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, 2018

FINANCIAL AND OPERATIONAL HIGHLIGHTS

	For the six months ended 30th June,		
	2018 *HK$'000*	2017 *HK$'000*	**changes** %
Turnover	**3,699,210**	2,142,291	72.7%
Gross profit (Gross margin)	**1,183,015** **(32.0%)**	503,483 (23.5%)	135.0% 8.5%
Profit attributable to owners of the Company	**419,980**	147,861	184.0%
Adjusted profit attributable to owners of the Company (excluding the net foreign exchange gain/loss)	**511,972**	111,518	359.1%
EBITDA	**1,094,590**	486,640	124.9%
Basic earnings per share (HK cents)	**16.63**	5.86	183.8%
Unit of natural gas sold ('000 m^3)	**726,818**	638,136	13.9%
New piped gas connections made (residential households)	**350,276**	119,647	192.8%

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, 2018, together with the comparative figures for the corresponding period in 2017, 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, 2018

		For the six months ended 30th June,	
		2018	2017
	NOTES	***HK$'000***	*HK$'000*
Turnover	*3*	**3,699,210**	2,142,291
Cost of sales		**(2,516,195)**	(1,638,808)
Gross profit		**1,183,015**	503,483
Other gains and losses	*5*	**(96,823)**	44,972
Other income	*6*	**13,672**	12,424
Selling and distribution costs		**(66,565)**	(48,283)
Administrative expenses			
– General administrative expenses		**(175,614)**	(145,572)
– Equity-settled share option expenses		**(30,000)**	–
Finance costs	*7*	**(121,946)**	(102,169)
Share of results of associates		**19,681**	30,169
Share of results of a joint venture		**(7)**	–
Profit before tax		**725,413**	295,024
Income tax expenses	*8*	**(249,657)**	(104,651)
Profit for the period	*9*	**475,756**	190,373
Other comprehensive income			
Item that will not be reclassified subsequently to profit or loss:			
Exchange differences arising on translation to presentation currency		**19,382**	69,800
Total comprehensive income for the period		**495,138**	260,173

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

For the six months ended 30th June, 2018

		For the six months ended 30th June,	
		2018	2017
	NOTES	***HK$'000***	*HK$'000*
Profit for the period attributable to:			
Owners of the Company		**419,980**	147,861
Non-controlling interests		**55,776**	42,512
		475,756	190,373
Total comprehensive income attributable to:			
Owners of the Company		**437,909**	216,319
Non-controlling interests		**57,229**	43,854
		495,138	260,173
Earnings per share	*11*		
Basic		**HK16.63 cents**	HK5.86 cents
Diluted		**HK16.41 cents**	HK5.85 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June, 2018

	NOTES	**30th June, 2018 (unaudited) *HK$'000***	31st December, 2017 (audited) *HK$'000*
Non-current assets			
Investment properties		**44,548**	44,516
Property, plant and equipment		**7,667,746**	7,124,176
Goodwill		**226,040**	225,878
Other intangible assets		**1,042,545**	1,072,322
Long-term deposits, prepayments and other receivables		**679,992**	418,568
Prepaid lease payments		**545,250**	522,635
Interest in associates		**383,897**	364,484
Interest in a joint venture		**10,768**	10,767
Available-for-sale investments		**6,312**	6,309
		10,607,098	9,789,655
Current assets			
Inventories		**313,198**	209,554
Trade and bills receivables	*12*	**1,464,537**	672,022
Deposits, prepayments and other receivables		**609,704**	484,944
Entrusted loan receivable		**23,943**	23,926
Amount due from associate		**60,025**	59,816
Amount due from related parties		**8,979**	8,972
Prepaid lease payments		**15,168**	15,157
Amounts due from customers for contract work		**–**	56,821
Contract assets		**52,360**	–
Tax recoverable		**15,517**	15,517
Pledged bank deposit		**21,250**	–
Bank balances and cash		**1,525,404**	464,347
		4,110,085	2,011,076

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

At 30th June, 2018

	NOTES	**30th June, 2018 (unaudited) HK$'000**	31st December, 2017 (audited) HK$'000
Current liabilities			
Deferred income and advance received		**–**	670,050
Trade and bills payables	*13*	**932,584**	727,274
Other payables and accrued charges		**332,717**	331,269
Amount due to an associate		**1,237**	1,236
Amounts due to customers for contract work		**–**	35,484
Contract liabilities		**732,666**	–
Borrowings		**1,664,218**	1,581,936
Obligations under finance lease due within one year		**215,344**	188,373
Tax payables		**190,282**	141,047
		4,069,048	3,676,669
Net current assets (liabilities)		**41,037**	(1,665,593)
Total assets less current liabilities		**10,648,135**	8,124,062
Capital and reserves			
Share capital		**25,250**	25,250
Reserves		**3,616,611**	3,148,702
Equity attributable to owners of the Company		**3,641,861**	3,173,952
Non-controlling interests		**603,741**	549,265
Total equity		**4,245,602**	3,723,217
Non-current liabilities			
Deferred income and advance received		**–**	6,048
Contract liabilities		**6,052**	–
Borrowings		**5,818,561**	3,676,849
Obligations under finance lease due after one year		**126,421**	258,583
Deferred taxation		**451,499**	459,365
		6,402,533	4,400,845
		10,648,135	8,124,062

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2018

	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	Sub-total	Capital contribution and share of results	Others	Sub-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, 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
At 1st January, 2018 (audited)	**25,250**	**895,736**	**319**	**830,072**	**(603,692)**	**110,443**	**235,094**	**1,680,730**	**3,173,952**	**549,265**	**-**	**549,265**	**3,723,217**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**419,980**	**419,980**	**55,776**	**-**	**55,776**	**475,756**
Other comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**-**	**17,929**	**-**	**17,929**	**1,453**	**-**	**1,453**	**19,382**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**-**	**17,929**	**419,980**	**437,909**	**57,229**	**-**	**57,229**	**495,138**
Transfer to statutory surplus reserve	**-**	**-**	**-**	**-**	**-**	**6,117**	**-**	**(6,117)**	**-**	**-**	**-**	**-**	**-**
Recognition of equity-settled share based payments	**-**	**-**	**30,000**	**-**	**-**	**-**	**-**	**-**	**30,000**	**-**	**-**	**-**	**30,000**
Dividend paid by subsidiaries to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(2,753)**	**-**	**(2,753)**	**(2,753)**
At 30th June, 2018 (unaudited)	**25,250**	**895,736**	**30,319**	**830,072**	**(603,692)**	**116,560**	**253,023**	**2,094,593**	**3,641,861**	**603,741**	**-**	**603,741**	**4,245,602**

