



Beijing Gas Blue Sky Holdings Limited
北京燃氣藍天控股有限公司

(Incorporated in Bermuda with limited liability)

Stock Code: 6828



Blue Sky

Interim Report 2021

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CORPORATE INFORMATION

(as at 29 October 2021)

BOARD OF DIRECTORS

Executive Directors

Mr. Li Weiqi (*Chief Executive Officer*)
Mr. Jin Qiang
Ms. Yang Fuyan (*Chief Financial Officer*)
Mr. Ye Hongjun

Non-executive Directors

Mr. Zhi Xiaoye (*Chairman of the Board*)
Mr. Cheng Ming Kit (*duties suspended since 16 January 2021*)

Independent Non-executive Directors

Mr. Lim Siang Kai
Mr. Wee Piew
Mr. Ma Arthur On-hing
Mr. Cui Yulei
Ms. Hsu Wai Man, Helen

COMMITTEE MEMBERS

Audit Committee

Ms. Hsu Wai Man, Helen (*Chairman*)
Mr. Lim Siang Kai
Mr. Wee Piew
Mr. Ma Arthur On-hing
Mr. Cui Yulei

Remuneration Committee

Mr. Cui Yulei (*Chairman*)
Mr. Ma Arthur On-hing
Mr. Lim Siang Kai
Mr. Wee Piew
Ms. Hsu Wai Man, Helen

Nomination Committee

Mr. Zhi Xiaoye (*Chairman*)
Mr. Ma Arthur On-hing
Mr. Lim Siang Kai
Mr. Wee Piew
Mr. Cui Yulei
Ms. Hsu Wai Man, Helen

AUTHORISED REPRESENTATIVES

Mr. Jin Qiang
Ms. Annie Chen

COMPANY SECRETARY

Ms. Annie Chen

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HONG KONG HEADQUARTERS AND PRINCIPAL EXECUTIVE OFFICE

Room 3402-4, 34F, West Tower, Shun Tak Centre
200 Connaught Road Central
Hong Kong

BERMUDA SHARE REGISTRAR

Conyers Corporate Services (Bermuda) Limited
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR

Tricor Investor Services Limited
Level 54
Hopewell Centre
183 Queen's Road East
Hong Kong

AUDITOR

Ernst & Young
Certified Public Accountants
Registered Public Interest Entity Auditor

PRINCIPAL BANKERS

The Bank of East Asia
Bank of Ningbo Co., Ltd.
China Merchants Bank Co., Ltd.
Natixis
China Minsheng Banking Corp., Ltd.
Nanyang Commercial Bank, Limited

COMPANY WEBSITE

www.bgbluesky.com

STOCK CODE

6828

CORPORATE PROFILE

Beijing Gas Blue Sky Holdings Limited (the “Company”), together with its subsidiaries, (the “Group”) is an integrated natural gas provider and operator focusing on the midstream and downstream development of the natural gas industry chain.

Beijing Gas Group Co., Ltd. (“**Beijing Gas Group**”) is the single largest shareholder of the Company and with this strength, the Group’s major business includes (1) development and operation of city gas projects; (2) direct supply of liquefied natural gas (“**LNG**”) to industrial end users; (3) trading and distribution of compressed natural gas (“**CNG**”) and LNG; and (4) operating CNG and LNG refueling stations for vehicles. The Group aims to become China’s leading natural gas integrated operator and will focus on LNG business in the short term. In addition, the Group is proactively expanding its business layout across the country and fully gets involved in the development throughout the whole natural gas industry chain, thus creating the whole industrial chain development advantages for LNG business.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2021

	Notes	Six months ended 30 June	
		2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Revenue	5	1,205,336	1,212,557
Cost of sales		(1,158,211)	(1,098,550)
Gross profit		47,125	114,007
Other income and gains, net	7	11,305	26,548
Reversal of impairment on financial assets		34,346	27,622
Administrative expenses		(118,705)	(116,097)
Other expenses		(12,625)	(7,357)
Finance costs	8	(64,862)	(106,170)
Share of profit of associates		146,621	120,294
Share of loss of joint ventures		(878)	(2,419)
Gain arising from acquisition of a subsidiary		–	31,017
Profit before income tax	9	42,327	87,445
Income tax expenses	10	(3,271)	(5,981)
Profit for the period		39,056	81,464
Other comprehensive income/(loss)			
Item that may be reclassified to profit or loss in subsequent periods:			
Exchange difference on translation of foreign operations		(114,199)	(183,903)
Share of other comprehensive income of associates and joint ventures		23,569	–
		(90,630)	(183,903)
Item that will not be reclassified to profit or loss in subsequent periods:			
Equity investments at fair value through other comprehensive income:			
Changes in fair value		24	4,302
Other comprehensive loss for the period, net of income tax		(90,606)	(179,601)
Total comprehensive loss for the period		(51,550)	(98,137)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2021

	Notes	Six months ended 30 June	
		2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Profit/(loss) for the period attributable to:			
Owners of the Company		40,076	63,914
Non-controlling interests		(1,020)	17,550
		39,056	81,464
Total comprehensive loss for the period attributable to:			
Owners of the Company		(49,977)	(79,057)
Non-controlling interests		(1,573)	(19,080)
		(51,550)	(98,137)
Profit per share attributable to the shareholders of the Company			
Basic and diluted	12	HK0.31 cents	HK0.49 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

	Notes	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Non-current assets			
Right-of-use assets		52,019	46,873
Investment properties		44,528	36,635
Property, plant and equipment	13	528,655	515,877
Intangible assets		408,184	422,744
Goodwill	14	257,447	257,447
Interests in associates		2,022,261	1,852,051
Interests in joint ventures		184,656	189,618
Deposits for acquisition of subsidiaries		433,692	435,272
Deposits for acquisition of property, plant and equipment		27,198	27,353
Prepayments and other receivables		802	802
Equity investments at fair value through other comprehensive income ("FVTOCI")		705	696
Other non-current assets		–	300
		3,960,147	3,785,668
Current assets			
Inventories		38,707	18,395
Contract assets		48,917	52,557
Trade receivables	15	172,042	249,347
Prepayments, deposits and other receivables		624,971	564,896
Amounts due from joint ventures		5,118	41,750
Amounts due from associates		3,519	1,189
Financial assets at fair value through profit and loss ("FVTPL")		681	7,088
Pledged deposits		339,742	46,993
Cash and bank balances		496,638	705,408
		1,730,335	1,687,623

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

	Notes	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Current liabilities			
Trade payables and bill payables	16	395,457	357,054
Other payables and accrued charges		494,003	496,991
Lease liabilities		7,207	4,570
Bank and other borrowings		3,616,352	3,364,798
Amount due to joint ventures		155,074	151,341
Amount due to associates		5,415	4,411
		4,673,508	4,379,165
Net current liabilities		(2,943,173)	(2,691,542)
Total assets less current liabilities		1,016,974	1,094,126
Non-current liabilities			
Amounts due to joint ventures		13,202	16,963
Lease liabilities		13,428	7,665
Bank and other borrowings		131,560	153,651
Deferred tax liabilities		101,694	105,686
		259,884	283,965
Net assets		757,090	810,161
Equity			
Share capital		714,236	714,236
Reserves		(15,831)	35,666
Equity attributable to owners of the Company		698,405	749,902
Non-controlling interests		58,685	60,259
Total equity		757,090	810,161

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2021

	Attributable to owners of the Company										
	Share capital HK\$'000	Share premium HK\$'000	Share option reserve HK\$'000	FVTOCI reserve HK\$'000	Merger reserve HK\$'000	Other reserve HK\$'000	Translation reserve HK\$'000	Retained profits HK\$'000	Sub-total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1 January 2019 (Audited)	714,236	4,270,611	4,077	(47,317)	(43,048)	(37,597)	(715,452)	281,307	4,426,817	144,280	4,571,077
Profit for the period	-	-	-	-	-	-	-	63,914	63,914	17,550	81,464
Other comprehensive income/(loss) for the period											
Exchange differences related to foreign operations	-	-	-	-	-	-	(147,273)	-	(147,273)	(36,630)	(183,903)
Change in fair value of equity investments designated at fair value through other comprehensive income	-	-	-	4,302	-	-	-	-	4,302	-	4,302
Total comprehensive income/(loss) for the period	-	-	-	4,302	-	-	(147,273)	63,914	(79,057)	(19,080)	(86,137)
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	20,142	20,142
Transfer	-	-	-	-	-	(465)	-	-	(465)	-	(465)
At 30 June 2019 (Unaudited)	714,236	4,270,611	4,077	(43,015)	(43,048)	(38,062)	(862,725)	345,221	4,347,295	145,322	4,492,617

