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, 2017

FINANCIAL AND OPERATIONAL HIGHLIGHTS

	For the six months ended 30th June,		
	2017 ***HK$'000***	2016 *HK$'000*	**changes** **%**
Turnover	**2,142,291**	1,639,291	30.7%
Gross profit (Gross margin)	**503,483** **(23.5%)**	451,435 (27.5%)	11.5% (-4.0%)
Profit attributable to owners of the Company	**147,861**	65,109	127.1%
EBITDA	**486,640**	397,294	22.5%
Basic earnings per share (HK cents)	**5.86**	2.58	127.1%
Unit of piped natural gas sold ('000 m^3)	**585,941**	373,273	57.0%
Unit of natural gas sold to vehicles ('000 m^3)	**52,195**	47,870	9.0%
New piped gas connections made (residential households)	**119,647**	116,521	2.7%

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, 2017, together with the comparative figures for the corresponding period in 2016, which are set out below. The Group is principally engaged in (i) the investment, operation and management of city gas pipeline infrastructure, and the 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, 2017

		For the six months ended 30th June,	
		2017	2016
	NOTES	***HK$'000***	*HK$'000*
Turnover	*3*	**2,142,291**	1,639,291
Cost of sales		**(1,638,808)**	(1,187,856)
Gross profit		**503,483**	451,435
Other gains and losses	*5*	**44,972**	(59,345)
Other income	*6*	**12,424**	12,295
Selling and distribution costs		**(48,283)**	(41,768)
Administrative expenses		**(145,572)**	(127,138)
Finance costs	*7*	**(102,169)**	(59,154)
Share of results of associates		**30,169**	4,936
Profit before tax		**295,024**	181,261
Income tax expenses	*8*	**(104,651)**	(84,601)
Profit for the period	*9*	**190,373**	96,660
Other comprehensive income (expense)			
Item that will not be reclassified subsequently to profit or loss:			
Exchange differences arising on translation to presentation currency		**69,800**	(50,073)
Surplus on revaluation upon transfer of property, plant and equipment to investment property at fair value		**–**	14,020
Total comprehensive income for the period		**260,173**	60,607

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

(Continued)

For the six months ended 30th June, 2017

		For the six months ended 30th June,	
		2017	2016
	NOTES	***HK$'000***	*HK$'000*
Profit for the period attributable to:			
Owners of the Company		**147,861**	65,109
Non-controlling interests		**42,512**	31,551
		190,373	96,660
Total comprehensive income attributable to:			
Owners of the Company		**216,319**	29,450
Non-controlling interests		**43,854**	31,157
		260,173	60,607
Earnings per share	*11*		
Basic		**HK5.86 cents**	HK2.58 cents
Diluted		**HK5.85 cents**	HK2.58 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June, 2017

	NOTES	30th June, 2017 (unaudited) HK$'000	31st December, 2016 (audited) HK$'000
Non-current assets			
Investment properties		**45,089**	43,748
Property, plant and equipment		**6,068,854**	5,625,852
Goodwill		**215,065**	208,886
Other intangible assets		**1,059,409**	1,038,810
Long-term deposits, prepayments and other receivables		**477,932**	408,000
Prepaid lease payments		**484,989**	474,532
Interest in associates		**199,780**	164,034
Available-for-sale investments		**6,177**	6,074
		8,557,295	7,969,936
Current assets			
Inventories		**143,403**	105,863
Trade and bills receivables	*12*	**368,936**	411,101
Deposits, prepayments and other receivables		**338,870**	237,791
Entrusted loan receivable		**23,044**	22,359
Amount due from associate		**57,771**	56,087
Amount due from related parties		**25,664**	24,901
Prepaid lease payments		**13,995**	13,579
Amounts due from customers for contract work		**367**	1,774
Tax recoverable		**–**	757
Pledged bank deposit		**2,374**	11,574
Bank balances and cash		**464,073**	767,941
		1,438,497	1,653,727

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

At 30th June, 2017

	NOTES	**30th June, 2017 (unaudited) *HK$'000***	31st December, 2016 (audited) *HK$'000*
Current liabilities			
Deferred income and advance received		**543,368**	521,308
Trade and bills payables	*13*	**525,171**	576,497
Other payables and accrued charges		**286,972**	230,830
Amount due to an associate		**1,191**	1,155
Amounts due to customers for contract work		**42,836**	41,458
Borrowings		**914,277**	571,616
Obligations under finance lease due within one year		**104,182**	100,306
Consideration payable		**575,791**	575,791
Tax payables		**58,609**	90,142
		3,052,397	2,709,103
Net current liabilities		**(1,613,900)**	(1,055,376)
Total assets less current liabilities		**6,943,395**	6,914,560
Capital and reserves			
Share capital		**25,250**	25,250
Reserves		**2,673,740**	2,527,956
Equity attributable to owners of the Company		**2,698,990**	2,553,206
Non-controlling interests		**214,447**	252,725
Total equity		**2,913,437**	2,805,931
Non-current liabilities			
Deferred income and advance received		**5,825**	5,652
Borrowings		**3,518,577**	3,537,814
Obligations under finance lease due after one year		**157,556**	214,789
Deferred taxation		**348,000**	350,374
		4,029,958	4,108,629
		6,943,395	6,914,560