Note: The articles of association of the Company's subsidiaries established 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, 2018

	For the six months ended 30th June,	
	2018	2017
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Net cash from operating activities	**676,159**	235,245
Net cash used in investing activities	**(1,517,899)**	(573,196)
Net cash from financing activities	**1,923,722**	18,402
Net increase (decrease) in cash and cash equivalents	**1,081,982**	(319,549)
Cash and cash equivalents at 1st January	**464,347**	767,941
Effect of foreign exchange rate changes	**(20,925)**	15,681
Cash and cash equivalents at 30th June, represented by bank balances and cash	**1,525,404**	464,073

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed consolidated financial statements for the six months ended 30th June, 2018 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, 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current period, the Group has applied 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, 2018. HKFRSs comprise HKFRS and HKAS and Interpretations. The application of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies and amounts reported for the current period and prior years.

The new amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments as described below.

2.1 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 Revenue, HKAS 11 Construction Contracts and the related interpretations.

The Group recognises revenue from the following major sources:

- Sales of gas
- Connection revenue from gas pipeline construction
- Operation of CNG/LNG vehicles filling stations
- Sales of stoves and related equipment
- Sales of liquefied petroleum gas

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

2.1 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers *(Continued)*

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1st January, 2018. Any difference at the date of initial application is recognised in the opening accumulated profits (or other components of equity, as appropriate) and comparative information has not been restated. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 Revenue and HKAS 11 Construction Contracts and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15

HKFRS 15 introduces a 5-step approach when recognising revenue:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation.

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

2.1 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers *(Continued)*

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15 (Continued)

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Input method

The progress towards complete satisfaction of a performance obligation is measured based on input method, which is to recognise revenue on the basis of the Group's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation, that best depict the Group's performance in transferring control of goods or services.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

2.1 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers *(Continued)*

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15 (Continued)

Costs to fulfil a contract

The Group incurs costs to fulfil a contract in its operations. The Group first assesses whether these costs qualify for recognition as an asset in terms of other relevant standards, failing which it recognises an asset for these costs only if they meet all of the following criteria:

(a) the costs relate directly to a contract or to an anticipated contract that the Group can specifically identify;

(b) the costs generate or enhance resources of the Group that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and

(c) the costs are expected to be recovered.

The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate. The asset is subject to impairment review.

Existence of significant financing component

In determining the transaction price, the Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

For contracts where the period between payment and transfer of the associated goods or services is less than one year, the Group applies the practical expedient of not adjusting the transaction price for any significant financing component.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

2.1 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers *(Continued)*

2.1.2 Summary of effects arising from initial application of HKFRS 15

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1st January, 2018. Line items that were not affected by the changes have not been included.

	Note	**Carrying amounts previously reported at 31st December 2017** *HK$'000*	**Reclassification** *HK$'000*	**Carrying amounts under HKFRS 15 at 1st January 2018*** *HK$'000*
Current Assets				
Amounts due from customers for contract work	*(a)*	56,821	(56,821)	–
Contract assets	*(a)*	–	56,821	56,821
Current Liabilities				
Deferred income and advance received	*(b)*	670,050	(670,050)	–
Amounts due to customers for contract work	*(a)*	35,484	(35,484)	–
Contract liabilities	*(a)*	–	705,534	705,534
Non-current Liabilities				
Deferred income and advance received	*(b)*	6,048	(6,048)	–
Contract liabilities	*(b)*	–	6,048	6,048

* *The amounts in this column are before the adjustments from the application of HKFRS 9*

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

2.1 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers *(Continued)*

2.1.2 Summary of effects arising from initial application of HKFRS 15 (Continued)

Notes:

(a) As at 1st January, 2018, amounts due from customers of approximately HK$56,821,000 and amount due to customers of approximately HK$35,484,000 in respect of connection construction contracts were reclassified to contract assets and contract liabilities respectively.

(b) As at 1st January, 2018, deferred income and advance received from customers of approximately HK$676,098,000 in respect of sales of natural gas contracts and connection construction contracts were reclassified to contract liabilities.

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments and related amendments

In the current period, the Group has applied HKFRS 9 Financial Instruments and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses ("ECL") for financial assets and (3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1st January, 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1st January, 2018. The difference between carrying amounts as at 31st December, 2017 and the carrying amounts as at 1st January, 2018 are recognised in the opening retained earnings and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 Financial Instruments: Recognition and Measurement.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments and related amendments *(Continued)*

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under HKAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 Business Combinations applies.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments and related amendments *(Continued)*

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 *(Continued)*

Classification and measurement of financial assets ***(Continued)***

In addition, the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

The directors of the Company reviewed and assessed the Group's financial assets as at 1st January, 2018 based on the facts and circumstances that existed at that date. No changes in classification and measurement on the Group's financial assets was recognised.

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 including trade receivables and other receivables, loan receivable and contract assets. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables and contract assets. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

2. **APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS** *(Continued)*

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments and related amendments *(Continued)*

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 *(Continued)*

Impairment under ECL model ***(Continued)***

For all other instruments, the Group measures the loss allowance equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments and related amendments *(Continued)*

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 *(Continued)*

Significant increase in credit risk **(Continued)**

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment reversal or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

As at 1st January, 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. No impairment allowance was recognised at 1st January, 2018.

