



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, 2016

FINANCIAL AND OPERATIONAL HIGHLIGHTS

	For the six months ended 30th June,		
	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>	changes %
Turnover	1,639,291	1,564,802	4.8%
Gross profit (Gross margin)	451,435 (27.5)%	376,572 (24.1)%	19.9% (+3.4)%
Profit attributable to owners of the Company	65,109	131,916	(50.6)%
Adjusted profit attributable to owners of the Company (excluding the net foreign exchange loss)	127,249	131,916	(3.5)%
EBITDA	397,294	352,996	12.5%
Unit of piped natural gas sold (‘000 m ³)	373,273	308,881	20.8%
Unit of natural gas sold to vehicles (‘000 m ³)	47,870	46,956	1.9%
New piped gas connections made (residential households)	116,521	59,025	97.4%

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, 2016, together with the comparative figures for the corresponding period in 2015, 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, 2016

		For the six months ended	
		30th June,	
		2016	2015
	<i>Notes</i>	HK\$’000	HK\$’000
Turnover	3	1,639,291	1,564,802
Cost of sales		(1,187,856)	(1,188,230)
		<hr/>	<hr/>
Gross profit		451,435	376,572
Other gains and losses	5	(59,345)	–
Other income	6	12,295	21,719
Selling and distribution costs		(41,768)	(30,420)
Administrative expenses		(127,138)	(87,021)
Finance costs	7	(59,154)	(52,174)
Share of results of a joint venture		–	528
Share of results of associates		4,936	–
		<hr/>	<hr/>
Profit before tax		181,261	229,204
Income tax expenses	8	(84,601)	(67,261)
		<hr/>	<hr/>
Profit for the period	9	96,660	161,943
Other comprehensive (expense) income			
Item that will not be reclassified subsequently to profit or loss:			
Exchange differences arising on translation to presentation currency		(50,073)	1,349
		<hr/>	<hr/>
Total comprehensive income for the period		46,587	163,292
		<hr/> <hr/>	<hr/> <hr/>
Profit for the period attributable to:			
Owners of the Company		65,109	131,916
Non-controlling interests		31,551	30,027
		<hr/>	<hr/>
		96,660	161,943
		<hr/> <hr/>	<hr/> <hr/>

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

(Continued)

For the six months ended 30th June, 2016

		For the six months ended	
		30th June,	
	<i>Notes</i>	2016	2015
		HK\$'000	<i>HK\$'000</i>
Total comprehensive income attributable to:			
Owners of the Company		15,430	133,334
Non-controlling interests		31,157	29,958
		46,587	163,292
Earnings per share	<i>11</i>		
Basic		HK2.58 cents	HK5.22 cents
Diluted		HK2.58 cents	HK5.22 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June, 2016

	30th June, 2016	31st December, 2015
	(unaudited)	(audited)
<i>Notes</i>	HK\$'000	HK\$'000
Non-current assets		
Investment properties	46,193	9,012
Property, plant and equipment	4,655,318	4,470,817
Goodwill	195,907	199,859
Other intangible assets	1,011,238	1,033,347
Long-term deposits, prepayments and other receivables	390,278	428,750
Prepaid lease payments	458,484	472,338
Interest in associates	157,205	155,418
Available-for-sale investments	6,230	6,301
	6,920,853	6,775,842
Current assets		
Inventories	114,289	103,521
Trade and bills receivables	339,249	318,762
Deposits, prepayments and other receivables	332,285	283,844
Entrusted loan receivable	23,400	23,872
Amount due from associate	58,500	59,680
Amount due from related parties	13,775	14,053
Prepaid lease payments	13,492	13,693
Amounts due from customers for contract work	33,267	35,848
Tax recoverable	-	980
Pledged bank deposit	93,600	95,488
Bank balances and cash	601,329	983,726
	1,623,186	1,933,467

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

At 30th June, 2016

	<i>Notes</i>	30th June, 2016 (unaudited) HK\$'000	31st December, 2015 (audited) HK\$'000
Current liabilities			
Deferred income and advance received		493,786	496,371
Trade payables	13	560,458	591,578
Other payables and accrued charges		197,347	199,172
Amount due to an associate		1,209	1,234
Amounts due to customers for contract work		35,478	51,313
Borrowings		1,521,135	1,172,315
Obligations under finance lease due within one year		104,182	33,285
Tax payables		36,811	65,653
		2,950,406	2,610,921
Net current liabilities		(1,327,220)	(677,454)
Total assets less current liabilities		5,593,633	6,098,388
Capital and reserves			
Share capital		25,250	25,250
Reserves		2,010,864	1,981,414
		2,036,114	2,006,664
Equity attributable to owners of the Company		2,036,114	2,006,664
Non-controlling interests		305,662	265,730
		2,341,776	2,272,394
Total equity		2,341,776	2,272,394
Non-current liabilities			
Deferred income and advance received		5,915	6,034
Borrowings		2,346,619	3,063,890
Obligations under finance lease due after one year		265,780	121,986
Consideration payable		512,844	512,844
Deferred taxation		120,699	121,240
		3,251,857	3,825,994
		5,593,633	6,098,388

