CHINA GAS
中國燃氣

CHINA GAS HOLDINGS LIMITED
中國燃氣控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 384)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

The board of directors (the "Board" or the "Directors") of China Gas Holdings Limited (the "Company") announces the condensed consolidated financial results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2017, together with the comparative figures for the six months ended 30 September 2016, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2017

		Six months ended	
		30 September 2017	30 September 2016
	Note	***HK$'000***	*HK$'000*
		(unaudited)	(unaudited) (restated)
Revenue	*3*	**20,875,350**	13,448,656
Cost of sales		**(15,406,436)**	(9,637,410)
Gross profit		**5,468,914**	3,811,246
Other income		**226,591**	220,161
Other gains and losses		**97,337**	(185,933)
Distribution costs		**(691,961)**	(563,423)
Administrative expenses		**(820,325)**	(768,771)
Finance costs		**(419,053)**	(314,781)
Share of results of associates		**166,375**	91,123
Share of results of joint ventures		**594,017**	227,238

	Note	Six months ended 30 September 2017 HK$'000 (unaudited)	30 September 2016 HK$'000 (unaudited) (restated)
Profit before taxation		**4,621,895**	2,516,860
Taxation	*4*	**(903,139)**	(560,799)
Profit for the period	*5*	**3,718,756**	1,956,061
Other comprehensive income			
Item that will be reclassified subsequently to profit or loss:			
Decrease in fair value on available-for-sale investments		**(17,790)**	(5,651)
Item that will not be reclassified subsequently to profit or loss:			
Exchange difference arising on translation		**1,046,468**	(399,572)
Other comprehensive income/(expense) for the period		**1,028,678**	(405,223)
Total comprehensive income for the period		**4,747,434**	1,550,838
Profit for the period attributable to:			
Owners of the Company		**3,395,206**	1,691,788
Non-controlling interests		**323,550**	264,273
		3,718,756	1,956,061
Total comprehensive income attributable to:			
Owners of the Company		**4,322,542**	1,376,958
Non-controlling interests		**424,892**	173,880
Total comprehensive income for the period		**4,747,434**	1,550,838
Earnings per share			
Basic	*6*	**HK68.33 cents**	HK34.45 cents
Diluted	*6*	**HK67.34 cents**	HK34.45 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2017

	Note	30 September 2017 HK$'000 (unaudited)	31 March 2017 HK$'000 (audited)
Non-current assets			
Investment properties		**238,828**	219,221
Property, plant and equipment		**28,424,321**	25,782,679
Prepaid lease payments		**1,660,822**	1,516,323
Investments in associates		**5,406,681**	4,165,789
Investments in joint ventures		**6,179,015**	5,412,087
Available-for-sale investments		**383,247**	324,304
Goodwill		**3,492,964**	3,354,612
Other intangible assets		**3,017,615**	3,003,196
Deposits for acquisition of property, plant and equipment		**547,945**	417,854
Deposits for acquisition of subsidiaries, joint ventures and associates		**125,116**	267,264
Deferred tax assets		**169,758**	160,617
		49,646,312	44,623,946
Current assets			
Inventories		**1,798,274**	1,678,888
Amounts due from customers for contract work		**2,846,301**	1,738,107
Trade and other receivables	*7*	**7,358,225**	6,066,993
Amounts due from associates		**38,318**	255,015
Amounts due from joint ventures		**329,052**	304,156
Prepaid lease payments		**49,931**	49,991
Financial assets at fair value through profit or loss		**352,941**	–
Held-for-trading investments		**46,869**	27,402
Pledged bank deposits		**287,344**	517,676
Bank balances and cash		**6,929,497**	4,724,646
		20,036,752	15,362,874

	Note	30 September 2017 HK$'000 (unaudited)	31 March 2017 HK$'000 (audited)
Current liabilities			
Trade and other payables	8	**14,030,609**	9,649,805
Amounts due to associates		**54,831**	100,939
Amounts due to joint ventures		**35,243**	797,393
Amounts due to customers for contract work		**695,665**	645,193
Derivative financial instrument		**1,769**	936
Taxation		**733,323**	511,844
Bank and other borrowings – due within one year		**11,056,277**	10,873,256
		26,607,717	22,579,366
Net current liabilities		**(6,570,965)**	(7,216,492)
Total assets less current liabilities		**43,075,347**	37,407,454
Equity			
Share capital		**49,685**	49,685
Reserves		**23,844,047**	20,500,548
Equity attributable to owners of the Company		**23,893,732**	20,550,233
Non-controlling interests		**3,756,866**	3,377,375
Total equity		**27,650,598**	23,927,608
Non-current liabilities			
Bank and other borrowings – due after one year		**14,700,083**	12,745,179
Deferred tax liabilities		**724,666**	734,667
		15,424,749	13,479,846
		43,075,347	37,407,454

Notes:

1. **BASIS OF PREPARATION**

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

2. **PRINCIPAL ACCOUNTING POLICIES**

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain investment properties and financial instruments which are measured at revalued amounts or fair values, as appropriate.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2017 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2017.

In the current interim period, the Group has applied, for the first time, certain new or revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are mandatorily effective for the current interim period.