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, 2018 is as follows:

	For the six months ended 30th June,	
	2018	2017
	HK$'000	*HK$'000*
Sales of gas	**2,250,015**	1,551,223
Connection revenue from gas pipeline construction	**1,193,700**	399,982
Operation of CNG/LNG vehicle filling stations	**176,093**	166,515
Sales of stoves and related equipment	**75,831**	21,381
Sales of liquefied petroleum gas	**3,571**	3,190
	3,699,210	2,142,291

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 delivered 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"). 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 separately from the other operations of the Group for the reporting periods.

Each type of product or service represents an 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:

4. SEGMENT INFORMATION *(Continued)*

(a) sales of 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.

For the six months ended 30th June, 2018

	Sales of 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	1,879,403	852,502	141,044	46,595	63	779,603	3,699,210
Segment profit (loss)	131,722	621,620	(3,674)	29,834	(39)	213,568	993,031
Unallocated other income							10,187
Unallocated other gains and losses							(91,822)
Unallocated central corporate expenses							(64,030)
Share of results of a joint venture							(7)
Finance costs							(121,946)
Profit before tax							725,413

4. SEGMENT INFORMATION *(Continued)*

For the six months ended 30th June, 2017

	Sales of 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

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) of other reportable segments represents the financial result of each segment without allocation of central administration costs, directors' salaries, equity-settled share option expenses, interest income, net foreign exchange gain or loss, certain sundry income, share of results of a joint venture, 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,	
	2018	2017
	HK$'000	*HK$'000*
Net foreign exchange (loss) gain	**(91,992)**	36,343
Net gain on disposal of property, plant and equipment	**624**	8,629
Loss on disposal of subsidiaries	**(5,455)**	–
	(96,823)	44,972

6. OTHER INCOME

	For the six months ended 30th June,	
	2018	2017
	HK$'000	*HK$'000*
Bank interest income	**3,463**	2,134
Interest income on amount due from an associate	**1,596**	1,337
Government subsidies (*Note*)	**366**	2,143
Interest income from investments in life insurance contracts	**1,336**	1,260
Sundry income	**6,911**	5,550
	13,672	12,424

Note: During the six months ended 30th June, 2018, the Group has received subsidies of HK$366,000 (2017: HK$2,143,000) 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,	
	2018	2017
	HK$'000	*HK$'000*
Interest on borrowings	**136,880**	120,293
Interest on obligations under finance lease	**8,883**	4,286
	145,763	124,579
Amortisation on loan facilities fees relating to bank borrowings	**17,968**	10,226
Total borrowing costs	**163,731**	134,805
Less: Amounts capitalised in construction in progress included in property, plant and equipment	**(41,785)**	(32,636)
	121,946	102,169

8. INCOME TAX EXPENSES

	For the six months ended 30th June,	
	2018	2017
	HK$'000	*HK$'000*
PRC Enterprise Income Tax	**249,657**	104,651

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, 2018, no withholding tax (2017: nil) was charged by the PRC tax authority which levied on the dividends paid to overseas group entities in the previous and current period.

9. PROFIT FOR THE PERIOD

	For the six months ended 30th June,	
	2018	2017
	HK$'000	*HK$'000*
Profit for the period has been arrived at after charging:		
Amortisation of other intangible assets (included in cost of sales)	**18,622**	17,713
Release of prepaid lease payments	**8,154**	6,383
Depreciation of property, plant and equipment	**128,463**	101,694
Cost of inventories recognised as expenses in respect of contract cost for gas pipeline construction	**206,632**	91,679
Cost of inventories recognised as expenses in respect of sales of gas, liquefied petroleum gas and stoves equipment	**1,984,013**	1,319,516

10. DIVIDENDS

During the six months ended 30th June, 2018, a final dividend in respect of the year ended 31st December, 2017 of HK5 cents per ordinary share, in an aggregate amount of HK$126,250,000 (2016: nil), has been proposed by the Directors and approved by the shareholders in the annual general meeting. On 15th April, 2018, the Board recommended that the final dividend be satisfied wholly in the form of an allotment and issue of scrip shares, while shareholders of the Company are given an option to receive the final dividend wholly in cash in lieu of scrip shares, or partly in cash and partly in the form of scrip shares. The scrip shares were issued and allotted by the Company on 1st August, 2018.

No dividend was paid during the six months ended 30th June, 2018, nor has any dividend been proposed since the end of the reporting period (2017: 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,	
	2018	2017
	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	**419,980**	147,861

11. EARNINGS PER SHARE *(Continued)*

	For the six months ended 30th June,	
	2018	2017
	'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	**34,608**	1,525
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,559,616**	2,526,533

12. TRADE AND BILLS RECEIVABLES

The Group allows an average credit period of 30 days (2017: 30 days) to its trade customers. As at 30th June, 2018, the bills receivables are matured within the range of 30 days to 180 days (2017: 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 gas and the billing dates for work performed for construction contracts:

	30th June, 2018	31st December, 2017
	HK$'000	*HK$'000*
0 – 30 days	**929,618**	492,153
31 – 90 days	**162,276**	47,355
91 – 180 days	**74,618**	61,747
Over 180 days	**254,801**	49,128
Trade receivables	**1,421,313**	650,383
0 – 90 days	**36,256**	20,276
91 – 180 days	**6,968**	1,363
Bills receivables	**43,224**	21,639
Trade and bills receivables	**1,464,537**	672,022

Trade receivables of HK$929,618,000 (2017: HK$492,153,000) and bills receivables of HK$43,224,000 (2017: HK$21,639,000) 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.

12. TRADE AND BILLS RECEIVABLES *(Continued)*

As at 30th June, 2018, trade receivables of HK$491,695,000 (2017: HK$158,230,000) 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.

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.

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, 2018	31st December, 2017
	HK$'000	*HK$'000*
0 – 30 days	**389,896**	438,374
31 – 90 days	**226,671**	82,844
91 – 180 days	**75,858**	53,471
Over 180 days	**240,159**	152,585
Trade and bills payables	**932,584**	727,274

As at 30th June, 2018, the trade and bills payables balance included trade debts due to a related company, a subsidiary of the controlling shareholder of the Company of HK$33,260,000 (2017: HK$24,965,000).

The average credit period on purchase of goods is 90 days (2017: 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, 2018, the total assets of the Group increased by HK$2,916,452,000 or 24.7% to HK$14,717,183,000 (2017: HK$11,800,731,000).