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2016

	Attributable to owners of the Company								Non-controlling interests				
	Share capital HK\$'000	Share premium HK\$'000	Share option reserve HK\$'000	Property revaluation reserve HK\$'000	Other reserve HK\$'000	Statutory surplus reserve HK\$'000	Translation reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000	Capital contribution and share of results HK\$'000	Others HK\$'000	Total HK\$'000	Total HK\$'000
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	-	298,692	2,292,740
Profit for the period	-	-	-	-	-	-	-	131,916	131,916	30,027	-	30,027	161,943
Other comprehensive income for the period	-	-	-	-	-	-	1,418	-	1,418	(69)	-	(69)	1,349
Total comprehensive income for the period	-	-	-	-	-	-	1,418	131,916	133,334	29,958	-	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)	(8,587)
Capital contribution from non-controlling interest of a subsidiary	-	-	-	-	-	-	-	-	-	3,804	-	3,804	3,804
At 30th June, 2015 (unaudited)	<u>25,250</u>	<u>895,736</u>	<u>319</u>	<u>1,128</u>	<u>(3,685)</u>	<u>67,719</u>	<u>229,779</u>	<u>911,136</u>	<u>2,127,382</u>	<u>323,867</u>	<u>-</u>	<u>323,867</u>	<u>2,451,249</u>
At 1st January, 2016 (audited)	25,250	895,736	319	1,128	(3,685)	73,063	163,197	851,656	2,006,664	773,547	(507,817)	265,730	2,272,394
Profit for the period	-	-	-	-	-	-	-	65,109	65,109	31,551	-	31,551	96,660
Other comprehensive expense for the period	-	-	-	-	-	-	(49,679)	-	(49,679)	(394)	-	(394)	(50,073)
Total comprehensive income for the period	-	-	-	-	-	-	(49,679)	65,109	15,430	31,157	-	31,157	46,587
Revaluation upon change of intended use of properties	-	-	-	14,020	-	-	-	-	14,020	-	-	-	14,020
Capital contribution from non-controlling interest of a subsidiary	-	-	-	-	-	-	-	-	-	8,775	-	8,775	8,775
At 30th June, 2016 (unaudited)	<u>25,250</u>	<u>895,736</u>	<u>319</u>	<u>15,148</u>	<u>(3,685)</u>	<u>73,063</u>	<u>113,518</u>	<u>916,765</u>	<u>2,036,114</u>	<u>813,479</u>	<u>(507,817)</u>	<u>305,662</u>	<u>2,341,776</u>

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, 2016

	For the six months ended 30th June,	
	2016 (unaudited) HK\$'000	2015 (unaudited) HK\$'000
Net cash from operating activities	177,682	102,682
Net cash used in investing activities	(332,777)	(387,402)
Net cash (used in) from financing activities	(212,450)	100,506
Net decrease in cash and cash equivalents	(367,545)	(184,214)
Cash and cash equivalents at 1st January	983,726	828,189
Effect of foreign exchange rate changes	(14,852)	1,290
Cash and cash equivalents at 30th June, represented by bank balances and cash	<u>601,329</u>	<u>645,265</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed consolidated financial statements for the six months ended 30th June, 2016 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, 2015, 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, 2016. 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, 2016 is as follows:

	For the six months ended	
	30th June,	
	2016	2015
	HK\$’000	HK\$’000
Sales of piped gas	1,066,145	1,081,308
Connection revenue from gas pipeline construction	398,384	262,767
Operation of CNG/LNG vehicle filling stations	163,954	214,808
Sales of liquefied petroleum gas	2,881	125
Sales of stoves and related equipment	7,927	5,794
	1,639,291	1,564,802

4. SEGMENT INFORMATION

The Group's executive directors are the chief operating decision makers ("CODM") 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 CODM for the purpose of resources allocation and assessment of performance focuses on the type of products or services rendered which is also consistent with the basis of organisation of the Group. During the current period, the CODM reviewed the result of Harmony Gas Holdings Limited by nature of its operation together with similar operation of the Group, instead of reviewing it as a separate segment as the CODM did for the year ended 31st December, 2015.

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 CODM 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.

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, 2016

	Sales of piped gas	Connection revenue from gas pipeline construction	Operation of CNG/LNG vehicle filling stations	Sales of liquefied petroleum gas	Sales of stoves and related equipment	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue	<u>1,066,145</u>	<u>398,384</u>	<u>163,954</u>	<u>2,881</u>	<u>7,927</u>	<u>1,639,291</u>
Segment profit	<u>84,425</u>	<u>220,134</u>	<u>7,249</u>	<u>45</u>	<u>5,162</u>	317,015
Unallocated other income						12,295
Unallocated other gains and losses						(62,140)
Unallocated central corporate expenses						(31,691)
Share of results of associates						4,936
Finance costs						<u>(59,154)</u>
Profit before tax						<u>181,261</u>

4. SEGMENT INFORMATION (Continued)

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>	295,014
Unallocated other income						21,719
Unallocated central corporate expenses						(35,883)
Share of results of a joint venture						528
Finance costs						<u>(52,174)</u>
Profit before tax						<u>229,204</u>

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit (loss) represents the financial result of 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, share of results of associates, finance costs and income tax expenses. This is the measure reported to the CODM for the purposes of resources allocation and performance assessment.