The application of the above new or revised HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

3. SEGMENT INFORMATION

The Group's reportable and operating segments under HKFRS 8 are: sales of piped gas, gas connection (including gas connection and other contracted construction revenue), sales of liquefied petroleum gas ("LPG"), value-added services and Zhongyu Gas Holdings Limited ("Zhongyu Gas"), in which the Group's chief operating decision maker reviewed the result of Zhongyu Gas being shared by the Group under equity method of accounting.

Segment information for the six months ended 30 September 2017 and 2016 about these businesses is presented below.

Six months ended 30 September 2017 (unaudited)

	Sales of piped gas *HK$'000*	Gas* connection *HK$'000*	Sales of LPG *HK$'000*	Value-added services *HK$'000*	Zhongyu Gas *HK$'000*	Consolidated *HK$'000*
Segment revenue	**8,468,282**	**4,972,788**	**6,736,886**	**697,394**	**–**	**20,875,350**
Segment result	**1,210,053**	**2,453,016**	**291,647**	**289,048**	**65,139**	**4,308,903**
Interest and other gains						**75,366**
Unallocated corporate expenses						**(109,215)**
Change in fair value of investment properties						**19,100**
Gain on disposal of property, plant and equipment						**6,529**
Gain on disposal of a subsidiary						**1,381**
Exchange gain on translation of monetary items to functional currency						**43,631**
Finance costs						**(419,053)**
Share of results of unlisted associates						**101,236**
Share of results of joint ventures						**594,017**
Profit before taxation						**4,621,895**

* Including gas connection and other contracted construction revenue.

Six months ended 30 September 2016 (unaudited) (restated)

	Sales of piped gas *HK$'000*	Gas* connection *HK$'000*	Sales of LPG *HK$'000*	Value-added services *HK$'000*	Zhongyu Gas *HK$'000*	Consolidated *HK$'000*
Segment revenue	5,677,109	2,673,708	4,830,057	267,782	–	13,448,656
Segment result	982,752	1,340,220	234,971	110,111	28,683	2,696,737
Interest and other gains						39,368
Unallocated corporate expenses						(118,858)
Change in fair value of investment properties						5,824
Gain on disposal of property, plant and equipment						12,810
Litigation claim						(87,376)
Exchange loss on translation of monetary items to functional currency						(6,542)
Finance costs						(314,781)
Share of results of unlisted associates						62,440
Share of results of joint ventures						227,238
Profit before taxation						2,516,860

* Including gas connection and other contracted construction revenue.

4. TAXATION

	Six months ended	
	30 September 2017	30 September 2016
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
PRC Enterprise Income Tax	**921,569**	575,837
Deferred taxation	**(18,430)**	(15,038)
	903,139	560,799

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group had no assessable profit for either period in Hong Kong. Taxation arising in other jurisdiction is calculated at the rates prevailing in the relevant jurisdiction.

The taxation charge of the PRC Enterprise Income Tax for the current and prior periods have been made based on the Group's estimated assessable profits calculated at the prevailing tax rates in accordance with the relevant income tax laws applicable to the subsidiaries in the PRC.

5. PROFIT FOR THE PERIOD

	Six months ended 30 September 2017 HK$'000 (unaudited)	30 September 2016 HK$'000 (unaudited)
Profit for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**506,267**	412,553
Release of prepaid lease payment	**24,965**	22,840
Amortisation of intangible assets	**43,907**	43,579
Interest income	**(54,483)**	(30,388)
Gain on disposal of property, plant and equipment	**(6,529)**	(12,810)

6. EARNINGS PER SHARE

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

	Six months ended 30 September 2017 HK$'000 (unaudited)	30 September 2016 HK$'000 (unaudited)
Earnings		
Earnings for the purpose of basic and diluted earnings per share (profit for the period attributable to owners of the Company)	**3,395,206**	1,691,788
Number of shares	***'000***	*'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share	**4,968,519**	4,910,384
Effect of dilutive potential ordinary shares:		
Share options	**73,636**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**5,042,155**	4,910,384

7. TRADE AND OTHER RECEIVABLES

	30 September 2017	31 March 2017
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Trade receivables	**2,451,197**	2,407,026
Less: Accumulated allowances	**(417,827)**	(379,289)
Trade receivables	**2,033,370**	2,027,737
Deposits paid for construction and other materials	**628,523**	379,795
Deposits paid for purchase of natural gas and LPG	**1,292,022**	909,187
Advanced payments to sub-contractors	**867,642**	739,990
Rental and utilities deposits	**270,632**	190,736
Other tax recoverable	**413,132**	337,174
Other receivables and deposits	**1,278,352**	1,077,147
Prepaid operating expenses	**554,548**	380,223
Amounts due from non-controlling interests of subsidiaries	**20,004**	25,004
	7,358,225	6,066,993

Other than certain major customers with good repayment history which the Group allows a longer credit period or settlement by instalment basis, the Group allows an average credit period of 30-180 days to its trade customers.