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2017

	Attributable to owners of the Company									Non-controlling interests			
	Share capital	Share premium	Share option reserve	Property revaluation reserve	Other reserve	Statutory surplus reserve	Translation reserve	Accumulated profits	Total	Capital contribution and share of results	Others	Total	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* *(Note)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
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 income (expense) for the period	-	-	-	14,020	-	-	(49,679)	-	(35,659)	(394)	-	(394)	(36,053)
Total comprehensive income for the period	-	-	-	14,020	-	-	(49,679)	65,109	29,450	31,157	-	31,157	60,607
Capital contribution from non-controlling interest of a subsidiary	-	-	-	-	-	-	-	-	-	8,775	-	8,775	8,775
At 30th June, 2016 (unaudited)	25,250	895,736	319	15,148	(3,685)	73,063	113,518	916,765	2,036,114	813,479	(507,817)	305,662	2,341,776
At 1st January, 2017 (audited)	**25,250**	**895,736**	**319**	**481,368**	**(37,539)**	**86,658**	**57,203**	**1,044,211**	**2,553,206**	**760,542**	**(507,817)**	**252,725**	**2,805,931**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**147,861**	**147,861**	**42,512**	**-**	**42,512**	**190,373**
Other comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**-**	**68,458**	**-**	**68,458**	**1,342**	**-**	**1,342**	**69,800**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**-**	**68,458**	**147,861**	**216,319**	**43,854**	**-**	**43,854**	**260,173**
Transfer to statutory surplus reserve	**-**	**-**	**-**	**-**	**-**	**22,908**	**-**	**(22,908)**	**-**	**-**	**-**	**-**	**-**
Dividend paid by subsidiaries to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(12,595)**	**-**	**(12,595)**	**(12,595)**
Acquisition of additional interests in a subsidiary	**-**	**-**	**-**	**-**	**(70,535)**	**-**	**-**	**-**	**(70,535)**	**(69,537)**	**-**	**(69,537)**	**(140,072)**
At 30th June, 2017 (unaudited)	**25,250**	**895,736**	**319**	**481,368**	**(108,074)**	**109,566**	**125,661**	**1,169,164**	**2,698,990**	**722,264**	**(507,817)**	**214,447**	**2,913,437**

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 up 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, 2017

	For the six months ended 30th June,	
	2017	2016
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Net cash from operating activities	**235,245**	177,682
Net cash used in investing activities	**(573,196)**	(332,777)
Net cash from (used in) financing activities	**18,402**	(212,450)
Net decrease in cash and cash equivalents	**(319,549)**	(367,545)
Cash and cash equivalents at 1st January	**767,941**	983,726
Effect of foreign exchange rate changes	**15,681**	(14,852)
Cash and cash equivalents at 30th June, represented by bank balances and cash	**464,073**	601,329

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed consolidated financial statements for the six months ended 30th June, 2017 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, 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS

In the current period, the Group has applied all the new and amendments to HKFRSs issued by the HKICPA that are relevant to its operations and effective for its accounting period beginning on 1st January, 2017. HKFRSs comprise HKFRS and HKAS and Interpretations. The application of these new and amendments to 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, 2017 is as follows:

	For the six months ended 30th June,	
	2017	2016
	HK$'000	*HK$'000*
Sales of piped gas	**1,551,223**	1,066,145
Connection revenue from gas pipeline construction	**399,982**	398,384
Operation of CNG/LNG vehicle filling stations	**166,515**	163,954
Sales of stoves and related equipment	**21,381**	7,927
Sales of liquefied petroleum gas	**3,190**	2,881
	2,142,291	1,639,291

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 that 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, except for the performance of Harmony Gas Holdings Limited ("Harmony Gas"), which ceased to be a joint venture of the Group and has become a subsidiary of the Group since 8th December, 2015 as a result of changes to the shareholders agreement. The Group considered Harmony Gas and its subsidiaries as a single operating and reportable segment as CODM reviewed the total revenue and overall result of Harmony Gas for the reporting periods.

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 stoves and related equipment;

(e) sales of liquefied petroleum gas; and

(f) Harmony Gas and its subsidiaries: trading of natural gas and gas pipeline construction.

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

4. SEGMENT INFORMATION *(Continued)*

For the six months ended 30th June, 2017

	Sales of piped gas	Connection revenue from gas pipeline construction	Operation of CNG/LNG vehicle filling stations	Sales of stoves and related equipment	Sales of liquefied petroleum gas	Harmony Gas and its subsidiaries	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue	**1,383,908**	**319,839**	**152,305**	**17,166**	**76**	**268,997**	**2,142,291**
Segment profit (loss)	**148,706**	**186,776**	**(5,478)**	**8,869**	**(28)**	**43,374**	**382,219**
Unallocated other income							**9,377**
Unallocated other gains and losses							**36,343**
Unallocated central corporate expenses							**(30,746)**
Finance costs							**(102,169)**
Profit before tax							**295,024**