5. OTHER GAINS AND LOSSES

	For the six months ended 30th June,	
	2016 HK\$'000	2015 HK\$'000
Net foreign exchange loss	(62,140)	—
Net gain on disposal/written-off of property, plant and equipment	<u>2,795</u>	—
	<u>(59,345)</u>	—

6. OTHER INCOME

	For the six months ended	
	30th June,	
	2016	2015
	HK\$'000	HK\$'000
Bank interest income	2,226	4,510
Interest income on amount due from a joint venture	–	11,659
Interest income on amount due from associate	2,137	–
Government subsidies (<i>Note</i>)	3,130	2,531
Interest income from investments in life insurance contracts	1,349	984
Sundry income	3,453	2,035
	<u>12,295</u>	<u>21,719</u>

Note: During the six months ended 30th June, 2016, the Group has received subsidies of HK\$3,130,000 (2015: HK\$2,531,000) from relevant PRC governments for promoting the use of natural gas. There are no conditions attached to the subsidies granted to the Group.

7. FINANCE COSTS

	For the six months ended	
	30th June,	
	2016	2015
	HK\$'000	HK\$'000
Interests on borrowings	71,456	70,225
Interests on obligations under finance lease	6,570	2,673
	<u>78,026</u>	<u>72,898</u>
Amortisation on loan facilities fees relating to bank borrowings	17,657	13,696
	<u>95,683</u>	<u>86,594</u>
Total borrowing costs	95,683	86,594
Less: Amounts capitalised in construction in progress included in property, plant and equipment	(36,529)	(34,420)
	<u>59,154</u>	<u>52,174</u>

8. INCOME TAX EXPENSES

	For the six months ended 30th June,	
	2016 HK\$'000	2015 HK\$'000
PRC Enterprise Income Tax	<u>84,601</u>	<u>67,261</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. During the six months ended 30th June, 2016, no withholding tax (2015: nil) was charged by the PRC tax authority which levied on the dividends paid to overseas group entities in the current period.

9. PROFIT FOR THE PERIOD

	For the six months ended 30th June,	
	2016 HK\$'000	2015 HK\$'000
Profit for the period has been arrived at after charging:		
Amortisation of other intangible assets (included in cost of sales)	8,009	5,191
Release of prepaid lease payments	5,607	5,706
Depreciation of property, plant and equipment	81,123	60,721
Cost of inventories recognised as expenses in respect of contract cost for gas pipeline construction	89,397	63,825
Cost of inventories recognised as expenses in respect of sales of piped gas, liquefied petroleum gas and stoves equipment	<u>886,297</u>	<u>962,198</u>

10. DIVIDENDS

No dividend was paid or proposed during the six months ended 30th June, 2016, nor has any dividend been proposed since the end of the reporting period (2015: nil).

11. EARNINGS PER SHARE

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

	For the six months ended 30th June,	
	2016	2015
	HK\$'000	HK\$'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share, being profit for the period attributable to owners of the Company	65,109	131,916
	<hr/> <hr/>	<hr/> <hr/>
	For the six months ended 30th June,	
	2016	2015
	'000	'000
Number of shares		
Weighted average number of shares for the purpose of basic earnings per share	2,525,008	2,525,008
Effect of dilutive potential ordinary shares: Share options issued by the Company	1,462	1,543
	<hr/> <hr/>	<hr/> <hr/>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	2,526,470	2,526,551
	<hr/> <hr/>	<hr/> <hr/>

12. TRADE AND BILLS RECEIVABLES

The Group allows an average credit period of 30 days (2015: 30 days) to its trade customers. As at 30th June, 2016, the bills receivables are matured within the range of 30 days to 180 days (2015: 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:

	30th June, 2016	31st December, 2015
	HK\$'000	HK\$'000
0 – 30 days	164,095	197,794
31 – 90 days	33,217	37,055
91 – 180 days	15,591	12,483
Over 180 days	100,026	48,358
	<hr/> <hr/>	<hr/> <hr/>
Trade receivables	312,929	295,690
	<hr/> <hr/>	<hr/> <hr/>
0 – 90 days	10,275	15,367
91 – 180 days	16,045	7,705
	<hr/> <hr/>	<hr/> <hr/>
Bills receivables	26,320	23,072
	<hr/> <hr/>	<hr/> <hr/>
Trade and bills receivables	339,249	318,762
	<hr/> <hr/>	<hr/> <hr/>

12. TRADE AND BILLS RECEIVABLES (Continued)

Trade receivables of HK\$164,095,000 (2015: HK\$197,794,000) and bills receivables of HK\$26,320,000 (2015: HK\$23,072,000) were neither past due nor impaired. These customers are mainly local reputable real estate developers and corporate entities in the PRC and no significant counterparty default was noted in the past.

As at 30th June, 2016, trade receivables of HK\$148,834,000 (2015: HK\$97,896,000) were past due but no impairment has been provided for as there has not been a significant change in credit quality and the amounts are still considered recoverable taking into account the debtors' settlement history. The Group does not hold any collateral over these balances. As at 30th June, 2016, the allowance for doubtful debts of trade receivable is HK\$2,049,000 (2015: HK\$2,049,000).

