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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)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

HIGHLIGHTS OF THE INTERIM RESULTS:

- Revenue from natural gas business increased by 23.6% to HK\$842.6 million
- Profit for the period attributable to owners of the Company increased by 193.0% to HK\$78.7 million
- EBITDA of the Company increased by 122.9% to HK\$270.6 million
- Total gas sales and throughput volume increased by 125.6% to 659.1 million cubic meters
- The Group’s natural gas projects covered Beijing, Ningxia Self Administrative Region and 11 Provinces in the PRC, namely Jilin, Liaoning, Hebei, Shandong, Shanxi, Shaanxi, Hubei, Anhui, Zhejiang, Guizhou and Hainan Provinces

UNAUDITED INTERIM RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Beijing Gas Blue Sky Holdings Limited (the “**Company**”) announces the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2018 (“**HY2018**”) together with the comparative figures for the same period in 2017 (“**HY2017**”).

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2018

		Six months ended 30 June	
		2018	2017
	Notes	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	6	842,645	681,835
Cost of sales		<u>(761,687)</u>	<u>(628,563)</u>
Gross profit		80,958	53,272
Other (losses) and gains	7	(14,229)	37,445
Other income	8	17,768	5,222
Administrative expenses		(127,292)	(83,016)
Other expenses		(1,821)	(7,087)
Finance costs	9	(111,172)	(68,308)
Share of profit/(loss) of associates		7,959	(2,936)
Share of profit of joint ventures		8	2,553
Gain on bargain purchase	17	197,950	–
Gain recognised on disposal of a subsidiary		<u>36,039</u>	<u>14,627</u>
Profit/(Loss) before income tax	10	86,168	(48,228)
Income tax credit	11	<u>6,157</u>	<u>2,992</u>
Profit/(Loss) for the period from continuing operations		92,325	(45,236)
Discontinued operation			
Profit for the period from discontinued operation	12	<u>–</u>	<u>69,448</u>
Profit for the period		92,325	24,212
Other comprehensive income/(expense)			
Item that will not be reclassified to profit or loss:			
Exchange gain/(loss) arising on translation to presentation currency		7,079	(5,635)
Item that may be reclassified subsequently to profit or loss:			
Exchange gain/(loss) on translation of foreign operations		<u>11,866</u>	<u>(9,177)</u>
		<u>18,945</u>	<u>(14,812)</u>
Total comprehensive income for the period		<u>111,270</u>	<u>9,400</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the six months ended 30 June 2018

		Six months ended 30 June	
		2018	2017
	Notes	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Profit/(loss) for the period attributable to:			
Owners of the Company			
Continuing operations		78,668	(25,236)
Discontinued operation		–	52,086
		<u>78,668</u>	<u>26,850</u>
Non-controlling interests		13,657	(2,638)
		<u>92,325</u>	<u>24,212</u>
Total comprehensive income for the period attributable to:			
Owners of the Company		96,792	8,804
Non-controlling interests		14,478	596
		<u>111,270</u>	<u>9,400</u>
Earnings/(loss) per share			
From continuing and discontinued operations	14		
– Basic		HK0.77 cents	HK0.27 cents
– Diluted		HK0.77 cents	HK0.27 cents
From continuing operations			
– Basic		HK0.77 cents	HK(0.26) cents
– Diluted		HK0.77 cents	HK(0.26) cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

		30 June 2018 <i>HK\$'000</i> (Unaudited)	31 December 2017 <i>HK\$'000</i> (Audited)
	Notes		
Non-current assets			
Prepaid lease payments		45,513	51,681
Property, plant and equipment	15	693,088	727,905
Intangible assets		1,271,657	1,306,494
Goodwill	16	1,188,912	1,212,765
Interests in associates	17	1,758,365	210,320
Interests in joint ventures		374,873	374,866
Deposits for acquisition of subsidiaries		855,762	651,477
Deposits for acquisition of property, plant and equipment		83,894	86,477
Prepayment		22,981	19,472
Promissory note receivable		–	7,410
Available-for-sale investments		–	134,828
Financial assets at fair value through other comprehensive income		134,823	–
Other non-current assets		300	300
		6,430,168	4,783,995
Current assets			
Prepaid lease payments		5,208	4,674
Inventories		21,494	22,369
Amounts due from customers for contract works		–	6,776
Contract assets		18,459	–
Trade and other receivables	18	905,292	703,296
Amounts due from non-controlling shareholders of subsidiaries		12,451	12,447
Amounts due from joint ventures		20,248	15,539
Amounts due from associates		23,267	18,865
Promissory notes receivables		7,861	22,968
Financial assets at fair value through profit or loss		227,131	220,909
Cash and bank balances		221,047	127,725
		1,462,458	1,155,568

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2018

		30 June 2018 <i>HK\$'000</i> (Unaudited)	31 December 2017 <i>HK\$'000</i> (Audited)
	Notes		
Current liabilities			
Trade and other payables	19	273,194	462,053
Amounts due to customers for contract works		–	1,006
Contract liabilities		142,658	–
Amounts due to non-controlling shareholders of subsidiaries		–	155,703
Bank and other borrowings	20	642,572	253,902
Obligation under finance leases		46,942	83,214
Convertible bonds	21	254,253	129,160
Embedded derivatives at fair value through profit or loss		83,273	23,239
Amounts due to joint ventures		8,440	15,280
		<u>1,451,332</u>	<u>1,123,557</u>
Net current assets		<u>11,126</u>	<u>32,011</u>
Total assets less current liabilities		<u>6,441,294</u>	<u>4,816,006</u>
Capital and reserves			
Share capital	22	674,182	541,362
Reserves		4,050,961	2,758,023
Equity attributable to owners of the Company		<u>4,725,143</u>	<u>3,299,385</u>
Non-controlling interests		<u>125,000</u>	<u>110,523</u>
Total equity		<u>4,850,143</u>	<u>3,409,908</u>
Non-current liabilities			
Obligations under finance leases		24,387	83,638
Bank and other borrowings	20	579,626	478,750
Convertible bonds	21	574,106	517,961
Deferred tax liabilities		317,039	325,749
Amounts due to a joint venture		95,993	–
		<u>1,591,151</u>	<u>1,406,098</u>
		<u>6,441,294</u>	<u>4,816,006</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED 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 1411, 14/F., New World Tower I, 16-18 Queen’s Road Central, Hong Kong respectively.

The principal activity of the Company is investment holding. The Company’s subsidiaries are principally engaged in sales and distribution of natural gas and other related products.

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**”).

3. ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group’s consolidated financial statements for the year ended 31 December 2017.

In the current interim period, the Group has applied, for the first time, certain amendments to International Financial Reporting Standards (“**IFRSs**”) issued by the IASB that are mandatorily effective for the accounting period beginning on or after 1 January 2018:

IFRS 9	Financial instruments
IFRS 15	Revenue from contracts with customers and the related amendments
IFRIC 22	Foreign currency transactions and advance consideration
Amendments to IFRS 2	Classification and measurement of share-based payment transactions
Amendments to IFRS 4	Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts
Amendments to IAS 28	Investments in associates and joint ventures clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice
Amendments to IAS 40	Transfers of investment property

The new amendments to IFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies.

3. ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 15 Revenue from Contracts with Customers

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

The Group recognises revenue from the following major sources:

- Natural gas for transportation
- Trading and distribution of natural gas
- City gas and other related product

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018 and has used the practical expedient for all contract modifications that occurred before the date of initial application, the aggregate effect of all of the modifications was reflected at the date of initial application. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 *Revenue* and IAS 11 *Construction Contracts* and the related interpretations.

3.1.1 Key changes in accounting policies resulting from application of IFRS 15

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

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation.

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

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

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

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

3. ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 15 Revenue from Contracts with Customers (Continued)

3.1.1 Key changes in accounting policies resulting from application of IFRS 15 (Continued)

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

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

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

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

Input method

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

Costs to fulfil a contract

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

- (a) the costs relate directly to a contract or to an anticipated contract that the Group can specifically identify;
- (b) the costs generate or enhance resources of the Group that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and
- (c) the costs are expected to be recovered.

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

3. ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 15 Revenue from Contracts with Customers (Continued)

3.1.1 Key changes in accounting policies resulting from application of IFRS 15 (Continued)

Existence of significant financing component

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

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

3.1.2 Summary of effects arising from initial application of IFRS 15

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

	Note	Carrying amounts previously reported at 31 December 2017 HK\$'000	Reclassification HK\$'000	Carrying amounts under IFRS 15 at 1 January 2018* HK\$'000
Current Assets				
Amounts due from customers for contract works	(a)	6,776	(6,776)	–
Contract assets	(a)	–	6,776	6,776
Current Liabilities				
Trade and other payables	(b)	462,053	(168,608)	293,445
Amounts due to customers for contract works	(b)	1,006	(1,006)	–
Contract liabilities	(b)	–	169,614	169,614

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

Note:

- (a) As at 1 January 2018, amounts due from customers of approximately HK\$6,776,000 in respect of connection construction contracts previously included in amounts due from customers for contract works were reclassified to contract assets.
- (b) As at 1 January 2018, advance from customers of approximately HK\$169,614,000 in respect of sales of natural gas contracts and connection construction contracts previously included in trade and other payables and amounts due to customers for contract work were reclassified to contract liabilities.

3. ACCOUNTING POLICIES (Continued)

3.2 Impacts and changes in accounting, policies of application on IFRS 9 Financial Instruments and related amendments

In the current period, the Group has applied IFRS 9 *Financial Instruments* and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses (“ECL”) for financial assets and finance lease receivables and 3) general hedge accounting.

