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中裕燃氣控股有限公司

ZHONGYU GAS HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 3633)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30TH JUNE, 2019

FINANCIAL AND OPERATIONAL HIGHLIGHTS

	For the six months ended 30th June,		
	2019 HK\$'000	2018 HK\$'000	changes %
Turnover	4,321,868	3,699,210	16.8%
Gross profit (Gross margin)	1,139,398 (26.4%)	1,183,015 (32.0%)	(3.7)% (5.6)%
Profit attributable to owners of the Company	507,293	419,980	20.8%
Adjusted profit attributable to owners of the Company (excluding the net foreign exchange gain/loss)	517,169	511,972	1.0%
EBITDA	1,079,079	1,094,590	(1.4)%
Basic earnings per share (HK cents)	19.99	16.63	20.2%
Proposed interim dividend (HK cents)	2.00	–	N/A
Unit of natural gas sold ('000 m ³)	911,514	726,818	25.4%
New piped gas connections made (residential households)	278,641	350,276	(20.5)%

The board of directors (the “Board” or the “Directors”) of Zhongyu Gas Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30th June, 2019, together with the comparative figures for the corresponding period in 2018, which are set out below. The Group is principally engaged in (i) the investment, operation and management of city gas pipeline infrastructure, and the distribution of piped gas to residential, industrial and commercial users; and (ii) the operation of compressed natural gas or liquefied natural gas (“CNG/LNG”) vehicle filling stations in the People’s Republic of China (the “PRC”).

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

For the six months ended 30th June, 2019

		For the six months ended 30th June,	
		2019	2018
	NOTES	HK\$'000	HK\$'000
Turnover	3	4,321,868	3,699,210
Cost of sales		<u>(3,182,470)</u>	<u>(2,516,195)</u>
Gross profit		1,139,398	1,183,015
Other gains and losses	5	13,051	(96,823)
Other income	6	18,171	13,672
Selling and distribution costs		(70,376)	(66,565)
Administrative expenses		(205,408)	(175,614)
Share-based payments		(21,901)	(30,000)
Finance costs	7	(110,962)	(121,946)
Share of results of associates		14,370	19,681
Share of results of a joint venture		<u>(66)</u>	<u>(7)</u>
Profit before tax		776,277	725,413
Income tax expenses	8	<u>(226,449)</u>	<u>(249,657)</u>
Profit for the period	9	<u>549,828</u>	<u>475,756</u>
Profit for the period attributable to:			
Owners of the Company		507,293	419,980
Non-controlling interests		<u>42,535</u>	<u>55,776</u>
		<u>549,828</u>	<u>475,756</u>

		For the six months ended	
		30th June,	
		2019	2018
NOTES		HK\$'000	HK\$'000
Profit for the period		549,828	475,756
Other comprehensive (expense) income			
Item that will not be reclassified subsequently to profit or loss:			
Exchange differences arising on translation to presentation currency		<u>(79,305)</u>	<u>19,382</u>
Total comprehensive income for the period		<u>470,523</u>	<u>495,138</u>
Profit for the period attributable to:			
Owners of the Company		507,293	419,980
Non-controlling interests		<u>42,535</u>	<u>55,776</u>
		<u>549,828</u>	<u>475,756</u>
Total comprehensive income attributable to:			
Owners of the Company		427,407	437,909
Non-controlling interests		<u>43,116</u>	<u>57,229</u>
		<u>470,523</u>	<u>495,138</u>
Earnings per share	11		
Basic		<u>HK19.99 cents</u>	<u>HK16.63 cents</u>
Diluted		<u>HK19.75 cents</u>	<u>HK16.41 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June, 2019

		30th June, 2019 (unaudited) HK\$'000	31st December, 2018 (audited) HK\$'000
	NOTES		
Non-current assets			
Investment properties		42,807	42,940
Property, plant and equipment		9,685,630	8,880,175
Goodwill		263,838	255,776
Other intangible assets		1,534,640	1,103,468
Long-term deposits, prepayments and other receivables		597,592	477,506
Prepaid lease payments		486,038	538,195
Interest in associates		403,746	390,780
Interest in a joint venture		9,683	9,777
Amount due from an associate		–	57,195
Financial assets at fair value through other comprehensive income		62,077	23,310
		<u>13,086,051</u>	<u>11,779,122</u>
Current assets			
Inventories		540,393	326,121
Trade receivables	12	2,040,255	1,669,455
Deposits, prepayments and other receivables		1,085,273	676,438
Amount due from an associate		57,019	–
Amount due from a related party		8,553	8,579
Prepaid lease payments		15,484	15,614
Contract assets		341,859	185,698
Tax recoverable		19,438	19,450
Pledged bank deposit		–	5,720
Bank balances and cash		2,423,606	1,595,157
		<u>6,531,880</u>	<u>4,502,232</u>
Current liabilities			
Trade payables	13	1,303,305	1,206,316
Other payables and accrued charges		298,987	337,723
Amount due to an associate		1,020	1,023
Amount due to related parties		–	81,102
Contract liabilities		775,904	884,573
Borrowings		3,521,971	4,499,852
Obligations under finance leases due within one year		109,937	185,717
Tax payables		48,031	95,964
		<u>6,059,155</u>	<u>7,292,270</u>
Net current assets (liabilities)		<u>472,725</u>	<u>(2,790,038)</u>
Total assets less current liabilities		<u>13,558,776</u>	<u>8,989,084</u>

	30th June, 2019 (unaudited) HK\$'000	31st December, 2018 (audited) HK\$'000
Capital and reserves		
Share capital	25,382	25,372
Reserves	<u>4,362,935</u>	<u>3,913,147</u>
Equity attributable to owners of the Company	4,388,317	3,938,519
Non-controlling interests	<u>606,951</u>	<u>581,650</u>
Total equity	<u>4,995,268</u>	<u>4,520,169</u>
Non-current liabilities		
Deferred income and advance received	7,586	15,616
Borrowings	7,787,455	3,730,367
Obligations under finance leases due after one year	10,486	61,537
Deferred taxation	<u>757,981</u>	<u>661,395</u>
	<u>8,563,508</u>	<u>4,468,915</u>
	<u>13,558,776</u>	<u>8,989,084</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2019

	Attributable to owners of the Company									Non-	
	Share capital	Share premium	Share option reserve	Property revaluation reserve	Other reserve	Statutory surplus reserve	Translation reserve	Accumulated profits	Sub-total	controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
						(Note)					
At 1st January, 2018 (audited)	25,250	895,736	319	830,072	(603,692)	110,443	235,094	1,680,730	3,173,952	549,265	3,723,217
Profit for the period	-	-	-	-	-	-	-	419,980	419,980	55,776	475,756
Other comprehensive income for the period	-	-	-	-	-	-	17,929	-	17,929	1,453	19,382
Total comprehensive income for the period	-	-	-	-	-	-	17,929	419,980	437,909	57,229	495,138
Transfer to statutory surplus reserve	-	-	-	-	-	6,117	-	(6,117)	-	-	-
Recognition of share-based payments	-	-	30,000	-	-	-	-	-	30,000	-	30,000
Dividend paid by subsidiaries to non-controlling interests	-	-	-	-	-	-	-	-	-	(2,753)	(2,753)
At 30th June, 2018 (unaudited)	25,250	895,736	30,319	830,072	(603,692)	116,560	253,023	2,094,593	3,641,861	603,741	4,245,602
At 1st January, 2019 (audited)	25,372	975,723	56,721	1,091,620	(603,692)	122,145	104,723	2,165,907	3,938,519	581,650	4,520,169
Profit for the period	-	-	-	-	-	-	-	507,293	507,293	42,535	549,828
Other comprehensive (expense) income for the period	-	-	-	(3,357)	-	-	(76,529)	-	(79,886)	581	(79,305)
Total comprehensive (expense) income for the period	-	-	-	(3,357)	-	-	(76,529)	507,293	427,407	43,116	470,523
Exercise of share options	10	480	(159)	-	-	-	-	159	490	-	490
Transfer to statutory surplus reserve	-	-	-	-	-	28,754	-	(28,754)	-	-	-
Recognition of share-based payments	-	-	21,901	-	-	-	-	-	21,901	-	21,901
Dividend paid by subsidiaries to non-controlling interests	-	-	-	-	-	-	-	-	-	(17,815)	(17,815)
At 30th June, 2019 (unaudited)	25,382	976,203	78,463	1,088,263	(603,692)	150,899	28,194	2,644,605	4,388,317	606,951	4,995,268