The following is an aged analysis of trade receivables net of impairment losses presented based on invoice date at the end of reporting period:

	30 September 2017	31 March 2017
	HK$'000	*HK$'000*
	(unaudited)	(audited)
0-180 days	**1,526,176**	1,794,627
181-365 days	**420,106**	168,785
Over 365 days	**87,088**	64,325
	2,033,370	2,027,737

8. **TRADE AND OTHER PAYABLES**

The following is an aged analysis of trade payables at the end of reporting period:

	30 September 2017	31 March 2017
	HK$'000	*HK$'000*
	(unaudited)	(audited)
0-90 days	**5,633,364**	3,078,423
91-180 days	**1,039,087**	558,837
Over 180 days	**1,486,479**	1,368,979
Trade and bill payables	**8,158,930**	5,006,239
Other payables and accrued charges	**476,985**	569,243
Consideration payable	**778,598**	550,964
Construction fee payables	**886,176**	586,801
Other tax payable	**130,955**	84,143
Accrued staff costs	**89,166**	76,234
Loan interest payables	**230,142**	109,098
Advanced payments from customers	**2,431,797**	2,013,342
Advances received from customers for contract works that have not yet been started	**558,274**	377,169
Amounts due to non-controlling interests of subsidiaries	**289,586**	276,572
	14,030,609	9,649,805

INTERIM DIVIDEND

The Directors declared an interim dividend of HK8.0 cents per share for the six months ended 30 September 2017 (six months ended 30 September 2016: HK5.0 cents per share).

The interim dividend will be paid on or about Wednesday, 31 January 2018 to shareholders whose names appear on the register of members of the Company on Wednesday, 17 January 2018.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the shareholders who are entitled to the interim dividend for the six months ended 30 September 2017, the register of members of the Company will be closed from Monday, 15 January 2018 to Wednesday, 17 January 2018, both days inclusive, during which period no transfers of shares of the Company will be registered.

In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration no later than 4:30 p.m. on Friday, 12 January 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

As a gas operator and service provider, the Group is primarily engaged in investment, construction and operation of city gas pipeline infrastructure, gas terminals, storage and transportation facilities and gas logistics systems; distribution of natural gas and LPG to residential, industrial and commercial users; construction and operation of CNG/LNG refilling stations; and development and application of technologies relating to natural gas and LPG in Mainland China.

Business Review

During the period under review, benefitting from China's improved macro-economy, steadfast determination to eliminate fog and haze, adoption of increasingly stringent environmental protection policy, and effective implementation of natural gas utilization policies such as "coal to gas conversion" in industrial and commercial sectors and "replacement of coal with gas" in towns and villages in North China, decline of China's natural gas industry's growth rate over the past two years was reversed. From January to September 2017, the apparent consumption of natural gas in China reached 166.7 billion m^3, representing a year-on-year growth of 18.4%.

To respond to the changing market, the Group strengthened its corporate governance and safety operation, deepened internal reforms, optimized management, and geared efforts towards building a new ecosystem for China Gas's 4G (PNG, CNG, LNG and LPG) energy network development. Regarding business development, the Group firmly implemented its "3211" strategy, which is to explore the management and development potential of old state-owned enterprises, companies having difficulties and gas filling stations running at low efficiency, to enhance profitability of city gas business and LPG business, to actively push ahead with the Blue Ocean Strategy to develop value-added business, to develop such projects as "replacement of coal with gas" in towns and villages and "point to point gas supply", and to speed up the market layout of and investment in emerging business.

During the period, the Group's three major business segments (i.e. natural gas sales plus pipeline connections, LPG sales and value-added service business) all recorded considerable increase in both financial and operating results. The Group's total natural gas sales volume increased by 74.3% to 8,245,522,066 m^3; total number of newly connected residential users was 2,142,114, representing a year-on-year increase of 88.2%; total revenue was HK$20,875,350,000, representing a year-on-year increase of 55.2%; gross profit was HK$5,468,914,000, representing a year-on-year increase of 43.5%; profit attributable to owners of the Company was HK$3,395,206,000, representing an increase of 100.7%; and basic earnings per share was HK68.33 cent, representing a year-on-year increase of 98.3%.

Financial & Operational Highlights

	Six months ended 30 September		
	2017	**2016**	Increase/
	(unaudited)	(unaudited) (restated)	(decrease)
Financial Performance			
Turnover *(HK$'000)*	**20,875,350**	13,448,656	55.2%
Gross profit *(HK$'000)*	**5,468,914**	3,811,246	43.5%
Profit attributable to owners of the Company *(HK$'000)*	**3,395,206**	1,691,788	100.7%
Earnings per share – Basic *(HK cents)*	**68.33**	34.45	98.3%
Operational Performance			
Number of city gas projects	**342**	311	31
Total gas sales volume *(million m³)*	**8,352**	4,812	73.6%
Natural gas sold through city gas projects *(million m³)*	**4,652**	3,321	40.1%
Natural gas sold through long-distance pipelines and trading *(million m³)*	**3,594**	1,411	154.7%
Other piped gas *(million m³)*	**107**	80	34.0%
Natural gas sold through city gas projects (Customer breakdown) *(million m³)*			
Residential users	**1,132**	686	65.0%
Industrial users	**2,243**	1,592	40.9%
Commercial users	**762**	542	40.6%
CNG/LNG refilling stations	**515**	501	2.7%
New connections			
Residential users (total number of residential users connected in city gas projects and RCG#)	**2,142,114**	1,138,408	88.2%
Residential users (city gas projects)	**1,436,384**	1,138,408	26.2%
Residential users (RCG)	**705,730**	–	–
Industrial users	**1,109**	547	102.7%
Commercial users	**13,454**	12,007	12.1%

RCG: "replacement of coal with gas" projects in towns and villages in North China.