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

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

3.2.1 Key changes in accounting policies resulting from application of IFRS 9

Classification and measurement of financial assets

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

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

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

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

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

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

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

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

3. ACCOUNTING POLICIES (Continued)

3.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and related amendments (Continued)

3.2.1 Key changes in accounting policies resulting from application of IFRS 9 (Continued)

Classification and measurement of financial assets (Continued)

Equity instruments designated as at FVTOCI

At the date of initial application/initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the investments revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established in accordance with IFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income" line item in profit or loss.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

The directors of the Company reviewed and assessed the Group's financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date. Except for the balance of available-for-sale investments of HK\$134,823,000 as at 1 January 2018 was reclassified to financial assets at fair value through other comprehensive income, no other changes in classification and measurement on the Group's financial assets was recognised.

Impairment under ECL model

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

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

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

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

There is no additional credit loss allowance has been recognised on the Group to the opening balance of retained earnings as at 1 January 2018 for the adoption of the ECL requirements of IFRS 9.

3. ACCOUNTING POLICIES (Continued)

3.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and related amendments (Continued)

3.2.1 Key changes in accounting policies resulting from application of IFRS 9 (Continued)

Measurement and recognition of ECL

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

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a finance lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with IAS 17 *Leases*.

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

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

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets, and finance lease receivables for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9. The directors of the Company consider that no significant fair value gain or loss on unlisted equity investment would be adjusted to investment revaluation reserve as at 1 January 2018.

Classification and measurement of financial liabilities

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification.

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.

5. SEGMENT REPORTING

Information reported to the executive Directors of the Company, being the chief operating decision makers (“CODM”), for the purpose of resources allocation and assessment of segment performance focuses on nature of the goods being sold. These revenue streams and the basis of the internal reports about components of the Group are regularly reviewed by the CODM in order to allocate resources to segments and to assess their performance. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

A reportable and operating segment of the Group, namely “Sales of book and specialised products” was discontinued as the Group disposed it during the year ended 31 December 2017. The Group currently re-organises into the following major operating segments from continuing operations, each of which represents an operating and reportable segment of the Group:

1. Natural gas for transportation – operation of CNG and LNG refueling stations for vehicles
2. Trading and distribution of natural gas – distributing and trading CNG and LNG as a wholesaler and sales agent to industrial and commercial users through direct supply facilities
3. City gas and other related products – sale of natural gas to residential, industrial and commercial users through pipelines, pipeline connection fees and other related products, such as sale of electricity, transportation income, rental income and other income from value-added services

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 2018

	Natural gas for transportation <i>HK\$’000</i>	Trading and distribution of natural gas <i>HK\$’000</i>	City gas and other related products <i>HK\$’000</i>	Consolidated <i>HK\$’000</i>
External segment revenue	64,956	315,534	462,155	842,645
Inter-segment sales	—	111,808	27,791	139,599
	<u>64,956</u>	<u>427,342</u>	<u>489,946</u>	<u>982,244</u>
Segment profit	<u>7,463</u>	<u>7,706</u>	<u>48,980</u>	<u>64,149</u>
Other income and other losses				3,539
Gain on bargain purchase				197,950
Central corporate expenses				(68,298)
Finance costs				<u>(111,172)</u>
Profit before income tax				<u>86,168</u>

Segment profit for the six months ended 30 June 2018 consists of a gain from disposal of 100% equity interest in Faster Success Global Limited, a wholly owned subsidiary, at a cash consideration of HK\$50,000,000 (the “**Faster Success Disposal**”) to an independent third party. The Faster Success Disposal results in a gain on disposal of subsidiary of HK\$36.0 million.

5. SEGMENT REPORTING (Continued)

Segment revenue and results (Continued)

For the six months ended 30 June 2017

	Natural gas for transportation <i>HK\$'000</i>	Trading and distribution of natural gas <i>HK\$'000</i>	City gas and other related products <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
External segment revenue	61,134	457,121	163,580	681,835
Inter-segment sales	—	16,841	2,205	19,046
	<u>61,134</u>	<u>473,962</u>	<u>165,785</u>	<u>700,881</u>
Segment profit	<u>13,958</u>	<u>2,888</u>	<u>19,952</u>	<u>36,798</u>
Other income and other gains and losses				42,667
Central corporate expenses				(59,385)
Finance costs				<u>(68,308)</u>
Loss before income tax				<u>(48,228)</u>

Segment profit for the six months ended 30 June 2017 consists of a gain from disposal of 100% equity interests in Fan Dream Limited, a wholly owned subsidiary, at a cash consideration of HK\$30,000,000 (the “**Jinan Disposal**”) to an independent third party. The Jinan Disposal results in gain on disposal of a subsidiary of HK\$14.6 million.

Segment profit represents the profit earned from each segment without allocation of other income and other gains and losses, gain on bargain purchase, central corporate expenses (including but not limited to directors’ emoluments), finance costs and income tax credit. This is the measure reported to the CODM for the purposes of resources allocation and performance assessment.

5. SEGMENT REPORTING (Continued)

Segment assets and liabilities

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

Segment assets

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Continuing operations		
Natural gas for transportation	1,067,279	1,051,264
Trading and distribution of natural gas	197,419	174,984
City gas and other related products	5,826,485	3,991,143
Total segment assets	7,091,183	5,217,391
Prepayment	22,981	19,472
Available-for-sale investments	–	134,828
Financial assets at fair value through other comprehensive income	134,823	–
Cash and bank balances	221,047	127,725
Property, plant and equipment for corporate use	1,095	2,469
Promissory notes receivables	7,861	30,378
Financial assets at fair value through profit or loss	227,131	220,909
Other unallocated assets	186,505	186,391
Consolidated assets	7,892,626	5,939,563

Segment liabilities

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Continuing operations		
Natural gas for transportation	54,962	53,283
Trading and distribution of natural gas	30,302	33,190
City gas and other related products	792,355	995,860
Total segment liabilities	877,619	1,082,333
Convertible bonds	828,359	647,121
Bank and other borrowings	1,222,198	732,652
Embedded derivatives at fair value through profit or loss	83,273	23,239
Certain obligation under finance leases	636	881
Other unallocated liabilities	30,398	43,429
Consolidated liabilities	3,042,483	2,529,655

5. SEGMENT REPORTING (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 financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, promissory notes receivables, prepayment, available-for-sale investments, cash and bank balances, and property, plant and equipment for corporate use); and
- all liabilities are allocated to operating and reportable segments (other than bank and other borrowings, convertible bonds, embedded derivatives at fair value through profit or loss and certain obligation under finance leases).

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

6. REVENUE

An analysis of the revenue, which is also the Group's turnover as follows:

	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
<u>Continuing operations</u>		
Natural gas for transportation	64,956	61,134
Trading and distribution of natural gas	315,534	457,121
City gas and other related products	462,155	163,580
	<u>842,645</u>	<u>681,835</u>

7. OTHER (LOSSES) AND GAINS

	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
<u>Continuing operations</u>		
Net exchange losses	(7,079)	(6,416)
Change in fair value of financial assets at fair value through profit or loss	(5,667)	(499)
Investment income	202	1,180
Sundry income	–	1,070
Change in fair value of embedded derivatives at fair value through profit or loss	(1,685)	42,110
	<u>(14,229)</u>	<u>37,445</u>

8. OTHER INCOME

	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
<u>Continuing operations</u>		
Interest income	12,948	1,190
Rental income	105	86
Sundry income	4,198	3,946
Government subsidies	517	—
	<u>17,768</u>	<u>5,222</u>

9. FINANCE COSTS

	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
<u>Continuing operations</u>		
Finance charges on obligations under finance lease	3,577	2,873
Interests on bank and other borrowings wholly repayable within five years	24,603	7,952
Interests on bank and other borrowings not wholly repayable within five years	4	2,040
Interests on convertible bonds	82,988	55,443
	<u>111,172</u>	<u>68,308</u>

10. PROFIT/(LOSS) BEFORE INCOME TAX

	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
<u>Continuing operations</u>		
Profit/(loss) before income tax is arrived at after charging:		
Amortisation of prepaid lease payments	5,634	124
Amortisation of intangible assets	34,837	16,566
Cost of inventories recognised as expense*	761,687	628,563
Depreciation of property, plant and equipment	32,819	28,088
Operating lease charges for premises	4,724	3,673
	<u>836,691</u>	<u>776,914</u>
Employee benefit expenses		
– Salaries and allowance	56,461	39,946
– Contribution to defined contribution plans	11,801	5,242
	<u>68,262</u>	<u>45,188</u>

* Included in cost of inventories are depreciation of property, plant and equipment, amortisation of intangible assets, prepaid lease payments and employee benefit expenses of HK\$60,095,000 (2017: HK\$35,287,000), which have also been included in the respective total amounts as disclosed above.

11. INCOME TAX CREDIT

No Hong Kong profits tax has been provided for the six months ended 30 June 2018 as the Company and its subsidiaries did not derive any assessable profits in Hong Kong for that period.

In accordance with the relevant PRC enterprise income tax laws, regulations and implementation guidance note, subsidiaries in Mainland China are subject to the PRC enterprise income tax rate at 25% (six months ended 30 June 2017: 25%).

