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:

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 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 23.29% of the total issued shares of the Company as at 30th June, 2015. 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, they have all confirmed their compliance with the required standard of dealings and the Model Code regarding securities transactions by Directors adopted by 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, 2015. 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, 2015.

## **BOARD OF DIRECTORS**

As at the date of this report, the Board comprises of Mr. Wang Wenliang (Chairman and Joint Managing Director), Mr. Lui Siu Keung (Joint Managing Director) 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, 24th August, 2015