



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, 2021

FINANCIAL AND OPERATIONAL HIGHLIGHTS

(Unaudited)	For the six months ended 30th June,		
	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>	changes %
Turnover	5,824,692	4,276,591	36.2%
Gross profit (Gross margin)	1,224,559 (21.0%)	1,265,958 (29.6%)	(3.3)% (8.6)%
Profit attributable to owners of the Company	644,172	513,088	25.5%
Non-HKFRS profit attributable to owners of the Company (as defined in page 33)	545,799	666,614	(18.1)%
Non-HKFRS EBITDA (as defined in page 32)	1,150,546	1,330,723	(13.5)%
Basic earnings per share (HK cents)	24.35	20.20	20.5%
Non-HKFRS basic earnings per share (HK cents) (as defined in page 33)	20.64	26.24	(21.3)%
Proposed interim dividend (HK cents)	3.00	2.00	50.0%
Unit of natural gas sold ('000 m ³)	1,456,188	983,750	48.0%
New piped gas connections made (residential households under “coal-to-gas” projects)	70,168	192,719	(63.6)%
New piped gas connections made (residential households under non “coal-to-gas” projects)	226,592	171,912	31.8%

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, 2021, together with the comparative figures for the corresponding period in 2020, which are set out below.

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

For the six months ended 30th June, 2021

		For the six months ended 30th June,	
	<i>NOTES</i>	2021 HK\$'000	2020 HK\$'000
Turnover	3	5,824,692	4,276,591
Cost of sales		(4,600,133)	(3,010,633)
Gross profit		1,224,559	1,265,958
Other gains and losses	5	98,226	(153,756)
Other income	6	50,518	120,202
Selling and distribution costs		(113,474)	(82,663)
Administrative expenses		(273,857)	(207,406)
Finance costs	7	(75,836)	(146,930)
Share of results of associates		13,631	23,331
Share of results of joint ventures		(901)	(171)
Profit before tax		922,866	818,565
Income tax expenses	8	(227,482)	(259,114)
Profit for the period	9	695,384	559,451
Other comprehensive income (expense)			
Item that will not be reclassified subsequently to profit or loss:			
Exchange differences on translation from functional currency to presentation currency		67,758	(83,603)
Total comprehensive income for the period		763,142	475,848

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

For the six months ended 30th June, 2021

		For the six months ended 30th June,	
		2021	2020
NOTES		HK\$'000	HK\$'000
Profit for the period attributable to:			
Owners of the Company		644,172	513,088
Non-controlling interests		51,212	46,363
		<u>695,384</u>	<u>559,451</u>
Total comprehensive income attributable to:			
Owners of the Company		708,705	433,070
Non-controlling interests		54,437	42,778
		<u>763,142</u>	<u>475,848</u>
Earnings per share	11		
Basic		<u>HK24.35 cents</u>	<u>HK20.20 cents</u>
Diluted		<u>HK24.32 cents</u>	<u>HK20.17 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June, 2021

	30th June, 2021 (unaudited) <i>HK\$'000</i>	31st December, 2020 (audited) <i>HK\$'000</i>
<i>NOTES</i>		
Non-current assets		
Investment properties	9,342	9,236
Property, plant and equipment	13,264,284	12,747,239
Right-of-use assets	611,840	592,421
Goodwill	442,179	437,188
Other intangible assets	1,355,871	1,379,061
Long-term deposits, prepayments and other receivables	1,402,767	1,310,467
Interests in associates	526,985	507,532
Interests in joint ventures	18,492	19,176
Financial assets at fair value through other comprehensive income	84,801	83,875
	17,716,561	17,086,195
Current assets		
Inventories	684,108	589,598
Properties under development for sale	206,410	166,150
Trade receivables	2,112,930	1,771,513
Deposits, prepayments and other receivables	1,656,720	1,590,247
Amount due from an associate	61,212	59,411
Amount due from a related party	9,013	8,912
Contract assets	594,481	609,259
Tax recoverable	16,101	4,086
Pledged bank deposits	-	4,753
Bank balances and cash	1,202,726	1,744,299
	6,543,701	6,548,228

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

At 30th June, 2021

	NOTES	30th June, 2021 (unaudited) HK\$'000	31st December, 2020 (audited) HK\$'000
Current liabilities			
Trade payables	13	1,635,840	1,882,389
Other payables and accrued charges		1,122,774	764,520
Amount due to an associate		1,075	1,063
Contract liabilities		1,339,037	1,466,311
Borrowings		7,206,942	7,279,315
Lease liabilities		8,798	7,265
Tax payables		100,004	63,276
		11,414,470	11,464,139
Net current liabilities		(4,870,769)	(4,915,911)
Total assets less current liabilities		12,845,792	12,170,284
Capital and reserves			
Share capital		26,451	26,448
Reserves		6,699,933	5,989,591
Equity attributable to owners of the Company		6,726,384	6,016,039
Non-controlling interests		772,752	715,311
Total equity		7,499,136	6,731,350
Non-current liabilities			
Deferred income and advance received		6,764	6,688
Borrowings		4,156,090	4,310,831
Lease liabilities		20,341	20,112
Deferred taxation		1,163,461	1,101,303
		5,346,656	5,438,934
		12,845,792	12,170,284

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2021

	Attributable to owners of the Company										
	Share capital HK\$'000	Share premium HK\$'000	Share option reserve HK\$'000	Property revaluation reserve HK\$'000	Other reserve HK\$'000 (Note i)	Statutory surplus reserve HK\$'000 (Note ii)	Translation reserve HK\$'000	Accumulated profits HK\$'000	Sub-total HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
At 1st January, 2020 (audited)	26,448	1,644,649	13,981	1,127,420	(603,692)	169,598	72,018	2,324,947	4,775,369	600,704	5,436,073
Profit for the period	-	-	-	-	-	-	-	513,088	513,088	46,363	559,451
Other comprehensive expense for the period	-	-	-	(21,277)	-	-	(58,741)	-	(80,018)	(3,585)	(83,603)
Total comprehensive (expense) income for the period	-	-	-	(21,277)	-	-	(58,741)	513,088	433,070	42,778	475,848
Capital contribution from non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	-	29,185	29,185
At 30th June, 2020 (unaudited)	26,448	1,644,649	13,981	1,106,143	(603,692)	169,598	13,277	2,838,035	5,208,439	732,667	5,941,106
At 1st January, 2021 (audited)	26,448	1,644,649	13,981	1,294,591	(611,503)	193,020	281,850	3,173,003	6,016,039	715,311	6,731,350
Profit for the period	-	-	-	-	-	-	-	644,172	644,172	51,212	695,384
Other comprehensive income for the period	-	-	-	14,767	-	-	49,766	-	64,533	3,225	67,758
Total comprehensive income for the period	-	-	-	14,767	-	-	49,766	644,172	708,705	54,437	763,142
Transfer to statutory surplus reserve	-	-	-	-	-	4,807	-	(4,807)	-	-	-
Capital contribution from non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	-	3,004	3,004
Exercise of share options	3	1,874	(237)	-	-	-	-	-	1,640	-	1,640
Transfer to accumulated profits upon forfeiture of share options	-	-	(159)	-	-	-	-	159	-	-	-
At 30th June, 2021 (unaudited)	26,451	1,646,523	13,585	1,309,358	(611,503)	197,827	331,616	3,812,527	6,726,384	772,752	7,499,136

Note: (i) Other reserve mainly represents the difference between the fair values of the considerations paid and the carrying amounts of the non-controlling interests arisen from acquisition of additional interest in subsidiaries.