As at 30th June, 2018, the Group has net current assets of HK$41,037,000 (2017: net current liabilities of HK$1,665,593,000). It was mainly due to the increase in bank balances and cash from new borrowings.

As at 30th June, 2018, the Group's current ratio, represented by a ratio of total current assets to total current liabilities, was approximately 1.0 (2017: 0.5).

As at 30th June, 2018, the total borrowings and obligations under finance lease increased by HK$2,118,803,000 or 37.1% to HK$7,824,544,000 (2017: HK$5,705,741,000).

As at 30th June, 2018, the Group had total net debts of HK$6,277,890,000 (2017: HK$5,241,394,000), measured as total borrowings and obligations under finance lease minus the bank balances and cash and pledged bank deposit. As at 30th June, 2018, the Group had net gearing ratio of approximately 1.48 (2017: 1.41), measured as total net debts to total equity of HK$4,245,602,000 (2017: HK$3,723,217,000).

Financial resources

During the period under review, the Group entered into several loan agreements with several banks in Hong Kong and overseas, pursuant to which loan facilities of up to US$381,500,000 and HK$1,197,300,000 in total were made available to the Group.

During the six months ended 30th June, 2018, the Group generally financed its operations with internally generated resources and bank and other borrowings. As at 30th June, 2018, all of the bank and other borrowings were secured or unsecured and on normal commercial terms.

Capital structure

As at 30th June, 2018, approximately 24% of total borrowings and obligations under finance lease were repayable within one year and approximately 76% of total borrowings and obligations under finance lease were repayable after one year. Approximately 36%, 35% and 29% of total borrowings and obligations under finance lease were denominated in Renminbi ("RMB"), United States dollars and Hong Kong dollars respectively. 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 requirements.

EXPOSURE TO EXCHANGE RATE FLUCTUATIONS

During the period under review, the Group's monetary assets and liabilities are principally denominated in either RMB, Hong Kong dollars or United States dollars and the Group conducted its business transactions principally in RMB. As a result of the depreciation of RMB in the second quarter of 2018, exchange loss arising from the Group's bank borrowings denominated in United States dollars and Hong Kong dollars was recognised during the period under review. The Group is seeking suitable financial instruments to hedge against potential depreciation of RMB. As at 30th June, 2018, the Group did not employ any financial instruments for hedging purposes.

EMPLOYEE INFORMATION

As at 30th June, 2018, the Group had a total of 3,644 employees (2017: 3,497) in Hong Kong and the PRC, and the total employee benefit expenses (other than directors) for the period under review was approximately HK$175,596,000 (2017: HK$136,112,000). The increase was mainly due to the increase in the number of headcount of the Group and salary increment. Around 99.8% 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 2,011,600 share options (as at the date of the annual report of the Company for the year ended 31st December, 2017: 2,000,000) outstanding which were granted to the Directors under the Old Share Option Scheme, the full conversion of which will result in the issue of 2,011,600 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 (number of share options outstanding as at the date of the annual report of the Company for the year ended 31st December, 2017 over the number of issued shares of the Company as at that date: 0.08%).

On 1st August, 2018, the Company adjusted the exercise price and the number of outstanding options granted under the Old Share Option Scheme and the New Share Option Scheme in accordance with the scheme rules and the Supplementary Guidance issued by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in 2005 as a result of the issue and allotment of scrip shares by the Company in relation to the final dividend for the year ended 31st December, 2017 ("Adjustment"). Please refer to the announcement of the Company dated 1st August, 2018 for more details.

Pursuant to the Adjustment, the outstanding share options granted under the Old Share Option Scheme was adjusted from 2,000,000 to 2,011,600 share options and the outstanding share options granted under the New Share Option Scheme was adjusted from 126,000,000 to 126,730,800 share options.

The following table discloses movements of the Company's share options granted to the Directors under the Old Share Option Scheme and movements in such holdings during the period under review:

				Number of share options granted under the Old Share Option Scheme				
Name of Directors	**Date of grant**	**Exercise/vesting period**	**Exercise price** *HK$*	**Outstanding as at 1st January, 2018**	**Granted during the period under review**	**Exercised during the period under review**	**Lapsed/ Cancelled during the period under review**	**Outstanding as at 30th June, 2018**
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 Company's shares on 8th April, 2011 was HK$0.48, which was the business day immediately before the date on which the share options under the Old Share Option Scheme were granted on 11th April, 2011.

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, the number of outstanding share options granted under the New Share Option Scheme was 126,730,800 and the maximum number of share options which may be granted under the New Share Option Scheme is 125,669,968. The outstanding share options, if converted in full into shares of the Company, and the number of options available for future grant, if granted and converted in full, represent approximately 4.9901% and 4.9483% of the number of issued shares of the Company as at the date of this report, respectively.

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 which must be a business day; (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 5th January, 2018, 126,000,000 share options to subscribe for an aggregate of 126,000,000 ordinary shares at par value of HK$0.01 each of the Company were granted to the eligible participants (including Directors) by the Company pursuant to the New Share Option Scheme. The closing price of the Company's shares on 4th January, 2018, being the date immediately before the date on which the share options under the New Share Option Scheme were granted, was HK$4.98.