	Attributable to owners of the Company										
	Share capital HK\$'000	Share premium HK\$'000	Share option reserve HK\$'000	FVTOCI reserve HK\$'000	Merger reserve HK\$'000	Other reserve HK\$'000	Translation reserve HK\$'000	Accumulated profits HK\$'000	Sub-total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1 January 2021 (Audited)	714,236	4,270,611	123	(47,317)	(43,048)	(28,869)	(555,471)	(3,560,363)	749,902	60,259	810,161
Profit for the period	-	-	-	-	-	-	-	40,076	40,076	(1,020)	39,056
Other comprehensive income/(loss) for the year:											
Exchange differences related to foreign operations	-	-	-	-	-	-	(113,645)	-	(113,645)	(554)	(114,199)
Share of other comprehensive income of associates and joint ventures	-	-	-	-	-	-	23,569	-	23,569	-	23,569
Change in fair value of equity investments designated at fair value through other comprehensive income	-	-	-	24	-	-	-	-	24	-	24
Total comprehensive income/(loss) for the period	-	-	-	24	-	-	(90,076)	40,076	(49,976)	(1,574)	(51,550)
Forfeiture of share options	-	-	(48)	-	-	-	-	48	-	-	-
Acquisition of subsidiaries	-	-	-	-	-	(1,521)	-	-	(1,521)	-	(1,521)
Transfer	-	-	-	-	-	329	-	(329)	-	-	-
At 30 June 2020 (Unaudited)	714,236	4,270,611	75	(47,293)	(43,048)	(30,061)	(645,547)	(3,520,568)	698,405	58,685	757,090

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2021

	Six months ended 30 June	
	2021 <i>HK\$'000</i> (Unaudited)	2020 <i>HK\$'000</i> (Unaudited)
Net cash used in operating activities	(40,869)	(77,234)
Net cash used in investing activities	(321,220)	(134,939)
Cash flow from financing activities		
Borrowing raised, net of transaction costs	523,248	1,834,627
Repayment of lease liabilities and bank and other borrowings	(292,024)	(1,140,211)
Redemption of convertible bonds	–	(412,344)
Other financing cash flows, net	–	38,099
Net cash from financing activities	231,224	320,171
Net (decrease)/increase in cash and cash equivalents	(130,865)	107,998
Cash and cash equivalents at the beginning of period	705,408	542,298
Effect of foreign exchange rate changes	(77,905)	(144,176)
Cash and cash equivalents at the end of period	496,638	506,120

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company was incorporated in Bermuda as an exempted company with limited liability. Its shares are listed on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

The address of its registered office and the principal place of business of the Company are Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and Room 3402-4, 34/F., West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong, respectively.

During the period, the Company and its subsidiaries (collectively referred to as the “**Group**”) are principally engaged in:

- development and operation of city gas projects, including sales of natural gas to residential, industrial and commercial users through pipelines, provision of value-added services, such as repair and maintenance services and pipeline construction services;
- direct LNG supply to industrial end users;
- trading and distribution of CNG and LNG, including distribution and trading of CNG, LNG, fuel oil and other related oil by-products as a wholesaler to industrial and commercial users; and
- operation of compressed natural gas (“**CNG**”) and liquefied natural gas (“**LNG**”) refueling stations for vehicles.

The unaudited condensed consolidated financial statements are presented in Hong Kong dollars (“**HK\$**”) and the functional currency of the Company is Renminbi (“**RMB**”). All values are rounded to the nearest thousands (“**HK\$’000**”) except when otherwise indicated.

2. BASIS OF PREPARATION

These condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (“**IAS**”) 34 – Interim Financial Reporting issued by the International Accounting Standard Board (“**IASB**”) and the applicable disclosures requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (“**Listing Rules**”).

Going concern

As at 30 June 2021, the current liabilities of the Group exceeded its current assets by approximately HK\$2,943 million. The Group’s total bank and other borrowings as at 30 June 2021 amounted to HK\$3,748 million, including HK\$1,923 million due for repayment before 30 June 2022 according to the repayment schedule of the respective loan agreements. In addition, according to the financial information of the Group for the six months ended 30 June 2021, HK\$1,693 million of bank and other borrowings due after 30 June 2022 were classified as current liabilities as at 30 June 2021 as certain debt covenants were breached.

2. BASIS OF PREPARATION (Continued)

Furthermore, the trading in the shares of the Company has been suspended since 18 January 2021 and the Company failed to submit the consolidated financial statements for the year ended 31 December 2020 by the deadlines as set out in the bank and other borrowings agreements. These also triggered events of default in respect of certain of the Group's bank and other borrowings and the relevant amounts as at 30 June 2021 were included in current liabilities resulting from the default as mentioned in the preceding paragraph. The above conditions indicate the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern.

The Board has given careful consideration to the future liquidity and performance of the Group and its available sources of finance to continue as a going concern. The following plans and measures have been undertaken by the Group to mitigate the liquidity pressure and to improve the financial position of the Group:

- (i) In respect of the bank and other borrowings with aggregate principal amount of HK\$996 million which were due for repayment up to the date of approval of these financial statements according to the repayment schedule of the loan agreements:
 - (a) Obtained new loans from two banks with an aggregate principal amount of approximately HK\$106 million and HK\$10 million which will be due for repayment in 2021 and 2022 or thereafter, respectively;
 - (b) Extended the repayment period of two bank loans with a principal amount of HK\$250 million and HK\$70 million to February 2022 and March 2022, respectively;
 - (c) Extended the repayment period of certain bonds with an aggregate principal amount of HK\$61 million to October 2021 or thereafter.
- (ii) The Board is currently in discussion with the major shareholder for assistance;
- (iii) The Company has received demand letters from certain bank creditors. The Board had been in negotiation with the banks and bond holders, and the Board is also in active discussion with the banks and bond holders with regard to the restructuring plan. Notwithstanding the foregoing, the Group's operations in the People's Republic of China remain stable, and the business of each segment continues as normal; and
- (iv) The Board is currently taking the appropriate actions to meet the conditions for the resumption of trading in the Company's shares imposed by The Stock Exchange of Hong Kong Limited.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

2. BASIS OF PREPARATION (Continued)

The Board is of the opinion that, taking into account the possible assistance from a major shareholder, debt restructuring arrangement, the resumption of trading in the Company's shares and the existing internal financial resources of the Group, the Group has sufficient working capital for its present requirements. Hence, the consolidated financial statements have been prepared on a going concern basis.

Should the Group be unable to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for any further liabilities which might arise. The effect of these adjustments has not been reflected in these consolidated financial statements.

The accounting policies and basis of preparation adopted in the preparation of the unaudited condensed consolidated interim financial information for the six months ended 30 June 2021 are consistent with the accounting policies and basis of preparation adopted in the Group's audited consolidated financial statements for the year ended 31 December 2020.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

In the current interim period, the Group has applied, for the first time, the following new and amendments to International Financial Reporting Standards ("IFRS") issued by the IASB which are mandatory effective for the annual period beginning on or after 1 January 2021:

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform — Phase 2
Amendments to IFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021 (early adoption)
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before intended use (early adoption)

The adoption of these amendments to IFRSs has no material impact on the unaudited condensed consolidated interim financial information.

4. SEASONALITY OF OPERATIONS

Seasonal fluctuation exists in our natural gas business. The demand is generally higher in the second half of the year due to the winter heating consumption.