Note: The articles of association of the Company's subsidiaries established in the PRC state that they may make an appropriation of 10% of their profit for each year (prepared under generally accepted accounting principles in the PRC) to the statutory surplus reserve until the balance reaches 50% of the paid-in capital. The statutory surplus reserve shall only be used for making up losses, capitalisation into paid-in capital and expansion of their production and operation.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed consolidated financial statements for the six months ended 30th June, 2019 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and the Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31st December, 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”).

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS

In the current period, the Group has applied all the new and amendments to HKFRSs issued by the HKICPA that are relevant to its operations and effective for its accounting period beginning on 1st January, 2019. HKFRSs comprise HKFRS and HKAS and Interpretations. The application of these new and amendments to HKFRSs did not result in significant changes to the Group’s accounting policies and amounts reported for the current period and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

3. TURNOVER

Disaggregation of revenue from contracts with customers

	For the six months end 30th June,	
	2019	2018
	HK\$'000	HK\$'000
Types of goods or service		
Sales of gas	2,882,143	2,250,015
Revenue from gas pipeline construction	1,015,434	1,193,700
Sales of stoves and other services	251,719	75,831
Sales of CNG/LNG in vehicle filling stations	168,958	176,093
Sales of liquefied petroleum gas	3,614	3,571
Total	4,321,868	3,699,210
Timing of revenue recognition		
A point in time	3,306,434	2,505,510
Overtime	1,015,434	1,193,700
Total	4,321,868	3,699,210

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

4. SEGMENT INFORMATION

The Group's executive directors are the chief operating decision makers ("CODM") as they collectively make strategic decisions on resources allocation and performance assessment. The Group is principally engaged in (i) the investment, operation and management of city gas pipeline infrastructure, distribution of piped gas to residential, industrial and commercial users; and (ii) the operation of CNG/LNG vehicle filling stations in the PRC. Nearly all identifiable assets of the Group are located in the PRC.

Information that is reported to the CODM for the purpose of resources allocation and assessment of performance focuses on the type of products delivered or services rendered which is also consistent with the basis of organisation of the Group.

Each type of product or service represents an unique business unit within the Group whose performance is assessed independently. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group. The Group's operating and reportable segments are therefore as follows:

- (a) sales of gas;
- (b) revenue from gas pipeline construction;
- (c) sales of stoves and other services;
- (d) operation of CNG/LNG vehicle filling stations; and
- (e) sales of liquefied petroleum gas.

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

For the six months ended 30th June, 2019

	Sales of gas HK\$'000	Revenue from gas pipeline construction HK\$'000	Sales of stoves and other services HK\$'000	Operation of CNG/LNG vehicle filling stations HK\$'000	Sales of liquefied petroleum gas HK\$'000	Consolidated HK\$'000
Segment revenue	<u>2,882,143</u>	<u>1,015,434</u>	<u>251,719</u>	<u>168,958</u>	<u>3,614</u>	<u>4,321,868</u>
Segment profit	<u>233,808</u>	<u>626,170</u>	<u>77,292</u>	<u>3,874</u>	<u>46</u>	941,190
Unallocated other income						18,171
Unallocated other gains and losses						(9,876)
Unallocated central corporate expenses						(62,246)
Finance costs						<u>(110,962)</u>
Profit before tax						<u>776,277</u>

For the six months ended 30th June, 2018

	Sales of gas HK\$'000	Revenue from gas pipeline construction HK\$'000	Sales of stoves and other services HK\$'000	Operation of CNG/LNG vehicle filling stations HK\$'000	Sales of liquefied petroleum gas HK\$'000	Consolidated HK\$'000
Segment revenue	<u>2,250,015</u>	<u>1,193,700</u>	<u>75,831</u>	<u>176,093</u>	<u>3,571</u>	<u>3,699,210</u>
Segment profit (loss)	<u>178,731</u>	<u>775,117</u>	<u>33,398</u>	<u>2,323</u>	<u>(30)</u>	989,539
Unallocated other income						13,672
Unallocated other gains and losses						(91,822)
Unallocated central corporate expenses						(64,030)
Finance costs						<u>(121,946)</u>
Profit before tax						<u>725,413</u>

The accounting policies of the operating segments are the same as the Group's accounting policies. Reportable segments represent the financial result of each segment without allocation of central administration costs, directors' salaries, interest income, share-based payments, net foreign exchange gain or loss, certain sundry income, finance costs and income tax expenses. This is the measure reported to the CODM for the purposes of resources allocation and performance assessment.

5. OTHER GAINS AND LOSSES

	For the six months ended 30th June,	
	2019	2018
	HK\$'000	HK\$'000
Net foreign exchange loss	(9,876)	(91,992)
Net gain on disposal of property, plant and equipment	22,927	624
Others	—	(5,455)
	<u>13,051</u>	<u>(96,823)</u>

6. OTHER INCOME

	For the six months ended 30th June,	
	2019	2018
	HK\$'000	HK\$'000
Interest income from financial assets at amortised cost		
– Bank interest income	4,731	3,463
– Interest income on amount due from an associate	<u>1,500</u>	<u>1,596</u>
	6,231	5,059
Government subsidies (<i>Note</i>)	2,221	366
Income from investments in life insurance contracts	1,369	1,336
Sundry income	<u>8,350</u>	<u>6,911</u>
	<u>18,171</u>	<u>13,672</u>

Note: During the six months ended 30th June, 2019, the Group has received subsidies of HK\$2,221,000 (2018: HK\$366,000) from relevant PRC governments for promoting the use of natural gas. There are no conditions attached to the subsidies granted to the Group.

7. FINANCE COSTS

	For the six months ended 30th June,	
	2019	2018
	HK\$'000	HK\$'000
Interest on borrowings	170,114	136,880
Interest on obligations under finance leases	<u>9,559</u>	<u>8,883</u>
	179,673	145,763
Amortisation on loan facilities fees relating to bank borrowings	<u>19,061</u>	<u>17,968</u>
Total borrowing costs	198,734	163,731
Less: Amounts capitalised in construction in progress included in property, plant and equipment	<u>(87,772)</u>	<u>(41,785)</u>
	<u><u>110,962</u></u>	<u><u>121,946</u></u>

8. INCOME TAX EXPENSES

	For the six months ended 30th June,	
	2019	2018
	HK\$'000	HK\$'000
PRC Enterprise Income Tax	<u><u>226,449</u></u>	<u><u>249,657</u></u>

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

On 21st March, 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “Bill”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28th March, 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The Directors considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods. No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Company and its subsidiaries had no assessable profits arising in Hong Kong for both periods.

Under the EIT Law of the PRC, withholding tax is imposed on the dividend declared to non-PRC tax residents in respect of profits earned by PRC subsidiaries from 1st January, 2008 onwards. During the six months ended 30th June, 2019, no withholding tax (2018: nil) was charged by the PRC tax authority which levied on the dividends paid to overseas group entities in the previous and current periods.