	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Continuing operations		
PRC corporate income tax	(2,552)	(1,150)
Deferred tax	8,709	4,142
Total income tax credit	6,157	2,992

12. DISCONTINUED OPERATION

On 4 September 2015, the directors of the Company resolved to fade out the Printing Business. On 27 June 2016, the Company entered into the sale and purchase agreement with an independent third party in relation to the proposed disposal of 25% equity interest in Legon Ventures Limited, a subsidiary of the Company, at a consideration of HK\$16,500,000 of which HK\$10,000,000 was settled by promissory note and HK\$6,500,000 was settled by cash (the “**Printing Business Disposal**”). Details are set out in the Company’s announcement dated 27 June 2016. Legon Ventures Limited and its subsidiaries are mainly engaged in sales of book and specialised products. The Printing Business Disposal was approved by the shareholders of the Company at the special general meeting held on 20 September 2016 and completed on 28 October 2016. Subsequently, the Company entered into the sale and purchase agreement with the same party to dispose of the remaining 75% equity interest in Legon Ventures Limited at a consideration of HK\$178,000,000 of which HK\$158,000,000 was settled by promissory note and HK\$20,000,000 was settled by cash. The transaction was completed on 26 May 2017. The fair value of retained equity interest at 26 May 2017 was HK\$105.1 million. Accordingly, Printing Business Disposal results in gain on disposal of a subsidiary of HK\$72.8 million during HY2017.

Profit for the period from the discontinued operation in respect of the Printing Business is analysed as follows:

	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Revenue	–	–
Cost of sales	–	–
Gross profit	–	–
Other gains and losses	–	–
Other income	–	728
Selling and distribution costs	–	–
Other expenses	–	(268)
Administrative expenses	–	(3,875)
Finance costs – interest on trust receipts loans	–	–
Gain recognised on disposal of a subsidiary	–	72,863
Profit before tax	–	69,448
Income tax expense	–	–
Profit for the period from discontinued operation	–	69,448

12. DISCONTINUED OPERATION (Continued)

Profit for the period from discontinued operation has been arrived at after charging:

	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Amortisation of investment properties	–	776
Amortisation of prepaid lease payments	–	20
Depreciation of property, plant and equipment	–	40
Operating lease charges for motor vehicles	–	–
Employee benefit expenses		
– Salaries and allowance		1,342
– Contribution to defined contribution plans		18
	–	1,360

13. DIVIDEND

The Board did not recommend a payment of interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

14. EARNINGS/(LOSS) PER SHARE

From continuing and discontinued operations

The calculation of the basic and diluted earnings/(loss) per share attributable to the owners of the Company is based on the following data:

	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Earnings		
Profit for the period attributable to the owners of the Company for the purposes of basic and diluted earnings per share	78,668	26,850
	2018	2017
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	10,178,101,054	9,804,204,027
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	14,179,713	45,304,712
Convertible bonds issued by the Company	N/A	54,134,118
	14,179,713	99,438,830
Weighted average number of ordinary shares for the purpose of diluted earnings per share	10,192,280,767	9,903,642,857

The computation of diluted earnings per share for the six months ended 30 June 2018 does not assume the conversion of the Company's outstanding convertible bonds since their assumed exercise would result in an increase in earnings per share from continuing operation.

14. EARNINGS/(LOSS) PER SHARE (Continued)

From continuing operations

The calculation of the basic and diluted earnings per share from continuing operations attributable to the owners of the Company is based on the following data:

	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
Earnings/(loss)		
Profit for the period attributable to the owners of the Company	78,668	26,850
Less: Profit for the period from the discontinued operation	—	(52,086)
Earnings/(loss) for the purpose of basis and diluted earnings/(loss) per share from continuing operations	<u>78,668</u>	<u>(25,236)</u>

The denominators used are the same as these detailed above for basic and diluted earnings per share from continuing and discontinued operations.

From discontinued operation

For the period ended 30 June 2017, the basic earnings per share from discontinued operation was HK0.53 cents per share and diluted earnings per share from the discontinued operation was HK0.53 cents per share, based on the profit for the period from discontinued operation of HK\$52,086,000 and the denominators detailed above for both basic and diluted earnings per share.

15. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2018, the Group has an addition of property, plant and equipment with a cost of HK\$14,694,000 (six months ended 30 June 2017: HK\$3,343,000). During the six months ended 30 June 2018, there are no addition of property, plant and equipment acquired on acquisition of subsidiaries (six months ended 30 June 2017: HK\$100,947,000).

16. GOODWILL

	HK\$'000
COST AND CARRYING VALUES	
At 1 January 2017	856,887
Acquisition of subsidiaries	<u>355,878</u>
At 31 December 2017	1,212,765
Disposal of a subsidiary (<i>note</i>)	<u>(23,853)</u>
At 30 June 2018	<u>1,188,912</u>

Note: Disposal of a subsidiary is referring to the Faster Success Disposal.

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.

17. INTERESTS IN ASSOCIATES

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Cost of investment in associates		
Listed	22,293	24,431
Unlisted	1,728,113	190,722
Share of profit/(loss) and other comprehensive income/(expense)	7,959	(4,833)
	1,758,365	210,320

On 6 June 2018, the Group completed the acquisition of an associate, PetroChina Jingtang LNG Co., Ltd., through acquisition of subsidiaries. Since the fair value of net identifiable assets of Beijing Gas Jingtang Company Ltd. and its subsidiaries exceeded the fair value of consideration shares issued for such acquisition, a gain on bargain purchase was recognised in profit or loss of HK\$197,950,000 and the interest in an associate of HK\$1,539,553,000 was recognized in the statement of financial position accordingly.

18. TRADE AND OTHER RECEIVABLES

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
	<i>Notes</i>	
Trade receivables	224,812	254,983
Less: Impairment losses	–	(763)
Trade receivables – net	(a), (b) 224,812	254,220
Prepayments and other receivables	(c) 680,480	449,076
	905,292	703,296

- (a) The Group generally allows a credit period of 30 to 90 days (2017: 30 to 90 days) to its trade customers. Before accepting any new customers, the Group performs credit check to assess the potential customer's credit quality and defines credit limits by customers. Based on invoice dates, which approximate the respective revenue recognition dates, ageing analysis of trade receivables (net of impairment losses) was as follows:

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
0 – 90 days	188,229	212,017
91 – 120 days	4,994	888
121 – 180 days	22,889	37,345
181 – 365 days	8,700	3,970
	224,812	254,220

18. TRADE AND OTHER RECEIVABLES (Continued)

(b) Ageing analysis of trade receivables that were not impaired, based on due date, is as follows:

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Neither past due nor impaired	181,127	153,422
0 – 90 days past due	25,534	58,598
91 – 180 days past due	14,164	38,230
Over 181 days	3,987	3,970
	<u>224,812</u>	<u>254,220</u>

(c) The balance as at 30 June 2018, included (i) prepayment of purchase of natural gas and related products of HK\$155,176,000 (31 December 2017: HK\$102,416,000; (ii) three loan receivables of HK\$27,159,000 (31 December 2017: HK\$26,034,000), HK\$35,000,000 (31 December 2017: Nil) and HK\$40,373,000 (31 December 2017: HK\$54,560,000) respectively. These loan receivables are short term loan advances to independent third parties, which are unsecured, interest bearing at 12%, 18% and 18% per annum respectively and repayable within one year; (iii) a bond receivable of HK\$12,405,000 (31 December 2017: HK\$12,104,000). The bond receivable is a zero coupon bond issued to an independent third party. The bond is redeemable within one year. The Group reviewed the recoverable amount of the loan receivables and bond receivable at the end of the reporting period and considered no impairment losses are required; and (iv) the consideration receivable of HK\$50,000,000 arising from the Faster Success Disposal (31 December 2017: consideration receivable of HK\$86,811,000 arising from the disposal of 59.38% equity interests in My Palace Trading Limited).

19. TRADE AND OTHER PAYABLES

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Trade payables	124,627	143,262
Accrued charges and other creditors	74,119	77,965
Construction cost payables	74,448	72,218
	<u>273,194</u>	<u>293,445</u>

The Group was granted by its suppliers credit periods ranging from 30 to 120 days (2017: 30 to 120 days). Based on invoice dates, ageing analysis of trade payables was as follows:

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
0 – 90 days	108,885	135,375
91 – 180 days	7,524	2,614
181 – 365 days	2,060	2,136
Over 365 days	6,158	3,137
	<u>124,627</u>	<u>143,262</u>

20. BANK AND OTHER BORROWINGS

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Unsecured bank borrowings	136,070	106,024
Unsecured corporate bonds (<i>note i</i>)	999,000	539,500
Unsecured other borrowings (<i>note ii</i>)	87,128	87,128
	1,222,198	732,652
Carrying amount repayable*:		
Within one year	642,572	253,902
More than one year, but not exceeding two years	281,405	202,738
More than two years, but not exceeding five years	288,221	225,012
More than five years	10,000	51,000
	1,222,198	732,652
<i>Less:</i> Amounts due within one year or contain a repayment on demand clause shown under current liabilities	(642,572)	(253,902)
Amounts shown under non-current liabilities	579,626	478,750

* *The amounts due are based on scheduled repayment dates set out in the loan agreements.*

- (i) The additional unsecured corporate bonds issued by the Company during the six months ended 30 June 2018 were HK\$459,500,000 (2017: HK\$246,500,000). The unsecured bonds have maturity of one to eight years (2017: one to eight years) until 2024 (2017: 2024) and interest bearing at 2% to 8% (2017: 2% to 8%) per annum. Transaction costs of approximately HK\$39,006,000 (2017: HK\$7,359,000) have been incurred and the corporate bonds carry effective interest at 4.5% (2017: 6.8%) per annum.
- (ii) Other borrowings are unsecured, with maturity of one year and interest bearing at 8% per annum.