Our interim results for the first half of the year may not serve as an indication of our results of operations for the entire financial year.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

5. REVENUE

An analysis of the Group's revenue for the relevant period:

	Six months ended 30 June	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Natural gas refueling station	28,576	41,345
Trading and distribution of natural gas	594,616	686,456
Direct supply to industrial users	268,986	152,089
City Gas, pipeline construction, value-added service and others	313,158	332,667
	1,205,336	1,212,557

6. OPERATING SEGMENT INFORMATION

For management purposes, the Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's operating segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other operating segments. Particulars of the Group's reportable operating segments are summarised as follows:

1. City gas, pipeline construction, value-added service and others – sales of natural gas to residential, industrial and commercial users through pipelines, other income from value-added service such as repair and maintenance service, pipeline construction services and others, such as transportation income. Share of result of an associate, which is engaged in provision of port facilities for vessels and re-gasification of LNG was also included in this segment;
2. Direct supply to industrial users – direct LNG supply to industrial users through direct supply facilities;
3. Trading and distribution of natural gas – trading and distributing of CNG, LNG fuel oil and other related oil by-product as a wholesaler to industrial users;
4. Natural gas refueling station – operation of CNG and LNG refueling stations for vehicles.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

6. OPERATING SEGMENT INFORMATION (Continued)

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit for the year attributable to shareholders of the Company. The profit for the year attributable to shareholders of the Company is measured consistently with the Group's profit attributable to shareholders of the Company except that interest income on loans to joint ventures, interest income from joint venture partners, bargain purchase revenue of subsidiaries, gain or loss on disposal of subsidiaries and joint ventures, finance costs, share of profits/(loss) of certain joint ventures and associates, as well as head office and corporate income and expenses are excluded from such measurement. Segment assets exclude corporate and head office assets as these assets are managed on a group basis.

Segment revenue and results

The following is an analysis of the Group's revenue and results by operating and reportable segments:

For the six months ended 30 June 2021

	Natural gas refueling station <i>HK\$'000</i> (Unaudited)	Trading and distribution of natural gas <i>HK\$'000</i> (Unaudited)	Direct supply to industrial users <i>HK\$'000</i> (Unaudited)	City gas, pipeline construction, value-added service and others <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)
External segment revenue	28,576	594,616	268,986	313,158	1,205,336
Segment profit	(746)	5,480	31,972	127,232	163,938
Other income and gains, net					11,305
Central corporate expenses					(69,615)
Finance costs					(64,862)
Reversal of unallocated impairment on financial assets					1,561
Profit before income tax					42,327

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

6. OPERATING SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

The following is an analysis of the Group's revenue and results by operating and reportable segments:
(Continued)

For the six months ended 30 June 2020

	Natural gas refueling station <i>HK\$'000</i> (Unaudited)	Trading and distribution of natural gas <i>HK\$'000</i> (Unaudited)	Direct supply to industrial users <i>HK\$'000</i> (Unaudited)	City gas, pipeline construction, value-added service and others <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)
External segment revenue	41,345	686,456	152,089	332,667	1,212,557
Segment profit	2,049	31,350	6,480	152,468	192,347
Other income and gains, net					26,548
Central corporate expenses					(56,297)
Finance costs					(106,170)
Gain arising from acquisition of a subsidiary					31,017
Profit before income tax					87,445

Profit before income tax for the six months ended 30 June 2020 consists of a gain from acquisition of 100% equity interest in Golden Scenery International Limited, at a cash consideration of US\$1 (the "**Golden Scenery Acquisition**") from an independent third party. The Golden Scenery Acquisition results in a gain arising from acquisition of a subsidiary of HK\$31.0 million.

Segment profit represents the profit before tax earned by each segment without allocation of other income and gains, net, unallocated central corporate expenses (including but not limited to directors' emoluments), finance costs, reversal of impairment of unallocated assets and income tax expenses.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

6. OPERATING SEGMENT INFORMATION (Continued)

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating and reportable segments:

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Segment assets		
Natural gas refueling station	153,624	153,456
Trading and distribution of natural gas	121,433	266,098
Direct supply to industrial users	479,271	369,306
City gas, pipeline construction, value-added service and others	3,698,836	3,670,526
Total segment assets	4,453,164	4,459,386
Property, plant and equipment for corporate use	1,116	897
Right-of-use assets for corporate use	11,298	4,370
Prepayments	802	802
Financial assets at fair value through other comprehensive income	705	696
Financial assets at fair value through profit or loss	681	7,088
Cash and bank balances (including pledged deposits)	836,380	752,401
Other unallocated assets	386,336	247,651
Consolidated assets	5,690,482	5,473,291
Segment liabilities		
Natural gas refueling station	7,331	7,307
Trading and distribution of natural gas	54,669	244,929
Direct supply to industrial users	153,111	117,756
City gas, pipeline construction, value-added service and others	893,487	705,039
Total segment liabilities	1,108,598	1,075,031
Bank and other borrowings	3,747,912	3,518,449
Unallocated lease liabilities	10,975	4,638
Other unallocated liabilities	65,907	65,012
Consolidated liabilities	4,933,392	4,663,130

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

6. OPERATING SEGMENT INFORMATION (Continued)

Segment assets and liabilities (Continued)

For the purposes of monitoring segment performance and allocating resources between segments:

- All assets are allocated to operating and reportable segments (other than property, plant and equipment for corporate use, right-of-use assets for corporate use, prepayments, equity investments at fair value through other comprehensive income, financial assets at fair value through profit or loss, cash and bank balances (including pledged deposits), and other unallocated assets not attributable to the segments); and
- All liabilities are allocated to operating and reportable segments (other than bank and other borrowings, unallocated lease liabilities, and other unallocated liabilities not attributable to the segments).

The Group has allocated goodwill to the relevant segments as segment assets.

7. OTHER INCOME AND GAINS, NET

	Six months ended 30 June	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Other income		
Interest income	4,062	17,894
Rental income	209	44
Gas appliances income	1,189	560
Government subsidies and grants	2,415	3,225
Sundry income	4,219	3,900
	12,094	25,623
Gains, net		
Changes in fair value of financial assets at fair value through profit or loss	(466)	830
Foreign exchange difference, net	(323)	95
	(789)	925
	11,305	26,548

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

8. FINANCE COSTS

	Six months ended 30 June	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Finance charge on lease liabilities	–	3,400
Interests on bank borrowings	43,416	32,001
Interests on other borrowings	21,446	28,247
Interests on convertible bonds	–	42,522
	64,862	106,170

9. PROFIT BEFORE INCOME TAX

	Six months ended 30 June	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Profit before income tax is arrived at after charging:		
Amortisation of intangible assets*	20,068	35,838
Cost of inventories sold	1,094,094	1,002,344
Depreciation of property, plant and equipment	11,989	24,890
Depreciation of right-of-use assets	5,183	10,197
Lease payments not included in the measurement of lease liabilities	625	858
Employee benefit expenses		
– Salaries and allowance	47,574	69,417
– Contribution to defined contribution plans	9,011	5,442
	56,585	74,859
Reversal of impairment of deposits for acquisition of subsidiaries	484	–
Reversal of impairment of trade receivables	33,862	27,622
	34,346	27,622

* The amortisation of intangible assets for the period is included in “Cost of sales” in profit or loss.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

10. INCOME TAX EXPENSES

No Hong Kong profits tax has been provided for the six months ended 30 June 2021 as the Group did not derive any assessable profits in Hong Kong for that period.

The income tax provisions in respect of operations in Mainland China and other countries are calculated at the applicable tax rates on the estimated assessable profits for the period based on existing legislation, interpretations and practices in respect thereof.

	Six months ended 30 June	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
PRC corporate income tax	(8,288)	(14,940)
Deferred tax	5,017	8,959
Total income tax expenses	(3,271)	(5,981)

11. DIVIDEND

The Board did not recommend a payment of interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: Nil).

12. PROFITS PER SHARE ATTRIBUTABLE TO THE SHAREHOLDERS OF THE COMPANY

The calculation of the basic profits per share is based on the profit for the period attributable to shareholders of the Company of HK\$40,076,000 (six months ended 30 June 2020: HK\$63,914,000), and the weighted average number of ordinary shares of 12,986,114,715 (six months ended 30 June 2020: 12,986,114,715) in issue during the period. The computation of diluted earnings per share does not assume the conversion of all outstanding convertible bonds issued by the Company and exercise of the Company's share options since their assumed exercise would result in decrease in profits per share for the six months ended 30 June 2020 and 30 June 2021.

13. PROPERTY, PLANT AND EQUIPMENT

During six months ended 30 June 2021, the Group has an addition of property, plant and equipment with a cost of HK\$56,221,000 (six months ended 30 June 2020: HK\$43,621,000).