9. PROFIT FOR THE PERIOD

For the six months ended
30th June,
2019 2018
HK\$'000 **HK\$'000**

Profit for the period has been arrived at after charging:

Amortisation of other intangible assets (included in cost of sales)	19,925	18,622
Release of prepaid lease payments	8,652	8,154
Depreciation of property, plant and equipment	<u>153,387</u>	<u>128,463</u>

10. DIVIDENDS

During the six months ended 30th June, 2019, a final dividend in respect of the year ended 31st December, 2018 of HK7 cents (2017: HK5 cents) per ordinary share, in an aggregate amount of HK\$177,605,000 (2017: HK\$126,250,000), has been proposed by the Directors and approved by the shareholders in the annual general meeting.

No dividend was paid during the six months ended 30th June, 2019 (2018: nil).

Subsequent to the end of reporting period, an interim dividend of HK2 cents per ordinary share, in an aggregate amount of HK\$50,764,000 (2018: nil), has been proposed by the Directors.

11. EARNINGS PER SHARE

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

	For the six months ended 30th June,	
	2019	2018
	HK\$'000	HK\$'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share, being profit for the period attributable to owners of the Company	<u>507,293</u>	<u>419,980</u>
	For the six months ended 30th June,	
	2019	2018
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,537,328	2,525,008
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	<u>30,684</u>	<u>34,608</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>2,568,012</u>	<u>2,559,616</u>

12. TRADE RECEIVABLES

The Group allows an average credit period of 30 days (2018: 30 days) to its trade customers. The following is an aged analysis of trade receivables from contracts with customers net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates for sales of gas and the respective construction contracts completion dates, as appropriate:

	30th June, 2019 HK\$'000	31st December, 2018 HK\$'000
0 – 30 days	900,831	782,221
31 – 90 days	86,967	130,453
91 – 180 days	91,009	237,993
Over 180 days	961,448	518,788
Trade receivables	<u>2,040,255</u>	<u>1,669,455</u>

As at 30th June, 2019, total bills received amounting to HK\$42,747,000 (2018: HK\$61,269,000) are held by the Group for future settlement of trade receivables. All bills received by the Group are with a maturity period of less than one year.

As at 30th June, 2019, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK\$1,132,758,000 (2018: HK\$876,440,000) which are past due as at the reporting date. Out of the past due balances, HK\$1,046,304,000 (2018: HK\$747,828,000) has been past due 90 days or more and is not considered as in default as these are contributed by the debtors without bad debt history or the PRC local governments with low credit risks. The Group does not hold any collateral over these balances.

13. TRADE PAYABLES

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

	30th June, 2019 <i>HK\$'000</i>	31st December, 2018 <i>HK\$'000</i>
0 – 30 days	551,552	640,840
31 – 90 days	204,805	186,997
91 – 180 days	211,332	110,122
Over 180 days	<u>335,616</u>	<u>268,357</u>
Trade payables	<u><u>1,303,305</u></u>	<u><u>1,206,316</u></u>

As at 30th June, 2019, the trade payables balance included trade debts due to related companies, subsidiaries of the controlling shareholder of the Company of HK\$3,771,000 (2018: HK\$14,136,000).

The average credit period on purchase of goods is 90 days (2018: 90 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

LIQUIDITY, FINANCIAL RESOURCES AND WORKING CAPITAL

Liquidity

As at 30th June, 2019, the total assets of the Group increased by HK\$3,336,577,000 or 20.5% to HK\$19,617,931,000 (2018: HK\$16,281,354,000).

As at 30th June, 2019, the Group has net current assets of HK\$427,725,000 as compared to the net current liabilities of HK\$2,790,038,000 as at 31st December, 2018. It was mainly due to the increase in bank balances and cash from new borrowings and reduction of borrowings due within one year after re-financing.

As at 30th June, 2019, the Group's current ratio, represented by a ratio of total current assets to total current liabilities, was approximately 1.1 (2018: 0.6).

As at 30th June, 2019, the total borrowings and obligations under finance leases increased by HK\$2,952,376,000 or 34.8% to HK\$11,429,849,000 (2018: HK\$8,477,473,000).

As at 30th June, 2019, the Group had total net debts of HK\$9,006,243,000 (2018: HK\$6,876,596,000), measured as total borrowings and obligations under finance leases minus the bank balances and cash and pledged bank deposit. As at 30th June, 2019, the Group had net gearing ratio of approximately 1.80 (2018: 1.52), measured as total net debts to total equity of HK\$4,995,268,000 (2018: HK\$4,520,169,000).

Financial resources

During the period under review, the Group entered into several loan agreements with several banks in Hong Kong and overseas, pursuant to which loan facilities of up to US\$45,000,000 and HK\$4,055,605,000 in total were made available to the Group.

During the six months ended 30th June, 2019, the Group generally financed its operations with internally generated resources and bank and other borrowings. As at 30th June, 2019, all of the bank and other borrowings were secured or unsecured and on normal commercial terms.

Working capital

In view of the Group's current financial and liquidity positions and in the absence of unforeseen circumstances, the Directors are of the opinion that the Group has sufficient working capital for its requirements.

EXPOSURE TO EXCHANGE RATE FLUCTUATIONS

During the period under review, the Group's monetary assets and liabilities are principally denominated in either Renminbi ("RMB"), Hong Kong dollars or United States dollars and the Group conducted its business transactions principally in RMB. As a result of the depreciation of RMB in 2019, exchange loss arising from the Group's bank borrowings denominated in United States dollars and Hong Kong dollars was recognised during the period under review. The Group is seeking suitable financial instruments to hedge against potential depreciation of RMB. As at 30th June, 2019, the Group did not employ any financial instruments for hedging purposes.

EMPLOYEE INFORMATION

As at 30th June, 2019, the Group had a total of 4,117 employees (2018: 3,644) in Hong Kong and the PRC, and the total employee benefit expenses (other than directors) for the period under review was approximately HK\$218,687,000 (2018: HK\$205,596,000), which included equity-settled share option expenses of HK\$21,901,000 (2018: HK\$30,000,000). The increase was mainly due to the increase in the number of headcount of the Group. Around 99.8% of the Group's employees are located in the PRC.

The Group's remuneration and bonus policies are determined based on the performance of individual employees.

The emoluments of the Directors are recommended by the Remuneration Committee of the Company, having regard to the Group's operating results, the Directors' duties and responsibilities within the Group and comparable market statistics.

Share option scheme

On 24th October, 2003, the Company adopted a share option scheme ("Old Share Option Scheme") pursuant to which the Directors were authorised to grant share option to its employees (including executive directors and employees of any of its subsidiaries) or any person who has contributed or will contribute to the Group. The Old Share Option Scheme was terminated and replaced by a new share option scheme ("New Share Options Scheme") on 3rd May, 2013 by an ordinary resolution passed by the shareholders of the Company at the annual general meeting held on 3rd May, 2013.

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

Pursuant to the Adjustment, the outstanding share options granted under the Old Share Option Scheme and their exercise price were adjusted from 2,000,000 to 2,011,600 share options and from HK\$0.49 per share to HK\$0.4872 per share, and the outstanding share options granted under the New Share Option Scheme and their exercise price were adjusted from 126,000,000 to 126,730,800 share options and from HK\$5.5 per share to HK\$5.468 per share.

As at the date of this announcement, there were a total of 1,005,800 share options (as at the date of the annual report of the Company for the year ended 31st December, 2018: 2,011,600) outstanding which were granted to the Directors under the Old Share Option Scheme, the full conversion of which will result in the issue of 1,005,800 ordinary shares in the Company, representing approximately 0.04% of the number of issued shares of the Company as at the date of this announcement (number of share options outstanding as at the date of the annual report of the Company for the year ended 31st December, 2018 over the number of issued shares of the Company as at that date: 0.08%).