The following table discloses movements of the Company's share options granted to the eligible participants (including Directors) under the New Share Option Scheme and movements in such holdings during the period under review:

Name of participants who are Directors and category of other participants	Date of grant	Exercise/vesting period	Exercise price *HK$*	Number of share options granted under the New Share Option Scheme: Outstanding as at 1st January, 2018	Granted during the period under review	Exercised during the period under review	Lapsed/ Cancelled during the period under review	Outstanding as at 30th June, 2018
Lui Siu Keung	5th January, 2018	5th January, 2018 to 4th January, 2028	5.5	–	7,500,000	–	–	7,500,000
Lu Zhaoheng	5th January, 2018	5th January, 2018 to 4th January, 2028	5.5	–	3,000,000	–	–	3,000,000
Xu Yongxuan	5th January, 2018	5th January, 2018 to 4th January, 2028	5.5	–	500,000	–	–	500,000
Li Chunyan	5th January, 2018	5th January, 2018 to 4th January, 2028	5.5	–	500,000	–	–	500,000
Luo Yongtai	5th January, 2018	5th January, 2018 to 4th January, 2028	5.5	–	500,000	–	–	500,000
Liu Yu Jie	5th January, 2018	5th January, 2018 to 4th January, 2028	5.5	–	500,000	–	–	500,000
				–	12,500,000	–	–	12,500,000
Others employees	5th January, 2018	5th January, 2018 to 4th January, 2028	5.5	–	113,500,000	–	–	113,500,000
				–	126,000,000	–	–	126,000,000
Exercisable at the end of the period								126,000,000
Weighted average exercise price				–	HK$5.5	–	–	HK$5.5

The fair value of share options granted is recognised as an employee cost and measured at the fair value of the equity instruments at the grant date. The fair value of share options granted during the six months ended 30th June, 2018 as determined using the Black-Scholes model was approximately HK$0.48 (rounded to two decimal places) for each option.

The key inputs into the model were share price of HK$5.00 per share on the day of grant, the exercise price of the options of HK$5.50 per share, an estimated volatility of 33%, an estimated dividend yield of 0%, an expected option life of 1 year and an annual risk-free interest rate of 1.339%.

Since the Black-Scholes option pricing model requires input of highly subjective assumptions, any change in the subjective input assumptions as stated above may materially affect the estimation of the fair value of the options.

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.

CHARGE ON THE GROUP'S ASSETS

As at 30th June, 2018, the Group has pledged certain buildings in the PRC having carrying value of HK$2,894,000 (2017: HK$2,927,000) to secure a bank borrowing granted to the Group.

As at 30th June, 2018, the Group has pledged certain prepaid lease payments in the PRC having carrying value of HK$39,762,000 (2017: HK$40,291,000) to secure certain bank borrowings granted to the Group.

As at 30th June, 2018, pledged bank deposits of RMB17,750,000 (equivalent to HK$21,250,000) (2017: nil) are used to secure the short-term general banking facilities granted to the Group.

As at 30th June, 2018, the Group's obligations under finance lease are secured by the Group's pipelines with an aggregate carrying amount of RMB590,477,000 (equivalent to HK$706,904,000) (2017: RMB591,210,000 (equivalent to HK$707,273,000)) and 50% of the equity interests of a subsidiary of the Group.

FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

As at 30th June, 2018, the Board did not have any specific plans for material investment or capital assets.

CAPITAL AND OTHER COMMITMENTS

As at 30th June, 2018, 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$113,327,000 (2017: HK$120,529,000).

CONTINGENT LIABILITIES

As at 30th June, 2018, the Group did not have any contingent liabilities (2017: 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

New Downstream Piped Gas Distribution Projects

As at 30th June, 2018, the Group had 60 gas projects with exclusive rights in the PRC. During the period under review, the Group obtained concession right to operate 1 additional natural gas project in Hebei Province.

New CNG/LNG Vehicle Filling Stations Expansion

In 2018, the Group slowed down the expansion of CNG/LNG vehicle filling stations as the price of crude oil remained at a low level. During the period under review, two loss-making subsidiaries, which operated CNG vehicle filling stations, were disposed of.

Major Operational Data

The downstream natural gas distribution business of the Group primarily comprises sales of 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/
	2018	2017	(Decrease)
Number of operational locations *(Note a)*	**60**	56	4
– Henan Province	**24**	22	2
– Hebei Province	**19**	17	2
– Jiangsu Province	**5**	5	–
– Shandong Province	**4**	4	–
– Jilin Province	**2**	2	–
– Fujian Province	**1**	1	–
– Heilongjiang Province	**1**	1	–
– Zhejiang Province	**2**	2	–
– Anhui Province	**2**	2	–
Connectable population ('000) *(Note b)*	**12,698**	11,153	13.9%
Connectable residential households ('000)	**3,628**	3,186	13.9%
New piped gas connections by the Group made during the period			
– Residential households	**350,276**	119,647	192.8%
(i) "Coal-to-gas" projects	**246,189**	10,599	2,222.8%
(ii) Non "Coal-to-gas" projects	**104,087**	109,048	(4.5)%
– Industrial customers	**159**	139	14.4%
– Commercial customers	**792**	859	(7.8)%

	Six months ended 30th June, (unaudited) 2018	2017	Increase/ (Decrease)
Accumulated number of connected piped gas customers			
– Residential households	**2,509,802**	1,964,517	27.8%
– Industrial customers	**1,805**	1,310	37.8%
– Commercial customers	**9,048**	6,915	30.8%
Penetration rate of residential pipeline connection *(Note c)*	**69.2%**	61.7%	7.5%
Unit of piped natural gas sold ('000 m^3)	**663,698**	585,941	13.3%
– Residential households	**167,578**	131,523	27.4%
– Industrial customers	**413,654**	388,162	6.6%
– Commercial customers	**73,909**	60,873	21.4%
– Wholesale customers	**8,557**	5,383	59.0%
Unit of LNG sold ('000 m^3)			
– Wholesale customers	**20,501**	–	N/A
Number of CNG/LNG vehicle filling stations			
– Accumulated	**61**	60	1
– Under construction	**10**	19	(9)
Unit of natural gas sold to vehicles ('000 m^3)	**42,619**	52,195	(18.3)%
Total length of existing intermediate and main pipelines (km)	**13,118**	11,302	16.1%
Average selling price of natural gas (pre-tax) (RMB per m^3)			
– Residential households	**2.17**	2.11	2.8%
– Industrial customers	**2.76**	2.32	19.0%
– Commercial customers	**3.07**	2.74	12.0%
– Wholesale customers	**2.03**	1.67	21.6%
– Wholesale customers (LNG)	**2.74**	–	N/A
– CNG/LNG vehicle filling stations	**3.36**	2.82	19.1%
Average cost of natural gas (RMB per m^3)	**2.39**	2.00	19.5%
Average connection fee for residential households (RMB)			
– "Coal-to-gas" projects	**2,680**	2,824	(5.1)%
– Non "Coal-to-gas" projects	**2,534**	2,620	(3.3)%

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.