	Six months ended 30 September		
	2017	**2016**	Increase/
	(unaudited)	(unaudited) (restated)	(decrease)
Accumulated number of connected users and CNG/LNG refilling stations constructed			
Residential users	**22,823,770**	16,065,834	42.1%
Industrial users	**8,512**	5,214	63.3%
Commercial users	**155,423**	101,855	52.6%
CNG/LNG refilling stations	**580**	573	1.2%
Average residential connection fee *(RMB/household)*			
Residential users (city gas projects)	**2,496**	2,529	(1.3%)
Residential users (RCG)	**3,142**	–	–
Urban population covered by city gas projects (excluding RCG)	**119,475,128**	100,975,368	18.3%
City gas penetration rate in households *(%)* (excluding RCG)	**55.7%**	51.8%	3.9pts
Total length of gas pipelines constructed *(km)* (including RCG)	**121,907**	78,653	55.0%
Average selling price (pre-tax) of natural gas *(RMB/m³)*			
Residential users	**2.45**	2.40	2.1%
Industrial users	**2.39**	2.45	(2.4%)
Commercial users	**2.52**	2.60	(3.1%)
CNG/LNG refilling stations	**2.82**	2.82	–

New Projects Expansion

From 1 April 2017 to 30 September 2017, the Group secured 12 new city piped gas projects in Guangxi Zhuang Autonomous Region, Heilongjiang Province, Liaoning Province, Fujian Province, Anhui Province, Hainan Province and Hebei Province:

Province/Autonomous Region	**City/District/County**
Guangxi Zhuang Autonomous Region	Cenxi City Napo County Liucheng County
Heilongjiang Province	Shuangyashan City Sunwu County
Liaoning Province	Dalian Puwan Economic Development Zone Kuandian Manchu Autonomous County
Fujian Province	Youxi County Industrial Park Datian County
Anhui Province	Wuwei County Industrial Park
Hainan Province	Qiongzhong Li and Miao Autonomous County
Hebei Province	Gucheng County

As at 30 September 2017, the Group secured 342 city piped gas projects (with concession rights), 14 natural gas long-distance pipeline projects, 580 CNG/LNG refilling stations for vehicles, one coal bed methane development project and 92 LPG distribution projects in 25 provinces (including autonomous regions and municipalities).

As at 30 September 2017, connectable population covered by the Group's city gas projects (exclusive of population covered by the Group's replacement of coal with gas projects in towns and villages in North China) increased to 119,475,128 (approximately 39,694,715 households), representing an increase of 18.3% over the same period last year.

BUSINESS REVIEW

The Group's principal business includes sale of natural gas and LPG and development of value-added services. Customer base, profit model and marketing strategy of the above-mentioned business segments are different from each other. The performance of each segment for the six months ended 30 September 2017 is discussed below.

Natural Gas Business

The Group is a gas operator and service provider mainly focusing on supplying natural gas. After 16 years of rapid development, the Group has established an operation and management system which is unique of its kind in the domestic gas industry and in line with its own needs for development. With timely optimization, such system has proven itself to contribute positively towards enhancing management efficiency and operating results of the Group.

"Replacement of Coal with Gas" in Towns and Villages

Environmental issues are tied with national economy and the people's livelihood. As a responsible clean energy operator, the Group responds to the "Blue Sky Project" formulated by the Chinese government while keeping its city gas business running well. For this purpose, it makes active investments in the "replacement of coal with gas" for winter heating in towns and villages in North China, through prudent investigation and study, scientific design, comprehensive layout, efficient construction and safety operation.

During the period, the Group conducted specialized trainings on market development in towns and villages, engineering design and construction, gas supply and pricing, energy performance contracting, installation of wall-hanging gas heaters, safety operation and customer service; and proceeded rapidly with the "replacement of coal with gas" in towns and villages in North China.

The Group has actively carried out environmental-protection governance works and entered strategic cooperation framework agreements with provincial governments aiming to leverage mutual advantages and shared resources to accelerate project construction establishment and push forward the natural gas utilization rate in both cities and towns and villages. So far, the Group established strategic partnerships with Tianjin city, Hebei, Shandong, Shanxi, Henan, Shaanxi, Anhui, Yunnan, Hainan and Heilongjiang provinces respectively, and implemented projects, in more than 90 cities, counties or districts, such as "replacement of coal with gas" in towns and villages, conversion of coal-fired boilers to natural-gas-fed in urban area, natural gas for vehicles, distributed energy resources, natural gas storage facilities, construction of natural gas pipe network and "beautiful countryside". As at 30 September 2017, the Group signed agreements with approximately 2,400,000 residential users for the "replacement of coal with gas" in towns and villages. In the coming years, the Group will continue to develop various relevant projects represented by "replacement of coal with gas" in North China to achieve considerable revenue and profit from connections and natural gas, wall-hanging gas heaters and kitchen appliances sales activities.

Construction of Natural Gas Pipelines

City gas pipeline networks are the foundation of the Group's gas supply. By constructing urban arterial and branch gas pipeline networks, the Group connects natural gas pipelines with its residential, industrial and commercial users, from whom connection fees and gas usage fees are charged.