21. CONVERTIBLE BONDS

		30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
	Notes		
Convertible Bond I	a	60,717	53,736
Convertible Bond II	b	18,099	58,992
Convertible Bond III	c	65,006	16,432
Convertible Bond IV	d	110,431	100,054
Convertible Bond V	e	175,842	159,170
Convertible Bond VI	f	121,618	108,617
Convertible Bond VII	g	161,413	150,120
Convertible Bond VIII	h	115,233	—
		828,359	647,021
Carrying amount repayable:			
Within one year		254,253	129,160
More than one year, but not exceeding two years		574,106	367,841
More than two years, but not exceeding five years		—	150,120
		828,359	647,121
Less: Amounts due within one year shown under current liabilities		(254,253)	(129,160)
Amounts due after one year shown under non-current liabilities		574,106	517,961

(a) Convertible Bond I

On 9 September 2015, the Company issued unsecured convertible bond of HK\$116,000,000 (“**Convertible Bond I**”). The Convertible Bond I will mature on the date falling on the third anniversary of the date of issuance of the Convertible Bond I at a conversion price of HK\$0.4 per convertible share subject to anti-dilutive adjustment. The principal amount of the Convertible Bond I which remains outstanding on their maturity date shall be automatically redeemed by the Company at 124% of its outstanding principal amount. The bondholders are entitled to early redeem whole or part of the outstanding principal amount of the Convertible Bond I at 120% of the principal amount when the Group fails to meet certain requirements in relation to financial performance of the Group, subject further to the condition relating to price and trading volume of the Company’s shares being met, as set out in the Convertible Bond I agreement dated 13 August 2015. In the opinion of the directors of the Company, taking into accounts the conditions to be met for exercisability of the holders’ put options, the fair value of the early redemption option of the Convertible Bond I is insignificant.

The Convertible Bond I contain liability and equity components. The equity component is presented in consolidated statement of changes in equity under the heading “Convertible note equity reserve”. The effective interest rate of the liability component of the Convertible Bond I is 26.7%.

21. CONVERTIBLE BONDS (Continued)

(b) Convertible Bond II

On 11 December 2015, the Company issued 5% unsecured convertible bond of HK\$200,000,000 (“**Convertible Bond II**”). The Convertible Bond II will mature on the interest payment date falling on or nearest to 9 December 2018 at a conversion price of HK\$0.48 per convertible share subject to anti-dilutive adjustment. The principal amount of the Convertible Bond II which remains outstanding on their maturity date shall be automatically redeemed by the Company on their maturity date at a redemption amount in accordance with the following formula:

$$\text{Redemption amount} = \text{outstanding principal amount of such Convertible Bond II being redeemed} \times (1.095)^N - \text{AI}$$

Where:

“N” = a fraction the numerator of which is the number of calendar days between the issue date and the applicable date of redemption and the denominator of which is 365; and

“AI” = Interest accrued and paid in respect of such Convertible Bond II (excluding any default interest payable), prior to the applicable date of redemption.

The Convertible Bond II contains two components, liability and equity components. The equity component is presented in consolidated statement of changes in equity under the heading “Convertible note equity reserve”. The effective interest rate of the liability component is 15.9% per annum.

(c) Convertible Bond III

On 7 January 2016, the Company issued unsecured convertible bond of HK\$15,000,000 (“**Convertible Bond III**”). The Convertible Bond III will mature on the date falling on the third anniversary of the date of issuance of the Convertible Bond III at a conversion price of HK\$0.4 per convertible share subject to anti-dilutive adjustment. The principal amount of the Convertible Bond III which remains outstanding on their maturity date shall be automatically redeemed by the Company at 124% of its outstanding principal amount. The bondholder is entitled to early redeem whole or part of the outstanding principal amount of the Convertible Bond III at 120% of the principal amount when the Group fails to meet certain requirements in relation to financial performance of the Group, subject further to the condition relating to price and trading volume of the Company’s shares being met, as set out in the Convertible Bond III agreement dated 30 November 2015. In the opinion of the directors of the Company, taking into accounts the conditions to be met for exercisability of the holders’ put options, the fair value of the early redemption option of the Convertible Bond III is insignificant.

The Convertible Bond III contain liability and equity components. The equity component is presented in consolidated statement of changes in equity under the heading “Convertible note equity reserve”. The effective interest rate of the liability component of the Convertible Bond III is 21.39%.

(d) Convertible Bond IV

On 11 May 2016, the Company issued an 4.5% unsecured convertible bond of HK\$350,000,000 (“**Convertible Bond IV**”). The Convertible Bond IV will mature on the interest payment date falling on or nearest to 11 May 2019 at a conversion price of HK\$0.45 per convertible share subject to anti-dilutive adjustment. The principal amount of the Convertible Bond IV which remains outstanding on their maturity date shall be automatically redeemed by the Company on their maturity date at the outstanding amount of Convertible Bond IV at the time of redemption plus the interest accrued at the compounded rate of 3% per annum for the period from the issue date to the date of redemption.

The Convertible Bond IV contains two components, liability and equity components. The equity component is presented in consolidated statement of changes in equity under the heading “Convertible note equity reserve”. The effective interest rate of the liability component is 25.5% per annum.

21. CONVERTIBLE BONDS (Continued)

(e) Convertible Bond V

On 29 December 2016, the Company issued a HK\$200,000,000, 4.8% convertible bond (the “**Convertible Bond V**”). The Convertible Bond V will mature on the date falling on the third anniversary of the date of issuance of the Convertible Bond V at a conversion price of HK\$0.67 per convertible share, subject to adjustment and resets in accordance with the terms and conditions of the Convertible Bond V. If the Convertible Bond V have not been converted, they will be redeemed on the maturity date at 118% of the principal amount.

The Convertible Bond V contain liability component and conversion option. The Company changed its functional currency from HK\$ to RMB on 28 October 2016, which is different from the issue currency of Convertible Bond V. Therefore the conversion option of Convertible Bond V is not closely related to the liability component and is classified as a derivative because the conversion will not result in the Company issuing a fixed number of shares in settlement of a fixed amount of liability component. Conversion option is measured at fair value with change in fair value recognised in profit or loss.

(f) Convertible Bond VI

On 24 April 2017, the Company issued a HK\$150,000,000, 3.8% convertible bond (the “**Convertible Bond VI**”). The Convertible Bond VI will initial mature on the date falling thirty-two months from the issue date at a conversion price of HK\$0.67 per convertible share. Bondholder may, with prior consent by the Company, extend the initial maturity date, which fall on or after 4 months but not more than 12 months from the initial maturity date. The Company will redeem the Convertible Bond VI at the redemption amount which shall be calculated in accordance to the following formula:

Redemption amount = Principal amount of the Convertible Bond VI x $(4.7\% \times (N/365) + 1) \times 100\%$ + (any accrued but unpaid interest)

N = Number of days from the issue date of the bonds to the maturity date

The Convertible Bond VI contain liability component and conversion option. The functional currency of the Company is RMB, which is different from the issue currency of Convertible Bond VI. Therefore, the conversion option of Convertible Bond VI is not closely related to the liability component and is classified as a derivative because the conversion will not result in the Company issuing a fixed number of shares in settlement of a fixed amount of liability component. Conversion option is measured at fair value with change in fair value recognised in profit or loss.

(g) Convertible Bond VII

On 4 May 2017, the Company issued a HK\$200,000,000, 4.8% convertible bond (the “**Convertible Bond VII**”). The Convertible Bond VII will mature on the date falling on the third anniversary of the issue date of Convertible Bond VII at a conversion price of HK\$0.67 per convertible share, subject to adjustment and resets in accordance with the terms and conditions of the Convertible Bond VII. If the Convertible Bond VII have not been converted, they will be redeemed on the maturity date at 106% of the principal amount.

The Convertible Bond VII contain liability component and conversion option. The functional currency of the Company is RMB, which is different from the issue currency of Convertible Bond VII. Therefore, the conversion option of Convertible Bond VII is not closely related to the liability component and is classified as a derivative because the conversion will not result in the Company issuing a fixed number of shares in settlement of a fixed amount of liability component. Conversion option is measured at fair value with change in fair value recognised in profit or loss.

21. CONVERTIBLE BONDS (Continued)

(h) Convertible Bond VIII

On 26 June 2018, the Company issued HK\$180,000,000, 2% convertible bond (the “Convertible Bond VIII”). The Convertible Bond VIII will mature on the date falling on the second anniversary of the issue date of Convertible Bond VIII at a conversion price of HK\$0.57 per convertible share, subject to adjustment and resets in accordance with the terms and conditions of the Convertible Bond VIII. The Company shall have the right to convert all of the convertible bonds held by the bondholder into share, if during any three-month period within the conversion period the average closing price per share reaches HK\$0.684 per share. If the Convertible Bond VIII have not been converted, they will be redeemed on the maturity date at the rate of 5.5% per annum of the outstanding amount at the time of the redemption plus any interest accrued.

The Convertible Bond VIII contain liability component and conversion option. The functional currency of the Company is RMB, which is different from the issue currency of Convertible Bond VIII. Therefore, the conversion option of Convertible Bond VIII is not closely related to the liability component and is classified as a derivative because the conversion will not result in the Company issuing a fixed number of shares in settlement of a fixed amount of liability component. Conversion option is measured at fair value with change in fair value recognised in profit or loss.

22. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.055 each		
Authorised share capital		
At 31 December 2017 and 30 June 2018	91,000,000,000	5,005,000
Issued and fully paid share capital		
At 1 January 2017	9,634,825,844	529,915
Issue of shares upon conversion of convertible notes and convertible bonds (<i>note i</i>)	163,750,000	9,006
Issue of shares upon exercise of share options (<i>note ii</i>)	44,369,850	2,440
At 31 December 2017	9,842,945,694	541,362
Issue of shares for acquisition of subsidiaries (<i>note iii</i>)	2,407,708,800	132,424
Issue of shares upon exercise of share options (<i>note iv</i>)	7,216,000	396
At 30 June 2018	12,257,870,494	674,182

Notes:

- (i) During the year ended 31 December 2017, a total of 163,750,000 new ordinary shares of the Company of HK\$0.055 each were issued upon conversion of the convertible note and convertible bonds of the Company.
- (ii) During the year ended 31 December 2017, a total of 44,369,850 new ordinary shares of the Company of HK\$0.055 each were issued upon exercises of the share options of the Company.
- (iii) On 6 June 2018, the Company issued 2,407,708,800 new ordinary shares of HK\$0.055 each as the consideration for the acquisition of subsidiaries. The closing price as at 6 June 2018 was HK\$0.55 per share.
- (iv) During the period ended 30 June 2018, a total of 7,216,000 new ordinary shares of HK\$0.055 each were issued upon exercises of the share options of the Company.

All shares issued rank pari passu with the existing shares of the Company in all respects.

23. COMMITMENTS

Capital commitments

At the end of reporting period, commitments in respect of capital expenditure are as follows:

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Contracted but not provided for:		
– property, plant and equipment	23,279	24,857
– acquisition of subsidiaries/associate	<u>152,000</u>	<u>1,355,854</u>
	<u>175,279</u>	<u>1,380,711</u>

Operating lease commitments as lessee

At the end of the reporting period, the total future minimum lease payments in respect of land and buildings under non-cancellable operating leases are as follows:

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Within one year	1,502	3,261
In the second to fifth year inclusive	6,614	2,876
More than five years	<u>4,568</u>	<u>2,864</u>
	<u>12,684</u>	<u>9,001</u>

The Group leases its office premises under an operating lease. The leases run for an initial period ranging from one to three years, with an option to renew the lease and renegotiated the terms at the expiry date or at dates as mutually agreed between the Group and the landlord. The leases do not include contingent rentals.

Operating lease commitments as lessor

At the end of the reporting period, the total future minimum lease receipts in respect of land and buildings under non-cancellable operating leases are as follows:

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Within one year	<u>184</u>	<u>347</u>
	<u>184</u>	<u>347</u>

The leases run for an initial period of 5 years and require the tenants to pay security deposits. The leases do not include contingent rentals.

24. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Finance cost in related to finance lease obligation with a joint venture (<i>note a</i>)	3,562	2,701
Purchases of goods (<i>note b</i>)	2,397	13,613
Key management personnel		
Short-term employee benefits	9,156	8,486
Post-employment benefits	127	201
Share based payments	1,057	4,136
Key management personnel remuneration	10,340	12,823

Note a: The Group entered into finance lease agreement with one of the joint ventures.

Note b: The amount represents purchases of goods from a shareholder of a subsidiary which have significant influence in that subsidiary.

25. PLEDGE OF ASSETS

As at 30 June 2018, certain plant and equipment of HK\$82,738,000 were pledged under finance leases (31 December 2017: HK\$185,549,000).

26. SUBSEQUENT EVENT

On 17 August 2018, the Company and Mrs. Surangrat Chirathivat (the “**Subscriber**”) entered into a supplemental agreement to the subscription agreement dated 24 January 2018, pursuant to which the Subscriber shall subscribe for all of the subscription shares in two tranches. The first tranche of 100,000,000 subscription shares were issued and allotted to the Subscriber on 20 August 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

During the six months ended 30 June 2018 (“**HY2018**”), the Group recorded total revenue of HK\$842.6 million (HY2017: HK\$681.8 million), representing a growth of 23.6% as compared to the corresponding period of last year. Segment profit increased from HK\$36.8 million for the six months ended 30 June 2017 (“**HY2017**”) to HK\$64.1 million for HY2018, which was mainly attributable to the sales of natural gas of the Group. During HY2018, total gas sales and throughput volume of the Group increased by 125.6% as compared to the corresponding period of last year to 659.1 million cubic meters (HY2017: 292.1 million cubic meters).

The Group's major natural gas projects:

Equity interests held	Project name	Status	LNG/CNG refueling station				City gas				Direct supply				Trading and distribution				Subtotal				LNG throughput				Subtotal				Total		
			As of June			No. of station	As of June			As of June			As of June			As of June			As of June			As of June			As of June			Subtotal throughput volume (m ³)	Subtotal throughput (%)	As of June Total volume (m ³)	Total volume (%)		
			Sales volume (m ³)	Sales volume (%)	Sales volume (m ³)		Sales volume (%)	Sales volume (m ³)	Sales volume (%)	Sales volume (m ³)	Sales volume (%)	Sales volume (m ³)	Sales volume (%)	Sales volume (m ³)	Sales volume (%)	Gasification volume (m ³)	Gasification volume (%)	Unloading volume (m ³)	Unloading volume (%)	Subtotal sales volume (m ³)	Subtotal sales volume (%)	Subtotal throughput volume (m ³)	Subtotal throughput (%)										
Subsidiaries	Liaoning Benxi	89%	Existing	1	159,000	0.4%	1,211,500	1.7%	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	1,370,500	0.6%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	1,370,500	0.2%
	Jinan Guoxu	70%	Existing	-	-	0.0%	-	0.0%	2,800,800	7.3%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	2,800,800	1.1%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	2,800,800	0.4%
	Shandong Tengzhou	100%	Existing	1	281,700	0.7%	-	0.0%	444,100	1.2%	2,903,900	3.0%	3,629,700	1.5%	-	0.0%	-	0.0%	-	0.0%	-	3,629,700	1.5%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	3,629,700	0.6%
	Shandong Chiping	100%	Disposed	1	376,200	0.9%	-	0.0%	343,700	0.9%	449,200	0.4%	1,169,100	0.5%	-	0.0%	-	0.0%	-	0.0%	-	1,169,100	0.5%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	1,169,100	0.2%
			at the end of June 2018																														
	Shandong Zheng Wei	100%	Existing	-	-	0.0%	-	0.0%	5,500,700	14.3%	1,379,300	1.4%	6,880,000	2.8%	-	0.0%	-	0.0%	-	0.0%	-	6,880,000	2.8%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	6,880,000	1.0%
	Guizhou Lipanshui	100%	Existing	2	1,556,500	3.8%	-	0.0%	949,500	2.5%	-	0.0%	2,506,000	1.0%	-	0.0%	-	0.0%	-	0.0%	-	2,506,000	1.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	2,506,000	0.4%
	Anhui Zheng Wei	100%	Existing	-	-	0.0%	-	0.0%	699,900	1.8%	25,794,000	26.4%	26,493,900	10.7%	-	0.0%	-	0.0%	-	0.0%	-	26,493,900	10.7%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	26,493,900	4.0%
	Hainan Xinyuan	48%	Existing	6	6,269,500	15.4%	-	0.0%	736,100	1.9%	7,527,800	7.7%	14,533,400	5.9%	-	0.0%	-	0.0%	-	0.0%	-	14,533,400	5.9%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	14,533,400	2.2%
	Hainan Hong Defeng	100%	Existing	-	-	0.0%	-	0.0%	-	0.0%	2,100,000	2.1%	2,100,000	0.8%	-	0.0%	-	0.0%	-	0.0%	-	2,100,000	0.8%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	2,100,000	0.3%
Associates	Beijing Bluesky Energy	100%	Existing	-	-	0.0%	-	0.0%	-	0.0%	3,288,200	3.4%	3,288,200	1.3%	-	0.0%	-	0.0%	-	0.0%	-	3,288,200	1.3%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	3,288,200	0.5%
	Ningbo Beilun	100%	Existing	-	-	0.0%	-	0.0%	10,226,800	26.7%	2,340,800	2.4%	12,567,600	5.1%	-	0.0%	-	0.0%	-	0.0%	-	12,567,600	5.1%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	12,567,600	1.9%
	Zhejiang Huzhou	100%	Existing	-	-	0.0%	-	0.0%	16,631,100	43.4%	811,900	0.8%	17,443,000	7.0%	-	0.0%	-	0.0%	-	0.0%	-	17,443,000	7.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	17,443,000	2.6%
	Shaanxi Beijing Gas	100%	Existing	-	-	0.0%	-	0.0%	-	0.0%	7,430,100	7.6%	7,430,100	3.0%	-	0.0%	-	0.0%	-	0.0%	-	7,430,100	3.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	7,430,100	1.1%
	Hebei Beijing Gas	51%	Existing	-	-	0.0%	-	0.0%	-	0.0%	16,515,200	16.9%	16,515,200	6.7%	-	0.0%	-	0.0%	-	0.0%	-	16,515,200	6.7%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	16,515,200	2.5%
	Blue Sky	70%	Existing	-	-	0.0%	-	0.0%	-	0.0%	2,831,000	2.9%	2,831,000	1.1%	-	0.0%	-	0.0%	-	0.0%	-	2,831,000	1.1%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	2,831,000	0.4%
	Anhui Beijing Gas	100%	Existing	2	1,273,500	3.1%	18,910,200	26.7%	-	0.0%	-	0.0%	20,183,700	8.1%	-	0.0%	-	0.0%	-	0.0%	-	20,183,700	8.1%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	20,183,700	3.1%
	Jilin Songyuan	100%	Existing	5	5,171,100	12.7%	36,242,300	51.1%	-	0.0%	-	0.0%	41,413,400	16.7%	-	0.0%	-	0.0%	-	0.0%	-	41,413,400	16.7%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	41,413,400	6.3%
	Shanxi Minsheng	51%	Existing	2	692,300	1.7%	12,196,500	17.2%	-	0.0%	-	0.0%	12,888,800	5.1%	-	0.0%	-	0.0%	-	0.0%	-	12,888,800	5.1%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	12,888,800	2.0%
	Yongji Minsheng	51%	Existing	-	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	-	-	-	-	-	-	-	-	-	-	-	-
Joint Ventures			Subtotal	20	15,779,800	38.7%	68,560,500	96.7%	38,332,700	100%	73,371,400	75.0%	196,044,400	79.1%	-	0.0%	-	0.0%	-	0.0%	-	196,044,400	79.1%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	196,044,400	29.7%
	Hainan Zhongyou Jiarun	40%	Existing	3	4,320,700	10.6%	-	0.0%	-	0.0%	-	0.0%	4,320,700	1.8%	-	0.0%	-	0.0%	-	0.0%	-	4,320,700	1.8%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	4,320,700	0.7%
	Hainan Daotong	12%	Existing	8	18,190,000	44.7%	-	0.0%	-	0.0%	-	0.0%	18,190,000	7.3%	-	0.0%	-	0.0%	-	0.0%	-	18,190,000	7.3%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	18,190,000	2.8%
	Hefei Kunlun Energy	30%	Existing	4	2,423,600	6.0%	-	0.0%	-	0.0%	24,270,500	24.8%	26,694,100	10.8%	-	0.0%	-	0.0%	-	0.0%	-	26,694,100	10.8%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	26,694,100	4.1%
	Hebei Jingfang	29%	Acquisition completed in June 2018	-	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	373,864,500	100.0%	411,215,600	100.0%	411,215,600	100.0%	411,215,600	100.0%	411,215,600	62.4%		
			Subtotal:	15	24,934,300	61.3%	-	0.0%	-	0.0%	24,270,500	24.8%	49,204,800	19.9%	-	0.0%	-	0.0%	-	0.0%	-	49,204,800	19.9%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	460,420,400	70.0%
	Wuhan Zheng Wei	50%	Existing	-	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	-	-	-	-	-	-	-	-	-	-	-	
	Hubei Huanggang	30%	Existing	-	-	0.0%	-	0.0%	-	0.0%	236,200	0.2%	2,627,300	1.0%	-	0.0%	-	0.0%	-	0.0%	-	2,627,300	1.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	2,627,300	0.3%
			Subtotal	0	-	0.0%	-	3.3%	-	0.0%	-	0.0%	236,200	0.2%	2,627,300	1.0%	-	0.0%	-	0.0%	-	2,627,300	1.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	2,627,300	0.3%
			Grand Total:	35*	40,714,100	100%	70,951,600	100%	38,332,700	100%	97,878,100	100%	247,876,500	100%	-	0.0%	-	0.0%	-	0.0%	-	247,876,500	100%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	659,092,100	100%