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 stoves and related equipment	Sales of liquefied petroleum gas	Harmony Gas and its subsidiaries	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue	929,133	304,930	158,082	7,458	118	239,570	1,639,291
Segment profit	106,355	170,673	6,396	5,111	–	37,083	325,618
Unallocated other income							8,628
Unallocated other gains and losses							(62,140)
Unallocated central corporate expenses							(31,691)
Finance costs							(59,154)
Profit before tax							181,261

The accounting policies of the operating segments are the same as the Group's accounting policies. Except for segment profit of Harmony Gas and its subsidiaries which is presented as a separate segment, 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, 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,	
	2017	2016
	HK$'000	*HK$'000*
Net foreign exchange gain (loss)	**36,343**	(62,140)
Net gain on disposal/written-off of property, plant and equipment	**8,629**	2,795
	44,972	(59,345)

6. OTHER INCOME

	For the six months ended 30th June,	
	2017	2016
	HK$'000	*HK$'000*
Bank interest income	**2,134**	2,226
Interest income on amount due from an associate	**1,337**	2,137
Government subsidies (*Note*)	**2,143**	3,130
Interest income from investments in life insurance contracts	**1,260**	1,349
Sundry income	**5,550**	3,453
	12,424	12,295

Note: During the six months ended 30th June, 2017, the Group has received subsidies of HK$2,143,000 (2016: HK$3,130,000) 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,	
	2017	2016
	HK$'000	*HK$'000*
Interests on borrowings	**120,293**	71,456
Interests on obligations under finance lease	**4,286**	6,570
	124,579	78,026
Amortisation on loan facilities fees relating to bank borrowings	**10,226**	17,657
Total borrowing costs	**134,805**	95,683
Less: Amounts capitalised in construction in progress included in property, plant and equipment	**(32,636)**	(36,529)
	102,169	59,154

8. INCOME TAX EXPENSES

	For the six months ended 30th June,	
	2017	2016
	HK$'000	*HK$'000*
PRC Enterprise Income Tax	**104,651**	84,601

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 both 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, 2017, no withholding tax (2016: 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,	
	2017	2016
	HK$'000	*HK$'000*
Profit for the period has been arrived at after charging:		
Amortisation of other intangible assets (included in cost of sales)	**17,713**	8,009
Release of prepaid lease payments	**6,383**	5,607
Depreciation of property, plant and equipment	**101,694**	81,123
Cost of inventories recognised as expenses in respect of contract cost for gas pipeline construction	**91,679**	89,397
Cost of inventories recognised as expenses in respect of sales of piped gas, liquefied petroleum gas and stoves equipment	**1,319,516**	886,297

10. DIVIDENDS

No dividend was paid or proposed during the six months ended 30th June, 2017, nor has any dividend been proposed since the end of the reporting period (2016: 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,	
	2017	2016
	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	**147,861**	65,109

	For the six months ended 30th June,	
	2017	2016
	'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	**1,525**	1,462
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,526,533**	2,526,470

12. TRADE AND BILLS RECEIVABLES

The Group allows an average credit period of 30 days (2016: 30 days) to its trade customers. As at 30th June, 2017, the bills receivables are matured within the range of 30 days to 180 days (2016: 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, 2017	31st December, 2016
	HK$'000	*HK$'000*
0 – 30 days	**269,065**	283,813
31 – 90 days	**15,633**	31,727
91 – 180 days	**22,489**	36,598
Over 180 days	**40,216**	28,630
Trade receivables	**347,403**	380,768
0 – 90 days	**20,726**	15,820
91 – 180 days	**807**	14,513
Bills receivables	**21,533**	30,333
Trade and bills receivables	**368,936**	411,101

Trade receivables of HK$269,065,000 (2016: HK$283,813,000) and bills receivables of HK$21,533,000 (2016: HK$30,333,000) 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, 2017, trade receivables of HK$78,338,000 (2016: HK$96,955,000) 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 2017, the allowance for doubtful debts of trade receivable is HK$7,615,000 (2016: HK$7,615,000).

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 for these receivables and considered that they are generally not recoverable.

12. 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. 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 AND BILLS PAYABLES

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

	30th June, 2017	31st December, 2016
	HK$'000	*HK$'000*
0 – 30 days	**258,791**	343,673
31 – 90 days	**85,433**	61,532
91 – 180 days	**49,270**	40,515
Over 180 days	**131,677**	130,777
Trade and bills payables	**525,171**	576,497

The average credit period on purchase of goods is 90 days (2016: 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, 2017, the total assets of the Group increased by approximately HK$372,129,000 or 3.9% to HK$9,995,792,000 (2016: HK$9,623,663,000).

As at 30th June, 2017, the Group had net current liabilities of approximately HK$1,613,900,000 (2016: HK$1,055,376,000). It was mainly due to increase in bank and other borrowings which are repayable within one year.

As at 30th June, 2017, the Group's current ratio, represented by a ratio of total current assets to total current liabilities, was approximately 0.5 (2016: 0.6).

As at 30th June, 2017, the total borrowings and obligations under finance lease increased by approximately HK$270,067,000 or 6.1% to HK$4,694,592,000 (2016: HK$4,424,525,000).