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

14. GOODWILL

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Cost, net of impairment, and net carrying amount:		
At 1 January	257,447	1,475,408
Reallocation of consideration	–	(348,334)
Impairment provided during the period/year	–	(869,627)
At 30 June/31 December	257,447	257,447

The Group tests for impairment of goodwill annually and in the financial year in which the acquisition takes place, or more frequently if there are indications that goodwill might be impaired.

15. TRADE RECEIVABLES

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Trade receivables	365,627	440,427
Impairment	(193,585)	(191,080)
	172,042	249,347

Notes:

- (a) An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of impairment, is as follows:

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Unbilled portion and billed within 3 months	22,901	170,841
Billed:		
4 to 6 months	26,663	8,404
7 to 12 months	72,111	11,934
Over 1 year	50,367	58,168
	172,042	249,347

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

15. TRADE RECEIVABLES (Continued)

Notes: (Continued)

- (b) The movements in the Group's the loss allowance for impairment of trade receivables during the period are as follows:

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
At 1 January	191,080	47,690
Impairment loss, net	–	135,864
Exchange realignment	2,505	7,526
At 30 June/31 December	193,585	191,080

16. TRADE PAYABLES AND BILLS PAYABLES

An ageing analysis of the trade payables and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Billed:		
Within 3 months	302,010	222,888
3 to 6 months	25,755	51,421
7 to 12 months	14,782	13,287
Over 12 months	39,240	27,454
	381,787	315,050
Unbilled	13,670	42,004
	395,457	357,054

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

17. RELATED PARTY TRANSACTIONS

(a) Related party transactions

In addition to the transactions or information disclosed elsewhere in the unaudited condensed consolidated interim financial statements, the Group entered into the following material transactions with related parties:

		Six months ended 30 June	
		2021	2020
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Purchase of goods	(i)	1,299	2,048
Purchase of LNG	(ii)	50,163	–

Notes:

- (i) The amount represents purchases of goods from a non-controlling equity holder of a subsidiary and the purchasing price was determined by reference to the then market price.
- (ii) The amount represents purchase of LNG from a non-controlling equity holder of a subsidiary and the purchasing price was determined by reference to the then market price.

(b) Remuneration for key management personnel (including directors of the Company) of the Group

		Six months ended 30 June	
		2021	2020
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Salaries, bonuses and other benefits		4,007	6,089
Contribution to defined contribution plans		544	220
		4,551	6,309

18. PLEDGE OF ASSETS

As at 30 June 2021, certain property, plant and equipment of the Group with carrying amount of approximately HK\$6,440,000 (31 December 2020: HK\$9,000,000), shares charged over 100% equity interest in a subsidiary of the Company and guarantees from substantial shareholders of the Company were pledged. In addition, the Group's secured bank loans were secured by the Group's bank balances of HK\$339,742,000 (31 December 2020: HK\$46,993,000).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the six months ended 30 June 2021 (“HY2021”), as the world economy began to rebound, the global market demand for natural gas increased. In China, domestic demand for natural gas also grew rapidly in the context of “carbon neutrality” and “coal-to-gas” goals. During HY2021, the apparent consumption of natural gas was 182.7 billion cubic meters, representing a year-on-year increase of 17.4%; the production volume of natural gas was 104.5 billion cubic meters, representing a year-on-year increase of 10.9%; and the imported volume of natural gas was 84.28 billion cubic meters, representing a year-on-year increase of 23.8%. For HY2021, the Group’s gas sales volume was 352.3 million cubic meters (six months ended 30 June 2020 (“HY2020”): 342.0 million cubic meters), representing an increase of 3.0% as compared to the corresponding period of last year, and its sales income was HK\$1,205.3 million (HY2020: HK\$1,212.6 million), representing a decrease of 0.6% as compared to the corresponding period of last year, which was primarily due to (i) lower income because of decrease in connection projects affected by the pandemic; and (ii) decrease in refueling station business under further advancing of electrification policies; meanwhile, significant increase in LNG price at upstream resulting in a decrease in income with waning competitiveness. The gross profit was HK\$47.1 million for HY2021 (HY2020: HK\$114.0 million), representing a decrease of 58.7% as compared to the corresponding period of last year. The gross profit margin was 3.9% for HY2021 (HY2020: 9.4%), also representing a decrease as compared to the corresponding period of last year, which was primarily due to (i) lower income, gross profit and gross profit margin because of decrease in connection projects (which the Group generally has a higher gross profit margin from selling to users in this segment); and (ii) the continuing high natural gas price in HY2021, resulting in a partial decrease in gross profit. In terms of expenses, the finance costs in HY2021 were HK\$64.9 million (HY2020: HK\$106.2 million), representing a decrease of 38.9% as compared to the corresponding period of last year. Net profit in HY2021 was HK\$39.1 million (HY2020: HK\$81.5 million), representing a decrease of 52.0% as compared to the corresponding period of last year, which was primarily due to the decrease in sales income and gross profit margin, and that there was no one-off gain on acquisition of a subsidiary recognised in HY2021.

As at 30 June 2021, the Group’s natural gas projects covered a total of 17 provinces, cities and autonomous regions in the PRC, namely Liaoning, Jilin, Hebei, Beijing, Shandong, Shanxi, Shaanxi, Ningxia Autonomous Region, Shanghai, Jiangsu, Anhui, Zhejiang, Guizhou, Hubei, Guangdong, Guangxi Autonomous Region and Hainan.

MANAGEMENT DISCUSSION AND ANALYSIS

CITY GAS BUSINESS

As of HY2021, the Group had 8 city gas concession rights. During HY2021, the Group connected gas pipelines for 13,095 new users and the cumulative number of users reached 522,161, of which 13,033 were new residential users and the cumulative number of residential users reached 519,410. The natural gas sold to residential users amounted to 38.8 million cubic meters (HY2020: 36.2 million cubic meters). The Group secured 62 new industrial and commercial users and the cumulative number reached 2,751 with natural gas sold to industrial and commercial users reaching 33.0 million cubic meters (HY2020: 30.5 million cubic meters). The gas sales volume of city gas business of the Group was 71.8 million cubic meters (HY2020: 66.7 million cubic meters) during HY2021, representing an increase of 7.6% as compared to the corresponding period of last year. The Group recorded a sales income of HK\$313.2 million (HY2020: HK\$332.7 million), representing a decrease of 5.9% as compared to the corresponding period of last year, of which income from connection projects was HK\$45.0 million (HY2020: HK\$128.0 million), decreased by 64.8% from the corresponding period of last year. During HY2021, the residential and non-residential gas consumption both increased as compared to the corresponding period of last year, but the income decreased due to a decrease in connection projects affected by the pandemic.

DIRECT SUPPLY TO INDUSTRIAL USERS BUSINESS

During HY2021, gas sales volume of direct supply to industrial users business increased significantly by 43.2% from corresponding period of last year to 74.9 million cubic meters (HY2020: 52.3 million cubic meters), and sales income increased by 76.9% from the corresponding period of last year to HK\$269.0 million (HY2020: HK\$152.1 million). This was mainly because that the gas demand from industrial and commercial users increased quickly due to the work resumption of downstream enterprises as a result of the rapid recovery of domestic economic activities during HY2021. The Group's direct supply to industrial users business was mainly located in East and South China. During HY2021, the Group has won some new users and put a new industrial direct supply project into production.

TRADING AND DISTRIBUTION OF NATURAL GAS BUSINESS

During HY2021, gas sales volume of trading and distribution of natural gas business amounted to 196.4 million cubic meters (HY2020: 211.6 million cubic meters); sales income reached HK\$594.6 million (HY2020: HK\$686.5 million), representing a decline of 13.4% as compared to the corresponding period of last year. The decline was primarily due to the adjustment of calculation basis of certain sales, which resulted in a decrease in gas sales volume and revenue.