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

Name of Directors	Date of grant	Exercise/vesting period	Exercise price HK\$	Number of share options granted under the Old Share Option Scheme				
				Outstanding at 1st January, 2019	Granted during the period under review	Exercised during the period under review	Lapsed/Cancelled during the period under review	Outstanding at 30th June, 2019
Xu Yongxuan	11th April, 2011	11th April, 2011 to 10th April, 2021	0.4872	1,005,800	–	–	–	1,005,800
Luo Yongtai	11th April, 2011	11th April, 2011 to 10th April, 2021	0.4872	1,005,800	–	(1,005,800)	–	–
				<u>2,011,600</u>	<u>–</u>	<u>(1,005,800)</u>	<u>–</u>	<u>1,005,800</u>
Exercisable at the end of the period								<u>1,005,800</u>
Weighted average exercise price				<u>HK\$0.4872</u>	<u>–</u>	<u>HK\$0.4872</u>	<u>–</u>	<u>HK\$0.4872</u>

The closing price of the Company's shares on 8th April, 2011 was HK\$0.48, which was the business day immediately before the date on which the share options under the Old Share Option Scheme were granted on 11th April, 2011.

The New Share Option Scheme shall be valid and effective for a period of ten years commencing on 3rd May, 2013 and will expire on 2nd May, 2023. Under the New Share Option Scheme, the Directors may offer to any employees or any eligible person, who has made or will make contributions to the Group, share options to subscribe for shares in the Company in accordance with the terms of the New Share Option Scheme. The exercise price is determined by the Directors, and shall not be less than the higher of (i) the closing price of the Company's shares on the date of grant which must be a business day; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

On 5th January, 2018, 126,000,000 share options to subscribe for an aggregate of 126,000,000 ordinary shares of the Company at par value of HK\$0.01 each were granted to the eligible participants (including Directors) by the Company pursuant to the New Share Option Scheme. The closing price of the Company's shares on 4th January, 2018, being the date immediately before the date on which the share options under the New Share Option Scheme were granted, was HK\$4.98. As announced by the Company on 1st August, 2018, the exercise price and the number of options outstanding as at that date were adjusted to HK\$5.468 per share and 126,730,800 options in accordance with the terms of the New Share Option Scheme, as a result of the issue of scrip shares by the Company to its shareholders on 1st August, 2018.

As at the date of this announcement, the number of outstanding share options granted under the New Share Option Scheme was 123,713,400 and the maximum number of share options which may be granted under the New Share Option Scheme is 128,687,368. The outstanding share options, if converted in full into shares of the Company, and the number of options available for future grant, if granted and converted in full, represent approximately 4.87% and 5.07% of the number of issued shares of the Company as at the date of this announcement, respectively.

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

Name of participants who are Directors and category of other participants	Date of grant	Exercise/vesting period	Exercise price HK\$	Number of share options granted under the New Share Option Scheme				
				Outstanding at 1st January, 2019	Granted during the period under review	Exercised during the period under review	Lapsed/ Cancelled during the period under review	Outstanding at 30th June, 2019
Lui Siu Keung	5th January, 2018	5th January, 2018 to 4th January, 2028	5.468	7,543,500	–	–	–	7,543,500
Lu Zhaoheng	5th January, 2018	5th January, 2018 to 4th January, 2028	5.468	3,017,400	–	–	–	3,017,400
Xu Yongxuan	5th January, 2018	5th January, 2018 to 4th January, 2028	5.468	502,900	–	–	–	502,900
Li Chunyan	5th January, 2018	5th January, 2018 to 4th January, 2028	5.468	502,900	–	–	–	502,900
Luo Yongtai	5th January, 2018	5th January, 2018 to 4th January, 2028	5.468	502,900	–	–	–	502,900
Liu Yu Jie	5th January, 2018	5th January, 2018 to 4th January, 2028	5.468	502,900	–	–	–	502,900
				<u>12,572,500</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>12,572,500</u>
Employees	5th January, 2018	5th January, 2018 to 4th January, 2028	5.468	3,017,400	–	–	–	3,017,400
Employees	5th January, 2018	5th January, 2020 to 4th January, 2028	5.468	108,123,500	–	–	–	108,123,500
				<u>123,713,400</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>123,713,400</u>
Exercisable at the end of the period								<u>15,589,900</u>
Weighted average exercise price				<u>HK\$5.468</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>HK\$5.468</u>

Save as disclosed above, (i) at no time during the period under review was the Company, its subsidiaries, its ultimate holding company or any subsidiaries of its ultimate holding company a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company; and (ii) no other equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the period under review or subsisted at the end of the period under review.

CHARGE ON THE GROUP'S ASSETS

As at 30th June, 2019, certain bank borrowings were secured by the Group's prepaid lease payments with the carrying amount of HK\$5,668,000 (2018: nil).

As at 30th June, 2019, no pledged bank deposit (2018: RMB5,000,000 (equivalent to HK\$5,720,000)) is used to secure the short-term general banking facilities granted to the Group.

As at 30th June, 2019, the Group's obligations under finance leases are secured by the Group's pipelines with an aggregate carrying amount of RMB305,683,000 (equivalent to HK\$348,595,000) (2018: RMB555,848,000 (equivalent to HK\$635,836,000)) and 50% of the equity interests of a subsidiary of the Company.

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITION AND DISPOSALS OF SUBSIDIARIES

On 22nd January, 2019, Zhongyu (Henan) Energy Holding Co., Ltd. ("Zhongyu (Henan)"), a wholly-owned subsidiary of the Company and each of the vendors of Mengzhou City Gaoyuan Natural Gas Co., Ltd. ("Gaoyuan Gas (Mengzhou)") and Wen County Gaoyuan Natural Gas Co., Ltd. ("Gaoyuan Gas (Wen County)") (collectively refer to as "the Vendors") entered into the sale and purchase agreements pursuant to which Zhongyu (Henan) agreed to acquire and the Vendors agreed to sell 100% of the equity interest in each of Gaoyuan Gas (Mengzhou) and Gaoyuan Gas (Wen County) at an aggregate consideration of approximately RMB462,152,000 (equivalent to approximately HK\$536,096,000) which has been settled by cash in three installments. Gaoyuan Gas (Mengzhou) and Gaoyuan Gas (Wen County) are principally engaged in the businesses of pipeline gas; sale of gas appliances, metal hardware and electrical appliances, steel and building materials; design, repair and installation of gas appliances; sale of vehicle-used compressed natural gas in Henan Province. Each of Gaoyuan Gas (Mengzhou) and Gaoyuan Gas (Wen County) has signed a franchise agreement with the local governmental authority of Mengzhou City and Wen County pursuant to which an exclusive right has been granted to each of them to invest in, build and operate piped gas business and provide the ancillary services in Mengzhou City and Wen County for a period of 30 years and 27 years ending in 2035 and 2039, respectively. The acquisitions had been completed as at the date of this announcement.

During the period under review, save for the events described above, the Group did not conduct any significant investments, or material acquisitions or disposal of subsidiaries.

FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

As at 30th June, 2019, the Board did not have any specific plans for material investment or capital assets.

CAPITAL AND OTHER COMMITMENTS

As at 30th June, 2019, the capital expenditure in respect of the acquisition of property, plant and equipment and prepaid lease payments contracted for but not provided in the consolidated financial statements is HK\$162,939,000 (2018: HK\$167,297,000).

CONTINGENT LIABILITIES

As at 30th June, 2019, the Group did not have any contingent liabilities (2018: nil).

BUSINESS REVIEW

During the period under review, the Group was principally engaged in (i) the investment, operation and management of city gas pipeline infrastructure, and the distribution of piped gas to residential, industrial and commercial users; and (ii) the operation of CNG/LNG vehicle filling stations in the PRC.