(ii) The articles of association of the Company's subsidiaries established in the People's Republic of China (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, 2021

	For the six months ended 30th June,	
	2021 (unaudited) HK\$'000	2020 (unaudited) HK\$'000
Net cash from operating activities	411,810	617,807
Net cash used in investing activities	(882,221)	(1,151,599)
Net cash (used in) from financing activities	(86,867)	63,710
Net decrease in cash and cash equivalents	(557,278)	(470,082)
Cash and cash equivalents at 1st January	1,744,299	1,903,313
Effect of foreign exchange rate changes	15,705	(27,550)
Cash and cash equivalents at 30th June, represented by bank balances and cash	<u>1,202,726</u>	<u>1,405,681</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed consolidated financial statements for the six months ended 30th June, 2021 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, 2020, 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, 2021. 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 and amounts reported for the current period and prior years.

The Group has not early applied the new and amendments to HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new and amendments to 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

Disaggregation of revenue from contracts with customers

	For the six months ended 30th June,	
	2021 HK\$'000	2020 HK\$'000
Types of goods or services		
Retail gas sales	3,613,829	2,572,144
Revenue from gas pipeline construction	997,781	1,119,765
Wholesale of gas	879,849	153,762
Value-added services	216,873	326,019
Sales of compressed natural gas or liquefied natural gas ("CNG/LNG") in vehicle filling stations	116,360	104,901
Total	5,824,692	4,276,591
Timing of revenue recognition		
A point in time	4,826,911	3,156,826
Over time	997,781	1,119,765
Total	5,824,692	4,276,591

All the revenue from contracts with customers are derived from the PRC.

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. Majority of 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.

4. SEGMENT INFORMATION (Continued)

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:

- (a) retail gas sales;
- (b) gas pipeline construction;
- (c) wholesale of gas;
- (d) value-added services; and
- (e) operation of CNG/LNG vehicle filling stations.

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

For the six months ended 30th June, 2021

	Retail gas sales	Gas pipeline construction	Wholesale of gas	Value-added services	Operation of CNG/LNG vehicle filling stations	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment revenue	<u>3,613,829</u>	<u>997,781</u>	<u>879,849</u>	<u>216,873</u>	<u>116,360</u>	<u>5,824,692</u>
Segment profit (loss)	<u>251,337</u>	<u>572,059</u>	<u>18,824</u>	<u>60,747</u>	<u>(4,169)</u>	898,798
Unallocated other income						50,518
Unallocated other gains and losses						98,373
Unallocated central corporate expenses						(48,987)
Finance costs						<u>(75,836)</u>
Profit before tax						<u>922,866</u>

4. **SEGMENT INFORMATION** (Continued)

For the six months ended 30th June, 2020

	Retail gas sales HK\$'000	Gas pipeline construction HK\$'000	Wholesale of gas HK\$'000	Value-added services HK\$'000	Operation of CNG/LNG vehicle filling stations HK\$'000	Consolidated HK\$'000
Segment revenue	<u>2,572,144</u>	<u>1,119,765</u>	<u>153,762</u>	<u>326,019</u>	<u>104,901</u>	<u>4,276,591</u>
Segment profit (loss)	<u>246,056</u>	<u>695,259</u>	<u>1,404</u>	<u>101,245</u>	<u>(5,562)</u>	1,038,402
Unallocated other income						120,202
Unallocated other gains and losses						(153,526)
Unallocated central corporate expenses						(39,583)
Finance costs						<u>(146,930)</u>
Profit before tax						<u>818,565</u>

The accounting policies of the operating segments are the same as the Group's accounting policies. Reportable segments represent the financial result of each segment without allocation of central administration costs, directors' emoluments, interest income, net foreign exchange gain or loss, certain sundry income and finance costs. 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,	
	2021 HK\$'000	2020 HK\$'000
Net foreign exchange gains (losses)	98,373	(153,526)
Net (loss) gain on disposal of property, plant and equipment	(147)	366
Others	<u>-</u>	<u>(596)</u>
	<u>98,226</u>	<u>(153,756)</u>

6. OTHER INCOME

	For the six months ended 30th June,	
	2021 HK\$'000	2020 HK\$'000
Interest income from financial assets at amortised cost		
– Bank interest income	6,199	3,042
– Interest income on amount due from an associate	2,042	1,783
– Interest income from loans to employees	11,563	12,458
	<u>19,804</u>	<u>17,283</u>
Government subsidies (<i>Note</i>)	16,523	64,421
Income from investments in life insurance contracts	1,306	1,393
Sundry income	12,885	37,105
	<u>50,518</u>	<u>120,202</u>

Note: During the six months ended 30th June, 2021, the Group has received subsidies of HK\$16,523,000 (2020: HK\$64,421,000) from the relevant PRC governments for promoting the use of natural gas. There are no conditions attached to the subsidies granted to the Group.

7. FINANCE COSTS

	For the six months ended 30th June,	
	2021 HK\$'000	2020 HK\$'000
Interest on borrowings and lease liabilities	147,743	192,202
Amortisation on loan facilities fees relating to bank borrowings	23,133	23,044
	<u>170,876</u>	<u>215,246</u>
Total borrowing costs	170,876	215,246
Less: Amounts capitalised in construction in progress included in property, plant and equipment	(95,040)	(68,316)
	<u>75,836</u>	<u>146,930</u>

8. INCOME TAX EXPENSES

	For the six months ended 30th June,	
	2021 HK\$'000	2020 HK\$'000
PRC Enterprise Income Tax	<u>227,482</u>	<u>259,114</u>

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both periods.

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, 2021, no withholding tax (2020: nil) was charged by the PRC tax authority which levied on the dividends paid to overseas group entities in the previous and current periods.

9. PROFIT FOR THE PERIOD

	For the six months ended 30th June,	
	2021 HK\$'000	2020 HK\$'000
Profit for the period has been arrived at after charging:		
Amortisation of other intangible assets (included in cost of sales)	36,166	36,553
Depreciation of right-of-use assets	10,817	10,537
Depreciation of property, plant and equipment	203,234	164,612
Cost of inventories recognised as expenses in respect of contract cost for gas pipeline construction	162,413	184,660
Cost of inventories recognised as expenses in respect of sales of gas, CNG/LNG, liquefied petroleum gas and stoves	<u>3,996,710</u>	<u>2,466,824</u>

10. DIVIDENDS

During the six months ended 30th June, 2021, a final dividend of HK7 cents per ordinary share in respect of the year ended 31st December, 2020 (2020: final dividend in respect of the year ended 31st December, 2019 of HK5 cents per ordinary share), in an aggregate amount of HK\$185,159,000 (2020: HK\$132,242,000), has been proposed by the Directors and approved by the shareholders in the annual general meeting.