MANAGEMENT DISCUSSION AND ANALYSIS

NATURAL GAS REFUELING STATION BUSINESS

During HY2021, the Group owned 17 gas refueling stations, including 12 CNG refueling stations and 5 LNG refueling stations, with gas sales volume of 9.2 million cubic meters (HY2020: 11.4 million cubic meters). The Group recorded a sales income of HK\$28.6 million (HY2020: HK\$41.3 million), representing a decrease of 30.8% as compared to the corresponding period of last year. The drop of gas refueling station business was mainly because demand in transportation industry weakened due to the impact of the pandemic and demand in CNG refueling stations declined due to the significant impact of electric vehicles. Affected by this, the Group closed down some refueling stations. The Group will not consider CNG refueling station business as its core of strategic development, and will develop regional LNG refueling stations based on its layout of the whole LNG industrial chain in the future.

LNG RECEIVING TERMINAL PROJECTS

PetroChina Jingtang (Caofeidian Jingtang LNG Receiving Terminal)

During HY2021, the total throughput volume of LNG of Caofeidian Jingtang Receiving Terminal amounted to 2,934.3 million cubic meters, of which the gas volume transported to pipelines through gasification was 2,270.8 million cubic meters while the gas transportation volume of tank trucks was 525.2 million cubic meters. The throughput volume of Jingtang Receiving Terminal Projects increased mainly due to the increase in the total import volume of LNG as the international economy resumed and the demand for natural gas went up.

FUTURE PROSPECTS

2021 marks the start of China's 14th Five-Year Plan. The goal of "peak carbon dioxide emissions and carbon neutrality" has attracted wide attention. As a clean, efficient and safe energy with stable supply, natural gas plays an important role in the domestic transformation of energy structure. The market-oriented reform will be further promoted in the 14th Five-Year Plan period. The energy production, supply, storage, transportation and marketing system will be gradually improved. This will help develop a more matured natural gas industry chain from the upstream, middle to downstream. With implementation of the policy of "liberalizing production and retail and controlling transmission and distribution", PipeChina's further steps and the further implementation of the policy of "upstream diversification", increasing reserves and production has been steadily promoted and the construction of gas storage and peak regulation facilities has been accelerated, which bring about more development opportunities for the natural gas industry. In the second half of 2021, with the further recovery of the economic environment, the successive introduction of policies regarding energy utilization reform and clean environmental protection across the country, the steady implementation of the policy of "coal-to-gas" and the launch of national carbon trading market, the natural gas demand will be further increased.

MANAGEMENT DISCUSSION AND ANALYSIS

FUTURE PROSPECTS (Continued)

In the second half of 2021, the Group will actively explore industry opportunities by fully leveraging substantial shareholders' and its internal resources. It will continue to adhere to the development strategy of "City Gas + LNG", develop and expand city gas projects and seek opportunities for mergers and acquisitions. It will also continue to integrate LNG industry chain and focus on developing the business with the advantage of a LNG whole industry chain. The Group holds equity interests in the LNG Receiving Terminal in Tangshan. Besides, two LNG storage tanks newly established by Beijing Gas Group, a substantial shareholder of the Group, in Jingtang Receiving Terminal have been officially put into production. Therefore, the Group will have more cooperation opportunities with the substantial shareholder, Beijing Gas Group, in trading and distribution of LNG. This will benefit the Group's layout in the Beijing-Tianjin-Hebei region, further leverage regional synergies, enhance its overall LNG delivery and distribution capabilities, and improve the Group's market position and competitiveness in natural gas business.

In terms of operation, since Beijing Gas Group assigned management personnel to the Group in 2020, the management and business capabilities of the Group have been continuously improved. The Group is proactively communicating with its substantial shareholder to seek for its assistance from various aspects. The Group looks forward to, with the support from the substantial shareholder, making further progress in strategic synergy, business support, investment and financing arrangements, talent recruiting and management enhancement in the future. These will facilitate the Group to embark on further development and return its shareholders and investors with better performance. In the second half of the year, the Group will continue to stick to regulated management. It will stick to the principle of cost-saving and efficiency-increasing and strictly control expenses to enhance the Group's overall profitability. The Group will continue to expand financing channels, optimize the financing structure through cooperation with more commercial banks, increase current loans, and refinance the original debt at lower costs so as to achieve a reasonable cost reduction and profitability enhancement. Meanwhile, the Group hopes to finalise its restructuring proposal as soon as practicable.

Financial Review

Revenue

Revenue decreased by 0.6% from HK\$1,212.6 million for HY2020 to HK\$1,205.3 million for HY2021, mainly due to (i) lower income because of decrease in construction affected by the pandemic; and (ii) decrease in refueling station business under further advancing of electrification policies; meanwhile, significant increase in LNG price at upstream resulting in a decrease in income with waning competitiveness.

Gross Profit and Segment Profit

The Group recorded gross profit of HK\$47.1 million as of HY2021 which decreased by HK\$66.9 million from HK\$114.0 million for HY2020, which was mainly due to (i) lower income, gross profit and gross profit margin because of decrease in connection projects; and (ii) the continuing high natural gas price for HY2021, resulting in a partial decrease in profit.

Segment profit decreased by 14.8% from HK\$192.3 million for HY2020 to HK\$163.9 million for HY2021, which was mainly due to the decrease in city gas, pipeline construction, value-added services and other business segment.

MANAGEMENT DISCUSSION AND ANALYSIS

Earnings before Interests, Tax, Depreciation and Amortisation

Earnings before interests, tax, depreciation and amortisation decreased by 45.4% from HK\$264.5 million for HY2020 to HK\$144.4 million for HY2021. It was resulted by the consequence of global COVID-19 pandemic and no gains arising from one-off acquisition for HY2021.

Other Income and Gains

Other income and gains decreased from HK\$26.5 million for HY2020 to HK\$11.3 million for HY2021, which was mainly due to the decrease in interest income by HK\$13.8 million and the decrease in fair value changes on financial assets at FVTPL by HK\$1.3 million.

Operating expenses

(a) Administrative expenses

The administrative expenses increased by 2.2% from HK\$116.1 million for HY2020 to HK\$118.7 million for HY2021. It was mainly due to the increase in lending commission expenses by HK\$5.9 million.

(b) Other expenses

Other expenses increased by 70.3% from HK\$7.4 million for HY2020 to HK\$12.6 million for HY2021, which was mainly due to the increase in legal and professional expenses by HK\$7.5 million.

(c) Finance costs

Finance costs decreased by 38.9% from HK\$106.2 million for HY2020 to HK\$64.9 million for HY2021, which was mainly due to no interests on convertible bonds and interests on finance leasing during the first half of 2021.

(d) Income tax expense

For HY2020 and HY2021, income tax expense was calculated at the respective applicable tax rates on the estimated assessable profits of its PRC subsidiaries and Hong Kong subsidiaries.

Income tax expenses of HK\$3.3 million for HY2021 represented the current taxation arising from the PRC subsidiaries of HK\$8.3 million and the deferred tax credit of HK\$5.0 million arising from fair value adjustments of intangible assets from acquisition of various natural gas projects.

(e) Profit attributable to the owners of the Company

The Group's profit for the period attributable to the owners of the Company was HK\$40.1 million for HY2021, representing a decrease by HK\$23.8 million from HK\$63.9 million for HY2020.

(f) Reversal of impairment of financial assets

The reversal of impairment of the Group's financial assets for HY2021 was HK\$34.3 million, representing an increase of HK\$6.7 million as compared to the reversal of HK\$27.6 million for HY2020, which comprised the reversal of impairment of receivables of HK\$33.8 million and reversal of impairment of deposits paid for acquisition of subsidiaries of HK\$0.5 million.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL STRUCTURE AND FINANCIAL RESOURCES

The Group financed its operations with shareholders' equity, bank and other borrowings and lease liabilities.

The Group maintained cash and bank balances amounting to HK\$836.4 million as at 30 June 2021 (31 December 2020: HK\$752.4 million), an increase by 11.2% from 31 December 2020, which include HK\$339.7 million of pledged deposits (31 December 2020: HK\$47.0 million).

The Group had total bank and other borrowings of HK\$3,747.9 million as at 30 June 2021 (31 December 2020: HK\$3,518.4 million). The Group's leverage ratio, which is total bank and other borrowings divided by the total assets was 65.9% (31 December 2020: 64.3%).

The Group's non-current assets increased to HK\$3,960.1 million (31 December 2020: HK\$3,785.7 million), primarily due to the increase in (i) interests in associates by HK\$170.2 million; and (ii) property, plant and equipment by HK\$12.8 million.