New Downstream Piped Gas Distribution Projects

As at 30th June, 2019, the Group had 65 gas projects with exclusive rights in the PRC. During the period under review, the Group obtained concession right to operate 4 additional natural gas projects in Henan and Hebei Province.

Major Operational Data

The downstream natural gas distribution business of the Group primarily comprises sales of gas, gas pipeline construction and sales of natural gas from CNG/LNG vehicle filling stations.

The major operational data of the Group for the period under review together with the comparative figures for the corresponding period last year are as follows:

	Six months ended 30th June, (unaudited)		Increase/ (Decrease)
	2019	2018	
Number of operational locations (<i>Note a</i>)	65	60	5
– Henan Province	26	24	2
– Hebei Province	21	19	2
– Jiangsu Province	6	5	1
– Shandong Province	4	4	–
– Jilin Province	2	2	–
– Fujian Province	1	1	–
– Heilongjiang Province	1	1	–
– Zhejiang Province	2	2	–
– Anhui Province	2	2	–
Connectable population ('000) (<i>Note b</i>)	17,110	12,698	34.7%
Connectable residential households ('000)	4,889	3,628	34.8%
New piped gas connections by the Group made during the period			
– Residential households	278,641	350,276	(20.5)%
(i) “Coal-to-gas” projects	155,818	246,189	(36.7)%
(ii) Non “Coal-to-gas” projects	122,823	104,087	18.0%
– Industrial customers	151	159	(5.0)%
– Commercial customers	936	792	18.2%
Accumulated number of connected piped gas customers			
– Residential households	3,264,628	2,509,802	30.1%
– Industrial customers	2,673	1,805	48.1%
– Commercial customers	11,948	9,048	32.1%
Penetration rate of residential pipeline connection (<i>Note c</i>)	66.8%	69.2%	(2.4)%
Unit of piped natural gas sold ('000 m ³)	805,401	663,698	21.4%
– Residential households	228,485	167,578	36.3%
– Industrial customers	490,688	413,654	18.6%
– Commercial customers	78,684	73,909	6.5%
– Wholesale customers	7,544	8,557	(11.8)%
Unit of LNG sold ('000 m ³)			
– Wholesale customers	63,722	20,501	210.8%

	Six months ended 30th June, (unaudited)		Increase/ (Decrease)
	2019	2018	
Number of CNG/LNG vehicle filling stations			
– Accumulated	62	61	1
– Under construction	9	10	(1)
Unit of natural gas sold to vehicles ('000 m ³)	42,391	42,619	(0.5)%
Total length of existing intermediate and main pipelines (km)	18,796	13,118	43.3%
Average selling price of natural gas (pre-tax) (RMB per m ³)			
– Residential households	2.33	2.17	7.4%
– Industrial customers	3.03	2.76	9.8%
– Commercial customers	3.31	3.07	7.8%
– Wholesale customers	2.70	2.03	33.0%
– Wholesale customers (LNG)	2.61	2.74	(4.7)%
– CNG/LNG vehicle filling stations	3.45	3.36	2.7%
Average purchase cost of natural gas (RMB per m ³) (Note d)	2.39	2.17	10.1%
Average connection fee for residential households (RMB)			
– “Coal-to-gas” projects	3,037	2,680	13.3%
– Non “Coal-to-gas” projects	2,823	2,534	11.4%

Note a: The number of operational locations represents the gas projects with exclusive rights which are operated by the Group in different cities and regions in the PRC.

Note b: The information is quoted from the website of PRC government.

Note c: The penetration rates of residential pipeline connection represented by the percentage of the accumulated number of the Group's connected residential households to the estimated aggregate number of connectable residential households in its operation regions.

Note d: The amounts do not include the average distribution costs of natural gas, which is RMB0.23 per m³ (2018: RMB0.22 per m³).

FINANCIAL REVIEW

Overall

The Group's turnover for the six months ended 30th June, 2019 increased by 16.8% to HK\$4,321,868,000 (2018: HK\$3,699,210,000). The Group's profit attributable to owners of the Company increased by 20.8% to HK\$507,293,000 (2018: HK\$419,980,000). Excluding the net foreign exchange loss of HK\$9,876,000 (2018: HK\$91,992,000), adjusted profit attributable to owners of the Company would amount to HK\$517,169,000 (2018: HK\$511,972,000). The basic and diluted earnings per share attributable to the owners of the Company were HK19.99 cents and HK19.75 cents respectively for the six months ended 30th June, 2019, as compared with that of HK16.63 cents and HK16.41 cents respectively for the corresponding period last year.

Turnover

An analysis of the Group's turnover by products and services for the period under review, together with the comparative figures for the corresponding period last year are as follows:

	For the six months ended 30th June,				
	2019 HK\$'000	% of total	2018 HK\$'000	% of total	Increase/ (Decrease)
Sales of Gas	2,882,143	66.7%	2,250,015	60.8%	28.1%
Revenue from Gas Pipeline					
Construction	1,015,434	23.5%	1,193,700	32.3%	(14.9)%
Sales of Stoves and Other Services	251,719	5.8%	75,831	2.0%	231.9%
Operation of CNG/LNG Vehicle					
Filling Stations	<u>168,958</u>	<u>3.9%</u>	<u>176,093</u>	<u>4.8%</u>	<u>(4.1)%</u>
Sub-total	4,318,254	99.9%	3,695,639	99.9%	16.8%
Sales of Liquefied Petroleum Gas	<u>3,614</u>	<u>0.1%</u>	<u>3,571</u>	<u>0.1%</u>	<u>1.2%</u>
Total	<u><u>4,321,868</u></u>	<u><u>100%</u></u>	<u><u>3,699,210</u></u>	<u><u>100%</u></u>	<u><u>16.8%</u></u>

The turnover for the period under review amounted to HK\$4,321,868,000 (2018: HK\$3,699,210,000). The growth in turnover was mainly attributable to increase in sales of gas and sales of stoves and other services.

Sales of Gas

Sales of gas for the six months ended 30th June, 2019 amounted to HK\$2,882,143,000 (2018: HK\$2,250,015,000), representing an increase of 28.1% over the corresponding period last year.

Sales of gas for the period under review contributed 66.7% of the total turnover of the Group, as compared with the percentage of 60.8% during the corresponding period last year. Sales of gas continued to be the major source of turnover for the Group. The following table set forth the breakdown of sales of gas by customers.

Sales of gas by customers:

	For the six months ended 30th June,				
	2019	% of total	2018	% of total	Increase/ (Decrease)
	HK\$'000		HK\$'000		
Industrial customers	1,748,722	60.7%	1,429,551	63.5%	22.3%
Residential households	616,070	21.4%	449,981	20.0%	36.9%
Commercial customers	301,262	10.4%	280,147	12.5%	7.5%
Wholesale customers	23,590	0.8%	21,331	0.9%	10.6%
Wholesale customers (LNG)	192,499	6.7%	69,005	3.1%	179.0%
Total	<u>2,882,143</u>	<u>100%</u>	<u>2,250,015</u>	<u>100%</u>	<u>28.1%</u>

Industrial customers

The sales of gas to the Group's industrial customers for the period under review increased by 22.3% to HK\$1,748,722,000 from HK\$1,429,551,000 for the corresponding period last year. During the period under review, the Group connected 151 new industrial customers. The average selling price of natural gas for industrial customers for the period under review increased by 9.8% to RMB3.03 per m³ (2018: RMB2.76 per m³) when compared to the corresponding period last year. There is a continuous growth in the demand of natural gas among industrial customers under the implementation of the "coal-to-gas" conversion policy. During the period under review, the piped natural gas usage provided by the Group to its industrial customers increased by 18.6% to 490,688,000 m³ (2018: 413,654,000 m³).