No dividend was paid during the six months ended 30th June, 2021 (2020: nil).

Subsequent to the end of reporting period, an interim dividend of HK3 cents per ordinary share for 2021 (2020: HK2 cents), in an aggregate amount of HK\$79,375,000 (2020: HK\$52,897,000), has been proposed by the Directors.

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,	
	2021	2020
	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	644,172	513,088
	2021	2020
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,644,963	2,540,405
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	3,296	3,965
Weighted average number of ordinary shares for the purpose of diluted earnings per share	2,648,259	2,544,370

12. TRADE RECEIVABLES

The Group allows an average credit period of 30 days (2020: 30 days) to its trade customers. The following is an aged analysis of trade receivables from contracts with customers net of allowance for credit losses 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 respective construction contracts completion dates, as appropriate:

	30th June, 2021 HK\$'000	31st December, 2020 HK\$'000
0 – 30 days	1,194,146	744,534
31 – 90 days	91,542	127,517
91 – 180 days	127,483	94,846
181 – 360 days	233,746	523,979
Over 360 days	466,013	280,637
	<hr/>	<hr/>
Trade receivables	2,112,930	1,771,513
	<hr/> <hr/>	<hr/> <hr/>

As at 30th June, 2021, total bills received amounting to HK\$63,071,000 (2020: HK\$88,120,000) are held by the Group for future settlement of trade receivables. All bills received by the Group are with a maturity period of less than one year.

As at 30th June, 2021, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK\$900,989,000 (2020: HK\$971,547,000) which are past due as at the reporting date. Out of the past due balances, HK\$789,882,000 (2020: HK\$869,008,000) has been past due 90 days or more and is not considered as in default as these are represented by the debtors without bad debt history or the PRC local governments with low credit risks. The Group does not hold any collateral over these balances.

13. TRADE PAYABLES

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

	30th June, 2021 HK\$'000	31st December, 2020 HK\$'000
0 – 30 days	591,898	654,015
31 – 90 days	158,385	616,971
91 – 180 days	218,724	211,674
Over 180 days	666,833	399,729
	<hr/>	<hr/>
Trade payables	1,635,840	1,882,389
	<hr/> <hr/>	<hr/> <hr/>

The average credit period on purchase of goods is 90 days (2020: 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, 2021, the total assets of the Group increased by HK\$625,839,000 or 2.6% to HK\$24,260,262,000 (2020: HK\$23,634,423,000).

As at 30th June, 2021, the Group has net current liabilities of HK\$4,870,769,000 (2020: HK\$4,915,911,000).

As at 30th June, 2021, the Group's current ratio, represented by a ratio of total current assets to total current liabilities, was approximately 0.6 (2020: 0.6).

As at 30th June, 2021, the total borrowings and lease liabilities decreased by HK\$225,352,000 or 1.9% to HK\$11,392,171,000 (2020: HK\$11,617,523,000).

As at 30th June, 2021, the Group had total net debts of HK\$10,189,445,000 (2020: HK\$9,868,471,000), measured as total borrowings and lease liabilities minus the bank balances and cash and pledged bank deposits. As at 30th June, 2021, the Group had net gearing ratio of approximately 1.36 (2020: 1.47), measured as total net debts to total equity of HK\$7,499,136,000 (2020: HK\$6,731,350,000).

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 HK\$22,500,000 in total were made available to the Group.

During the six months ended 30th June, 2021, the Group generally financed its operations with internally generated resources and bank and other borrowings. As at 30th June, 2021, all of the bank and other borrowings were secured or unsecured and on normal commercial terms.

In May 2021, Moody's Investors Service assigned a first-time Ba3 corporate family rating to the Group. Fitch Ratings also assigned a first-time B+ (with positive outlook) rating to the Group.

Capital structure

As at 30th June, 2021, approximately 63% of total borrowings and lease liabilities were repayable within one year and approximately 37% of total borrowings and lease liabilities were repayable after one year. Approximately 30%, 39% and 31% of total borrowings and lease liabilities were denominated in Renminbi ("RMB"), United States dollars and Hong Kong dollars respectively. Majority of total borrowings and lease liabilities 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 appreciation of RMB in the first half of 2021, exchange gain 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 may, as it thinks fit, seek suitable financial instruments to hedge against potential depreciation of RMB. As at 30th June, 2021, the Group did not employ any financial instruments for hedging purposes.

EMPLOYEE INFORMATION

As at 30th June, 2021, the Group had a total of 4,799 employees (2020: 4,497) in Hong Kong and the PRC, and the total employee benefit expenses (other than directors) for the period under review was approximately HK\$286,396,000 (2020: HK\$223,676,000). The growth was mainly due to increase in the number of headcount and increase in social security contribution made by the Group in 2021 as the PRC government waived part of employers' contribution in 2020 during the COVID-19 pandemic. Around 99.8% of the Group's employees are based 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 30th June, 2021, there was no share option outstanding under the Old Share Option Scheme.

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

Name of Director	Date of grant	Exercise/vesting period	Exercise price HK\$	Number of share options granted under the Old Share Option Scheme				
				Outstanding at 1st January, 2021	Granted during the period under review	Exercised during the period under review	Lapsed during the period under review	Outstanding at 30th June, 2021
Xu Yongxuan	11th April, 2011	11th April, 2011 to 10th April, 2021	0.4872	1,005,800	-	-	(1,005,800)	-
				<u>1,005,800</u>	<u>-</u>	<u>-</u>	<u>(1,005,800)</u>	<u>-</u>
Exercisable at the end of the period								<u>-</u>
Weighted average exercise price				<u>HK\$0.4872</u>	<u>-</u>	<u>-</u>	<u>HK\$0.4872</u>	<u>-</u>

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. Under the New Share Option Scheme, the Directors may offer 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.

The scheme mandate limit of the New Share Option Scheme is 252,400,768. As at 30th June, 2021, 126,730,800 share options were granted, 3,017,400 share options have lapsed in accordance with the terms of the New Share Option Scheme and the number of share options outstanding was 16,798,600. The maximum number of share options which may be granted under the New Share Option Scheme is 128,687,368. 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 0.64% and 4.87% of the number of issued shares of the Company as at 30th June, 2021, respectively.