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.

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. Some of the trade receivables categorised as past due but not impaired as at the end of the reporting period were subsequently settled as at the date of the Group's consolidated financial statements were authorised for issuance. For those balances that have not been settled, the Directors are confident that there will be no recoverability issue taking into account that 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.

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:

	30th June, 2016 HK\$'000	31st December, 2015 HK\$'000
0 – 30 days	221,379	320,105
31 – 90 days	74,821	42,323
91 – 180 days	40,526	61,213
Over 180 days	223,732	167,937
	<hr/>	<hr/>
Trade payables	560,458	591,578
	<hr/> <hr/>	<hr/> <hr/>

The average credit period on purchase of goods is 90 days (2015: 90 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

LIQUIDITY, FINANCIAL RESOURCES AND WORKING CAPITAL

Liquidity

As at 30th June, 2016, the total assets of the Group slightly decreased by approximately HK\$165,270,000 or 1.9% to HK\$8,544,039,000 (2015: HK\$8,709,309,000).

As at 30th June, 2016, the Group has net current liabilities of approximately HK\$1,327,220,000 (2015: HK\$677,454,000). It was mainly due to increase in bank and other borrowings which are repayable within one year.

As at 30th June, 2016, the Group's current ratio, represented by a ratio of total current assets to total current liabilities, was approximately 0.6 (2015: 0.7).

As at 30th June, 2016, the total borrowings and obligations under finance lease decreased by approximately HK\$153,760,000 or 3.5% to HK\$4,237,716,000 (2015: HK\$4,391,476,000).

As at 30th June, 2016, the Group had total net debts of approximately HK\$3,542,787,000 (2015: HK\$3,312,262,000), measured as total borrowings and obligations under finance lease minus the bank balances and cash and pledged bank deposit. As at 30th June, 2016, the Group had net gearing ratio of approximately 151.3% (2015: 145.8%), measured as total net debts to total equity of approximately HK\$2,341,776,000 (2015: HK\$2,272,394,000).

Financial resources

During the period under review, the Group entered into several loan agreements with several banks in Hong Kong, pursuant to which the Group was made available to loan facilities of up to US\$87,000,000 in total. The net loan proceeds are used for refinancing the existing indebtedness of the Group.

During the six months ended 30th June, 2016, the Group generally financed its operations with internally generated resources and bank and other borrowings. As at 30th June, 2016, all of the bank and other borrowings were secured or unsecured and on normal commercial terms.

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 ("RMB") or the United States dollars and the Group conducted its business transactions principally in RMB. In August 2015, the People's Bank of China announced a new mechanism to determine the RMB reference rate and RMB depreciated since then. This led to an unrealised exchange loss arising from the Group's bank borrowings denominated in United States dollars for the year ended 31st December, 2015 and for the six months ended 30th June, 2016. As at 30th June, 2016, the Group did not employ any financial instruments for hedging purposes. In August 2016, the Group strategically performed a loan restructuring and a dual-currency syndicated loan facility of CNH1,597,902,000 and US\$121,460,000 was arranged. Such loan restructuring will result in a natural hedge effect to reduce currency exposure and maintain a more stable financial position for the Group.

EMPLOYEE INFORMATION

As at 30th June, 2016, the Group had a total of 3,104 employees (2015: 2,464) in Hong Kong and the PRC, and the total employee benefit expenses (other than directors) for the period under review was approximately HK\$127,708,000 (2015: HK\$99,012,000). The increase was mainly due to the increase in the number of headcount of the Group and salary increment. More than 99.7% 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 recommended by the Remuneration Committee of the Company, having regard to the Group's operating results, the Directors' 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, 2015: 2,000,000) outstanding under the Old Share Option Scheme, the full conversion of which will result in the issue of 2,000,000 ordinary 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, 2015: 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, 2015: 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				
				Outstanding as at 1st January, 2016	Granted during the period under review	Exercised during the period under review	Lapsed/Cancelled during the period under review	Outstanding as at 30th June, 2016
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, 2016, the Group has pledged certain buildings in the PRC having a carrying value of HK\$3,012,000 (2015: HK\$3,147,000) to secure certain bank borrowings granted to the Group.

As at 30th June, 2016, the Group has pledged certain prepaid lease payments in the PRC having a carrying value of HK\$43,230,000 (2015: HK\$44,660,000) to secure certain bank borrowings granted to the Group.

As at 30th June, 2016, pursuant to a letter of undertaking, the Group is required to maintain a deposit of RMB80,000,000 (equivalent to HK\$93,600,000) (2015: RMB80,000,000, equivalent to HK\$95,488,000) with a bank as a condition precedent to a short-term bank borrowing.

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

As at 30th June, 2016, the Board did not have any specific plans for material investment or capital assets.

CAPITAL COMMITMENTS

As at 30th June, 2016, 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\$83,515,000 (2015: HK\$77,771,000).

CONTINGENT LIABILITIES

As at 30th June, 2016, the Group did not have any contingent liabilities (2015: nil).