As at 30 June 2021, the Group's current assets amounted to HK\$1,730.3 million (31 December 2020: HK\$1,687.6 million), mainly comprised of trade receivables of HK\$172.0 million (31 December 2020: HK\$249.3 million), cash and bank balances of HK\$496.6 million (31 December 2020: HK\$705.4 million), pledged deposits of HK\$339.7 million (31 December 2020: HK\$47.0 million), amounts due from joint ventures of HK\$5.1 million (31 December 2020: HK\$41.8 million), inventories of HK\$38.7 million (31 December 2020: HK\$18.4 million), contract assets of HK\$48.9 million (31 December 2020: HK\$52.6 million), financial assets at FVTPL of HK\$0.7 million (31 December 2020: HK\$7.1 million), prepayments, deposits and other receivables of HK\$625.0 million (31 December 2020: HK\$564.9 million), and amounts due from associates of HK\$3.6 million (31 December 2020: HK\$1.1 million).

As at 30 June 2021, the Group's current liabilities amounted to HK\$4,673.5 million (31 December 2020: HK\$4,379.2 million), mainly comprised of bank and other borrowings of HK\$3,616.4 million (31 December 2020: HK\$3,364.8 million), other payables and accrued charges of HK\$494.0 million (31 December 2020: HK\$497.0 million), trade payables and bills payables of HK\$395.5 million (31 December 2020: HK\$357.1 million), lease liabilities of HK\$7.2 million (31 December 2020: HK\$4.6 million), amount due to joint ventures of HK\$155.1 million (31 December 2020: HK\$151.3 million) and amount due to associates of HK\$5.3 million (31 December 2020: HK\$4.4 million).

As at 30 June 2021, the net current liabilities of the Group amounted to HK\$2,943.2 million (31 December 2020: net current liabilities of HK\$2,691.5 million). The Group's current ratio (calculated on the basis of the Group's current assets over current liabilities) was 0.37 as at 30 June 2021 (31 December 2020: 0.39).

As at 30 June 2021, total bank and other borrowings amounted to HK\$3,747.9 million (31 December 2020: HK\$3,518.4 million) of which HK\$884.8 million (31 December 2020: HK\$1,063.8 million) are fixed rate borrowings.

The Group's net liability ratio (expressed as net borrowings, including bank and other borrowings less pledged deposits and cash and bank balances, divided by total equity), was 384.6% as at 30 June 2021 (31 December 2020: 341.4%).

During HY2021, the Group has not entered into any financial instrument for hedging purposes nor other hedging instruments to hedge against foreign exchange rate risks.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES' INFORMATION

The Group's employees are based in Hong Kong and the PRC. As at 30 June 2021, there were 969 (31 December 2020: 1,052) employees in the Group. Staff remuneration packages are determined in consideration of market conditions and the performance of the individuals concerned, and are subject to review from time to time. The Group also provides other staff benefits including medical insurance, grants discretionary incentive bonuses and/or share options to eligible staff based on their performance and contributions to the Group.

TAX RELIEF

The Company is not aware of any tax relief or exemption available to the shareholders of the Company by reason of their holding of the Company's securities.

CHARGES ON THE GROUP'S ASSETS

As at 30 June 2021, certain property, plant and equipment of the Group with carrying amounts of approximately HK\$6.4 million (31 December 2020: HK\$9.0 million) were pledged. There were also shares charged over 100% equity interest of a subsidiary of the Company and guarantee from the substantial shareholder of the Company. In addition, the Group's secured bank borrowings were secured by the Group's bank balances of HK\$339.7 million (31 December 2020: HK\$47.0 million).

EXPOSURE TO FLUCTUATIONS IN EXCHANGES RATES

The Group's major debts and borrowings and the reporting currencies are denominated in Hong Kong dollars. The Group has limited exposure to foreign exchange gain/loss arising from settlement of debts and borrowings. The Group will consider to utilize more RMB denominated borrowings in the future. The Group's revenue is mainly denominated in RMB. As the RMB is not a freely convertible currency and is regulated by the PRC government, the future exchange rates can vary significantly from current or historical exchange rates. Meanwhile, the Group will continue to pay close attention to the currency fluctuations of RMB, and will adopt proper measures to reduce the currency risk exposures of the Group based on its operating needs.

CONTINGENT LIABILITIES

As at 30 June 2021, the Group had no material contingent liabilities.

DIVIDEND

The Board did not recommend a payment of interim dividend for HY2021.

MANAGEMENT DISCUSSION AND ANALYSIS

DISPOSAL OF EQUITY INTEREST

On 3 July 2020, Shenzhen Feida Energy Co., Ltd. (深圳翡達能源有限公司), Shenzhen Jinzhifu Energy Co., Ltd. (深圳金置富能源有限公司) and Shenzhen Zhanding Technical Service Co., Ltd. (深圳展頂技術服務有限公司), (the “Vendors”) each being an indirect wholly-owned subsidiary of the Company, and the Company, as guarantor, entered into the share purchase agreements with SK E&S HongKong Corporation Limited (the “Purchaser”), pursuant to which the Vendors conditionally agreed to sell and the Purchaser conditionally agreed to acquire 30% equity interest in Ningbo Beilun Bochen Energy Trading Co., Ltd. (寧波北侖博臣能源貿易有限公司), Huzhou Bochen Natural Gas Co., Ltd. (湖州博臣天然氣有限公司) and Zhejiang Boxin Energy Co., Ltd (浙江博信能源有限公司) at a consideration of RMB37.5 million, RMB30.0 million and RMB61.5 million, respectively. For details, please refer to the announcement of the Company dated 3 July 2020. Due to the disagreement between shareholders of both parties on certain terms of the contract including equity cooperation and natural gas sales and purchase, both parties agreed to terminate the natural gas purchase and sales and equity cooperation through friendly negotiation in July 2021. The termination agreement is expected to be signed in November 2021.

SUSPENSION OF TRADING IN SHARES AND RESUMPTION PROGRESS

(a) Resumption Guidance

As disclosed in the announcement of the Company dated 17 January 2021, the Company has identified a number of suspicious transactions and questionable assets of the Group (the “Incident”). At the request of the Company, trading in the shares of the Company on the Stock Exchange was suspended with effect from 9:00 a.m. on 18 January 2021. The Company subsequently received a letter from the Stock Exchange, which set out the following resumption guidance for the resumption of trading in the shares of the Company (the “Resumption Guidance”):

- (i) to conduct a forensic investigation into the Incident, announce the investigation findings, assess and announce the impact on the Company’s financial and operation position, and take appropriate remedial actions;
- (ii) to demonstrate that there is no reasonable regulatory concern about management integrity and/or the integrity of any persons with substantial influence over the Company’s management and operations, which may pose a risk to investors and damage market confidence;
- (iii) to demonstrate that the Company has in place adequate internal control systems to meet the obligations under the Listing Rules;
- (iv) to demonstrate compliance with Rule 13.24 of the Listing Rules;

MANAGEMENT DISCUSSION AND ANALYSIS

- (v) to inform the market of all material information for the Company's shareholders and other investors to appraise its positions; and
- (vi) to publish all outstanding financial results and address any audit modifications in accordance with the Listing Rules.

The Stock Exchange has further indicated that it might modify or supplement the Resumption Guidance if the Company's situation changes. If the Company fails to remedy the issues causing its trading suspension, fully comply with the Listing Rules to the Stock Exchange's satisfaction and resume trading in the shares of the Company by 17 July 2022, the Listing Department will recommend the Listing Committee to proceed with the cancellation of the Company's listing.

(b) Resumption Progress

Forensic investigation

In February 2021, the Board resolved to establish a special investigation committee (the "**Special Committee**"), for the purpose of, among other things, investigating into the Incident and reporting and making recommendations to the Board on appropriate actions to be taken. Thereafter, PricewaterhouseCoopers Management Consulting (Shanghai) Ltd. was appointed as the independent forensic accountant (the "**Forensic Accountant**") to assist the Special Committee in conducting the forensic investigation. On 29 September 2021, the Company announced the key findings of the investigation. The Special Committee, after having reviewed the report submitted by the Forensic Accountant, recommended that the Board to adopt the findings of the investigation and made recommendations to the Board on the appropriate actions to be taken. The Board has resolved to implement the recommendations made by the Special Committee. It is expected that all the recommendations will be fully implemented by the end of November 2021.