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

Name of participants who are Directors and category of other participants	Date of grant	Exercise period	Exercise price HK\$	Number of share options granted under the New Share Option Scheme				
				Outstanding at 1st January, 2021	Granted during the period under review	Exercised during the period under review	Lapsed/Cancelled during the period under review	Outstanding at 30th June, 2021
Lui Siu Keung	5th January, 2018	5th January, 2018 to 4th January, 2028	5.468	7,543,500	-	-	-	7,543,500
Lu Zhaobeng	5th January, 2018	5th January, 2018 to 4th January, 2028	5.468	3,017,400	-	-	-	3,017,400
Xu Yongxuan	5th January, 2018	5th January, 2018 to 4th January, 2028	5.468	502,900	-	-	-	502,900
Li Chunyan	5th January, 2018	5th January, 2018 to 4th January, 2028	5.468	502,900	-	-	-	502,900
Luo Yongtai	5th January, 2018	5th January, 2018 to 4th January, 2028	5.468	502,900	-	-	-	502,900
Liu Yu Jie	5th January, 2018	5th January, 2018 to 4th January, 2028	5.468	502,900	-	-	-	502,900
				<u>12,572,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,572,500</u>
Employees	5th January, 2018	5th January, 2018 to 4th January, 2028	5.468	3,017,400	-	(300,000) <i>(note 1)</i>	-	2,717,400
Employees	5th January, 2018	17th December, 2019 to 4th January, 2028	5.468	1,508,700 <i>(note 2)</i>	-	-	-	1,508,700
				<u>17,098,600</u>	<u>-</u>	<u>(300,000)</u>	<u>-</u>	<u>16,798,600</u>
Exercisable at the end of the period								<u>16,798,600</u>
Weighted average exercise price				<u>HK\$5.468</u>	<u>-</u>	<u>HK\$5.468</u>	<u>-</u>	<u>HK\$5.468</u>

Notes:

1. The weighted average closing price immediately before the date of exercise is HK\$6.83.
2. The vesting period for these options is from 5th January, 2018 to 16th December 2019.

CHARGE ON THE GROUP'S ASSETS

As at 30th June, 2021, no pledged bank deposit (2020: RMB4,000,000 (equivalent to HK\$4,753,000)) was used to secure the general banking facilities granted to the Group.

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITION AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

During the period under review, the Group did not conduct any significant investments, or material acquisitions or disposal of subsidiaries, associates and joint ventures.

FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

As at 30th June, 2021, the Board did not have any specific plans for material investment or capital assets.

CAPITAL AND OTHER COMMITMENTS

As at 30th June, 2021, the capital expenditure in respect of the acquisition of property, plant and equipment and right-of-use assets contracted for but not provided in the consolidated financial statements is HK\$296,046,000 (2020: HK\$281,354,000).

CONTINGENT LIABILITIES

As at 30th June, 2021, the Group did not have any contingent liabilities (2020: 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; (ii) sales of stoves and provision of other related services; and (iii) the operation of CNG/LNG vehicle filling stations in the PRC.

New Downstream Piped Gas Distribution Projects

As at 30th June, 2021, the Group had 73 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 Inner Mongolia.

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		Increase/ (Decrease)
	30th June, (unaudited)		
	2021	2020	
Number of operational locations			
<i>(Note a)</i>	73	69	4
– Henan Province	28	28	–
– Hebei Province	21	22	(1)
– Jiangsu Province	7	6	1
– Shandong Province	4	4	–
– Jilin Province	3	2	1
– Fujian Province	1	1	–
– Heilongjiang Province	2	2	–
– Zhejiang Province	3	2	1
– Anhui Province	3	2	1
– Inner Mongolia	1	–	1
Connectable population ('000)			
<i>(Note b)</i>	21,664	19,363	11.9%
Connectable residential households ('000)	6,176	5,523	11.8%
New piped gas connections by the Group made during the period			
– Residential households	296,760	364,631	(18.6)%
(i) “Coal-to-gas” projects	70,168	192,719	(63.6)%
(ii) Non “Coal-to-gas” projects	226,592	171,912	31.8%
– Industrial customers	122	98	24.5%
– Commercial customers	729	631	15.5%
Accumulated number of connected piped gas customers			
– Residential households	4,253,102	3,849,758	10.5%
– Industrial customers	3,329	3,030	9.9%
– Commercial customers	16,299	14,326	13.8%
Penetration rate of residential pipeline connection <i>(Note c)</i>	68.9%	69.7%	(0.8)%
Unit of piped natural gas sold ('000 m ³)			
– Residential households	1,295,789	898,575	44.2%
– Industrial customers	376,817	329,422	14.4%
– Commercial customers	648,619	500,035	29.7%
– Commercial customers	80,748	56,906	41.9%
– Wholesale customers	189,605	12,212	1,452.6%

	Six months ended		Increase/ (Decrease)
	30th June, (unaudited)		
	2021	2020	
Unit of LNG sold ('000 m ³)			
– Wholesale customers	127,283	52,297	143.4%
Number of CNG/LNG vehicle filling stations			
– Accumulated	64	63	1
– Under construction	7	8	(1)
Unit of natural gas sold to vehicles ('000 m ³)	33,116	32,878	0.7%
Total length of existing intermediate and main pipelines (km)	25,915	24,355	6.4%
Average selling price of natural gas (pre-tax) (RMB per m ³)			
– Residential households	2.47	2.42	2.1%
– Industrial customers	2.78	2.67	4.1%
– Commercial customers	3.19	3.12	2.2%
– Wholesale customers	2.11	2.22	(5.0)%
– Wholesale customers (LNG)	2.62	2.14	22.4%
– CNG/LNG vehicle filling stations	2.93	2.89	1.4%
Average purchase cost of natural gas (RMB per m ³)			
– Residential households (<i>Note d</i>)	2.41	2.17	11.1%
– Industrial/Commercial customers (<i>Note d</i>)	2.18	2.02	7.9%
– Wholesale customers	2.02	2.25	(10.2)%
– Wholesale customers (LNG)	2.59	2.11	22.7%
Average connection fee for residential households (RMB)			
– “Coal-to-gas” projects	2,960	2,704	9.5%
– Non “Coal-to-gas” projects	2,574	2,669	(3.6)%

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 the 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.

Note d: The amounts do not include the average distribution costs of natural gas, which is RMB0.18 per m³ (2020: RMB0.22 per m³).

FINANCIAL REVIEW

Overall

The Group's turnover for the six months ended 30th June, 2021 increased by 36.2% to HK\$5,824,692,000 (2020: HK\$4,276,591,000). The Group's profit attributable to owners of the Company increased by 25.5% to HK\$644,172,000 (2020: HK\$513,088,000). The basic and diluted earnings per share attributable to the owners of the Company were HK24.35 cents and HK24.32 cents respectively for the six months ended 30th June, 2021, as compared with that of HK20.20 cents and HK20.17 cents respectively for the corresponding period last year.

Non-HKFRS profit attributable to owners of the Company amounted to HK\$545,799,000 (2020: HK\$666,614,000). Non-HKFRS basic and diluted earnings per share attributable to the owners of the Company for the period under review were HK20.64 cents (2020: HK26.24 cents) and HK20.61 cents (2020: HK26.20 cents) respectively.