As at 30th June, 2017, the Group had total net debts of approximately HK$4,228,145,000 (2016: HK$3,645,010,000), measured as total borrowings and obligations under finance lease minus the bank balances and cash and pledged bank deposit. As at 30th June, 2017, the Group had net gearing ratio of approximately 1.45 (2016: 1.30), measured as total net debts to total equity of approximately HK$2,913,437,000 (2016: HK$2,805,931,000).

Financial resources

During the period under review, the Group entered into a loan agreement with a bank in Hong Kong, pursuant to which loan facility of up to US$20,000,000 was made available to the Group.

During the six months ended 30th June, 2017, the Group generally financed its operations with internally generated resources and bank and other borrowings. As at 30th June, 2017, all of the bank and other borrowings were secured or unsecured and on normal commercial terms.

Capital structure

As at 30th June, 2017, approximately 22% of total borrowings and obligations under finance lease were repayable within one year and approximately 78% of total borrowings and obligations under finance lease were repayable after one year. Approximately 67% of total borrowings and obligations under finance lease were denominated in Renminbi ("RMB") and approximately 33% of total borrowings and obligations under finance lease were denominated in United States dollars. Majority of total borrowings and obligations under finance lease carried interest at floating rates.

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 current requirements.

EXPOSURE TO EXCHANGE RATE FLUCTUATIONS

During the period under review, the Group's monetary assets and liabilities are principally denominated in either RMB or the United States dollars and the Group conducted its business transactions principally in RMB. As a result of appreciation of RMB since the beginning of 2017, exchange gain arising from the Group's bank borrowings denominated in United States dollars was recognised during the period under review. The proportion of the Group's bank borrowings denominated in United States dollars was significantly reduced after the loan restructuring in August 2016. This helped to reduce currency exposure and maintain a more stable financial position for the Group. As at 30th June, 2017, the Group did not employ any financial instruments for hedging purposes.

EMPLOYEE INFORMATION

As at 30th June, 2017, the Group had a total of 3,497 employees (2016: 3,104) in Hong Kong and the PRC, and the total employee benefit expenses (other than directors) for the period under review was approximately HK$136,112,000 (2016: HK$127,708,000). The increase of such expenses was mainly due to the increase in the number of headcount of the Group. Around 99.7% of the Group's employees are located in the PRC.

The Group's remuneration and bonus policies are determined based on 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, 2016: 2,000,000) outstanding which were granted 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, 2016: 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, 2016: 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 granted under the Old Share Option Scheme 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:

				Number of share options				
Name of Directors	**Date of grant**	**Exercise/ vesting period**	**Exercise price** *HK$*	**Outstanding as at 1st January, 2017**	**Granted during the period under review**	**Exercised during the period under review**	**Lapsed/ Cancelled during the period under review**	**Outstanding as at 30th June, 2017**
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
				2,000,000	–	–	–	2,000,000
Exercisable at the end of the period								2,000,000
Weighted average exercise price				HK$0.49	–	–	–	HK$0.49

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, 2017, the Group has pledged certain buildings in the PRC having a carrying value of HK$2,853,000 (2016: HK$2,807,000) to secure certain bank borrowings granted to the Group.

As at 30th June, 2017, the Group has pledged certain prepaid lease payments in the PRC having a carrying value of HK$39,398,000 (2016: HK$46,225,000) to secure certain bank borrowings granted to the Group.

As at 30th June, 2017, pledged bank deposits of RMB2,061,000 (equivalent to HK$2,374,000) (2016: RMB10,353,000 (equivalent to HK$11,574,000)) are used to secure the short-term general banking facilities granted to the Group.

FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

As at 30th June, 2017, the Board did not have any specific plan for material investment or capital assets.

CAPITAL COMMITMENTS

As at 30th June, 2017, 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$75,972,000 (2016: HK$76,859,000).

CONTINGENT LIABILITIES

As at 30th June, 2017, the Group did not have any contingent liabilities (2016: 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, and the 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

Harmony Gas Project

References are made to the announcements of the Company dated 8th December, 2015, 30th March, 2017, 7th April, 2017 and 14th July, 2017 (the "Announcements") in relation to acquisition of further interests in Harmony Gas. Unless otherwise defined herein, capitalised terms used in this section of this report shall have the same meanings as defined in the Announcements.

On 8th December, 2015, Zhongyu Beijing (a wholly-owned subsidiary of the Company) and North Haven Private Equity Asia Gas Holdings Limited entered into the Sale and Purchase Agreement pursuant to which Zhongyu Beijing conditionally agreed to acquire further interests of 38.7% in Harmony Gas held by North Haven Private Equity Asia Gas Holdings Limited at the consideration of US$78,722,395 which shall be satisfied by cash. The completion of such acquisition took place on 14th July, 2017.

On 30th March, 2017, Zhongyu Beijing and Eloten Group Ltd. entered into the Sale and Purchase Agreement pursuant to which Zhongyu Beijing agreed to acquire further interests of 11.3% in Harmony Gas held by Eloten Group Ltd. at the consideration of US$18,000,000 which shall be satisfied by cash. The completion of such acquisition took place on 7th April, 2017.