Publication of outstanding financial results

The Company has issued an announcement dated 30 September 2021 announcing the annual results of the Group for the year ended 31 December 2020. The annual report for the year ended 31 December 2020 has been published on 25 October 2021.

The Company has issued the interim results announcement of the Group for HY2021 on 29 October 2021. With the publication of the interim report for HY2021, all outstanding financial results of the Company have been published.

Review of internal control systems

As of the date of this report, the internal control review is on-going. Subject to the results of the internal control review, the Company will consider implementing the recommendations made by the internal control consultant to remedy the relevant deficiencies.

The Company has engaged and has been working closely with its experienced advisory team to consider various feasible options to deal with debt restructuring and resumption, including but not limited to devising plans to inject assets into the Group, enhance solvency and take appropriate steps to implement the guidelines on resumption.

MANAGEMENT DISCUSSION AND ANALYSIS

EVENTS SUBSEQUENT TO THE REPORTING PERIOD

As disclosed in the Company's announcement dated 15 October 2021 and 29 October 2021, the Company has received demand letters from certain bank creditors. Notwithstanding the foregoing, the Group's operations in the PRC remain stable, and the business of each segment continues as normal. The Group is proactively communicating with its substantial shareholder to seek for its assistance and is currently discussing the possibility of a potential asset injection, which may form part of the debt restructuring of the Company.

The Company is considering a number of factors including the reception of the debt restructuring plan by major creditors of the Company and will continue its efforts to negotiate with its major creditors of the Company. Whilst repayments of principal and interest on its debts have been suspended, the Company is currently discussing the possibility of a potential asset injection, which may form part of the debt restructuring of the Company. The debt restructuring plan is still at a preliminary discussion stage.

As of the date of this report, no agreement has been entered into in relation to potential asset injection and the terms thereunder have yet to be confirmed.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30 June 2021, the interests and short positions of the Directors and the chief executive of the Company in the shares, warrants, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) 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 are taken or deemed to have under such provisions of the SFO), or which were required as recorded in the register required to be kept under Section 352 of the SFO, or 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 (“Model Code”) contained in the Rules Governing the Listing of Securities on the Stock Exchange (“Listing Rules”) were as follows:

(i) Interest in shares of the Company

Name of Director/ chief executive	Nature of interest	Number of Shares <small>(Note 1)</small>	Approximate percentage of shareholding at 30 June 2021
Mr. Cheng Ming Kit <small>(Note 2)</small>	Beneficial owner	391,962,514 (L)	3.02%
	Interest of controlled corporations	687,100,256 (L)	5.29%

Notes:

- The letter “L” denotes a long position in the Shares of the Company.
- Mr. Cheng Ming Kit (“Mr. Cheng”), who was redesignated as non-executive Director and Deputy Chairman on 6 July 2020 and whose duties have been suspended since 16 January 2021, holds 100% interest in Grand Powerful Group Limited and is deemed to be interested in 584,148,256 Shares held by Grand Powerful Group Limited and 100% interest in China Print Power Limited and is deemed to be interested in 102,952,000 Shares held by China Print Power Limited. Mr. Cheng personally holds 108,249,824 Shares and shall purchase up to 153,750,000 Shares upon request from an option holder. Mr. Cheng has a right derived from an option to purchase up to 120,000,000 Shares from another option holder.

OTHER INFORMATION

(ii) Interest in underlying shares of the Company

Name of Director/ chief executive	Nature of interest	Number of underlying Shares	Approximate percentage of shareholding at 30 June 2021
		<i>(Note 1)</i>	
Mr. Cheng Ming Kit <i>(Note 2)</i>	Beneficial owner	9,962,690 (L)	0.08%
Mr. Lim Siang Kai	Beneficial owner	2,490,670 (L)	0.02%
Mr. Wee Piew	Beneficial owner	2,490,670 (L)	0.02%

Notes:

- The underlying shares are share options granted by the Company to the Directors. The letter "L" denotes a long position in the Shares of the Company.
- Mr. Cheng's duties have been suspended since 16 January 2021.

(iii) Interest in associated corporations

Name of Director	Name of associated corporation	At 30 June 2021	
		Number of shares	Percentage of shareholding
Mr. Cheng Ming Kit <i>(note 1)</i>	Grand Powerful Group Limited	1	100%
	China Print Power Limited	10,000	100%

Note:

- Mr. Cheng's duties have been suspended since 16 January 2021.

Save as disclosed above, as at 30 June 2021, none of the Directors or chief executive of the Company and their associates had any interests or short positions in the shares, warrants, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) 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 any interests and short positions which they were taken or deemed to have under such provisions of the SFO); or which were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or as otherwise notified to the Company or the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2021, persons/corporations (other than the Directors and chief executive of the Company) which had interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, or to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO, or who is directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group were as follows:

(i) Interest in shares of the Company

Name	Capacity	Number of Shares <small>(Note 1)</small>	Approximate percentage of shareholding at 30 June 2021
Grand Powerful Group Limited <small>(Note 2)</small>	Beneficial owner	584,148,256 (L)	4.50%
Beijing Gas Company Limited <small>(Note 3 & 4)</small>	Beneficial owner	5,341,042,131 (L)	41.13%
Beijing Gas Group <small>(Note 3 & 4)</small>	Interest of controlled corporation	5,341,042,131 (L)	41.13%
Beijing Enterprises Group Company Limited <small>(Note 3 & 4)</small>	Interest of controlled corporation	5,341,042,131 (L)	41.13%
Lee Tsz Hang <small>(Note 4)</small>	Beneficial owner	564,845,000 (L)	4.35%
	Interest of controlled corporation	213,032,000 (L)	1.64%

Notes:

- The letter "L" denotes a long position in the shares of the Company.
- Grand Powerful Group Limited is wholly-owned by Mr. Cheng. Mr. Cheng's duties were suspended on 16 January 2021. The interest disclosed represented the same interest as the corporate interest of Mr. Cheng as disclosed under the section headed "DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION" above.
- Beijing Enterprises Group Company Limited indirectly controlled Beijing Gas Company Limited through Beijing Gas Group. and is deemed to be interested in 5,341,042,131 Shares. Mr. Zhi Xiaoye, a non-executive Director and Chairman of the Board, is currently vice president of Beijing Enterprises Holdings Limited and a director and general manager of Beijing Gas Group.
- As per the disclosure of interest form filed by Beijing Gas Company Limited on 19 September 2018, Beijing Gas Company Limited is interested in 5,341,042,131 issued Shares and 337,777,778 unissued Shares, which shall be issued and allotted upon completion of the acquisition of Beijing Gas Group (Teng Country) Co., Ltd.* (北京燃气集团滕县有限公司). As at the date of this report, such acquisition has yet to be completed. For further details regarding the acquisition, please refer to the Company's circular dated 26 April 2018.
- Mr. Lee Tsz Hang holds 100% interest in Win Ways Investment Limited and is deemed to be interested in 213,032,000 Shares held by Win Ways Investment Limited. Mr. Lee Tsz Hang personally holds 564,845,000 Shares.

Save as disclosed above, the Company has not been notified of any other persons (other than the Directors and chief executive of the Company) who had 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 Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register required to be kept by the Company pursuant to Section 336 of SFO as at 30 June 2021, or who is directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group.

OTHER INFORMATION

SHARE OPTIONS

At the special general meeting of the Company held on 26 May 2011, the terms of the share option scheme (the “Scheme”) were adopted by providing incentive to eligible participants to work better for the interests of the Group, under which the Board may, at its discretion, offer to grant options to any full-time or part-time employee and Directors of the Company or any of its subsidiaries. Subject to earlier termination by the Company in general meeting or by the Board, the Scheme shall be valid and effective for a period of 10 years from the date of its adoption. Details of the Scheme are set out in prospectus of the Company dated 28 June 2011.

During the HY2021, no share options were granted under the Scheme or have been exercised. There were no options lapsed. As at 30 June 2021, share options outstanding under the Scheme entitling the holders to subscribe for 14,944,030 Shares of par value HK\$0.055 each in the capital of the Company represented approximately 0.38% of the Shares in issue.