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,				
	2021 HK\$'000	% of total	2020 HK\$'000	% of total	Increase/ (Decrease)
Retail Gas Sales	3,613,829	62.1%	2,572,144	60.2%	40.5%
Revenue from Gas Pipeline					
Construction	997,781	17.1%	1,119,765	26.2%	(10.9)%
Wholesale of Gas	879,849	15.1%	153,762	3.6%	472.2%
Value-added Services	216,873	3.7%	326,019	7.6%	(33.5)%
Operation of CNG/LNG					
Vehicle Filling Stations	116,360	2.0%	104,901	2.4%	10.9%
Total	5,824,692	100%	4,276,591	100%	36.2%

The turnover for the period under review amounted to HK\$5,824,692,000 (2020: HK\$4,276,591,000). The increase in revenue from retail gas sales and wholesale of gas were partially offset by the decline in revenue from gas pipeline construction and valued-added services.

Retail Gas Sales

Retail gas sales for the six months ended 30th June, 2021 amounted to HK\$3,613,829,000 (2020: HK\$2,572,144,000), representing an increase of 40.5% over the corresponding period last year. Retail gas sales for the period under review contributed 62.1% of the total turnover of the Group, as compared with the percentage of 60.2% during the corresponding period last year. Retail gas sales continued to be the major source of turnover for the Group. The following table set forth the breakdown of retail gas sales by customers.

Retail gas sales by customers

	For the six months ended 30th June,				Increase/ (Decrease)
	2021 HK\$'000	% of total	2020 HK\$'000	% of total	
Industrial customers	2,184,876	60.4%	1,491,752	58.0%	46.5%
Residential households	1,119,403	31.0%	883,836	34.4%	26.7%
Commercial customers	309,550	8.6%	196,556	7.6%	57.5%
Total	<u>3,613,829</u>	<u>100%</u>	<u>2,572,144</u>	<u>100%</u>	<u>40.5%</u>

Industrial customers

The sales of gas to the Group's industrial customers for the period under review increased by 46.5% to HK\$2,184,876,000 from HK\$1,491,752,000 for the corresponding period last year. During the period under review, the Group connected 122 new industrial customers. In 2021, global economy has been gradually recovering and certain social activities restrictions have been relaxed after billions of COVID-19 vaccine doses have been administered worldwide. Benefiting from the effective pandemic prevention and control, the domestic consumption in the PRC rebounded and the demand for natural gas boosted. During the period under review, the piped natural gas usage provided by the Group to its industrial customers increased by 29.7% to 648,619,000 m³ (2020: 500,035,000 m³). In response to higher cost of natural gas from suppliers for retail gas sales, the average selling price of natural gas for industrial customers for the period under review was adjusted upward by 4.1% to RMB2.78 per m³ (2020: RMB2.67 per m³) when compared to the corresponding period last year.

The sales of gas to our industrial customers for the period under review contributed 60.4% of the total retail gas sales of the Group (2020: 58.0%) and continues to be the major source of retail gas sales of the Group.

Residential households

The sales of gas to our residential households for the period under review increased by 26.7% to HK\$1,119,403,000 from HK\$883,836,000 for the corresponding period last year. The growth in sales of gas to residential households was supported by the new construction work for gas pipeline connection and the growth in population in the Group's existing project cities in the PRC. Since the outbreak of the COVID-19 pandemic, people developed new lifestyle and spent more time at home both working and learning. Furthermore, China experienced an extremely cold winter in 2021, which promoted the gas consumption of residential households for indoor heating as well. During the period under review, the Group provided new natural gas connections to 296,760 residential households and the piped natural gas usage provided by the Group to residential households increased by 14.4% to 376,817,000 m³ (2020: 329,422,000 m³). The average selling price of natural gas for residential customers increased by 2.1% to RMB2.47 per m³ (2020: RMB2.42 per m³).

The sales of gas to our residential households for the period under review contributed 31.0% of the total retail gas sales of the Group (2020: 34.4%).

Commercial customers

The sales of gas to our commercial customers for the period under review increased by 57.5% to HK\$309,550,000 from HK\$196,556,000 for the corresponding period last year. The sales of gas to commercial customers for the period under review contributed 8.6% of the total retail gas sales of the Group (2020: 7.6%). During the period under review, the Group connected 729 new commercial customers. As at 30th June, 2021, the number of commercial customers of the Group reached 16,299, representing an increase of 4.7% as compared with 15,570 commercial customers as at 31st December, 2020.

The demand for gas from commercial customers were adversely impacted during the COVID-19 pandemic in 2020. But such demand resumed in 2021 in the wake of the re-opening of restaurants, schools and recreational facilities. The gas consumption of commercial customers increased by 41.9% to 80,748,000 m³ (2020: 56,906,000 m³) for the period under review. In response to the higher cost of natural gas from suppliers for retail gas sales, the average selling price of natural gas for commercial customers was adjusted upward by 2.2% to RMB3.19 per m³ (2020: RMB3.12 per m³) when compared to the corresponding period last year.

Gas Pipeline Construction

Revenue from gas pipeline construction for the six months ended 30th June, 2021 amounted to HK\$997,781,000, representing a decrease of 10.9% over the corresponding period last year. The following table set forth the breakdown of revenue from gas pipeline construction by customers.

Revenue from gas pipeline construction by customers

	For the six months ended 30th June,				Increase/ (Decrease)
	2021 HK\$'000	% of total	2020 HK\$'000	% of total	
Residential households					
– “Coal-to-gas” projects	249,059	25.0%	575,239	51.4%	(56.7)%
– Non “Coal-to-gas” projects	699,409	70.1%	506,491	45.2%	38.1%
Non-residential customers	49,313	4.9%	38,035	3.4%	29.7%
Total	997,781	100%	1,119,765	100%	(10.9)%

Since 2017, the PRC government has determined to launch the “coal-to-gas” policy as one of its major priorities to fight 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. The Group selected new projects in a cautious manner and focused on projects with better profitability and recoverability, such as projects partly sponsored by local governments. In 2021, the decline in government-sponsored projects available caused a drop in the connections made by the Group. The revenue from gas pipeline construction for residential households for “coal-to-gas” projects for the six months ended 30th June, 2021 declined by 56.7% to HK\$249,059,000 from HK\$575,239,000 for the corresponding period last year. During the period under review, the Group provided new natural gas connections for 70,168 residential households (2020: 192,719) under “coal-to-gas” projects and the average connection fee was RMB2,960 (2020: RMB2,704).

During the period under review, revenue from gas pipeline construction for residential households for non “coal-to-gas” projects increased by 38.1% to HK\$699,409,000 (2020: HK\$506,491,000). The growth was mainly attributable to the increase in construction work for gas pipeline connection completed by the Group for residential households for non “coal-to-gas” projects to 226,592 from 171,912 for the corresponding period last year. The average connection fee slightly dropped to RMB2,574 in 2021 from RMB2,669 in 2020.

Despite the gentle reduction in average connection fee for residential households in 2021, the gross profit margin for gas pipeline construction remained relatively stable at 75.3%.

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, revenue from gas pipeline construction for non-residential customers increased by 29.7% to HK\$49,313,000 from HK\$38,035,000 for the corresponding period last year.

As at 30th June, 2021, the Group’s penetration rates of residential pipeline connection amounted to 68.9% (2020: 69.7%) (calculated by the percentage of the accumulated number of the Group’s connected residential households over 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.