As at the date of this report, Zhongyu Beijing is the sole shareholder of Harmony Gas.

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

New Downstream Piped Gas Distribution Projects

As at 30th June, 2017, the Group had 56 gas projects with exclusive rights. During the period under review, the Group obtained concession rights to operate 2 additional natural gas projects in Hebei Province. 1 loss-making natural gas project in Jiangsu Province was disposed of.

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:

	Six months ended 30th June, (unaudited)		Increase/
	2017	2016	(Decrease)
Number of operational locations *(Note a)*	**56**	52	4
– Henan Province	**22**	21	1
– Hebei Province	**17**	15	2
– Jiangsu Province	**5**	5	–
– Shandong Province	**4**	4	–
– Jilin Province	**2**	2	–
– Fujian Province	**1**	1	–
– Heilongjiang Province	**1**	1	–
– Zhejiang Province	**2**	1	1
– Anhui Province	**2**	2	–
Connectable urban population ('000) *(Note b)*	**11,153**	10,258	8.7%
Connectable residential households ('000)	**3,186**	2,931	8.7%
New piped gas connections by the Group made during the period			
– Residential households	**119,647**	116,521	2.7%
– Industrial customers	**139**	71	95.8%
– Commercial customers	**859**	336	155.7%
Accumulated number of connected piped gas customers			
– Residential households	**1,964,517**	1,701,204	15.5%
– Industrial customers	**1,310**	874	49.9%
– Commercial customers	**6,915**	5,195	33.1%
Penetration rate of residential pipeline connection *(Note c)*	**61.7%**	58.0%	3.7%
Unit of piped natural gas sold ('000 m^3)	**585,941**	373,273	57.0%
– Residential households	**131,523**	108,443	21.3%
– Industrial customers	**388,162**	201,878	92.3%
– Commercial customers	**60,873**	50,764	19.9%
– Wholesale customers	**5,383**	12,188	(55.8)%

	Six months ended 30th June, (unaudited) 2017	2016	Increase/ (Decrease)
Number of CNG/LNG Vehicle Filling Stations			
– Accumulated	**60**	56	4
– Under construction	**19**	23	(4)
Unit of natural gas sold to vehicles ('000 m^3)	**52,195**	47,870	9.0%
Total length of existing intermediate and main pipelines (km)	**11,302**	9,509	18.9%
Average selling price of natural gas (pre-tax) (RMB per m^3)			
– Residential households	**2.11**	2.18	(3.2)%
– Industrial customers	**2.32**	2.39	(2.9)%
– Commercial customers	**2.74**	2.69	1.9%
– Wholesale customers	**1.67**	1.63	2.5%
– CNG/LNG vehicle filling stations	**2.82**	2.96	(4.7)%
Average cost of natural gas (RMB per m^3)	**2.00**	1.99	0.5%
Average connection fee for residential households (RMB)	**2,638**	2,604	1.3%

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 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.

FINANCIAL REVIEW

Overall

The Group's turnover for the six months ended 30th June, 2017 increased by 30.7% to HK$2,142,291,000 (2016: HK$1,639,291,000); and gross profit for the six months ended 30th June, 2017 increased by approximately 11.5% to HK$503,483,000 (2016: HK$451,435,000). The Group's profit attributable to owners of the Company increased significantly to HK$147,861,000 (2016: HK$65,109,000). The basic and diluted earnings per share attributable to the owners of the Company were HK5.86 cents and HK5.85 cents respectively for the six months ended 30th June, 2017, as compared with that of HK2.58 cents and HK2.58 cents respectively for the corresponding period last year.

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,				
	2017	**% of total**	2016	% of total	Increase
	HK$'000		*HK$'000*		
Sales of Piped Gas	**1,551,223**	**72.4%**	1,066,145	65.0%	45.5%
Connection revenue from Gas Pipeline Construction	**399,982**	**18.7%**	398,384	24.3%	0.4%
Operation of CNG/LNG Vehicle Filling Stations	**166,515**	**7.8%**	163,954	10.0%	1.6%
Sales of Stoves and Related Equipment	**21,381**	**1.0%**	7,927	0.5%	169.7%
Sub-total	**2,139,101**	**99.9%**	1,636,410	99.8%	30.7%
Sales of Liquefied Petroleum Gas	**3,190**	**0.1%**	2,881	0.2%	10.7%
Total	**2,142,291**	**100%**	1,639,291	100%	30.7%

The turnover for the period under review amounted to approximately HK$2,142,291,000 (2016: HK$1,639,291,000). The growth in turnover was mainly attributable to a significant increase in sales of piped gas to industrial customers under the implementation of the "coal-to-gas" conversion policy.

Sales of Piped Gas

Sales of piped gas for the six months ended 30th June, 2017 amounted to approximately HK$1,551,223,000 (2016: HK$1,066,145,000), representing an increase of approximately 45.5% over the corresponding period last year.