* As at 30 June 2018, the Group owns a total of 34 refueling stations.

The total gas sales volume from subsidiaries amounted to 196.0 million cubic meters (HY2017: 257.9 million cubic meters). In addition, the total gas sales and throughput volume from the associates of the Group amounted to 460.4 million cubic meters (HY2017: 34.1 million cubic meters).

In June 2018, the Group completed the acquisition of 29% equity interests in PetroChina Jingtang LNG Co., Ltd. (“**PetroChina Jingtang**”). During HY2018, the accumulated LNG gasification volume amounted to 3.2 billion cubic meters and accumulated LNG unloading volume was approximately 360 million cubic meters or 256,000 tonnes. Gasification and unloading volume for the month of June reached around 373.9 million cubic meters and 37 million cubic meters or 27,000 tonnes respectively.

Earnings per share during the period was HK0.77 cents (HY2017: HK0.27 cents). Interest expense from financing amounted to HK\$111.2 million, of which the actual cash interest expense was HK\$44.8 million. EBITDA amounted to HK\$270.6 million (HY2017: HK\$121.4 million), up by 122.9% as compared to the corresponding period of last year.

As at 30 June 2018, the Group’s natural gas projects covered Beijing, Ningxia Self Administrative Region and 11 Provinces in the PRC, namely Jilin, Liaoning, Hebei, Shandong, Shanxi, Shaanxi, Hubei, Anhui, Zhejiang, Guizhou and Hainan Provinces. The Group owns a total of 34 gas refueling stations for vehicles (after the Faster Success Disposal) and 5 city gas projects.

RESIDENTIAL USERS

During HY2018, the Group’s city gas projects are households located in Liaoning Province, Jilin Province, Shanxi Province and Hubei Province. During the period, the Group together with its associates and joint ventures completed connection of piped gas for 17,047 new residential households, and the accumulated connected domestic households reached 387,640 households (83,764 accumulated newly developed connected domestic households after acquisition by the Group). The volume of natural gas sold by the Group to residential users amounted to 28.2 million cubic meters, with connection fee income of HK\$59.5 million (HY2017: HK\$15.5 million). During the period, the Group’s residential household gas penetration rates in Songyuan City, Yuncheng City and Yongji City reached approximately 43.8%, 69.9% and 32.8%, respectively. As there is still room for growth in the number of residential user connection, the Group will continue to develop the residential segment by organic growth and acquisition of new projects.

Recently, the State Council issued the “Three-Year Action Plan for Winning the Blue Sky Defense Battle” (hereinafter referred to as the “**Three-Year Action Plan**”) aiming at the prevention and control of air pollution in the next three years. The scheme set out air quality targets requiring that the ratio of days with good air quality at prefecture level and above should reach 80%, and the percentage of heavily polluted days decrease by more than 25% from 2015. The Group will continue expanding its city gas business in key areas with relatively low gas penetration rate, such as Northern, Central and Eastern China, which will contribute significantly to gas sales volume of the Group. At the same time, the Group will also focus on city gas projects in areas with higher dollar margin through cooperation with upstream operator Kunlun Energy and Beijing Gas Group, major shareholder of the Company, to enhance the overall profit of the segment. The Group has entered into a strategic cooperation agreement with Guizhou Branch of PetroChina KunLun Gas Co., Ltd. (中石油昆仑燃气有限公司贵州分公司) (“**KunLun Guizhou**”) to explore and develop the natural gas market in Guizhou Province and expand its market share.

INDUSTRIAL AND COMMERCIAL USERS

The “Three-Year Action Plan” has made important strategic implication for clean winter heating in the northern regions. It promotes the treatment of scattered coal in Beijing-Tianjin-Hebei and surrounding areas and the Fenhe and Weihe Plain, and proposes that scattered coal be basically replaced for winter heating in plain areas before the heating season of 2020. Looking back to 2016 and 2017, the “2+26” cities completed “coal-to-gas” and “coal-to-electricity” for more than 4.7 million users. Relying on the growing logistics fleet and access to rich imported gas sources from coastal LNG receiving terminal, the Group’s direct supply business has covered Beijing-Tianjin-Hebei, Bohai Rim and Pearl River Delta regions. During the reporting period, the Group sold 78.7 million cubic meters of gas to industrial and commercial users covering Jilin Province, Liaoning Province, Shanxi Province, Shaanxi Province, Hubei Province, Shandong Province, Anhui Province and Zhejiang Province. The sales income amounted to HK\$438.5 million, and the accumulated number of users reached 2,137 including 220 newly added users, of which 30 were “coal-to-gas” users.

CNG AND LNG REFUELING STATIONS

The Group together with its associates and joint ventures sold natural gas to LNG vehicles (trucks and buses) and CNG vehicles (taxis, buses and private cars). As at 30 June 2018, the Group owned 34 gas refueling stations including 20 CNG refueling stations and 14 LNG refueling stations for vehicles (As at 30 June 2017: 16 CNG refueling stations and 16 LNG refueling station, 32 stations in total), with total gas sales volume of 40.7 million cubic meters and sales income of HK\$64.9 million, mainly covering Hainan Province, Anhui Province, Shandong Province, Guizhou Province, Jilin Province and Shanxi Province. Due to the pressure on the gross profit of the industry’s gas refueling stations, the Group sold the gas refueling station in Chiping, Shandong at the end of June in order to maintain and enhance the overall profit level of the business segment.

TRADING AND DISTRIBUTION OF CNG AND LNG

During HY2018, the Group owned 67 natural gas transportation vehicles (HY2017: 52 natural gas transportation vehicles). Total trading volume amounted to approximately 97.9 million cubic meters (HY2017: 227.2 million cubic meters). The trading and distribution business recorded a segment profit of HK\$7.7 million. In the second half of the year, the Group will focus on increasing the scale effect and making full use of primary gas sources to improve the gross profit level. The Group owns 10% equity interests in CNPC’s Haikou LNG receiving terminal, and distributes LNG with gas sources from CNOOC’s Ningbo receiving terminal and Sinopec’s Dongjiakou receiving terminal.