Wholesale of Gas

Wholesale of gas for the six months ended 30th June, 2021 amounted to HK\$879,849,000 (2020: HK\$153,762,000), representing an increase of 472.2% over the corresponding period last year. Wholesale of gas for the period under review contributed 15.1% of the total turnover of the Group, as compared with the percentage of 3.6% during the corresponding period last year. The following table set forth the breakdown of wholesale of gas by types.

Wholesale of gas by types

	For the six months ended 30th June,				Increase/ (Decrease)
	2021 HK\$'000	% of total	2020 HK\$'000	% of total	
Piped natural gas	479,241	54.5%	29,985	19.5%	1,498.3%
LNG	400,608	45.5%	123,777	80.5%	223.7%
Total	<u>879,849</u>	<u>100%</u>	<u>153,762</u>	<u>100%</u>	<u>472.2%</u>

During the period under review, the Group put in more effort in developing the natural gas wholesale business for both piped natural gas and LNG to grasp the opportunities arising from the national energy system reform. The major wholesale customers are other gas operators in the nearby areas. Once the Group received orders from the wholesale customers, it transported the piped natural gas or LNG from gas suppliers to the wholesale customers, and earn a trading margin. Through the expansion of wholesale business and accelerating gas volume sold, the Group will have stronger bargaining power to negotiate for a lower natural gas cost. For instance, the Group was able to get a discount from one of its wholesale gas suppliers, which reduced the cost of natural gas for the wholesale business during the period under review. The sales of piped natural gas to the Group's wholesale customers for the period under review hugely increased by 1,498.3% to HK\$479,241,000 from HK\$29,985,000 for the corresponding period last year. The sales of LNG to the Group's wholesale customers for the period under review increased by 223.7% to HK\$400,608,000 from HK\$123,777,000 for the corresponding period last year.

During the period under review, the piped natural gas usage provided by the Group to its wholesale customers increased by 1,452.6% to 189,605,000 m³ (2020: 12,212,000 m³), benefiting from the Group's good reputation and stable gas supply records. In response to lower cost of natural gas from suppliers for wholesale of gas, the average selling price of piped natural gas for wholesale customers for the period under review was adjusted downward by 5.0% to RMB2.11 per m³ (2020: RMB2.22 per m³) when compared to the corresponding period last year.

During the period under review, the LNG usage provided by the Group to its wholesale customers increased by 143.4% to 127,283,000 m³ (2020: 52,297,000 m³). The cost of LNG is fluctuant and heavily depends on market conditions. The average selling price of LNG for wholesale customers for the period under review was adjusted upward by 22.4% to RMB2.62 per m³ (2020: RMB2.14 per m³) to cope with the higher cost.

Value-added Services

Value-added services for the six months ended 30th June, 2021 amounted to HK\$216,873,000 (2020: HK\$326,019,000), representing a decrease of 33.5% over the corresponding period last year. Sales of wall hung boilers decreased by 69.7% to HK\$65,203,000 from HK\$215,544,000 for the corresponding period last year, as a result of reduced number of “coal-to-gas” projects. During the period under review, value-added services (other than sales of wall hung boilers) generated revenue of HK\$151,670,000 (2020: HK\$110,475,000), representing a growth of 37.3% as compared to the corresponding period last year. Value-added services contributed 3.7% of the total turnover of the Group, as compared with the percentage of 7.6% during the corresponding period last year.

Since 2017, the Group placed greater efforts in value-added services such as sales of stoves and related equipment, which involves the sales of safe and reliable kitchenware, including gas water heaters, gas cooking appliances and wall hung boilers under its own brand name, “Zhongyu Phoenix” (中裕鳳凰), to residential customers. With the increasing number of connected residential customers and brand recognition built in recent years, as well as the establishment of the online shopping platform “Zhongyu iFamille” (中裕i家), the value-added services is expected to be a growth driver for the Group in the coming years.

Operation of CNG/LNG Vehicle Filling Stations

The operation of CNG/LNG vehicle filling stations is facing intense competition. Revenue from operating CNG/LNG vehicle filling stations for the six months ended 30th June, 2021 amounted to HK\$116,360,000, representing an increase of 10.9% over the corresponding period last year. The unit of natural gas sold to vehicles remained stable at 33,116,000 m³ (2020: 32,878,000 m³) and the average selling price of natural gas for CNG/LNG vehicle filling stations for the period under review slightly increased by 1.4% to RMB2.93 per m³ (2020: RMB2.89 per m³) when compared to the corresponding period last year.

During the period under review, the turnover derived from operating CNG/LNG vehicle filling stations accounted for 2.0% (2020: 2.4%) of the total turnover of the Group. As at 30th June, 2021, the Group had 64 CNG/LNG vehicle filling stations and 7 CNG/LNG vehicle filling stations under construction in the PRC.

Gross profit margin

The overall gross profit margin for the six months ended 30th June, 2021 was 21.0% (2020: 29.6%). The decline in overall gross profit margin in current period was mainly due to the decrease in the proportion of revenue from pipeline construction to total turnover.

The gross profit margin for the retail sales of piped natural gas dropped to 9.0% (2020: 10.6%) because of higher average cost of piped natural gas from suppliers for retail gas sales as a result of explosive growth in market demand. The Group's energy trading business has been strengthened to secure stable gas supply from different sources and contracts have been signed with suppliers to secure more piped gas with lower average cost. The gross profit margin for the gas pipeline construction remained stable at 75.3% for the period under review (2020: 75.9%). The gross profit margin for wholesale of gas increased to 2.8% (2020: 1.1%) because of the higher proportion of wholesale of piped natural gas which has a better gross profit margin. The gross profit margin for value-added services increased to 54.2% (2020: 44.2%) because of the reduction in the sales of low-gross-profit-margin wall hung boilers in 2021.

Other gains and losses

The Group recognised other net gains of HK\$98,226,000 during the period under review (2020: other net losses of HK\$153,756,000). The amount mainly derived from net foreign exchange gain of HK\$98,373,000 (2020: loss of HK\$153,526,000) mainly arising from the Group's bank borrowings denominated in United States dollars and Hong Kong dollars as a result of the appreciation of RMB in 2021.

Other income

Other income decreased to HK\$50,518,000 for the six months ended 30th June, 2021 compared to HK\$120,202,000 for the corresponding period last year. The balance in current period represented the bank interest income of HK\$6,199,000 (2020: HK\$3,042,000), interest income on amount due from an associate of HK\$2,042,000 (2020: HK\$1,783,000), interest income from loans to employees of HK\$11,563,000 (2020: HK\$12,458,000), government subsidies of HK\$16,523,000 (2020: HK\$64,421,000), income from investments in life insurance contracts of HK\$1,306,000 (2020: HK\$1,393,000) and sundry income of HK\$12,885,000 (2020: HK\$37,105,000).