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, 2018 increased by 72.7% to HK$3,699,210,000 (2017: HK$2,142,291,000); and gross profit for the six months ended 30th June, 2018 increased by 135.0% to HK$1,183,015,000 (2017: HK$503,483,000). The Group's profit attributable to owners of the Company increased significantly by 184.0% to HK$419,980,000 (2017: HK$147,861,000). Excluding the net foreign exchange loss of HK$91,992,000 (2017: gain of HK$36,343,000), adjusted profit attributable to owners of the Company would amount to HK$511,972,000 (2017: HK$111,518,000). The basic and diluted earnings per share attributable to the owners of the Company were HK16.63 cents and HK16.41 cents respectively for the six months ended 30th June, 2018, as compared with that of HK5.86 cents and HK5.85 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 is as follows:

	For the six months ended 30th June,				
	2018	**% of total**	2017	% of total	Increase/ (Decrease)
	HK$'000		*HK$'000*		
Sales of Gas	**2,250,015**	**60.8%**	1,551,223	72.4%	45.0%
Connection revenue from Gas Pipeline Construction	**1,193,700**	**32.3%**	399,982	18.7%	198.4%
Operation of CNG/LNG Vehicle Filling Stations	**176,093**	**4.8%**	166,515	7.8%	5.8%
Sales of Stoves and Related Equipment	**75,831**	**2.0%**	21,381	1.0%	254.7%
Sub-total	**3,695,639**	**99.9%**	2,139,101	99.9%	72.8%
Sales of Liquefied Petroleum Gas	**3,571**	**0.1%**	3,190	0.1%	11.9%
Total	**3,699,210**	**100%**	2,142,291	100%	72.7%

The turnover for the period under review amounted to HK$3,699,210,000 (2017: HK$2,142,291,000). The growth in turnover was mainly attributable to a significant increase in sales of gas to industrial customers and connection revenue from gas pipeline construction under the implementation of the "coal-to-gas" conversion policy.

Sales of Gas

Sales of gas for the six months ended 30th June, 2018 amounted to HK$2,250,015,000 (2017: HK$1,551,223,000), representing an increase of 45.0% over the corresponding period last year.

Sales of gas for the period under review contributed 60.8% of the total turnover of the Group, as compared with the percentage of 72.4% during the corresponding period last year. Sales of gas continued to be the major source of turnover for the Group. The following table set forth the breakdown of sales of gas by customers.

Sales of gas by customers:

	For the six months ended 30th June,				
	2018	**% of total**	2017	% of total	Increase/ (Decrease)
	HK$'000		*HK$'000*		
Industrial customers	**1,429,551**	**63.5%**	1,031,991	66.5%	38.5%
Residential households	**449,981**	**20.0%**	319,310	20.6%	40.9%
Commercial customers	**280,147**	**12.5%**	189,745	12.2%	47.6%
Wholesale customers	**21,331**	**0.9%**	10,177	0.7%	109.6%
Wholesale customers (LNG)	**69,005**	**3.1%**	–	–	N/A
Total	**2,250,015**	**100%**	1,551,223	100%	45.0%

Industrial customers

The sales of gas to the Group's industrial customers for the period under review increased by 38.5% to HK$1,429,551,000 from HK$1,031,991,000 for the corresponding period last year. During the period under review, the Group connected 159 new industrial customers. The average selling price of natural gas for industrial customers for the period under review increased by 19.0% to RMB2.76 per m^3 (2017: RMB2.32 per m^3) when compared to the corresponding period last year. There is a continuous 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 6.6% to 413,654,000 m^3 (2017: 388,162,000 m^3).

The sales of gas to our industrial customers for the period under review contributed 63.5% of the total sales of gas of the Group (2017: 66.5%) and continues to be the major source of sales of gas of the Group.

Residential households

The sales of gas to our residential households for the period under review increased by 40.9% to HK$449,981,000 from HK$319,310,000 for the corresponding period last year. The growth in sales of gas to residential households was supported by the implementation of the "coal-to-gas" conversion policy in the Group's existing project cities in the PRC. During the period under review, the Group provided new natural gas connections for 350,276 residential households and the piped natural gas usage provided by the Group to residential households was 167,578,000 m^3 (2017: 131,523,000 m^3).

The sales of gas to our residential households for the period under review contributed 20.0% of the total sales of gas of the Group (2017: 20.6%).

Commercial customers

The sales of gas to our commercial customers for the period under review increased by 47.6% to HK$280,147,000 from HK$189,745,000 for the corresponding period last year. The sales of gas to commercial customers for the period under review contributed 12.5% of the total sales of gas of the Group (2017: 12.2%). During the period under review, the Group connected 792 new commercial customers. As at 30th June, 2018, the number of commercial customers of the Group reached 9,048, representing an increase of 9.6% as compared with 8,256 commercial customers as at 31st December, 2017.

The average selling price of natural gas for commercial customers increased by 12.0% to RMB3.07 per m^3 (2017: RMB2.74 per m^3) during the period under review. The increase in gas consumption of commercial customers by 21.4% to 73,909,000 m^3 (2017: 60,873,000 m^3) for the period under review was attributable to the "coal-to-gas" conversion policy and the raising awareness for environmental protection.

Gas Pipeline Construction

Connection revenue from gas pipeline construction for the six months ended 30th June, 2018 amounted to HK$1,193,700,000 representing an increase of 198.4% 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,				
	2018	**% of total**	2017	% of total	Increase/ (Decrease)
	HK$'000		*HK$'000*		
Residential households					
– "Coal-to-gas" projects	**811,796**	**68.0%**	33,869	8.5%	2,296.9%
– Non "Coal-to-gas" projects	**324,540**	**27.2%**	323,364	80.8%	0.4%
Non-residential customers	**57,364**	**4.8%**	42,749	10.7%	34.2%
Total	**1,193,700**	**100%**	399,982	100%	198.4%

Started from 2017, the PRC government has determined to launch the "coal-to-gas" policy as one of its major priorities to fight with air pollution. The Group has followed the "coal-to-gas" conversion policy and carried out a number of conversion projects in different regions of the PRC. Connection revenue from gas pipeline construction for residential households for "coal-to-gas" projects for the six months ended 30th June, 2018 increased by 2,296.9% to HK$811,796,000 from HK$33,869,000 for the corresponding period last year. During the period under review, the Group provided new natural gas connections for 246,189 residential households (2017: 10,599) under "coal-to-gas" projects and the average connection fee was RMB2,680 (2017: RMB2,824). To promote the "coal-to-gas" conversion, discounted prices were offered to certain new residential households, which led to a reduced average connection fee in 2018.

