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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, 2020

FINANCIAL AND OPERATIONAL HIGHLIGHTS

(Unaudited)	For the six months ended 30th June,		
	2020 HK\$'000	2019 HK\$'000	changes %
Turnover	4,276,591	4,321,868	(1.0)%
Gross profit (Gross margin)	1,265,958 (29.6%)	1,139,398 (26.4%)	11.1% 3.2%
Profit attributable to owners of the Company	513,088	507,293	1.1%
Non-HKFRS profit attributable to owners of the Company (as defined in page 29)	666,614	539,070	23.7%
Non-HKFRS EBITDA (as defined in page 29 below)	1,330,723	1,100,980	20.9%
Basic earnings per share (HK cents)	20.20	19.99	1.1%
Non-HKFRS basic earnings per share (HK cents) (as defined in page 30 below)	26.24	21.25	23.5%
Proposed interim dividend (HK cents)	2.00	2.00	—
Unit of natural gas sold ('000 m ³)	983,750	911,514	7.9%
New piped gas connections made (residential households under “coal-to-gas” projects)	192,719	155,818	23.7%
New piped gas connections made (residential households under non “coal-to-gas” projects)	171,912	122,823	40.0%

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, 2020, together with the comparative figures for the corresponding period in 2019, 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; (ii) sales of stoves and provision of other related services; and (iii) 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, 2020

		For the six months ended 30th June,	
		2020	2019
	NOTES	HK\$'000	HK\$'000
Turnover	3	4,276,591	4,321,868
Cost of sales		<u>(3,010,633)</u>	<u>(3,182,470)</u>
Gross profit		1,265,958	1,139,398
Other gains and losses	5	(153,756)	13,051
Other income	6	120,202	18,171
Selling and distribution costs		(82,663)	(70,376)
Administrative expenses		(207,406)	(205,408)
Share-based payments		–	(21,901)
Finance costs	7	(146,930)	(110,962)
Share of results of associates		23,331	14,370
Share of results of a joint venture		<u>(171)</u>	<u>(66)</u>
Profit before tax		818,565	776,277
Income tax expenses	8	<u>(259,114)</u>	<u>(226,449)</u>
Profit for the period	9	<u>559,451</u>	<u>549,828</u>
Profit for the period attributable to:			
Owners of the Company		513,088	507,293
Non-controlling interests		<u>46,363</u>	<u>42,535</u>
		<u>559,451</u>	<u>549,828</u>

		For the six months ended	
		30th June,	
		2020	2019
NOTES		HK\$'000	HK\$'000
Profit for the period		559,451	549,828
Other comprehensive expense			
Item that will not be reclassified subsequently to profit or loss:			
Exchange differences on translation from functional currency to presentation currency		<u>(83,603)</u>	<u>(79,305)</u>
Other comprehensive expense for the period		<u>(83,603)</u>	<u>(79,305)</u>
Total comprehensive income for the period		<u>475,848</u>	<u>470,523</u>
Profit for the period attributable to:			
Owners of the Company		513,088	507,293
Non-controlling interests		<u>46,363</u>	<u>42,535</u>
		<u>559,451</u>	<u>549,828</u>
Total comprehensive income attributable to:			
Owners of the Company		433,070	427,407
Non-controlling interests		<u>42,778</u>	<u>43,116</u>
		<u>475,848</u>	<u>470,523</u>
Earnings per share	11		
Basic		<u>HK20.20 cents</u>	<u>HK19.99 cents</u>
Diluted		<u>HK20.17 cents</u>	<u>HK19.75 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June, 2020

		30th June, 2020 (unaudited) HK\$'000	31st December, 2019 (audited) HK\$'000
	NOTES		
Non-current assets			
Investment properties		9,007	9,180
Property, plant and equipment		10,244,410	9,937,008
Right-of-use assets		1,005,795	1,022,284
Goodwill		404,105	411,885
Other intangible assets		1,580,552	1,646,932
Long-term deposits, prepayments and other receivables		1,279,393	1,114,217
Interest in associates		451,869	426,832
Interest in a joint venture		9,104	9,453
Financial assets at fair value through other comprehensive income		77,459	78,898
		<u>15,061,694</u>	<u>14,656,689</u>
Current assets			
Inventories		494,471	473,657
Properties under development for sale		118,074	110,871
Trade receivables	12	1,821,536	1,331,588
Deposits, prepayments and other receivables		1,262,209	1,219,926
Amount due from an associate		54,915	55,972
Amount due from a related party		8,237	8,396
Contract assets		625,811	509,321
Tax recoverable		19,293	19,366
Pledged bank deposit		164,745	—
Bank balances and cash		1,405,681	1,903,313
		<u>5,974,972</u>	<u>5,632,410</u>
Current liabilities			
Trade payables	13	1,459,087	1,219,726
Other payables and accrued charges		424,258	417,460
Amount due to an associate		982	1,001
Contract liabilities		905,280	1,097,362
Borrowings		5,328,685	4,308,237
Lease liabilities		20,020	68,744
Tax payables		89,091	78,750
		<u>8,227,403</u>	<u>7,191,280</u>
Net current liabilities		<u>(2,252,431)</u>	<u>(1,558,870)</u>
Total assets less current liabilities		<u>12,809,263</u>	<u>13,097,819</u>