In June 2018, the Group completed the acquisition of 29% equity interest in PetroChina Jingtang. The LNG receiving terminal of PetroChina Jingtang is located in Caofeidian Industrial Zone, Tangshan City, Hebei Province, and is an important natural gas supply facility in Northern China. The receiving terminal is not only responsible for the supply of natural gas to Beijing, but also supplies LNG through distributors to surrounding areas, such as Tangshan, Chengde, Tianjin and Qinhuangdao to secure stable supply of natural gas backing the Country’s promotion of “coal-to-gas” and optimization of integrated use of natural gas. The Group is committed to the layout and development of the full LNG industry chain of LNG, and by acquiring equity interests in upstream receiving terminals, it will effectively promote synergy among the upstream imported LNG gas sources, the midstream trading and distribution and the downstream end-markets.

The Group has stepped up its efforts to uplift high safety standards of the natural gas provisions of its projects across China. The Group's Safety Administrative Committee was established during the period under review. Its key functions include 1) the continuous analysis of the safety status of the Group's operations including but not limited to formulating safety policies, placing safety measures and safety work plan across all its projects; 2) the verification of the Group's safety system and procedures and formulation of countermeasure for rectification; and 3) the establishment of Incident Investigation Teams to investigate significant incidents of the Group.

The underground gas pipeline of Jilin Haoyuan Gas Co., Ltd. (吉林浩源燃气有限公司) ("Haoyuan"), an indirect wholly-owned subsidiary of the Group, was damaged and leaked due to illegal underground construction by a third party, during which an explosion occurred. Haoyuan has immediately repaired the pipelines in the relevant area which has resumed to normal operation.

The Group will continue to conduct safety inspection for all its group's companies, to supervise major rectification, to carry out safety supervision work on a regular basis to prevent and reduce the impact of any loss or damage and will continue to work with proficient technical professionals and relevant government authorities to ensure our operations and work programs uphold the highest safety requirements and standards.

EXPANSION INITIATIVES

The Group has adopted its own "One Belt, One Road" Expansion Strategy to actively expand the full industry chain business of natural gas, with city gas as an important support and focusing on the development of the full industry chain of LNG. Up to now, the Group's business has covered Beijing, Ningxia Self Administrative Region and 11 provinces in China. During HY2018, the Group completed the PetroChina Jingtang project and is in the process of completing the acquisition of the project of Teng County, Guangxi, both of which are assets injected by Beijing Gas Group, a major shareholder of the Company.

During HY2018, projects that were newly acquired or in the process of acquisition were:

	Projects	Status	Principal business of the projects
1	29% equity interests in PetroChina Jingtang	Acquisition completed	Providing terminal facilities for LNG carriers loading and unloading and storage services of LNG in the port area, with business covering LNG receiving, storage and regasification.
2	Teng County, Guangxi	In progress	Distributing natural gas for industrial parks, residential users and commercial users in the area of Teng County, Guangxi Province, and having an exclusive franchise with a term of 30 years within the administrative area of Teng County.

FINANCIAL RESOURCES OF THE GROUP

Cash and bank balances of the Group amounted to HK\$221.0 million as of 30 June 2018. Given the Group's ample cash position, relatively low gearing level and quality profile of institutional and industry investors, the Group is expected to expand its investment in the natural gas industry and pursue opportunities for industry consolidation, so as to generate higher return for its shareholders. As at 30 June 2018, principal amount of the Group's corporate bonds and convertible bonds were HK\$999.0 million and HK\$995.5 million respectively. The Group's gearing ratio, which is total borrowings divided by total assets, was at 28.2% as at 30 June 2018, which was slightly lower than that as at 31 December 2017. If excluding convertible bonds, the gearing ratio was 17.7% as at 30 June 2018 (18.0% as at 31 December 2017). Cash to total liabilities was 7.3% as at 30 June 2018 (5.0% as at 31 December 2017).

Convertible bonds issuance summary table

Issue date	Investors	Principal amount HK\$	Principal amount as 30 June 2018 HK\$	Conversion price per share HK\$	Maturity date
2015-09-09	Templeton Asset Management Ltd.'s Emerging Markets Group	116,000,000	50,500,000	0.40	2018-09-09
2015-12-11	Haitong International Securities Group Limited	200,000,000	70,000,000	0.48	2018-12-09
2016-01-07	Templeton Asset Management Ltd.'s Emerging Markets Group	15,000,000	15,000,000	0.40	2019-01-07
2016-05-11	Beijing Gas Group Co., Ltd.	350,000,000	130,000,000	0.45	2019-05-11
2016-12-29	China Orient Asset Management Co., Ltd.	200,000,000	200,000,000	0.67	2019-12-29
2017-04-24	Central China International Investment Company Limited	150,000,000	150,000,000	0.67	2019-12-23
2017-05-04	China Huarong International Holdings Limited	200,000,000	200,000,000	0.67	2020-04-24
2018-06-26	SK E&S Co., Ltd.	180,000,000	180,000,000	0.57	2020-06-26

Financial Review

Revenue

Revenue increased by 23.6% from HK\$681.8 million for the period ended 30 June 2017 to HK\$842.6 million for the period ended 30 June 2018, mainly attributable to i) the Company successfully developing the direct supply business, and ii) completing the acquisition of Jilin project in May 2017 and Shanxi project in October 2017. Both contributed to the revenue of HK\$65.9 million and HK\$242.3 million respectively.

Gross Profit and Segment Profit/Loss

Gross profit increased from HK\$53.3 million for the period ended 30 June 2017 to HK\$81.0 million for the period ended 30 June 2018, which was due to an increase in sales volume from city gas business with higher profit margin.

Segment profit increased by 74.2% from HK\$36.8 million for the period ended 30 June 2017 to HK\$64.1 million for the period ended 30 June 2018, which was due to an increase in profit from the segment of city gas and other related products by HK\$29.0 million.

Earnings before Interests, Tax, Depreciation and Amortisation

Earnings before interests, tax, depreciation and amortisation increased from HK\$121.4 million for the period ended 30 June 2017 to HK\$270.6 million for the period ended 30 June 2018, which is mainly due to the profit contributed by Jilin and Shanxi projects and the gain on bargain purchase of an associate.

Other Losses and Gains and Other Income

Other losses and gains and other income decreased from HK\$42.7 million for the period ended 30 June 2017 to HK\$3.5 million for the period ended 30 June 2018 which is mainly due to the decline in the change in fair value of embedded derivatives at fair value through profit and loss.

Gain on bargain purchase

The gain on bargain purchase of HK\$197.5 million for the period ended 30 June 2018 was resulted from the acquisition of 29% equity interest in PetroChina JingTang.

Gain recognised on disposal of a subsidiary

Gain recognised on disposal of a subsidiary of HK\$36.0 million represents the disposal of Chiping project at a cash consideration of HK\$50.0 million (the “**Chiping Project Disposal**”) to an independent third party.

Operating Expenses

(a) Administrative expenses

The administrative expenses increased by 53.4% from HK\$83.0 million for the period ended 30 June 2017 to HK\$127.3 million for the period ended 30 June 2018. It was mainly due to the increase in (i) employee benefit expenses by HK\$17.2 million; (ii) commission by HK\$15.7 million; (iii) amortisation and depreciation by HK\$8.8 million; and (iv) consultancy fee by HK\$3.2 million.

(b) Other expenses

Other expenses decreased by 74.6% from HK\$7.1 million for the period ended 30 June 2017 to HK\$1.8 million for period ended 30 June 2018 which was mainly due to the decrease in legal and professional fees by HK\$5.3 million.

(c) Finance costs

Finance costs increased from HK\$68.3 million for the period ended 30 June 2017 to HK\$111.2 million for the period ended 30 June 2018 which was mainly comprised of (i) interests on convertible bonds of HK\$83.0 million; (ii) interests on corporate bonds of HK\$18.0 million; (iii) interests on other borrowings of HK\$3.8 million; (iv) finance charges on obligations under finance lease of HK\$3.6 million; and (v) interests on bank borrowings of HK\$2.8 million.

(d) Income tax credit

Income tax credit was calculated at 25% and 16.5% of the estimated assessable profits of its PRC subsidiaries and Hong Kong subsidiaries for the period ended 30 June 2017 and 2018 respectively.

Income tax credit of HK\$6.2 million for the period ended 30 June 2018 represented the current taxation arising from the PRC subsidiaries of HK\$2.5 million and the deferred tax credit of HK\$8.7 million arising from fair value adjustments of intangible assets from acquisition of various natural gas projects.

(e) Profit/Loss attributable to owners of the Company

The Group's profit for the period attributable to the owners of the Company was at HK\$78.7 million for the period ended 30 June 2018, representing an increase of HK\$51.8 million from the period ended 30 June 2017.

FUTURE PROSPECTS

Looking forward, by taking advantage of the development of the natural gas industry, the Group will invest and develop the natural gas business proactively and expand business layout by taking the “develop clean energy, improve customer value, and create a better Blue Sky” as the mission. The “Three-Year Action Plan” issued by the State Council defines the overall thinking, basic objectives, main tasks and supporting measures for the treatment of air pollution in the middle and later stages of the “13th Five-Year Plan”, and proposed a timetable and a route map for winning the blue sky defense battle in the next three years. Clean heating and “coal-to-gas” are important elements throughout the whole process. The Group will closely follow the policy guidance, actively explore industry and market opportunities, and leverage its own advantages to seize market opportunities arising from “coal-to-gas” and “industrial transformation”.