As at 30 September 2017, 247 cities were in the operating phase by distributing natural gas, and gas transmission pipeline networks with a total length of 121,907 km were constructed by the Group.

Natural Gas Users

Natural gas users of the Group are mainly classified into residential users, industrial and commercial users, and CNG/LNG refilling stations users.

During the period, the Group's revenue from gas connection and other contracted construction was HK$4,972,788,000 (the six months ended 30 September 2016: HK$2,673,708,000), representing an increase of approximately 86.0% over the same period last year, and accounting for approximately 23.8% of the Group's total revenue for the period.

Residential Users

During the period, the Group completed natural gas connections for 2,142,114 residential users, (of which 1,436,384 were connected by city gas projects, and 705,730 were connected by replacement of coal with gas projects in towns and villages in North China), representing an increase of approximately 88.2% over the same period last year. The average connection fee for city gas projects and for replacement of coal with gas for projects in towns and villages in North China for residential users was RMB2,496 and RMB3,142 per household, respectively.

As at 30 September 2017, the accumulated number of connected residential users of the Group was 22,823,770 (of which 22,118,040 were residential users in city gas projects, and 705,730 were residential users in replacement of coal with gas projects in towns and villages in North China), representing an increase of approximately 42.1% over the same period last year. Penetration rate of city gas projects was 55.7%. Though rising constantly, the Group's overall penetration rate remains low when compared with the level of 70-80% in developed markets. It is expected that the number of new residential users subscribing to the Group's services will increase steadily in the future and will generate stable gas connection income for the Group.

Industrial and Commercial Users

Fueled by the stability and rebound in China's macroeconomic growth and stringent environmental protection policies, overall natural gas demand presented a significant growth this year as compared to the previous two years.

During the period, the Group entered into new "coal to gas conversion" contracts with a total of 1,193 industrial and commercial customers, according to which coal-fired boilers with total capacities of 3,264 steam tons per hour were to be innovated to consume natural gas and gas demand to be generated by them was expected to be 360 million m^3 per annum. In the future, natural gas demand from industrial and commercial users implementing "coal to gas conversion" will continue to increase, which will become one of the important drivers of gas sales growth.

During the period, the Group newly connected 1,109 industrial users and 13,454 commercial users, the former of which were mainly in industries such as petrochemicals, building materials and metallurgy. As at 30 September 2017, the Group cumulatively acquired and connected 8,512 industrial users and 155,423 commercial users, representing an increase of approximately 63.3% and 52.6% over the same period last year, respectively. The average connection fee for industrial users and commercial users was RMB175,373 and RMB29,376 per customer, respectively.

CNG/LNG Refilling Stations

International oil price remained at low levels despite picking up after a nosedive in 2015, while the gap of economic advantages between natural gas for vehicles and gasoline and diesel was narrowing in China. At the same time, due to the impact of several factors such as the vigorous development of electric vehicles in China, both market development and natural gas demand of CNG refilling stations were confronted with pressure. However, thanks to the recovery of China's logistics transportation industry and the increasing number of LNG heavy trucks, gas sales volume of LNG refilling stations secured ideal growth.

In view of the difficulties faced by refilling station industry, the Group proactively adjusted its refilling station development strategy. Through enhancing single station management, strengthening new gas station investment risk control and pushing market development forward, volume of gas sold at refilling stations was stable. The Group also made tremendous efforts to intensify publicity, continuously improve service quality, and promote value-added business such as "all-in-one card" and convenience stores in refilling stations, so as to expand the source of profit, attract both new and old customers, and increase customer loyalty.

As at 30 September 2017, the Group had a total of 580 natural gas refilling stations, representing an increase of 1.2% over the same period last year. During the period, sales volume of gas for vehicles accounted for 11.1% of total gas sales volume realized by city gas projects, representing an increase of approximately 2.7% over the same period last year.

Sales of Natural Gas

Natural gas is sold mainly through city gas pipeline network, trading and long-distance pipelines. During the period, the Group sold a total of 8,245,522,066 m^3 of natural gas, representing an increase of 74.3% over the same period last year. Of which, 4,651,670,043 m^3 were sold through city gas pipeline network, representing an increase of 40.1% over the same period last year; and 3,593,852,023 m^3 were sold through trading and long-distance pipelines, representing an increase of 154.7% over the same period last year.

Of the total gas sales volume realized by city gas projects, approximately 24.3% or 1,131,965,822 m^3 of gas were sold to residential users, 48.2% or 2,242,976,321 m^3 to industrial users, 16.4% or 761,535,017 m^3 to commercial users and 11.1% or 515,192,883 m^3 to CNG/LNG vehicle users.

During the period, the Group recorded natural gas sales revenue of HK$8,468,282,000 (the six months ended 30 September 2016: HK$5,677,109,000), representing an increase of 49.2% over the same period last year and accounting for 40.6% of the Group's total turnover.

The Group is mainly engaged in developing piped natural gas business, but for some projects in areas such as Fushun City in Liaoning Province, Liuzhou City in Guangxi Zhuang Autonomous Region and Mudanjiang City in Heilongjiang Province where piped natural gas is not yet accessible, piped coal gas or LPG blended with air is sold as a transitional fuel. A total of 106,673,000 m³ of coal gas and air-blended LPG were sold during the period. With the introduction of upstream natural gas to such cities, the sale of transitional fuels by the Group is likely to scale down gradually.