During the period under review, connection revenue from gas pipeline construction for residential households for non "coal-to-gas" projects remained stable at HK$324,540,000 (2017: HK$323,364,000). The (i) decrease in construction work for gas pipeline connection completed by the Group for residential households for non "coal-to-gas" projects to 104,087 from 109,048 for the corresponding period last year and (ii) the decrease in average connection fee to RMB2,534 in 2018 from RMB2,620 in 2017 were offset by (iii) the increase in average exchange rate of RMB in 2018.

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 34.2% to HK$57,364,000 from HK$42,749,000 for the corresponding period last year, which was also benefited from the "coal-to-gas" conversion policy.

As at 30th June, 2018, the Group's penetration rates of residential pipeline connection amounted to 69.2% (2017: 61.7%) (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 favourable energy policies in the PRC, the Group is aiming to continue to increase its market coverage by acquisitions 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 reduced competitive advantage of CNG/LNG vehicle filling stations in the short term. Despite this, revenue from operating CNG/LNG vehicle filling stations for the six months ended 30th June, 2018 amounted to HK$176,093,000, representing an increase of 5.8% over the corresponding period last year. The average selling price of natural gas for CNG/LNG vehicle filling stations for the period under review increased by 19.1% to RMB3.36 per m^3 (2017: RMB2.82 per m^3) when compared to the corresponding period last year to cover the rising cost. The unit of natural gas sold to vehicles decreased by 18.3% to 42,619,000 m^3 for the six months ended 30th June, 2018 from 52,195,000 m^3 for the corresponding period last year as a result of keen competition.

During the period under review, the turnover derived from operating CNG/LNG vehicle filling stations accounted for 4.8% (2017: 7.8%) of the total turnover of the Group. As at 30th June, 2018, the Group had 61 CNG/LNG vehicle filling stations and commenced building an additional 10 CNG/LNG vehicle filling stations in the PRC. All new CNG/LNG vehicle filling stations are targeted to commence operation in the second half year of 2018 or 2019.

Gross profit margin

The overall gross profit margin for the six months ended 30th June, 2018 was 32.0% (2017: 23.5%). The improvement in overall gross profit margin in current period was mainly due to increase in the proportion of connection revenue to total turnover.

The gross profit margin for the sales of piped natural gas reduced to 10.1% (2017: 15.3%) as a result of limited supply of natural gas and hence increased average cost. The gross profit margin for the operation of CNG/LNG vehicle filling stations increased to 10.9% (2017: 3.9%) because sales increment has been recorded in gas stations in Jilin Province, which have higher gross profit margin due to premium locations. The gross profit margin for the gas pipeline construction increased to 76.9% for the period under review (2017: 65.2%), which was mainly due to cost reduction after integration and improvement of design, material procurement and construction processes.

Other gains and losses

The Group recognised other net loss of HK$96,823,000 during the period under review (2017: net gain of HK$44,972,000). The amount mainly represented net foreign exchange difference arising from the Group's bank borrowings denominated in United States dollars and Hong Kong dollars as a result of the depreciation of RMB since the second quarter of 2018. In 2018, two loss-making subsidiaries were disposed of and loss on disposal of HK$5,455,000 was recognised.

Other income

Other income increased to HK$13,672,000 for the six months ended 30th June, 2018 compared to HK$12,424,000 for the corresponding period last year. The balance in current period represented the bank interest income of HK$3,463,000 (2017: HK$2,134,000), interest income on amount due from an associate of HK$1,596,000 (2017: HK$1,337,000), government subsidies of HK$366,000 (2017: HK$2,143,000), interest income from investments in life insurance contracts of HK$1,336,000 (2017: HK$1,260,000) and sundry income of HK$6,911,000 (2017: HK$5,550,000).

Selling and distribution costs and administrative expenses

Selling and distribution costs increased by 37.9% to HK$66,565,000 in 2018 from HK$48,283,000 in 2017. Administrative expenses increased by 41.2% to HK$205,614,000 in 2018 from HK$145,572,000 in 2017. The increase was mainly attributable to (i) ascending staff costs and related expenses as a result of increased salary and increased number of headcount; (ii) additional depreciation expenses arising from revaluation of pipelines in prior year and (iii) equity-settled share option expenses of HK$30,000,000 arising from share options granted on 5th January, 2018.

Finance costs

Finance costs increased by 19.4% to HK$121,946,000 for the six months ended 30th June, 2018 compared to HK$102,169,000 for the corresponding period last year. The increase was mainly attributable to the increase in average bank and other borrowings balance.

Income tax expenses

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, 2018, no withholding tax (2017: nil) was charged by the PRC tax authority which levied on the dividends paid to overseas group entities in the previous and current period.

Accordingly, the income tax expenses for the six months ended 30th June, 2018 amounted to HK$249,657,000 (2017: HK$104,651,000).

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

The Group's EBITDA was approximately HK$1,094,590,000 for the six months ended 30th June, 2018, representing an increase of 124.9% as compared with that of approximately HK$486,640,000 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 HK$419,980,000 for the six months ended 30th June, 2018, representing an increase of 184.0% as compared with that of HK$147,861,000 for the corresponding period last year.

Net profit margin

For the six months ended 30th June, 2018, the net profit margin, representing a ratio of profit attributable to owners of the Company to turnover, was 11.4% (2017: 6.9%).