On the basis of the original “One Belt, One Road” strategic layout, the Group dynamically adjusted the focus and direction of the Group's strategic development, refined the “One Belt, One Road” promotion strategy for the city gas business segment and the LNG business segment and further clarified the strategic positioning of “focus on city gas and LNG simultaneously”. On the one hand, the Group will continue to generate stable revenue from city gas business segment, and on the other hand, it will seize the opportunity and actively explore ways to achieve higher profitability through industry chain extension and supply chain finance of LNG segment, adapting itself to the current changing market and policy environment effectively.

During HY2018, the Group completed the acquisition of 29% equity interest in PetroChina Jingtang from Beijing Gas Group. As the first asset injection from the major shareholder, the acquisition is of great significance to the Group, not only supplementing and strengthening the advantages of the Group's LNG industry chain, but significantly improving the profit attributable to the shareholders of the Company. In the future, Beijing Gas Group, as the largest shareholder, will continue to bring rich industry and financial resources to the Group. In the meantime, the Group has cooperated with international energy companies such as SK E&S in South Korea and GPS in Thailand, establishing an international and diversified shareholding structure and making itself a listed company with mixed ownership. In the future, capitalising on the advantages of all parties, the Group will adhere to the pragmatic approach for changes and the principle of working in solidarity, and continuously strengthen the management including safety, manpower, performance, budget, matrix and service, continuously improve and enhance the Group's operational and financial efficiency to secure business growth with sustainability and quality, thereby creating greater investment value for investors and shareholders.

USE OF PROCEEDS

On 24 January 2018, the Company entered into a subscription agreement in principal amount of HK\$85,500,000 with Mrs. Surangrat Chirathivat (the “**Subscriber**”), a businesswoman and a citizen of Thailand, pursuant to which the Company has agreed to issue 150,000,000 new shares at the price of HK\$0.57 (the “**January 2018 Placement**”) to the Subscriber. As at the date of the subscription agreement, the closing market price of the Company's shares as quoted on the Stock Exchange was HK\$0.54 per share.

On 17 August 2018, the Company and the Subscriber entered into a supplemental agreement, pursuant to which the Subscriber shall subscribe for all of the subscription shares in two tranches. The first tranche of 100,000,000 subscription shares were issued and allotted to the Subscriber on 20 August 2018. The subscription for the second tranche of 50,000,000 shares shall be completed on or before 28 September 2018.

Net proceeds from the issue of new shares under First Tranche after deducting related transaction costs was approximately HK\$55.6 million, which shall be utilised as proposed for mergers and acquisition of natural gas projects and as the general working capital of the Group.

On 5 March 2018, the Company entered into a convertible bond subscription agreement in the principal amount of HK\$180,000,000 with Prism Energy International Pte. Ltd., a limited liability company incorporated under the laws of Republic of Singapore, pursuant to which the Company has agreed to issue convertible bond at the conversion price of HK\$0.57 per conversion share (the “**March 2018 Placement**”) to the investor. As at the date of the subscription agreement, the closing market price of the Company's shares as quoted on the Stock Exchange was HK\$0.59 per share.

On 26 June 2018, the March 2018 Placement was completed. Net proceeds from the issue of convertible bond after deducting related transaction costs was HK\$173.2 million, which shall be utilised as proposed for mergers and acquisition of natural gas projects and as the general working capital of the Group.

CAPITAL STRUCTURE AND FINANCIAL RESOURCES

The Group financed its operations with shareholders' equity, obligation under finance leases, convertible bonds, and bank and other borrowings. The Group maintained bank deposits, bank balances and cash amounting to HK\$221.0 million as at 30 June 2018 (31 December 2017: HK\$127.7 million), an increase of 73.1% from 31 December 2017. The Group had total borrowings of HK\$2,226.3 million as at 30 June 2018 (2017: HK\$1,717.6 million). The Group's gearing ratio, which is total borrowings divided by the total assets was 28.2% (2017: 28.9%). The Group's non-current assets increased to HK\$6,430.1 million, primarily due to the increase in (i) interests in associates of HK\$1,548.0 million; and (ii) deposit for acquisition of subsidiaries of HK\$204.3 million.

As at 30 June 2018, the Group's current assets of HK\$1,462.5 million (31 December 2017: HK\$1,155.6 million), mainly comprised of trade and other receivables of HK\$905.2 million (31 December 2017: HK\$703.3 million); financial assets at fair value through profit or loss of HK\$227.1 million (31 December 2017: HK\$220.9 million), cash and bank balances of HK\$221.0 million (31 December 2017: HK\$127.7 million), amounts due from associates of HK\$23.3 million (31 December 2017: HK\$18.9 million), inventories of HK\$21.5 million (31 December 2017: HK\$22.4 million), amounts due from joint ventures of HK\$20.2 million (31 December 2017: HK\$15.5 million), contract assets of HK\$18.5 million (31 December 2017: Nil), and amounts due from non-controlling shareholders of subsidiaries of HK\$12.5 million (31 December 2017: HK\$12.4 million).

As at 30 June 2018, the Group's current liabilities of HK\$1,451.3 million (31 December 2017: HK\$1,123.6 million), mainly comprised of bank and other borrowings of HK\$642.6 million (31 December 2017: HK\$253.9 million), trade and other payables of HK\$273.2 million (31 December 2017: HK\$462.1 million), convertible bonds of HK\$254.3 million (31 December 2017: HK\$129.2 million), contract liabilities of HK\$142.7 million (31 December 2017: Nil), embedded derivatives at fair value through profit or loss of HK\$83.3 million (31 December 2017: HK\$23.2 million), and obligation under finance leases of HK\$46.9 million (31 December 2017: HK\$83.2 million).

As at 30 June 2018, the net current assets of the Group amounted to HK\$11.1 million (31 December 2017: HK\$32.0 million). The Group's current ratio (calculated on the basis of the Group's current assets over current liabilities) was 1.01 as at 30 June 2018 (31 December 2017: 1.03).

During the period ended 30 June 2018, the Group did not enter into any financial instrument for hedging purposes nor other hedging instruments to hedge against foreign exchange rate risks.

EMPLOYEES' INFORMATION

Our employees are based in Hong Kong and the PRC. As at 30 June 2018, there were 993 (31 December 2017: 934) 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, and grants discretionary incentive bonuses and share options to eligible staff based on their performance and contributions to the Group.

Salaries of and allowances for the Group's employees for the six months ended 30 June 2018 were HK\$68.3 million (six months ended 30 June 2017: HK\$46.5 million).

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

The Group's major debts and borrowings and the reporting currencies are denominated in HK\$. The Group has limited exposure to foreign exchange gain/loss arising from settlement of debts and borrowings. The Group will consider to utilise more Renminbi 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 2018, the Group had no material contingent liabilities.

DIVIDEND

The Board did not recommend a payment of interim dividend for the HY2018.

REVIEW BY AUDIT COMMITTEE

The audit committee comprises four members, namely Mr. Lim Siang Kai, Mr. Wee Piew, Mr. Ma Arthur On-hing and Mr. Pang Siu Yin, all being independent non-executive Directors. It 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 reviewed with the management the condensed consolidated financial statements of the Company for the period ended 30 June 2018.

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

During the six months ended 30 June 2018, 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 Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”). The Company has complied with the code provisions set out in the CG Code throughout the HY2018 except for the following deviations:

Code Provision A.2.1

Pursuant to the code provision A.2.1 of the CG Code, the roles of chairman and chief executive should not be performed by the same individual. Mr. Cheng Ming Kit, a co-chairman of the Company, was appointed as chief executive office on 19 January 2018 and performed both the roles of chairman and chief executive officer of the Company which is deviated from code provision A.2.1 of the CG Code. The Company believes that Mr. Cheng Ming Kit serves as both the co-chairman and the chief executive officer of the Company is more efficient and effective for the Company to develop its long-term strategies and in the execution of its business plans.

Code Provision A.6.7

Under code provision A.6.7 of the CG Code, independent non-executive directors and non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders.

Mr. Zhi Xiaoye, a non-executive Director, and Mr. Pang Siu Yin, an independent non-executive Director, were unable to attend the special general meeting and the annual general meeting of the Company held on 16 May 2018 and 8 June 2018, respectively due to other business commitments.

Code Provision E.1.2

Under code provision E.1.2 of the CG Code, the chairman of the Board should attend the annual general meeting. The co-chairmen of the Board, Mr. Cheng Ming Kit and Mr. Zhi Xiaoye, were unable to attend the annual general meeting of the Company held on 8 June 2018 due to other business commitments.

COMPLIANCE WITH THE MODEL CODE

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuer (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 transactions 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 period ended 30 June 2018.

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.bgbluesky.com). The interim report of the Company for the six months ended 30 June 2018 containing all the information required by the Listing Rules will be despatched to the shareholders and available on the aforesaid websites in due course.

By order of the Board
Beijing Gas Blue Sky Holdings Limited
Cheng Ming Kit
Co-Chairman

Hong Kong, 29 August 2018

As at the date of this announcement, the executive directors of the Company are Mr. Cheng Ming Kit, Mr. Sze Chun Lee, Mr. Hung Tao, Mr. Tam Man Kin and Mr. Li Weiqi; the non-executive director of the Company is Mr. Zhi Xiaoye; and the independent non-executive directors of the Company are Mr. Lim Siang Kai, Mr. Wee Piew, Mr. Ma Arthur On-hing and Mr. Pang Siu Yin.