Save as determined by the directors and provided in the offer of the grant of the relevant options, there is no general requirement that an option must be held for any minimum period before it can be exercised.

The following table discloses movements of the Company’s share options during the six months ended 30 June 2021:

Category of grantee	Exercise price per share option HK\$	Date of grant	Exercisable period	Number of share options as at 1 January 2021	Number of share options granted during the period ^(Note)	Number of share options exercised during the period	Number of share options lapsed during the period	Number of share options as at 30 June 2021
Directors:								
Mr. Cheng Ming Kit (duties suspended since 16 January 2021)	0.286	21 July 2014	21 July 2015 to 20 July 2024	9,962,690	-	-	-	9,962,690
Mr. Lim Siang Kai	0.286	21 July 2014	21 July 2015 to 20 July 2024	2,490,670	-	-	-	2,490,670
Mr. Wee Piew	0.286	21 July 2014	21 July 2015 to 20 July 2024	2,490,670	-	-	-	2,490,670
Total				14,944,030	-	-	-	14,944,030

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

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

CORPORATE GOVERNANCE

The Company has adopted the Code Provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules. The Company has complied with the code provisions listed in the CG Code during the HY2021.

CHANGE IN DIRECTORS' INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, there are no changes in the information of Directors required to be disclosed pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) subsequent to the publication of the 2020 annual report.

DISCLOSURE UNDER RULE 13.21 OF THE LISTING RULES

Bank facility letter entered into on 2 March 2020

Pursuant to a facility letter entered into between the Company and a bank on 2 March 2020, in relation to a 3-year facility of HK\$500,000,000, the Company undertakes that Beijing Gas Group directly holds approximately 41.13% of the issued shares of the Company and is the largest shareholder of the Company. As of the date of this report, the loan balance is HK\$480,000,000.

Bank facility letter entered into on 14 August 2020

Pursuant to the facility letter entered into between the Company and a bank on 14 August 2020, in relation to an extension of a term loan facility up to a maximum principal amount of HK\$250,000,000 for one year to 17 August 2021, the Company undertakes that Beijing Gas Group directly or indirectly remains as the single largest shareholder of the Company with a minimum shareholding of 35% of the equity interest of the Company. In the event the aforesaid undertaking has been breached, the Bank may terminate the Facility and demand immediate repayment of all outstanding amounts from time to time. As of the date of this report, the loan facility has been extended to 17 February 2022.

OTHER INFORMATION

Bank facility agreement entered into on 17 August 2020

Pursuant to the facility agreement entered into between the Company and a bank on 17 August 2020 with the original mandated lead arranger and bookrunner, mandated lead arranger and bookrunner, mandated lead arrangers, lead arrangers, the lenders and the facility agent, in relation to a 3-year syndicated term loan facility of HK\$890,000,000, the Company undertakes that Beijing Gas Group directly or indirectly remains as the single largest shareholder of the Company of not less than 36% of the issued shares of the Company. In the event the aforesaid undertaking has been breached, the lenders may terminate the Facility and demand immediate repayment of all outstanding amounts from time to time.

Bank facility letter entered into on 10 October 2020

Pursuant to the facility letter entered into between the Company and a bank on 10 October 2020, in relation to a three-year term loan facility up to HK\$200,000,000, the Company undertakes that Beijing Gas Group directly or indirectly remains as the single largest shareholder of the Company of not less than 36% of the issued shares of the Company. In the event the aforesaid undertaking has been breached, the Bank may terminate the facility and demand immediate repayment of all outstanding amounts.

Bank loan contract entered into on 20 October 2020

Pursuant to the working capital loan contract entered into between the Company and a bank on 20 October 2020, in relation to a loan of HK\$300,000,000 (or equivalent amount denominated in Hong Kong dollar) with the term of loan line from 20 October 2020 to 27 March 2022, the Company undertakes that Beijing Gas Group directly or indirectly remains its position as the largest shareholder of the Company. Beijing Enterprises Group Company Limited remains as the controlling shareholder of Beijing Gas Group. In the event the aforesaid undertaking has been breached, the bank may demand payment and settlement of obligations from the borrower.

Bank facility letter entered into on 2 November 2020

Pursuant to the facility letter entered into between the Company and a bank on 2 November 2020, in relation to a one-year term loan facility of not more than HK\$200,000,000 and an issuance of back-to-back documentary credit limit of US\$30,000,000, the Company undertakes that Beijing Gas Group directly or indirectly holds at least 35% of the issued shares of the Company. In the event the aforesaid undertaking has been breached, the bank has the right to without notice to the Company terminate any or all outstanding facilities.

Bank facility letter entered into on 16 November 2020

Pursuant to the facility letter entered into between the Company and a bank on 16 November 2020, in relation to a one-year term loan facility of not more than equivalent to the value of HK\$100,000,000, the Company undertakes that Beijing Gas Group directly or indirectly maintains the commitment to the Company's largest shareholder status, etc. In the event the aforesaid undertaking has been breached, the bank has the right to without notice to the Company terminate any or all outstanding facilities.

Additional commitment obtained on 20 November 2020

Pursuant to the facility agreement (the “**Facility Agreement**”) being executed on 17 August 2020, the Company further agreed to obtain an additional commitment in which the additional commitment lenders agreed to make available to the Company the additional commitment of HK\$310,000,000 as part of the facility according to the Facility Agreement on 20 November 2020. The Company undertakes that Beijing Gas Group directly or indirectly remains as the single largest shareholder of the Company of not less than 36% of the issued shares of the Company. In the event the aforesaid undertaking has been breached, the lenders may terminate the facility and demand immediate repayment of all outstanding amounts from time to time. The loan facility has been increased to HK\$1,200,000,000 in total.

CONTINUING CONNECTED TRANSACTIONS

On 25 February 2021, the Company entered into the Master Agreement with Beijing Gas Group (Beijing Gas Company Limited, the controlling shareholder of the Company holding approximately 41.13% of the issued share capital of the Company, was indirectly wholly-owned by Beijing Gas Group), pursuant to which Beijing Gas Group agreed to sell LNG to the Company for a term of a period commencing from 25 February 2021 to 31 December 2023.

The entering into of the Master Agreement was approved by the independent Shareholders at the special general meeting held on 5 May 2021.

For details, please refer to the Company’s announcement dated 25 February 2021, circular dated 14 April 2021 and poll results announcement dated 5 May 2021.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board has adopted the Model Code as set out in Appendix 10 to the Listing Rules and its amendments from time to time as its own code of conduct regarding securities transaction by the Directors. The Board confirms that, having made specific enquiries with all Directors, all Directors have complied with the required standards of the Model Code throughout the six months ended 30 June 2021.

AUDITOR REVIEW OF THE INTERIM FINANCIAL RESULTS

The interim financial results have not been audited by the Group’s external auditors.

AUDIT COMMITTEE

The audit committee of the Board (the “**Audit Committee**”) currently comprises five members, namely Ms. Hsu Wai Man Helen (“**Ms. Hsu**”), Mr. Lim Siang Kai, Mr. Wee Piew, Mr. Ma Arthur On-hing and Mr. Cui Yulei, all being independent non-executive Directors. Ms. Hsu is the chairlady of the Audit Committee. The Audit Committee has reviewed the accounting principles and standards adopted by the Group and has discussed and reviewed the risk management and internal control and reporting matters. The Audit Committee has also reviewed with the management the condensed consolidated financial statements of the Group and its unaudited interim results for the six months ended 30 June 2021. The Audit Committee has also reviewed this report.

OTHER INFORMATION

BOARD OF DIRECTORS

As at the date of this report, the Board comprises eleven Directors, including four executive Directors viz Mr. Li Weiqi, Mr. Jin Qiang, Ms. Yang Fuyan and Mr. Ye Hongjun; two non-executive Directors viz Mr. Zhi Xiaoye and Mr. Cheng Ming Kit (duties suspended) and five independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise, viz Mr. Lim Siang Kai, Mr. Wee Piew, Mr. Ma Arthur On-hing, Mr. Cui Yulei and Ms. Hsu Wai Man Helen.

By order of the Board
Beijing Gas Blue Sky Holdings Limited
Zhi Xiaoye
Chairman

Hong Kong, 29 October 2021