The sales of gas to our industrial customers for the period under review contributed 60.7% of the total sales of gas of the Group (2018: 63.5%) and continues to be the major source of sales of gas of the Group.

Residential households

The sales of gas to our residential households for the period under review increased by 36.9% to HK\$616,070,000 from HK\$449,981,000 for the corresponding period last year. The growth in sales of gas to residential households was supported by the implementation of the “coal-to-gas” conversion policy in the Group’s existing project cities in the PRC. During the period under review, the Group provided new natural gas connections for 278,641 residential households and the piped natural gas usage provided by the Group to residential households was 228,485,000 m³ (2018: 167,578,000 m³). The demand for natural gas among residential households grew in the same pace as the accumulated number of connected piped gas customers.

The sales of gas to our residential households for the period under review contributed 21.4% of the total sales of gas of the Group (2018: 20.0%).

Commercial customers

The sales of gas to our commercial customers for the period under review increased by 7.5% to HK\$301,262,000 from HK\$280,147,000 for the corresponding period last year. The sales of gas to commercial customers for the period under review contributed 10.4% of the total sales of gas of the Group (2018: 12.5%). During the period under review, the Group connected 936 new commercial customers. As at 30th June, 2019, the number of commercial customers of the Group reached 11,948, representing an increase of 15.0% as compared with 10,386 commercial customers as at 31st December, 2018.

The average selling price of natural gas for commercial customers increased by 7.8% to RMB3.31 per m³ (2018: RMB3.07 per m³) when compared to the corresponding period last year. The increase in gas consumption of commercial customers by 6.5% to 78,684,000 m³ (2018: 73,909,000 m³) for the period under review was attributable to the increasing awareness for environmental protection.

Gas Pipeline Construction

Revenue from gas pipeline construction for the six months ended 30th June, 2019 amounted to HK\$1,015,434,000 representing a decrease of 14.9% over the corresponding period last year. The following table set forth the breakdown of revenue from gas pipeline construction by customers.

Revenue from gas pipeline construction by customers

For the six months ended 30th June,

	2019	% of total	2018	% of total	Increase/ (Decrease)
	HK\$'000		HK\$'000		
Residential households					
– “Coal-to-gas” projects	547,251	53.9%	811,796	68.0%	(32.6)%
– Non “Coal-to-gas” projects	401,801	39.6%	324,540	27.2%	23.8%
Non-residential customers	66,382	6.5%	57,364	4.8%	15.7%
Total	<u>1,015,434</u>	<u>100%</u>	<u>1,193,700</u>	<u>100%</u>	<u>(14.9)%</u>

Started from 2017, the PRC government has determined to launch the “coal-to-gas” policy as one of its major priorities to fight with air pollution. The Group has followed the “coal-to-gas” conversion policy and carried out a number of conversion projects in different regions of the PRC. In 2019, the Group selected new projects in a cautious manner and focused on projects with better profitability and recoverability. Revenue from gas pipeline construction for residential households for “coal-to-gas” projects for the six months ended 30th June, 2019 decreased by 32.6% to HK\$547,251,000 from HK\$811,796,000 for the corresponding period last year. During the period under review, the Group provided new natural gas connections for 155,818 residential households (2018: 246,189) under “coal-to-gas” projects and the average connection fee was RMB3,037 (2018: RMB2,680).

During the period under review, revenue from gas pipeline construction for residential households for non “coal-to-gas” projects increased to HK\$401,801,000 (2018: HK\$324,540,000). The growth was mainly attributable to (i) the increase in construction work for gas pipeline connection completed by the Group for residential households for non “coal-to-gas” projects to 122,823 from 104,087 for the corresponding period last year and (ii) the increase in average connection fee to RMB2,823 in 2019 from RMB2,534 in 2018.

The connection fee charged to industrial/commercial customers by the Group was significantly higher than that charged to residential households and was determined on a case-by-case basis. During the period under review, revenue from gas pipeline construction for non-residential customers increased by 15.7% to HK\$66,382,000 from HK\$57,364,000 for the corresponding period last year.

As at 30th June, 2019, the Group’s penetration rates of residential pipeline connection amounted to 66.8% (2018: 69.2%) (represented by the percentage of the accumulated number of the Group’s connected residential households to the estimated aggregate number of connectable residential households in its operation regions). In view of the favourable energy policies in the PRC, the Group is aiming to continue to increase its market coverage by acquisitions when suitable opportunities arise.

Sales of Stoves and Other Services

Sales of stoves and other services for the six months ended 30th June, 2019 amounted to HK\$251,719,000 (2018: HK\$75,831,000), representing an increase of 231.9% over the corresponding period last year. It contributed 5.8% of the total turnover of the Group, as compared with the percentage of 2.0% during the corresponding period last year.

Since 2017, the Group placed greater efforts in value-added services like sales of stoves and related equipment, which involves the sales of safe and reliable kitchenware, such as gas water heaters, gas cooking appliances and wall hung boilers, to residential customers under its own brand name, “中裕鳳凰” (Zhongyu Phoenix). With the increasing number of connected residential customers and brand recognition built in recent years, the turnover from sales of stoves and other services kept growing.

Operation of CNG/LNG Vehicle Filling Stations

The operation of CNG/LNG vehicle filling stations is facing keen competition. Revenue from operating CNG/LNG vehicle filling stations for the six months ended 30th June, 2019 amounted to HK\$168,958,000, representing a decrease of 4.1% over the corresponding period last year. In view of the increased cost of natural gas, the average selling price of natural gas for CNG/LNG vehicle filling stations for the period under review was slightly adjusted upward by 2.7% to RMB3.45 per m³ (2018: RMB3.36 per m³) when compared to the corresponding period last year to cover the rising cost. The unit of natural gas sold to vehicles remained stable at 42,391,000 m³ (2018: 42,619,000 m³) for the six months ended 30th June, 2019.

During the period under review, the turnover derived from operating CNG/LNG vehicle filling stations accounted for 3.9% (2018: 4.8%) of the total turnover of the Group. As at 30th June, 2019, the Group had 62 CNG/LNG vehicle filling stations and commenced building an additional 9 CNG/LNG vehicle filling stations in the PRC.

Gross profit margin

The overall gross profit margin for the six months ended 30th June, 2019 was 26.4% (2018: 32.0%). The decline in overall gross profit margin in current period was mainly due to decrease in the proportion of revenue from pipeline construction to total turnover.

The gross profit margin for the sales of piped natural gas reduced to 9.2% (2018: 10.1%) and the gross profit margin for the operation of CNG/LNG vehicle filling stations reduced to 8.3% (2018: 10.9%) as a result of increased average cost of natural gas from suppliers. The gross profit margin for the gas pipeline construction remained stable at 77.5% for the period under review (2018: 76.9%). The gross profit margin for sales of stoves and other services reduced to 38.4% (2018: 53.0%) because there was an increment in sales of wall hung boilers in 2019, which had lower gross profit margin than sales of other equipment and other services.

Other gains and losses

The Group recognised other net gain of HK\$13,051,000 during the period under review (2018: other net loss of HK\$96,823,000). The amount mainly represented net foreign exchange loss of HK\$9,876,000 (2018: HK\$91,992,000) arising from the Group's bank borrowings denominated in United States dollars and Hong Kong dollars as a result of the depreciation of RMB in 2019, offset by net gain on disposal of property, plant and equipment of HK\$22,927,000 (2018: HK\$624,000).