Selling Price of Natural Gas

During the period, the Group's average selling price (pre-tax) of natural gas was RMB2.45 per m³ for residential users, RMB2.39 per m³ for industrial users, RMB2.52 per m³ for commercial users, and RMB2.82 per m³ for CNG/LNG vehicle users.

Liquefied Petroleum Gas (LPG) Business

During the period, the Group's total LPG sales volume was 1,938,300 tons, representing a year-on-year increase of 12.8%. Of which, wholesale volume was 1,414,200 tons, representing a year-on-year increase of 18.7%; and retail sales volume was 524,100 tons, representing a year-on-year decrease of 0.5%. Total sales revenue was approximately HK$6,736,886,000 (the six months ended 30 September 2016: HK$4,830,057,000), representing an increase of 39.5% over the same period last year. Gross profit was HK$661,501,000 (the six months ended 30 September 2016: HK$604,276,000), representing a year-on-year increase of 9.5%. Operating profit was HK$291,647,000 (the six months ended 30 September 2016: HK$234,971,000), representing a year-on-year increase of 24.1%.

With LPG's popularity among towns and villages, long and stable use in industrial and commercial sectors, and rapid development as raw material in petrochemical synthesis and deep-processing sectors, China's LPG industry sees a rare development opportunity. The Group will fully utilize its existing LPG terminals, storage facilities and fleets of vehicles and vessels to boost overseas and domestic purchases of LPG and gradually increase the utilization rate of midstream LPG assets. Meanwhile, the Group will exercise unified procurement of LPG in its downstream retail business with a view to utilizing the advantage of the integrated upstream and downstream activities to lay out a proper deployment over its gas source procurement, storage resources and market coverage, reach an effective synergy between wholesale and retail segments, and maximize profit margin of the whole supply chain. The Group will also make use of its huge city gas network and resources across the country to assist LPG distribution business to expand from south China to provinces and cities nationwide, thereby significantly raising LPG sales volume and realizing economies of scale. As at 30 September 2017, the Group established market presence for LPG in 16 provinces in China.

Value-Added Services for End Users

With ever increasing penetration rate, our customer base has been expanding rapidly. More than 30 million residential, industrial and commercial users are currently enjoying natural gas and LPG provided by the Group. Potential added-value of the Group's customer network is huge. Accordingly, the Group will strive to enrich its value-added services and edge up its marketing efforts so as to increase the percentage of its income from value-added services in its overall operating income, transform itself from a mere gas product provider to a provider of comprehensive energy and excellent customer services, and further improve profitability and overall competitiveness of its service network. The Group had developed various new business around its gas sales business, including such value-added services as promotion of gas appliances under the brand of Gasbo (中燃寶), comprehensive gas insurance agency service, maintenance and renovation, and sales of gas corrugated pipes and gas alarms.

During the period, value-added services business generated revenue of HK$697,394,000 (the six months ended 30 September 2016: HK$267,782,000), representing a year-on-year increase of 160.4%; gross profit of HK$350,736,000, representing a year-on-year increase of 103.8%; and operating profit of HK$289,048,000, representing a year-on-year increase of 162.5%.

Financial Review

For the six months ended 30 September 2017, the Group's turnover was HK$20,875,350,000 (six months ended 30 September 2016: HK$13,448,656,000), representing an increase of 55.2% over the same period last year. Gross profit (including that achieved by LPG business) was HK$5,468,914,000 (six months ended 30 September 2016: HK$3,811,246,000), representing an increase of 43.5% over the same period last year. Overall gross profit margin was 26.2% (six months ended 30 September 2016: 28.3%). Profit attributable to owners of the Company was HK$3,395,206,000 (six months ended 30 September 2016: HK$1,691,788,000), representing an increase of 100.7% over the same period last year.

Earnings per share was HK$68.33 cents (the six months ended 30 September 2016: HK34.45 cents), representing an increase of 98.3% over the same period last year.

Finance Costs

For the six months ended 30 September 2017, finance costs increased by 33.1% to approximately HK$419,053,000 from approximately HK$314,781,000 for the same period last year. The increase in finance costs for the period is mainly due to the increase in total debt and average cost of debts.

Share of Results of Associates

For the six months ended 30 September 2017, share of results of associates was HK$166,375,000 (the six months ended 30 September 2016: HK$91,123,000).

Share of Results of Joint Ventures

For the six months ended 30 September 2017, share of results of joint ventures was approximately HK$594,017,000 (the six months ended 30 September 2016: HK$227,238,000).

Income Tax Expenses

For the six months ended 30 September 2017, income tax expenses increased by 61.0% to HK$903,139,000 (the six months ended 30 September 2016: HK$560,799,000), which was mainly due to an increase in taxable profit as a result of business growth.

Liquidity

The Group's principal business generates steady cash flow. Coupled with an effective and well-established capital management system, the Group is able to maintain stable and healthy operations.