Sales of piped gas for the period under review contributed approximately 72.4% of the total turnover of the Group. As compared with the percentage of approximately 65.0% 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,				
	2017	**% of total**	2016	% of total	Increase/ (Decrease)
	HK$'000		*HK$'000*		
Industrial customers	**1,031,991**	**66.5%**	591,009	55.5%	74.6%
Residential households	**319,310**	**20.6%**	288,232	27.0%	10.8%
Commercial customers	**189,745**	**12.2%**	163,293	15.3%	16.2%
Wholesale customers	**10,177**	**0.7%**	23,611	2.2%	(56.9)%
Total	**1,551,223**	**100%**	1,066,145	100%	45.5%

Industrial customers

The sales of piped gas to the Group's industrial customers for the period under review increased by 74.6% to approximately HK$1,031,991,000 from approximately HK$591,009,000 for the corresponding period last year. During the period under review, the Group connected 139 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 2.9% to RMB2.32 per m^3 (2016: RMB2.39 per m^3) 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 allowed the Group to obtain new industrial and commercial customers, which boosted the gas sales volume of the Group. In addition, there is a remarkable growth in the demand of natural gas among industrial customers under the implementation of the "coal-to-gas" conversion policy. During the period under review, the piped natural gas usage provided by the Group to its industrial customers increased by 92.3% to approximately 388,162,000 m^3 (2016: 201,878,000 m^3).

The sales of piped gas to its industrial customers for the period under review contributed approximately 66.5% of the total sales of piped gas of the Group. As compared with the percentage of approximately 55.5% 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 10.8% to approximately HK$319,310,000 from approximately HK$288,232,000 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. During the period under review, the Group provided new natural gas connections for 119,647 residential households and the piped natural gas usage provided by the Group to residential households was approximately 131,523,000 m^3 (2016: 108,443,000 m^3).

The sales of piped gas to its residential households for the period under review contributed approximately 20.6% of the total sales of piped gas of the Group (2016: 27.0%).

Commercial customers

In addition to fulfilling the demand of residential customers for natural gas, the Group stepped up its gas connection for commercial customers. The sales of piped gas to its commercial customers for the period under review increased by 16.2% to approximately HK$189,745,000 from approximately HK$163,293,000 for the corresponding period last year. The sales of piped gas to its commercial customers for the period under review contributed approximately 12.2% of the total sales of piped gas of the Group (2016: 15.3%). During the period under review, the Group connected 859 new commercial customers. As at 30th June, 2017, the number of commercial customers of the Group reached 6,915, representing an increase of approximately 14.2% as compared with 6,056 customers as at 31st December, 2016.

The average selling price of natural gas for commercial customers was slightly increased by 1.9% to RMB2.74 per m^3 (2016: RMB2.69 per m^3) during the period under review. The increase in gas consumption of commercial customers by 19.9% to approximately 60,873,000 m^3 (2016: 50,764,000 m^3) was attributable to the "coal-to-gas" conversion policy and the raising awareness for environmental protection also drove the piped gas sales increment.

Gas Pipeline Construction

Connection revenue from gas pipeline construction for the six months ended 30th June, 2017 amounted to approximately HK$399,982,000 representing an increase of approximately 0.4% 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,				
	2017	**% of total**	2016	% of total	Increase/ (Decrease)
	HK$'000		*HK$'000*		
Residential households	**357,233**	**89.3%**	360,524	90.5%	(0.9)%
Non-residential customers	**42,749**	**10.7%**	37,860	9.5%	12.9%
Total	**399,982**	**100%**	398,384	100%	0.4%

During the period under review, connection revenue from gas pipeline construction for residential households slightly decreased by 0.9% to approximately HK$357,233,000 from approximately HK$360,524,000 for the corresponding period last year. The decrease was solely due to the lower average exchange rate used to translate the revenue from RMB to Hong Kong Dollars during the period under review. The construction work for gas pipeline connection completed by the Group for residential households increased to 119,647 from 116,521 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 12.9% to approximately HK$42,749,000 from approximately HK$37,860,000 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, 2017, the Group's penetration rates of residential pipeline connection amounted to 61.7% (2016: 58.0%) (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 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. Revenue from operating CNG/LNG vehicle filling stations for the six months ended 30th June, 2017 remained stable and amounted to HK$166,515,000. The average selling price of natural gas for CNG/LNG vehicle filling stations was decreased by 4.7% to RMB2.82 per m^3 (2016: RMB2.96 per m^3) when compared to the corresponding period last year. The unit of natural gas sold to vehicles increased by 9.0% to approximately 52,195,000 m^3 for the six months ended 30th June, 2017 from approximately 47,870,000 m^3 for the corresponding period last year.

During the period under review, the turnover derived from operating CNG/LNG vehicle filling stations accounted for approximately 7.8% of the total turnover of the Group. As at 30th June, 2017, the Group had 60 CNG/LNG vehicle filling stations and commenced building an additional 19 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 2017 or 2018.

Gross profit margin

The overall gross profit margin for the six months ended 30th June, 2017 was approximately 23.5% (2016: 27.5%). The decline in overall gross profit margin in current period was mainly due to (i) decrease in gross profit margin for sales of piped natural gas and (ii) increase in the proportion of sales of piped natural gas to total turnover.