Other income

Other income increased to HK\$18,171,000 for the six months ended 30th June, 2019 compared to HK\$13,672,000 for the corresponding period last year. The balance in current period represented the bank interest income of HK\$4,731,000 (2018: HK\$3,463,000), interest income on amount due from an associate of HK\$1,500,000 (2018: HK\$1,596,000), government subsidies of HK\$2,221,000 (2018: HK\$366,000), income from investments in life insurance contracts of HK\$1,369,000 (2018: HK\$1,336,000) and sundry income of HK\$8,350,000 (2018: HK\$6,911,000).

Selling and distribution costs and administrative expenses

Selling and distribution costs increased by 5.7% to HK\$70,376,000 in 2019 from HK\$66,565,000 in 2018. Administrative expenses increased by 17.0% to HK\$205,408,000 in 2019 from HK\$175,614,000 in 2018. The increase was mainly attributable to (i) ascending staff costs and related expenses as a result of increased number of headcount and (ii) additional depreciation expenses arising from revaluation of pipelines in prior year. In 2019, the Group also recognised equity-settled share option expenses of HK\$21,901,000 (2018: HK\$30,000,000) arising from share options granted on 5th January, 2018.

Finance costs

Finance costs decreased by 9.0% to HK\$110,962,000 for the six months ended 30th June, 2019 compared to HK\$121,946,000 for the corresponding period last year. The decrease was mainly attributable to the increase in finance costs capitalised in property, plant and equipment.

Income tax expenses

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods. No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Company and its subsidiaries had no assessable profits arising in Hong Kong for both periods.

Under the EIT Law of the PRC, withholding tax is imposed on the dividend declared to non-PRC tax residents in respect of profits earned by PRC subsidiaries from 1st January, 2008 onwards. During the six months ended 30th June, 2019, no withholding tax (2018: nil) was charged by the PRC tax authority which levied on the dividends paid to overseas group entities in the previous and current periods.

Accordingly, the income tax expenses for the six months ended 30th June, 2019 amounted to HK\$226,449,000 (2018: HK\$249,657,000).

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

The Group’s EBITDA was approximately HK\$1,079,079,000 for the six months ended 30th June, 2019, representing a mild decline of 1.4% as compared with that of approximately HK\$1,094,590,000 for the corresponding period last year.

Profit attributable to owners of the Company

As a result of the above, profit attributable to owners of the Company was HK\$507,293,000 for the six months ended 30th June, 2019, representing an increase of 20.8% as compared with that of HK\$419,980,000 for the corresponding period last year.

Excluding the net foreign exchange loss of HK\$9,876,000 (2018: HK\$91,992,000), adjusted profit attributable to owners of the Company would amount to HK\$517,169,000 (2018: HK\$511,972,000).

Net profit margin

For the six months ended 30th June, 2019, the net profit margin, representing a ratio of profit attributable to owners of the Company to turnover, was 11.7% (2018: 11.4%).

Earnings per share

The basic and diluted earnings per share attributable to the owners of the Company were HK19.99 cents and HK19.75 cents respectively for the six months ended 30th June, 2019, as compared with that of HK16.63 cents and HK16.41 cents respectively for the corresponding period last year.

Net assets value per share

The net assets value per share attributable to the owners of the Company was HK\$1.73 as at 30th June, 2019, representing an increase of 11.6% as compared with that of HK\$1.55 as at 31st December, 2018.

The net assets value represents total assets minus total liabilities.

PROSPECTS

Driven by the continuous conversion of “coal-to-gas” in cities and rural areas, according to the National Development and Reform Commission of the People’s Republic of China (“NDRC”), following a robust annual growth of 18.1% in 2018, the consumption of natural gas in China for the first quarter of 2019 rose by 11.6% to 77 billion cubic meters compared to the corresponding period last year. With the steady market growth, the Group will seize opportunities to sustain its ongoing development by, (i) deepening its penetration in regions where it has core advantage and strong presence, such as Henan, Hebei and Shandong provinces; (ii) actively explore opportunities in eastern and central China, and Guangdong province; (iii) tapping into southwest regions that have great potential with large industrial gas demand and which are situated close to major gas pipelines for stable provision of gas supply; and (iv) upgrading the Group’s value-added services of selling stoves and related equipment by adding higher profit margin products and expanding its reach to the Group’s approximately 3.3 million current residential users. The Group will also be selective in potential mergers and acquisitions of suitable projects in the abovementioned regions to accelerate its growth.

The Group is positive about the development of the natural gas market as the PRC government continues its reform to liberalize the market. In May 2019, the government published the Measures on the Supervision and Administration of Fair Opening of Oil and Gas Pipeline Facilities (the “Measures”) to accelerate the reform with an aim of achieving a more efficient utilization of the national gas pipeline facilities. With the establishment of a state-controlled pipeline network company in late 2019, the transportation of gas and the sales of gas will be separated, and the pricing of transportation of gas and related services will become more transparent. This will allow third-party access to the nationwide gas pipeline network in a fair and non-discriminatory manner. As a natural gas distributor, the Group will be able to secure sufficient gas supply at a stable cost and together with the Sino-Russian East Line Natural Gas Pipeline which is expected to be completed in 2020, the gas sources for China will become more diversified, supporting a stable supply of gas throughout the year.

The development of smart energy and decentralized energy business has always been the Group's mid to long-term goal. In the first half of 2019, the Group has successfully signed two new energy supply agreements and started to develop twelve new projects on decentralized energy. Moving forward to becoming an integrated energy service provider, the Group has successfully penetrated into the electric vehicle charging business. Currently, the Group operates a total of five charging stations with 56 charging poles as of June 2019. In the future, the Group will focus on commercial complexes, hospitals, and industrial customers with high added-value production and high energy consumption for new business development, strengthen its cooperation with well-established industry leaders to diversify risks, and maintain financial discipline on cost control and receivables.

Internally, the Group is putting efforts into building an internal information system with digitalized operating data. Making use of the cloud technology, the operating information will be shared and analyzed easily, enabling the Group to better manage internal operations, resources allocation and client relationship. Specifically, the Group aims to improve efficiency in five main areas, namely, financial and funding, procurement and supply chain management, engineering integration, onsite safety management, and human resources. With the cloud platform in place, the Group is optimistic that it will help streamline the overall business flow and management, so as to optimize its provision of services to customers.

Against the ongoing trade disputes between China and the United States and other external economic uncertainties, the PRC government has implemented economic stimulus, including a value-added tax cut, to support industry growth and the domestic economy. As natural gas is one of the major clean energy sources promoted by the PRC government, its consumption is expected by the NDRC to increase 14% year-on-year in 2019, sustaining a relatively fast growth. The Group will leverage its diversified client base to increase geographical coverage, widen its product portfolio and strengthen its foothold to capture the opportunities when they arise.

Save as discussed above, there is no important event affecting the Group which have occurred since 31st December, 2018.

INTERIM DIVIDEND

The Board proposed the payment of an interim dividend of HK2 cents (2018: nil) per ordinary share for 2019 to shareholders whose names appear on the register of members of the Company on 21st, October, 2019 and the proposed interim dividend is expected to be paid in cash on 15th November, 2019.