Selling and distribution costs and administrative expenses

Selling and distribution costs increased by 37.3% to HK\$113,474,000 in 2021 from HK\$82,663,000 in 2020. Administrative expenses increased by 32.0% to HK\$273,857,000 in 2021 from HK\$207,406,000 in 2020. The increase was mainly attributable to (i) ascending staff costs and related expenses as a result of increased number of headcount and increased social security contribution; (ii) increasing commission expenses for value-added services; (iii) consultancy fee paid for system updates and integration of new IT systems; and (iv) additional depreciation expenses arisen from the revaluation of pipelines in prior year.

Finance costs

Finance costs decreased by 48.4% to HK\$75,836,000 for the six months ended 30th June, 2021 compared to HK\$146,930,000 for the corresponding period last year. The decrease was mainly attributable to reduction of effective interest rate.

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% for both periods.

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, 2021, no withholding tax (2020: nil) was charged by the PRC tax authority which levied on the dividends paid to overseas group entities in the previous and current periods.

Accordingly, the income tax expenses for the six months ended 30th June, 2021 amounted to HK\$227,482,000 (2020: HK\$259,114,000).

Non-HKFRS EBITDA

For the purposes of this report, non-HKFRS EBITDA is defined as earnings from continuing operations before finance costs, taxation, depreciation, amortisation, foreign exchange gain/loss, impairment losses/reversal of impairment and share option expenses. Non-HKFRS EBITDA is a non-HKFRS measure used by the management for monitoring the core business performance of the Group. The Company considers that the non-HKFRS EBITDA can provide shareholders and potential investors of the Company with useful supplementary information on the performance of the Group’s core operations. Foreign exchange gain/loss and share option expenses are considered not directly resulting from the actual business activities of the Group. They, together with the impairment losses/reversal of impairment, are non-cash items which we do not believe to be reflective of the core operating performance of the Group. The non-HKFRS EBITDA may not be comparable to similar measures presented by other companies.

The Group’s non-HKFRS EBITDA was approximately HK\$1,150,546,000 for the six months ended 30th June, 2021, representing a decrease of 13.5% as compared with that of approximately HK\$1,330,723,000 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\$644,172,000 for the six months ended 30th June, 2021, representing an increase of 25.5% as compared with that of HK\$513,088,000 for the corresponding period last year.

Excluding the net foreign exchange gain of HK\$98,373,000 (2020: loss of HK\$153,526,000), non-HKFRS profit attributable to owners of the Company would amount to HK\$545,799,000 (2020: HK\$666,614,000). Similar to the non-HKFRS EBITDA, the non-HKFRS profit attributable to owners of the Company is a non-HKFRS measure used by the management for monitoring the core operating performance of the Group and may not be comparable to similar measures presented by other companies.

Net profit margin

For the six months ended 30th June, 2021, the net profit margin, being the ratio of profit attributable to owners of the Company to turnover, was 11.1% (2020: 12.0%).

Earnings per share

The basic and diluted earnings per share attributable to the owners of the Company were HK24.35 cents and HK24.32 cents respectively for the six months ended 30th June, 2021, as compared with that of HK20.20 cents and HK20.17 cents respectively for the corresponding period last year.

The non-HKFRS basic and diluted earnings per share attributable to the owners of the Company (calculated by reference to the non-HKFRS profit attributable to owners of the Company which excludes the net foreign exchange gain/loss, impairment losses/reversal of impairment and share option expenses, if any, as the numerator) for the six months ended 30th June, 2021 were HK20.64 cents (2020: HK26.24 cents) and HK20.61 cents (2020: HK26.20 cents) respectively. Similar to the non-HKFRS EBITDA, the non-HKFRS basic and diluted earnings per share attributable to the owners of the Company are non-HKFRS measures used by the management for monitoring the core operating performance of the Group and may not be comparable to similar measures presented by other companies.

Net assets value per share

The net assets value per share attributable to the owners of the Company was HK\$2.54 as at 30th June, 2021, representing an increase of 11.9% as compared with that of HK\$2.27 as at 31st December, 2020.

PROSPECTS

As pointed out at the meeting of the Political Bureau of the CPC Central Committee convened at the end of July 2021, the external environment is becoming more complex and severe as the global pandemic continues to evolve, resulting in an unstable and unbalanced situation for some parts of the domestic economy although it is on a stable recovery overall. Meanwhile, the recent local outbreaks in various provinces in the PRC have affected the business of the Group to a certain extent.

The national strategy emphasizes on “green development” and “clean, low-carbon, safe and efficient” is to be the national energy strategy in the long run, of which the environmental protection policy and “Dual carbon goals” have become one of the biggest driving forces for the development of natural gas and provided great room for its development.

In terms of industry development, the economy of the PRC continued to recover steadily in 2021, and energy demand maintained a rapid growth. Among all, with a strong demand in the natural gas market, the natural gas consumption maintained a high growth rate of a year-on-year increase of 21.2% in the first half of 2021. Industrial gas consumption still showed a rapid growth trend, with a year-on-year increase of 26.6%.

Benefitting from the country’s requirements of the acceleration of clean and low-carbon transformation, continuous stabilization of the supply of oil and gas, vigorous enhancement of the exploration and development of oil and gas and full promotion of the stable and growing production of crude oil, the natural gas production has increased rapidly by 10.9%, while natural gas imports increased by 23.8% year-on-year, of which LNG imports increased by 27.8% year-on-year.

City gas business, as the main business of the Group, saw a significant growth in the volume of gas sold in the first half of the year, which was attributable to the Group’s active response to the impacts and challenges brought by the COVID-19 pandemic over the past two years. The Group has prioritized maintaining stable growth and ensuring safe supply in its operation.

In 2020, participating in the industry reform, standing firm on its traditional key business, and continuously exploring the industrial chain, the Group established the “one body, three wings” business layout strategy, with “city gas” as the “body” and “value-added business and new retail”, “smart energy” and “energy trading” as its “wings”. After over a year of implementation and review, the Group has steadily gained experience and is committed to improving each business segment.

The profitability of the city gas business is crucial to the Group’s profit. The Group will continue to strengthen price management, pay attention to the surrounding areas and optimize the mechanism to enhance its capability to pass through the price changes and adjust prices while greatly expanding customer base and increasing volume of gas sold.

Accordingly, each of the “three wings” of the Group will be promoted collectively and simultaneously. In terms of value-added business and new retail business, in light of the slowdown in policy benefits under the “coal-to-gas” policy, the Group took early steps to arrange community group-buying and supported its performance improvement through innovative business, live broadcasting and sales promotion.

In terms of smart energy business, the Group will actively review current policies and directions of development to timely seize opportunities. Relying on the energy transformation and upgrade plan, the Group will support key industries such as petrochemical, chemical, coking, cement, nonferrous metals, electroplating, dyeing, and packaging and printing to achieve clean production. The Group will promote the comprehensive utilization of waste and recycling of water resources amongst enterprises, and advance the resource utilization of industrial residual pressure and heat as well as waste water and gas to realize a green and low-carbon circular development; encourage the construction of green factories with harmless raw materials, clean production and low-carbon energy and actively cooperate with local governments to establish a national ecological industrial pilot demonstration park.