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

Yueqing Project

After the end of the reporting period, the Group secured one additional gas project with exclusive right in Yueqing City, Zhejiang Province, the PRC. On 8th July, 2016, the Group entered into an agreement with the Bureau of Urban Utilities and Landscaping of Yueqing City (authorized by People's Government of Yueqing City of Zhejiang Province of China) in respect of the proposed development for constructing and operating piped natural gas project exclusively in certain area in Yueqing City.

樂清中裕燃氣有限公司 (Yueqing Zhongyu Gas Company Limited) ("Yueqing Zhongyu"), of which the Group is holding 85% interest, was established to engage in the aforesaid project. The registered capital of Yueqing Zhongyu is RMB50,000,000. Yueqing Zhongyu obtained the concession right from local authorities of Yueqing City to operate the sales and distribution of natural gas in certain area of Yueqing City. The concession right is for a period of 28 years and has granted for exclusive operations since 8th July, 2016.

Yueqing City is a major industrial city. After thirty years of rapid development, two industrial zones along 104 National Highway and the coastline were formed, which host companies engaged in a dozen special advantageous industries such as industrial appliances, electronic components, shipbuilding, drill, clothing, mold and automobile and motorcycle parts. Yueqing City was ranked 25th in the Top 100 Counties of China, with a relatively strong economic development. In 2015, the city's GDP amounted to RMB76.682 billion and the GDP per capita (according to household population) amounted to RMB59,728. The project area covers 16 towns in Yueqing City, with the size of approximately 700 km², accounting for approximately 60% of the total area of the city. The population in the project area is around 0.8 million in total. The expected number of residential households is approximately 0.2 million.

New CNG/LNG Vehicle Filling Stations Expansion

The Group continued to develop vehicles natural gas filling station business actively. During the period under review, 2 new 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 (all items listed below with respect to the six months ended 30th June, 2016 included the statistics of Harmony Gas Holdings Limited):

	Six months ended		
	30th June, (unaudited)		
	2016	2015	Increase/ (Decrease)
Number of operational locations (Note a)*	52	52	–
– Henan Province	21	21	–
– Hebei Province	15	15	–
– Jiangsu Province	5	5	–
– Shandong Province	4	4	–
– Jilin Province	2	2	–
– Fujian Province	1	1	–
– Heilongjiang Province	1	1	–
– Zhejiang Province	1	1	–
– Anhui Province	2	2	–
Connectable urban population (‘000) (Note b)*	10,258	9,697	5.8%
Connectable residential households (‘000)*	2,931	2,772	5.8%
New piped gas connections by the Group made during the period			
– Residential households	116,521	59,025	97.4%
– Industrial customers	71	75	(5.3)%
– Commercial customers	336	257	30.7%

	Six months ended		Increase/ (Decrease)
	30th June, (unaudited) 2016	2015	
Accumulated number of connected piped gas customers*			
– Residential households	1,701,204	1,447,084	17.6%
– Industrial customers	874	719	21.6%
– Commercial customers	5,195	4,558	14.0%
Penetration rate of residential pipeline connection (<i>Note c</i>)	58.0%	52.2%	5.8%
Unit of piped natural gas sold ('000 m ³)			
– Residential households	373,273	308,881	20.8%
– Industrial customers	108,443	75,872	42.9%
– Commercial customers	201,878	175,407	15.1%
– Commercial customers	50,764	38,501	31.9%
– Wholesale customers	12,188	19,101	(36.2)%
Number of CNG/LNG Vehicle Filling Stations			
– Accumulated	56	46	10
– Under construction	23	21	2
Unit of natural gas sold to vehicles ('000 m ³)	47,870	46,956	1.9%
Total length of existing intermediate and main pipelines (km)*	9,509	8,193	16.1%
Average selling price of natural gas (pre-tax) (RMB per m ³)			
– Residential households	2.18	2.00	9.0%
– Industrial customers	2.39	2.89	(17.3)%
– Commercial customers	2.69	3.17	(15.1)%
– Wholesale customers	1.63	2.30	(29.1)%
– CNG/LNG vehicle filling stations	2.96	3.62	(18.2)%
Average cost of natural gas (RMB per m ³)	1.99	2.31	(13.9)%
Average connection fee for residential households (RMB)	2,604	2,815	(7.5)%

Note a: The number of operational locations represents the gas projects with exclusive rights which are operated by the Group in different cities and regions in the PRC.

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

Note c: The penetration rates of residential pipeline connection represented by the percentage of 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 included the statistics of Harmony Gas Holdings Limited.

FINANCIAL REVIEW

Overall

The Group's gross profit for the six months ended 30th June, 2016 increased by approximately 19.9% to HK\$451,435,000 (2015: HK\$376,572,000), as a result of increase in (i) new household connections and (ii) piped natural gas sales volume.

In spite of the improvement in gross profit, the Group's profit attributable to owners of the Company reduced to HK\$65,109,000 (2015: HK\$131,916,000). The decrease was mainly due to net foreign exchange loss of HK\$62,140,000. In August 2015, the People's Bank of China announced a new mechanism to determine the RMB reference rate and RMB depreciated since then. This led to a significant unrealised exchange loss which mainly arising from the Group's bank borrowings denominated in United States dollars. Moreover, due to RMB depreciation, the Group's profit was translated to Hong Kong Dollars at a lower average exchange rate.