As at 30 September 2017, the Group's total assets was HK$69,683,064,000 (31 March 2017: HK$59,986,820,000). Cash was HK$7,216,841,000 (31 March 2017: HK$5,242,322,000). The Group had a current ratio of 0.75 (31 March 2017: 0.68). Net gearing ratio was 0.67 (31 March 2017: 0.77), as calculated on the basis of net borrowings of HK$18,539,519,000 (total borrowings of HK$25,756,360,000 less bank balance and cash of HK$7,216,841,000) and net assets of HK$27,650,598,000 as at 30 September 2017.

The Group has always adopted a prudent financial management policy, under which a majority of available cash of the Group has been deposited in credible banks as current and fixed deposits.

Financial Resources

The Group has been actively building up long-standing collaboration relationships with Chinese (including Hong Kong) and overseas banks. As the Group's principal cooperating bank, China Development Bank provided the Group with a long-term credit facility of RMB20 billion under a term of up to 15 years, giving a strong financial support to the Group's project investments and stable operations. Other major domestic and overseas banks such as Asian Development Bank (ADB), Industrial and Commercial Bank of China, Bank of Communications of China, Bank of China, Agricultural Bank of China, China Merchants Bank and Hongkong and Shanghai Banking Corporation (HSBC) granted long-term credit to the Group as well. As at 30 September 2017, over 20 banks offered syndicated loans and credit facilities to the Group. Bank loans are generally used to fund the Group's operations and project investments.

China's RMB bond market has achieved significant development since 2015, with a steady rise in the size of bond issuance. The Company (as a foreign issuer), together with the Group's wholly-owned subsidiaries within China, has been actively participating in the issuance of China's RMB bonds on the stock exchanges in China and China's interbank bond market. As at 30 September 2017, remaining balance of the RMB Panda Bonds and medium-term RMB notes issued by the Group amounted to RMB6.8 billion. On 26 October 2016, the Group partnered with China Insurance Investment Fund L.P. (中國保險投資基金(有限合夥)) to establish China Insurance Investment-China Gas (Shenzhen) Clean Energy Development Fund L.P. (中保投中燃(深圳) 清潔能源發展基金(有限合夥)). The Fund has an aggregate amount up to RMB10,020,000,000. On 9 June 2017, the Group partnered with BOCOM International Trust Company Limited (交銀國際信託有限公司) to establish China Gas BOCOM (Shenzhen) Clean Energy Equity Investment Fund L.P. (中燃交銀(深圳) 清潔能源股權投資基金合夥企業(有限合夥)). The Fund has an aggregate amount up to RMB10,001,000,000.

As at 30 September 2017, the Group's bank loans and other loans were HK$25,756,360,000.

The Group's operating and capital expenditures are financed by operating cash income, bank borrowings and bond issuance. The Group currently has sufficient funding to satisfy its future capital expenditures and working capital requirements.

Foreign Exchange

Most of the revenue of the Group is received in RMB while most of the expenses and capital expense are also denominated in RMB. However, certain bank loans and other borrowings and bank balances of the Group are denominated in currencies other than the functional currency (RMB) of relevant entities of the Group. Appreciation or depreciation of RMB against foreign currencies will give rise to exchange gain or loss. Although most of such gain or loss is non-operating in nature, it can also make a positive or negative impact on the results of the Group.

On 11 August 2015, the People's Bank of China announced a reform of the central parity quotation mechanism of RMB against US dollar, which increased uncertainties of the exchange rate between US dollar and Renminbi and in turn significantly affected the results of the Group. In view of the change of foreign exchange policy, the Board revised its exchange rate risk management policies, closely monitored the trends of market rates and foreign exchange rates and adjusted its debt structure in a timely and reasonable manner to avoid risks effectively. In accordance with such exchange rate risk management policies, the Group actively adjusted the structure of debt in domestic currency (RMB) and foreign currencies by replacing the existing debts denominated in US dollar with those denominated in RMB, and adopted currency hedging derivatives to hedge the currency risks of a small portion of existing foreign currency debts, which significantly lowered the potential exchange rate risks. The proportion of foreign currency debts to all debts of the Group was 13.3% as at 30 September 2017. Lower proportion of foreign currency debts will immensely decrease the impact of future exchange loss and profit to the Group's results.

Charge on Assets

As at 30 September 2017, the Group pledged no properties, plants and equipment, (with net carrying values at 31 March 2017: HK$31,267,000), no investment properties (with net carrying value at 31 March 2017: HK$72,200,000), and pledged bank deposits of HK$287,344,000 (31 March 2017: HK$517,676,000) and certain subsidiaries pledged their equity investments in other subsidiaries to banks to secure loan facilities.

Capital Commitments

As at 30 September 2017, the Group has capital commitments in respect of the acquisition of property, plant and equipment and construction materials contracted but not provided for in the financial statements amounting to HK$65,467,000 (31 March 2017: HK$121,324,000) and HK$281,090,000 (31 March 2017: HK$81,825,000) respectively. Such commitments would require the utilization of the Group's cash on hand and external borrowings. The Group has undertaken to acquire shares in certain Chinese enterprises and set up joint ventures in China.

Contingent Liabilities

As at 30 September 2017, the Group did not have any material contingent liabilities (31 March 2017: nil).