The gross profit margin for the sales of piped natural gas reduced to 15.3% (2016: 17.7%) and the gross profit margin for the operation of CNG/LNG vehicle filling stations reduced to 3.9% (2016: 9.4%) as a result of decrease in average selling price. The gross profit margin for the gas pipeline construction was 65.2% (2016: 65.0%), which was relatively stable.

Other gains and losses

The Group recognised other net gain of HK$44,972,000 during the period under review (2016: net loss of HK$59,345,000). The amount mainly represented net foreign exchange difference arising from the Group's bank borrowings denominated in United States dollars as a result of the appreciation of RMB since the beginning of 2017.

Other income

Other income increased to approximately HK$12,424,000 for the six months ended 30th June, 2017 compared to approximately HK$12,295,000 for the corresponding period last year. The balance in current period represented the bank interest income of approximately HK$2,134,000 (2016: HK$2,226,000), interest income on amount due from an associate of approximately HK$1,337,000 (2016: HK$2,137,000), government subsidies of approximately HK$2,143,000 (2016: HK$3,130,000), interest income from investments in life insurance contracts of approximately HK$1,260,000 (2016: HK$1,349,000) and sundry income of approximately HK$5,550,000 (2016: HK$3,453,000).

Selling and distribution costs and administrative expenses

Selling and distribution costs increased by 15.6% to approximately HK$48,283,000 in 2017 from approximately HK$41,768,000 in 2016. Administrative expenses increased by 14.5% to approximately HK$145,572,000 in 2017 from approximately HK$127,138,000 in 2016. The increase was mainly attributable to (i) ascending staff costs and related expenses as a result of increased number of headcount; and (ii) additional depreciation expenses arisen from revaluation of pipelines in prior year.

Finance costs

Finance costs increased by 72.7% to approximately HK$102,169,000 for the six months ended 30th June, 2017 compared to approximately HK$59,154,000 for the corresponding period last year. The increase was mainly attributable to the increase in average bank and other borrowings balance and average interest rate.

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 the six months ended 30th June, 2016 and 2017. 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 both periods mentioned above.

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, 2017, no withholding tax (2016: 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, 2017 amounted to approximately HK$104,651,000 (2016: HK$84,601,000).

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

The Group's EBITDA was approximately HK$486,640,000 for the six months ended 30th June, 2017, representing an increase of 22.5% as compared with that of approximately HK$397,294,000 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$147,861,000 for the six months ended 30th June, 2017, representing an increase of 127.1% as compared with that of approximately HK$65,109,000 for the corresponding period last year.

Net Profit Margin

For the six months ended 30th June, 2017, the net profit margin, representing a ratio of profit attributable to owners of the Company to turnover, was approximately 6.9% (2016: 4.0%).

Earnings per share

The basic and diluted earnings per share attributable to the owners of the Company were HK5.86 cents and HK5.85 cents respectively for the six months ended 30th June, 2017, as compared with that of HK2.58 cents and HK2.58 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 HK$1.07 as at 30th June, 2017, representing an increase of 5.9% as compared with that of HK$1.01 as at 31st December, 2016.

The net assets value represents total assets minus total liabilities.

Prospects

Driven by stable economic growth and favourable policies, the natural gas industry had seen substantial growth over the past six months. It is expected that the strong momentum will carry on in the second half of 2017. According to an independent research, the annual gas consumption in China in 2017 is projected to reach 236 billion m^3 with a year-on-year growth rate of 15%. It is also forecasted that the coming four-year CAGR rate will be 14% and consumption of gas shall reach 345 billion m^3 by 2020 in the PRC. The growth is mainly driven by the rapid "coal-to-gas" conversion policy and stronger demand for natural gas as a source of heating supply. The Group is therefore optimistic towards the business environment in the near future and confident of its upcoming business development.

The promotion of environmental friendly energy source and energy conservation remains as one of the priorities according to the 13th Five-Year Plan in the coming years. In particular, "coal-to-gas" conversion policies have greatly encouraged sector growth where clear targets are set by the PRC government. Mid to long term plan is announced where the government aims to increase natural gas consumption to 360 billion m^3 or 8.3%-10.0% of the total primary energy consumption of the PRC by 2020 and 15% by 2030. These targets encourage the usage of natural gas for both commercial and industrial users as well as residential users. Under these beneficial circumstances, the sales volume of piped gas to commercial, industrial and residential customers is expected to achieve strong yet sustainable growth in the second half of the year. In addition, to facilitate the "coal-to-gas" conversion scheme, clear target on the network expansion of natural gas pipeline is also set in order to increase the accessibility of natural gas across the nation. The total length of natural gas pipeline aims to reach 104,000 km by 2020 and 123,000 km by 2025. With such favourable environment, the Group believes that there will be positive impact on the Group's sales of piped gas and gas pipeline connection businesses.