Earnings per share

The basic and diluted earnings per share attributable to the owners of the Company were HK16.63 cents and HK16.41 cents respectively for the six months ended 30th June, 2018, as compared with that of HK5.86 cents and HK5.85 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$1.44 as at 30th June, 2018, representing an increase of 14.3% as compared with that of HK$1.26 as at 31st December, 2017.

The net assets value represents total assets minus total liabilities.

Prospects

Under the continuous progress of urbanisation and expedited "coal-to-gas" conversion promoted by the PRC government, it is forecasted that the total annual consumption of natural gas in the PRC will reach approximately 260 billion m^3 in 2018 with a year-on-year growth of 10.0% according to Sinopec Economics and Development Research Institute. The growth rates of gas consumption for residential users and industrial users are estimated to reach 12.4% and 10.8%, respectively in 2018. In light of such prosperous business environment, the Group is optimistic about its future performance.

The Group is in good progress in meeting its annual target of connecting 800,000 residential users (including "coal-to-gas" conversion), 280 industrial users and 2,400 commercial users for 2018. To achieve the goal in the second half of 2018, the Group will carry on deepening the penetration within the regions where it has exclusive rights, with a primary focus on industrial and commercial customers from different industries. The Group will also continue to maximise the business coverage of its wholly-owned subsidiary, Harmony Gas, by developing its greenfield projects, as well as building its pipe and infrastructure, in order to sustain the Group's long term growth.

Leveraging the current 2.5 million residential users, the Group will persist in expanding its value-added services of selling stoves and related equipment, in order to provide one-stop solutions for the residential users and strengthen its brand value and presence in the market. In view of the shortage of gas supply in the PRC in last winter, the Group has also taken precaution by setting up its own LNG trading arm, which possesses an established network to secure additional LNG supply and complement the possible piped gas shortage, maintaining stable supply to its customers during the winter months.

Despite that the escalating trade war between the US and China has cast shadow over the global economy, the impact is expected to be minimal on the Group's business. The Group's broad client diversification that covers over a dozen of industries has minimised its exposure to regional and political risks. Yet, the Group will stay attentive to the updates of the matters and the possible impacts on its clients who trade internationally, and make timely responses when required. Considering the volatile foreign exchange market affected by the changing monetary policies, the Group will also be alert to the fluctuation and seek for the financing with the lowest possible costs in timely matters.

For a longer term development, the Group is determined to venture into the smart energy and decentralised energy business to open a greater market in green energy sector.

With these strategies, the Group is confident in its future growth, which can deliver fruitful results for its shareholders.

Save as discussed above, there is no important event affecting the Group which have occurred since 31st December, 2017.

DISCLOSURE OF INTERESTS

(a) Interests of Directors

As at 30th June, 2018, 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/underlying 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 8)*
Mr. Wang Wenliang	*1*	753,899,542	Beneficial/Interest in controlled corporation/ Interest of spouse	29.86%
Mr. Xu Yongxuan	*2*	1,500,000	Beneficial	0.06%
Mr. Lui Siu Keung	*3*	21,600,000	Beneficial	0.86%
Mr. Lu Zhaoheng	*4*	6,000,000	Beneficial	0.24%
Mr. Li Chunyan	*5*	1,500,000	Beneficial	0.06%
Mr. Luo Yongtai	*6*	1,500,000	Beneficial	0.06%
Ms. Liu Yu Jie	*7*	500,000	Beneficial	0.02%

Notes:

1. Among these shares and/or underlying shares, 724,753,542 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 18,746,000 shares and 10,400,000 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 1,000,000 share options at an exercise price of HK$0.49 per share granted under the Old Share Option Scheme and the 500,000 share options at an exercise price of HK$5.50 per share granted under the New Share Option Scheme.

3. These comprise 14,100,000 shares directly held by Mr. Lui Siu Keung and 7,500,000 underlying shares to be issued and allotted upon exercise of the rights attaching to the 7,500,000 share options at an exercise price of HK$5.50 per share granted under the New Share Option Scheme.

4. These comprise 3,000,000 shares directly held by Mr. Lu Zhaoheng and 3,000,000 underlying shares to be issued and allotted upon exercise of the rights attaching to the 3,000,000 share options at an exercise price of HK$5.50 per share granted under the New Share Option Scheme.

5. These comprise 1,000,000 shares directly held by Mr. Li Chunyan and 500,000 underlying shares to be issued and allotted upon exercise of the rights attaching to the 500,000 share options at an exercise price of HK$5.50 per share granted under the New Share Option Scheme.

6. These underlying shares are to be allotted and issued upon exercise of the rights attaching to the 1,000,000 share options at an exercise price of HK$0.49 per share granted under the Old Share Option Scheme and the 500,000 share options at an exercise price of HK$5.50 per share granted under the New Share Option Scheme.

7. These underlying shares are to be allotted and issued upon exercise of the rights attaching to the 500,000 share options at an exercise price of HK$5.50 per share granted under the New Share Option Scheme.

8. As at 30th June, 2018, the total number of issued shares of the Company was 2,525,007,684.

Save as disclosed above, as at 30th June, 2018, none of the Directors and chief executive 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, 2018, 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	1,110,732,142	43.99%
Hezhong	*2*	Beneficial	724,753,542	28.70%
Ms. Feng Haiyan	*3*	Beneficial/Interest of spouse	753,899,542	29.86%

Notes:

1. According to the disclosure of interests pages as shown in the website of the Stock Exchange as at 30th June, 2018, China Gas Holdings Limited held these shares through Rich Legend International Limited ("Rich Legend"), its wholly-owned subsidiary, and is therefore deemed to be interested in the 1,110,732,142 Shares held by Rich Legend.

2. Hezhong is beneficially interested in 724,753,542 shares. Mr. Wang Wenliang is beneficially interested in 100% of the issued share capital of Hezhong.

3. Ms. Feng Haiyan directly holds 10,400,000 shares and is deemed to be interested in 743,499,542 shares under the SFO as she is the spouse of Mr. Wang Wenliang.

4. As at 30th June, 2018, the total number of issued shares of the Company was 2,525,007,684.

Save as disclosed above, as at 30th June, 2018, 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, 2018.

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, 2018. 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, 2018.

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, 24th August, 2018