Excluding the net foreign exchange loss of HK\$62,140,000 (2015: nil), adjusted profit attributable to owners of the Company would amount to HK\$127,249,000 (2015: HK\$131,916,000).

Turnover

An analysis of the Group's turnover by products and services 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,				
	2016 HK\$'000	% of total	2015 HK\$'000	% of total	Increase/ (Decrease)
Sales of Piped Gas	1,066,145	65.0%	1,081,308	69.1%	(1.4)%
Connection revenue from Gas Pipeline Construction	398,384	24.3%	262,767	16.8%	51.6%
Operation of CNG/LNG Vehicle Filling Stations	163,954	10.0%	214,808	13.7%	(23.7)%
Sales of Stoves and Related Equipment	7,927	0.5%	5,794	0.4%	36.8%
Sub-total	1,636,410	99.8%	1,564,677	100.0%	4.6%
Sales of Liquefied Petroleum Gas	2,881	0.2%	125	0.0%	2,204.8%
Total	1,639,291	100%	1,564,802	100%	4.8%

The turnover for the period under review amounted to approximately HK\$1,639,291,000 (2015: HK\$1,564,802,000). The continuous growth in sales of piped gas to commercial and residential customers and connection revenue from gas pipeline construction were partly offset by the decrease in sales of piped gas to industrial customers and the sales of natural gas from CNG/LNG vehicle filling stations. Moreover, due to RMB depreciation, the turnover was translated to Hong Kong Dollars at a lower average exchange rate, which further abated the growth of turnover.

Sales of Piped Gas

Sales of piped gas for the six months ended 30th June, 2016 amounted to approximately HK\$1,066,145,000, representing a decrease of approximately 1.4% over the corresponding period last year.

Sales of piped gas for the period under review contributed approximately 65.0% of the total turnover of the Group. As compared with the percentage of approximately 69.1% 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)
	2016 <i>HK\$'000</i>	% of total	2015 <i>HK\$'000</i>	% of total	
Industrial customers	591,009	55.5%	667,452	61.7%	(11.5)%
Residential households	288,232	27.0%	202,429	18.7%	42.4%
Commercial customers	163,293	15.3%	155,813	14.4%	4.8%
Wholesale customers	23,611	2.2%	55,614	5.2%	(57.5)%
Total	<u>1,066,145</u>	<u>100%</u>	<u>1,081,308</u>	<u>100%</u>	<u>(1.4)%</u>

Industrial customers

The sales of piped gas to the Group's industrial customers for the period under review decreased by 11.5% to approximately HK\$591,009,000 from approximately HK\$667,452,000 for the corresponding period last year. During the period under review, the Group connected 71 new industrial customers. On 20th November, 2015, the National Development and Reform Commission (the "NDRC") of the PRC lowered the maximum city-gate prices of natural gas for non-residential users. The Group passed through the decreased cost to its non-residential users. The average selling price of natural gas for industrial customers was decreased by 17.3% to RMB2.39 per m³ (2015: RMB2.89 per m³) when compared to the corresponding period last year. The lower gas price provided a stronger incentive for non-residential users to use natural gas and facilitated the Group to develop its new industrial and commercial customers, which sparked up the gas sales volume of the Group. During the period under review, the piped natural gas usage provided by the Group to its industrial customers increased by 15.1% to approximately 201,878,000 m³ (2015: 175,407,000 m³).

The sales of piped gas to its industrial customers for the period under review contributed approximately 55.5% of the total sales of piped gas of the Group. As compared with the percentage of approximately 61.7% 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 42.4% to approximately HK\$288,232,000 from approximately HK\$202,429,000 for the corresponding period last year. The growth in sales of piped gas to residential households was supported by the growth in population due to urbanization in the Group's existing project cities in the PRC and the consolidation of turnover of Harmony Gas Holdings Limited, which has become a subsidiary of the Group since 8th December, 2015. During the period under review, the Group provided new natural gas connections for 116,521 residential households and the piped natural gas usage provided by the Group to residential households was approximately 108,443,000 m³ (2015: 75,872,000 m³).

The sales of piped gas to its residential households for the period under review contributed approximately 27.0% of the total sales of piped gas of the Group (2015: 18.7%).

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 4.8% to approximately HK\$163,293,000 from approximately HK\$155,813,000 for the corresponding period last year. The sales of piped gas to its commercial customers for the period under review contributed approximately 15.3% of the total sales of piped gas of the Group (2015: 14.4%). During the period under review, the Group connected 336 new commercial customers. As at 30th June, 2016, the number of commercial customers of the Group reached 5,195, representing an increase of approximately 6.9% as compared with 4,859 customers as at 31st December, 2015.

The average selling price of natural gas for commercial customers was reduced by 15.1% to RMB2.69 per m³ (2015: RMB3.17 per m³) during the period under review. The increase in gas consumption of commercial customers by 31.9% to approximately 50,764,000 m³ (2015: 38,501,000 m³), which mainly contributed by Harmony Gas Holdings Limited, drove the piped gas sales increment.