After the completion of acquisition of 38.7% equity interest of Harmony Gas in July 2017, Harmony Gas has become a wholly-owned subsidiary of the Group and will make greater contribution to the Group starting from the second half of 2017. Since the acquisition of interest of Harmony Gas in late 2014, the projects of Harmony Gas have extensively expanded the network coverage of the Group in provinces and cities with great potential such as Anhui, Jilin, Hebei and Beijing. This aids the Group to further deepen its penetration in the PRC market for natural gas. Infrastructure and pipe construction of a number of projects have commenced in 2016 and these projects started operations and hence have generated positive return since late 2016. Given more greenfield projects will be developed in phases in the next couple of years, the Group strongly believes it is on the fast-growing track in terms of market share and profitability.

Taking the successful acquisition of Harmony Gas as a benchmark, the Group will continue to explore for more merger and acquisition ("M&A") opportunities in order to enlarge its scale and fully utilize its expertise. The Group will continue to emphasize on project locations' proximity to gas sources and local demand. Together with the organic growth in the existing projects resulted from urbanization and economic recovery, the Group is forging ahead with confidence.

In addition, leveraging its widespread residential customer network built in the last decade, the Group has put more resources to promote its sales of stoves and equipment along with the "coal-to-gas" conversion policies. This value-added service not only provides customers with convenience, but also brings in additional income to the Group.

Due to the Group's business nature, greenfield project development requires a large amount of capital investment in early stage. The Group will remain dedicated to maintain a good balance between onshore and offshore loan in order to optimize its financing resources and costs. To reduce its risk exposure caused by foreign exchange fluctuation, the Group will continue to cautiously monitor its loan portfolio and take appropriate measures when necessary.

Looking ahead, the Group will carry on expanding its geographical coverage and customer base in order to deepen penetration and further enhance its brand recognition. The Group will focus on seizing every possible opportunity under the current prosperous environment for maximizing its returns and delivering fruitful results to shareholders.

Save as discussed above, there is no event which have a material impact on the Group which have occurred since 30th June, 2017 until the date of this report.

DISCLOSURE OF INTERESTS

(a) Interests of Directors

As at 30th June, 2017, the interests and short positions of the 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*	592,483,542	Beneficial/Interest in controlled corporation/ Interest of spouse	23.46%
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 8,918,000 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, 2017, the total number of issued shares of the Company was 2,525,007,684.

Save as disclosed above, as at 30th June, 2017, none of the 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, 2017, 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*	Beneficial/ Interest of spouse	592,483,542	23.46%

Notes:

1. According to the disclosure of interests pages as shown in the website of the Stock Exchange as at 30th June, 2017, China Gas Holdings Limited controlled 100% of Rich Legend International Limited ("Rich Legend") and is therefore deemed to be interested in the 1,111,934,142 Shares held by Rich Legend. This does not include an interest in 568,619,542 Shares which, based on such disclosure are not held beneficially by Rich Legend but are held by Rich Legend in a capacity described as "Other" in the relevant disclosure of interests pages. Apart from the information ascertained in the disclosure of interest pages as shown in the website of the Stock Exchange, the Company has no further information.

2. Hezhong is beneficially interested in 567,453,542 shares. Mr. Wang Wenliang is beneficially interested in 100% of the issued share capital of Hezhong.

3. Ms. Feng Haiyan directly holds 8,918,000 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, 2017, the total number of issued shares of the Company was 2,525,007,684.

Save as disclosed above, as at 30th June, 2017, 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 during the six months ended 30th June, 2017.

UPDATE ON DIRECTORS

With effect from 30th March, 2017, Mr. Hung, Randy King Kuen ("Mr. Hung") resigned as an independent non-executive Director ("INED") and a member of each of the Audit Committee, Nomination Committee and Remuneration Committee of the Company, as he would like to spend more time to handle his personal affairs. Following Mr. Hung's resignation, the Company had only two INEDs and two members of the Audit Committee, falling short of the minimum number required under Rules 3.10 (1) and 3.21 of the Listing Rules. With effect from 30th June, 2017, Ms. Liu Yu Jie ("Ms. Liu") has been appointed as an INED and a member of each of the Audit Committee, Nomination Committee and Remuneration Committee of the Company. Following the appointment of Ms. Liu, the requirements under Rules 3.10 (1) and 3.21 of the Listing Rules have been satisfied. Please refer to the announcements of the Company dated 30th March, 2017 and 30th June, 2017 for more details.

Dr. Luo Yongtai, an INED, has ceased to be an independent director of Tianjin Tianbao Infrastructure Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000965) since June 2017.

AUDIT COMMITTEE

The Company's Audit Committee, comprising Mr. Li Chunyan, Dr. Luo Yongtai and Ms. Liu Yu Jie, 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, 2017. 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 Company's listed shares during the six months ended 30th June, 2017.

BOARD OF DIRECTORS

As at the date of this report, the Board comprises of Mr. Wang Wenliang (Chairman), Mr. Lui Siu Keung (Chief Executive Officer) and Mr. Lu Zhaoheng, as the executive Directors, Mr. Xu Yongxuan (Vice-Chairman), as the non-executive Director and Mr. Li Chunyan, Dr. Luo Yongtai and Ms. Liu Yu Jie as the independent non-executive Directors.

By Order of the Board
ZHONGYU GAS HOLDINGS LIMITED
Wang Wenliang
Chairman

Hong Kong, 25th August, 2017