DISCLOSURE OF INTERESTS

(a) Interests of Directors

As at 30th June, 2019, the interests and short positions of the Directors of the Company and their associates in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”)) (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) contained in the Listing Rules were as follows:

Long positions in the shares/underlying shares of the Company

Name of Directors	Notes	Number of shares and/or underlying shares	Type of interests	Approximate percentage of issued share capital (Note 10)
Mr. Wang Wenliang	1	759,714,206	Beneficial/Interest in controlled corporation/ Interest of spouse	29.91%
Mr. Xu Yongxuan	2	1,508,700	Beneficial	0.06%
Mr. Lui Siu Keung	3	21,707,179	Beneficial	0.85%
Mr. Lu Zhaocheng	4	6,040,984	Beneficial	0.24%
Mr. Li Yan	5	14,013,063	Beneficial	0.55%
Mr. Jia Kun	6	7,055,031	Beneficial	0.28%
Mr. Li Chunyan	7	1,510,761	Beneficial	0.06%
Mr. Luo Yongtai	8	1,508,700	Beneficial	0.06%
Ms. Liu Yu Jie	9	502,900	Beneficial	0.02%

Notes:

1. Among these shares and/or underlying shares, 730,451,289 shares are held by Hezhong Investment Holding Company Limited (“Hezhong”). Mr. Wang Wenliang is beneficially interested in 100% of the issued share capital of Hezhong. The remaining 18,824,616 shares and 10,438,301 shares are directly held by Mr. Wang Wenliang and his spouse respectively.
2. These underlying shares are to be allotted and issued upon exercise of the rights attaching to the 1,005,800 share options at an exercise price of HK\$0.4872 per share granted under the Old Share Option Scheme and the 502,900 share options at an exercise price of HK\$5.468 per share granted under the New Share Option Scheme.
3. These comprise 14,163,679 shares directly held by Mr. Lui Siu Keung and 7,543,500 underlying shares to be issued and allotted upon exercise of the rights attaching to the 7,543,500 share options at an exercise price of HK\$5.468 per share granted under the New Share Option Scheme.
4. These comprise 3,023,584 shares directly held by Mr. Lu Zhaoheng and 3,017,400 underlying shares to be issued and allotted upon exercise of the rights attaching to the 3,017,400 share options at an exercise price of HK\$5.468 per share granted under the New Share Option Scheme.
5. These shares are directly held by Mr. Li Yan.
6. These shares are directly held by Mr. Jia Kun.
7. These comprise 1,007,861 shares directly held by Mr. Li Chunyan and 502,900 underlying shares to be issued and allotted upon exercise of the rights attaching to the 502,900 share options at an exercise price of HK\$5.468 per share granted under the New Share Option Scheme.
8. These comprise 1,005,800 shares directly held by Dr. Luo Yongtai and 502,900 underlying shares to be issued and allotted upon exercise of the rights attaching to the 502,900 share options at an exercise price of HK\$5.468 per share granted under the New Share Option Scheme.
9. These underlying shares are to be allotted and issued upon exercise of the rights attaching to the 502,900 share options at an exercise price of HK\$5.468 per share granted under the New Share Option Scheme.
10. As at 30th June, 2019, the total number of issued shares of the Company was 2,538,217,357. Had this number been used as the denominator for calculation of directors’ interests, as at 30th June, 2019, Mr. Wang Wenliang was interested in approximately 29.93% shares/underlying shares of the Company and Mr. Lui Siu Keung was interested in approximately 0.86% shares/underlying shares of the Company. The percentage interests of the other Directors set out above remain unchanged.

Save as disclosed above, as at 30th June, 2019, none of the Directors and chief executive of the Company had or was deemed to have any interests and short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) are required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

(b) Interests of substantial shareholders of the Company

So far as is known to the Directors, as at 30th June, 2019, the following entities (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Long positions in the shares of the Company

Name of shareholder	Notes	Type of interests	Number of shares	Approximate percentage of interests (Note 4)
China Gas Holdings Limited	1	Interest of controlled corporation	1,064,783,071	41.97%
Hezhong	2	Beneficial	730,451,289	28.76%
Ms. Feng Haiyan	3	Beneficial/Interest of spouse	759,714,206	29.91%

Notes:

1. According to the disclosure of interests pages as shown in the website of the Stock Exchange as at 30th June, 2019, China Gas Holdings Limited held these shares through Rich Legend International Limited (“Rich Legend”), its wholly-owned subsidiary, and is therefore deemed to be interested in the 1,064,783,071 shares held by Rich Legend.
2. Hezhong is beneficially interested in 730,451,289 shares. Mr. Wang Wenliang is beneficially interested in 100% of the issued share capital of Hezhong.

3. Ms. Feng Haiyan directly holds 10,438,301 shares and is deemed to be interested in 749,275,905 shares under the SFO as she is the spouse of Mr. Wang Wenliang.
4. As at 30th June, 2019, the total number of issued shares of the Company was 2,538,217,357. Had this number been used as the denominator for calculation of substantial shareholder's interests, as at 30th June, 2019, China Gas Holdings Limited was interested in approximately 41.95% shares of the Company, Hezhong was interested in approximately 28.78% shares of the Company and Ms. Feng Haiyan was interested in approximately 29.93% shares of the Company.

Save as disclosed above, as at 30th June, 2019, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

COMPETING INTEREST

China Gas Holdings Limited is a substantial shareholder of the Company. For the reasons stated in the Transfer of Listing announcement of the Company dated 29th June, 2012, the Board is of the view that in so far as the existing pipeline gas projects of the Group in the PRC are concerned, the Group and China Gas Holdings Limited are not competing with each other due to the nature of the natural gas industry in the PRC. However, there may be competition between the Group and China Gas Holdings Limited in relation to the construction and operation of gas stations in the PRC in the future depending on the direction and expansion of the Group's operations and business in the PRC.

Save as stated in the Transfer of Listing announcement of the Company dated 29th June, 2012 and as mentioned above, as far as the Directors are aware, during the period under review, none of the Directors, the management shareholders or substantial shareholders of the Company or their respective associates (as defined in the Listing Rules) had any interest in a business which competed with or might compete with the business of the Group.

CORPORATE GOVERNANCE CODE

The Company has adopted the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Listing Rules. During the period under review, the Company has complied with all the applicable code provisions under the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted and complied with the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by Directors. Having made specific enquiry of all Directors, they have all confirmed their compliance with the required standard of dealings and the Model Code regarding securities transactions by Directors adopted by the Company during the six months ended 30th June, 2019.

AUDIT COMMITTEE

The Company's Audit Committee, comprising Mr. Li Chunyan, Dr. Luo Yongtai and Ms. Liu Yu Jie, as the independent non-executive Directors, has reviewed with the Company's management the accounting principles and practices adopted by the Group and financial reporting matters including a review of the unaudited consolidated results of the Group for the six months ended 30th June, 2019. There were no disagreements within the Audit Committee in relation to the accounting treatment adopted by the Company.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30th June, 2019.

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

The interim results announcement is required to be published on the website of The Hong Kong Exchanges and Clearing Limited ("HKEX") at www.hkex.com.hk under "Latest Listed Company Information" and the Company at www.zhongyugas.com under "Announcement" respectively. The interim report of the Company for the six months ended 30th June, 2019 will be despatched to the shareholders as soon as possible and will be published on the websites of the HKEX and the Company accordingly.

CLOSURE OF REGISTER OF MEMBERS

Shareholders whose names appear on the Company's register of members on Monday, 21st October, 2019, will qualify for the proposed interim dividend. The Company's transfer books and register of members will be closed from Thursday, 17th October, 2019 to Monday, 21st October, 2019 (both days inclusive) for the purpose of ascertaining shareholders' entitlement to the proposed interim dividend. In order to qualify for the proposed interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:30 p.m. on Wednesday, 16th October, 2019. The proposed interim dividend is expected to be paid on 15th November, 2019 to shareholders whose names appear on the register of members of the Company on Monday, 21st October, 2019.

BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises of Mr. Wang Wenliang (Chairman), Mr. Lui Siu Keung (Chief Executive Officer), Mr. Lu Zhaocheng, Mr. Li Yan and Mr. Jia Kun, as the executive Directors, Mr. Xu Yongxuan (Vice-Chairman), as the non-executive Director and Mr. Li Chunyan, Dr. Luo Yongtai and Ms. Liu Yu Jie, as the independent non-executive Directors.

By Order of the Board
ZHONGYU GAS HOLDINGS LIMITED
Wang Wenliang
Chairman

Hong Kong, 22nd August, 2019