Gas Pipeline Construction

Connection revenue from gas pipeline construction for the six months ended 30th June, 2016 amounted to approximately HK\$398,384,000 representing an increase of approximately 51.6% 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)
	2016 HK\$'000	% of total	2015 HK\$'000	% of total	
Residential households	360,524	90.5%	210,219	80.0%	71.5%
Non-residential customers	37,860	9.5%	52,548	20.0%	(28.0)%
Total	398,384	100%	262,767	100%	51.6%

During the period under review, connection revenue from gas pipeline construction for residential households increased by 71.5% to approximately HK\$360,524,000 from approximately HK\$210,219,000 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 116,521 from 59,025 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 decreased by 28.0% to approximately HK\$37,860,000 from approximately HK\$52,548,000 for the corresponding period last year. In consideration of the current economic environment in the PRC, the non-residential customers were more prudent when negotiating the gas pipeline construction contracts.

As at 30th June, 2016, the Group's penetration rates of residential pipeline connection amounted to 58.0% (2015: 52.2%) (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). In view of the rapid growth of the population in urban areas due to urbanization, the Group will continue to increase its market coverage by active acquisition when suitable opportunities arise.

Operation of CNG/LNG Vehicle Filling Stations

International crude oil prices have remained at a low level since late 2014, resulting in the shrinkage of the competitive advantage of CNG/LNG vehicle filling stations in short term as the price of CNG/LNG seemed less attractive to customers. Revenue from operating CNG/LNG vehicle filling stations for the six months ended 30th June, 2016 amounted to approximately HK\$163,954,000 representing a decrease of approximately 23.7% over the corresponding period last year. The average selling price of natural gas for CNG/LNG vehicle filling stations was decreased by 18.2% to RMB2.96 per m³ (2015: RMB3.62 per m³) when compared to the corresponding period last year. The unit of natural gas sold to vehicles slightly increased by 1.9% to approximately 47,870,000 m³ for the six months ended 30th June, 2016 from approximately 46,956,000 m³ for the corresponding period last year.

During the period under review, the turnover derived from operating CNG/LNG vehicle filling stations accounted for approximately 10.0% of the total turnover of the Group. Despite the short-term difficulties faced by the industry, the Group is confident in the future development of the natural gas industry. As at 30th June, 2016, the Group had 56 CNG/LNG vehicle filling stations and commenced building an additional 23 CNG/LNG vehicle filling stations in the PRC. It is targeted that all new CNG/LNG vehicle filling stations will commence operation in the second half year of 2016 or 2017.

Gross profit margin

The overall gross profit margin for the six months ended 30th June, 2016 was approximately 27.5% (2015: 24.1%). The gross profit margin for the sales of piped natural gas was 17.7% (2015: 17.0%); for the gas pipeline construction was 65.0% (2015: 65.2%); and for the operation of CNG/LNG vehicle filling stations was 9.4% (2015: 16.1%).

Both the gross profit margin for the sales of piped natural gas and for the connection revenue from gas pipeline construction were relatively stable. Improvement in overall gross profit margin in current period was mainly due to increase in the proportion of connection revenue from gas pipeline construction to total turnover. The gross profit margin for the operation of CNG/LNG vehicle filling stations was dropping mainly because of reduction of average selling price in the period under review, as a result of keen competition.

Other gains and losses

The Group recognised other net loss of HK\$59,345,000 during the period under review (2015: nil). The amount mainly represented net foreign exchange loss.

Other income

Other income reduced to approximately HK\$12,295,000 for the six months ended 30th June, 2016 compared to approximately HK\$21,719,000 for the corresponding period last year. The balance in current period represented the bank interest income of approximately HK\$2,226,000 (2015: HK\$4,510,000), interest income on amount due from associate of approximately HK\$2,137,000 (2015: nil), government subsidies of approximately HK\$3,130,000 (2015: HK\$2,531,000), interest income from investments in life insurance contracts of approximately HK\$1,349,000 (2015: HK\$984,000) and sundry income of approximately HK\$3,453,000 (2015: HK\$2,035,000). During the six months ended 30th June, 2015, there was interest income on amount due from a joint venture of HK\$11,659,000. No such income was recognised in 2016.

Selling and distribution costs and administrative expenses

Selling and distribution costs increased by 37.3% to approximately HK\$41,768,000 in 2016 from approximately HK\$30,420,000 in 2015. Administrative expenses increased by 46.1% to approximately HK\$127,138,000 in 2016 from approximately HK\$87,021,000 in 2015. The increase was mainly attributable to (i) ascending staff costs and related expenses as a result of increased salary and number of headcount; and (ii) the consolidation of selling and distribution costs and administrative expenses of Harmony Gas Holdings Limited.

Finance costs

Finance costs increased by 13.4% to approximately HK\$59,154,000 for the six months ended 30th June, 2016 compared to approximately HK\$52,174,000 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.

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 Company and its subsidiaries 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, 2016, no withholding tax (2015: nil) was charged by the PRC tax authority which levied on the dividends paid to overseas group entities in the current period.

Accordingly, the income tax expenses for the six months ended 30th June, 2016 amounted to approximately HK\$84,601,000 (2015: HK\$67,261,000).