Prospects

Currently, global energy development is undergoing a substantial transformation. Energy production and consumption structure are experiencing radical changes and entering a new phase of diversified, clean, low-carbon, energy-efficient, safe and intelligent development. As the largest energy consumer in the world, China actively promotes national structural reforms on energy and gradually reduces the use of traditional energy such as coal and coal-fired power. China has accomplished significant achievements in promoting the use of natural gas and other types of clean energy and entered into a new phase of transformation from clean energy expansion to quality improvement and efficiency enhancement, becoming one of the global leaders in energy transformation. In 2017, the National Development and Reform Commission, the National Energy Administration and multiple other ministries issued a series of important policies, including the "Priority Action Plan for Comprehensive Management of Air Pollution during Fall and Winter of 2017-2018 in Beijing-Tianjin-Hebei and Its Surrounding Regions" (《京津冀及周邊地區2017-2018年秋冬季大氣污染綜合治理攻堅行動方案》), "Certain Opinions on Further Reforms of the Petroleum and Natural Gas Regime" (《關於深化石油天然氣體制改革的若干意見》) and "Opinions on Expediting the Progress of Natural Gas Utilization" (《加快推進天然氣利用的意見》), to point out the direction of development for the natural gas industry and further specify the strategic positioning of natural gas as one of China's main energy sources.

Looking forward, as development standards of national social economy proceed, maturity of energy-related technologies enhance, and demand on environmental and green development from the government's environmental policies and society increase, the market demand for natural gas, liquefied petroleum gas and other types of clean energy in China will continue to rise. Meanwhile, under the new national vision of "innovative, coordinated, green, open and shared" development, the Chinese economy will accelerate its transformation and upgrade towards a green and low-carbon economic model. A series of policies and reform measures, including urbanization development of China, as well as structural reform on energy and smog control in the atmosphere, are bound to bring in more development opportunities for the Group. As a responsible integrated service provider of clean energy, the Group will continue to overcome obstacles and difficulties and pledge to be a problem solver of environmental issues, an advocate for industry reform and a leader of industry upgrade. The Group will continue to push for the implementation of various projects, rapidly improve natural gas supply and service standards for urban and rural residents, endeavor to secure the access to the use of natural gas, tirelessly work to improve the living environment and the air quality of most residents, and to win the ultimate battle of "making our skies blue again."

Faced with new reforms and challenges, new opportunities and difficulties, the Group will take on its role as an undertaker of the national mission, and continue to strengthen its corporate management and risk control, optimize its capital structure and financing channels, and improve its safety operation and supply capabilities during peak seasons in order to further explore the market. The Group will double its efforts in developing "replacement of coal with gas" and "beautiful countryside" businesses in towns and villages while continuing to develop and consolidate city gas business and LPG business. Meanwhile, the Group will also accelerate its expansion of distributed energy resources business in the market and promote the development of various new businesses such as LNG trading, value-added business and thermoelectric in order to transform China Gas into a truly outstanding market-oriented enterprise. In addition, by combining its economic, social and corporate cultural values, the Group shall promote both corporate development and social progress, achieving joint development of shareholders, customers, staff, society and the Company.

CORPORATE GOVERNANCE

In the opinion of the Directors, the Company has complied with all the code provisions ("Code Provisions") of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules throughout the period other than Code Provision A.4.1 as none of the non-executive directors or independent non-executive directors of the Company is appointed for a specific term. However, in accordance with Bye-law 87(1) of the Company's Bye-laws, at each annual general meeting, one third of the directors for the time being shall retire from the office by rotation and be eligible for re-election. All non-executive directors and independent non-executive directors of the Company have retired from the office by rotation and have been re-elected in the past three years. The Board considers that the compliance with these procedures are no less exacting than the requirements of Code Provision A.4.1.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the model code for securities transactions by directors of the listed issuers set out in Appendix 10 of the Listing Rules (the "Model Code"). Specific enquiry has been made with all directors of the Company and all directors of the Company confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 September 2017.

REVIEW OF INTERIM RESULTS

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and the interim results for the six months ended 30 September 2017.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

For the six months ended 30 September 2017, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

PUBLICATION OF INFORMATION ON THE WEBSITES OF HONG KONG EXCHANGES AND CLEARING LIMITED AND THE COMPANY

The results announcement is required to be published on the website of The Hong Kong Exchanges and Clearing Limited ("HKEX") at www.hkex.com.hk under "Latest Listed Company Information" and the Company at www.chinagasholdings.com.hk under "Announcements" respectively. The interim report of the Company for the six months ended 30 September 2017 will be dispatched to the shareholders as soon as possible and will be published on the websites of HKEX and the Company accordingly.

By order of the Board
China Gas Holdings Limited
ZHOU Si
Chairman

Hong Kong, 27 November 2017

As at the date of this announcement, Mr. ZHOU Si, Mr. LIU Ming Hui, Mr. HUANG Yong, Mr. ZHU Weiwei, Mr. MA Jinlong and Ms. LI Ching are the executive directors of the Company; Mr. YU Jeong Joon (his alternate being Mr. KWON Woonsang), Mr. LIU Mingxing (his alternate being Ms. LIU Chang), Mr. Arun Kumar MANCHANDA and Mr. JIANG Xinhao are the non-executive directors of the Company; and Mr. ZHAO Yuhua, Dr. MAO Erwan, Ms. WONG Sin Yue Cynthia, Ms. CHEN Yanyan and Mr. ZHANG Ling are the independent non-executive directors of the Company.

* *For identification purpose only*