In terms of energy trading business, the Group will continue to strengthen its work on maintaining sources of gas supply and its ability in forecasting demand for gas. In the second half of the year, the Group will focus on the accuracy of forecasting availability of sources for gas to avoid risk arising from high demand for gas during the heating season. Meanwhile, the Group will further improve and optimise the gas source structure, purchasing price as well as construction and connection to improve profitability.

The Group has carried out the “Year for Deepening Management and Improvement” operation for three consecutive years, aiming to improve the overall management efficiency and ensure steady development of the Group. In the course of its operations, the Group has reviewed and improved various management models and policies. At the same time, with the goal of achieving high-quality operation, the headquarters and each subsidiary have been actively exploring better profit models, such as optimizing measurement technology and promoting gas pre-sale.

In terms of safe operation, the Group will make unremitting efforts in normalizing the measures for the prevention and control of COVID-19, and make plans for the rapid resumption of production and emergency rescue after the occurrence of epidemic outbreaks, flooding or other emergencies.

In the information age, “smart gas” has become a major development trend in the industry. The Group will actively follow the trend in innovation, and strive to complete full informatization by the end of the year to build a solid technical foundation for the high-speed development model of “one body, three wings”.

Save as discussed above, there is no important event affecting the Group which have occurred since 31st December, 2020.

INTERIM DIVIDEND

The Board proposed the payment of an interim dividend of HK3 cents (2020: HK2 cents) per ordinary share for 2021 to shareholders whose names appear on the register of members of the Company on 20th October, 2021 and the proposed interim dividend is expected to be paid in cash on 15th November, 2021.

DISCLOSURE OF INTERESTS

(a) Interests of Directors

As at 30th June, 2021, the interests and short positions of the Directors and chief executive of the Company 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 of Hong Kong Limited (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 shareholding interest as disclosed under the SFO (Note 10)
Mr. Wang Wenliang	1	761,899,206	Beneficial/Interest in controlled corporation/ Interest of spouse	28.80%
Mr. Xu Yongxuan	2	502,900	Beneficial	0.02%
Mr. Lui Siu Keung	3	20,275,179	Beneficial	0.77%
Mr. Lu Zhaoheng	4	6,040,984	Beneficial	0.24%
Mr. Li Yan	5	14,013,063	Beneficial	0.55%
Mr. Jia Kun	6	7,055,031	Beneficial	0.28%
Mr. Li Chunyan	7	1,510,761	Beneficial	0.06%
Dr. Luo Yongtai	8	1,002,900	Beneficial	0.04%
Ms. Liu Yu Jie	9	502,900	Beneficial	0.02%

Notes:

1. Among these shares and/or underlying shares, 731,636,289 shares were held by Hezhong Investment Holding Company Limited (“Hezhong”). Mr. Wang Wenliang was beneficially interested in 100% of the issued share capital of Hezhong. The remaining 19,324,616 shares and 10,938,301 shares were directly held by Mr. Wang Wenliang and his spouse respectively.
2. These are underlying shares issuable upon exercise of the rights attaching to the 502,900 share options at an exercise price of HK\$5.468 per share granted under the New Share Option Scheme.
3. These comprise 12,731,679 shares directly held by Mr. Lui Siu Keung and 7,543,500 underlying shares issuable upon exercise of the rights attaching to the 7,543,500 share options at an exercise price of HK\$5.468 per share granted under the New Share Option Scheme.
4. These comprise 3,023,584 shares directly held by Mr. Lu Zhaoheng and 3,017,400 underlying shares issuable upon exercise of the rights attaching to the 3,017,400 share options at an exercise price of HK\$5.468 per share granted under the New Share Option Scheme.
5. These shares were directly held by Mr. Li Yan.
6. These shares were directly held by Mr. Jia Kun.
7. These comprise 1,007,861 shares directly held by Mr. Li Chunyan and 502,900 underlying shares issuable upon exercise of the rights attaching to the 502,900 share options at an exercise price of HK\$5.468 per share granted under the New Share Option Scheme.
8. These comprise 500,000 shares directly held by Dr. Luo Yongtai and 502,900 underlying shares issuable upon exercise of the rights attaching to the 502,900 share options at an exercise price of HK\$5.468 per share granted under the New Share Option Scheme.
9. These represent underlying shares which are issuable upon exercise of the rights attaching to the 502,900 share options at an exercise price of HK\$5.468 per share granted under the New Share Option Scheme.
10. As at 30th June, 2021, the total number of issued shares of the Company was 2,645,132,157. Had this number been used as the denominator for calculation of directors’ interests, the shareholding interests of Mr. Lu Zhaoheng, Mr. Li Yan and Mr. Jia Kun as at 30th June, 2021 would have been slightly different in percentage ratio (namely 0.23%, 0.53% and 0.27%, respectively), while the percentage ratios for the other Directors remain the same.

Save as disclosed above, as at 30th June, 2021, 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, 2021, 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 shareholding interest as disclosed under the SFO (Note 4)
China Gas Holdings Limited	1	Interest of controlled corporation	1,057,905,071	39.99%
Hezhong	2	Beneficial	731,636,289	27.66%
Ms. Feng Haiyan	3	Beneficial/Interest of spouse	761,899,206	28.80%

Notes:

1. According to the disclosure of interests filings as shown in the website of the Stock Exchange as at 30th June, 2021, 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 1,057,905,071 shares held by Rich Legend.
2. Hezhong was beneficially interested in 731,636,289 shares. Mr. Wang Wenliang was beneficially interested in 100% of the issued share capital of Hezhong.
3. Ms. Feng Haiyan directly held 10,938,301 shares and was deemed to be interested in 750,960,905 shares under the SFO as she is the spouse of Mr. Wang Wenliang.
4. As at 30th June, 2021, the total number of issued shares of the Company was 2,645,132,157.

Save as disclosed above, as at 30th June, 2021, 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.

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, 2021.

AUDIT COMMITTEE

The Company's Audit Committee, comprising Mr. Li Chunyan, Dr. Luo Yongtai and Ms. Liu Yu Jie, all being 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, 2021. There were no disagreements within the Audit Committee in relation to the accounting treatment adopted by the Company.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30th June, 2021.

CLOSURE OF REGISTER OF MEMBERS

Shareholders whose names appear on the Company's register of members on Wednesday, 20th October, 2021 will qualify for the proposed interim dividend. The Company's transfer books and register of members will be closed from Tuesday, 19th October, 2021 to Wednesday, 20th October, 2021 (both days inclusive) for the purpose of ascertaining shareholders' entitlement to the proposed interim dividend. In order to qualify for the proposed interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:30 p.m. on Monday, 18th October, 2021. The proposed interim dividend is expected to be paid on Monday, 15th November, 2021 to shareholders whose names appear on the register of members of the Company on Wednesday, 20th October, 2021.

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), Mr. Lu Zhaoheng, Mr. Li Yan and Mr. Jia Kun, 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, 20th August, 2021