Earnings from continuing operations before finance costs, taxation, depreciation, amortisation and exchange gain/loss ("EBITDA")

The Group's EBITDA was approximately HK\$397,294,000 for the six months ended 30th June, 2016, representing an increase of 12.5% as compared with that of approximately HK\$352,996,000 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\$65,109,000 for the six months ended 30th June, 2016, representing a decrease of 50.6% as compared with that of approximately HK\$131,916,000 for the corresponding period last year.

Excluding the net foreign exchange loss of HK\$62,140,000 (2015: nil), adjusted profit attributable to owners of the Company would amount to HK\$127,249,000 (2015: HK\$131,916,000).

Net Profit Margin

For the six months ended 30th June, 2016, the net profit margin, representing a ratio of profit attributable to owners of the Company to turnover, was approximately 4.0% (2015: 8.4%).

Earnings per share

The basic and diluted earnings per share attributable to the owners of the Company were HK2.58 cents and HK2.58 cents respectively for the six months ended 30th June, 2016, as compared with that of HK5.22 cents and HK5.22 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 HK81 cents as at 30th June, 2016, representing an increase of 2.5% as compared with that of HK79 cents as at 31st December, 2015.

The net assets value represents total assets minus total liabilities.

Prospects

The business environment of the natural gas industry has been difficult due to the economic slowdown over the past six months. Looking into the second half of 2016, the Group remains prudent yet cautiously optimistic towards the upcoming business development.

The implementation of non-residential city-gate price decrement in November 2015 has since stimulated the volume of piped gas sold to industrial and commercial customers, and is expected to continue bringing in positive impact on the Group's business in the second half of 2016. As environmental protection and energy conservation are the priorities in the 13th Five-Year Plan, the Group believes that more supportive policies will be issued to encourage more usage of natural gas. On the other hand, even though China's economy is facing downward pressure, the Group's diversified customer portfolio minimizes the reliance on any particular sector and mitigates the influence posed by the economic slowdown. This certainly maintains the stability of the Group's business performance.

As for the gas pipeline construction and connection, the revival of the real estate market in China has created opportunities in exploring new connectable residential households and the increasing occupancy rate in new estates will also create demand for pipeline connection and the recurring need for piped gas in the future. For the operations of CNG/LNG gas stations, the decline in crude oil prices has weakened the demand for natural gas. However, the current level of oil price has reached a historically low point and it is expected that the oil price will remain stable and gradually recover by the end of 2016, according to Morgan Stanley. Under such circumstance, the Group will cautiously monitor market change and demand and will construct infrastructure in the regions where no CNG/LNG filling stations is in place, particularly for the Harmony Gas projects, to grasp any suitable business opportunities.

Moreover, penetrating in the 22 exclusive natural gas distribution projects operated by Harmony Gas Holdings Limited ("Harmony Gas") and its subsidiaries remained as a top priority. The Group expedited the construction of pipelines in covered areas over the past six months. In addition to the positive financial contribution from Harmony Gas' existing operations, in the second half of 2016, we expect to generate new income streams from residential households and industrial customers connected with the new pipelines. The newly constructed pipelines are expected to boost the sales of natural gas going forward.

Under the circumstance that RMB is likely to continue its downward trend, in August 2016, the Group strategically performed a loan restructuring in order to alleviate the financial impact brought by the depreciation of RMB. A dual-currency syndicated loan facility of CNH1,597,902,000 and US\$121,460,000 was arranged. Such action targets to lower the proportion of the current United States Dollar loans to 40%, while increasing the proportion of RMB loans to approximately 60%. As the Group's functional currency is RMB, the loan restructuring will result in a natural hedge effect to reduce currency exposure and maintain a more stable financial position for the Group. The Group will not eliminate any possibilities of further enhancing the proportion of the RMB bank borrowings in the future and believes the appropriate arrangement will benefit the Group.

Looking forward, the Group will continue to deepen its market penetration and geographic coverage, while strive to become the most valued clean energy distributor and operator in the PRC, so as to bring in fruitful results for shareholders in the future.

Save as discussed above, there is no important event affecting the Group which have occurred since 30th June, 2016.

DISCLOSURE OF INTERESTS

(a) Interests of Directors

As at 30th June, 2016, 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	591,859,542	Beneficial/Interest in controlled corporation/Interest of spouse	23.44%
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 8,294,000 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, 2016, the number of total issued shares of the Company was 2,525,007,684.

Save as disclosed above, as at 30th June, 2016, 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, 2016, the following entities (not being Directors or the Joint Managing Director 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	Beneficial/Interest of spouse	591,859,542	23.44%

Notes:

1. According to the disclosure of interests pages as shown in the website of the Stock Exchange as at 30th June, 2016, 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 8,294,000 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, 2016, the total number of issued shares of the Company was 2,525,007,684.

Save as disclosed above, as at 30th June, 2016, 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 29th 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.

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, 2016. 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 listed securities of the Company during the six months ended 30th June, 2016.

BOARD OF DIRECTORS

As at the date of this report, the Board comprises of Mr. Wang Wenliang (Chairman), Mr. Peng Wei (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
Wang Wenliang
Chairman

Hong Kong, 26th August, 2016