	30th June, 2020 (unaudited) HK\$'000	31st December, 2019 (audited) HK\$'000
Capital and reserves		
Share capital	26,448	26,448
Reserves	<u>5,181,991</u>	<u>4,748,921</u>
Equity attributable to owners of the Company	5,208,439	4,775,369
Non-controlling interests	<u>732,667</u>	<u>660,704</u>
Total equity	<u>5,941,106</u>	<u>5,436,073</u>
Non-current liabilities		
Deferred income and advance received	6,744	6,874
Borrowings	5,828,632	6,712,973
Lease liabilities	12,439	12,678
Deferred taxation	<u>1,020,342</u>	<u>929,221</u>
	<u>6,868,157</u>	<u>7,661,746</u>
	<u>12,809,263</u>	<u>13,097,819</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2020

	Attributable to owners of the Company										
	Share capital HK\$'000	Share premium HK\$'000	Share option reserve HK\$'000	Property revaluation reserve HK\$'000	Other reserve HK\$'000 (Note i)	Statutory surplus reserve HK\$'000 (Note ii)	Translation reserve HK\$'000	Accumulated profits HK\$'000	Sub-total HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
At 1st January, 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
At 1st January, 2020 (audited)	26,448	1,644,649	13,981	1,127,420	(603,692)	169,598	72,018	2,324,947	4,775,369	660,704	5,436,073
Profit for the period	-	-	-	-	-	-	-	513,088	513,088	46,363	559,451
Other comprehensive expense for the period	-	-	-	(21,277)	-	-	(58,741)	-	(80,018)	(3,585)	(83,603)
Total comprehensive (expense) income for the period	-	-	-	(21,277)	-	-	(58,741)	513,088	433,070	42,778	475,848
Capital contribution from non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	-	29,185	29,185
At 30th June, 2020 (unaudited)	26,448	1,644,649	13,981	1,106,143	(603,692)	169,598	13,277	2,838,035	5,208,439	732,667	5,941,106

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

(ii) 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, 2020 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, 2019, 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, 2020. 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,	
	2020	2019
	HK\$'000	HK\$'000
Types of goods or services		
Sales of gas	2,723,451	2,882,143
Revenue from gas pipeline construction	1,119,765	1,015,434
Sales of stoves and other services	326,019	251,719
Sales of CNG/LNG in vehicle filling stations	104,901	168,958
Sales of liquefied petroleum gas	2,455	3,614
Total	4,276,591	4,321,868
Timing of revenue recognition		
A point in time	3,156,826	3,306,434
Over time	1,119,765	1,015,434
Total	4,276,591	4,321,868

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; (ii) sales of stoves and provision of other related services; and (iii) 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) 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 segments for the periods under review.

For the six months ended 30th June, 2020

	Sales of gas HK\$'000	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>2,723,451</u>	<u>1,119,765</u>	<u>326,019</u>	<u>104,901</u>	<u>2,455</u>	<u>4,276,591</u>
Segment profit (loss)	<u>247,394</u>	<u>695,259</u>	<u>101,245</u>	<u>(5,562)</u>	<u>66</u>	<u>1,038,402</u>
Unallocated other income						120,202
Unallocated other gains and losses						(153,526)
Unallocated central corporate expenses						(39,583)
Finance costs						<u>(146,930)</u>
Profit before tax						<u>818,565</u>

For the six months ended 30th June, 2019

	Sales of gas HK\$'000	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>	<u>941,190</u>
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>

The accounting policies of the operating segments are the same as the Group's accounting policies. Reportable segments represent the financial result of each segment without allocation of central administration costs, directors' emoluments, interest income, 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,	
	2020	2019
	HK\$'000	HK\$'000
Net foreign exchange losses	(153,526)	(9,876)
Net gain on disposal of property, plant and equipment	366	22,927
Others	(596)	—
	<u>(153,756)</u>	<u>13,051</u>

6. OTHER INCOME

	For the six months ended 30th June,	
	2020	2019
	HK\$'000	HK\$'000
Interest income from financial assets at amortised cost		
– Bank interest income	3,042	4,731
– Interest income on amount due from an associate	1,783	1,500
– Interest income on loans to employees	12,458	—
	<u>17,283</u>	<u>6,231</u>
Government subsidies (<i>Note</i>)	64,421	2,221
Income from investments in life insurance contracts	1,393	1,369
Sundry income	37,105	8,350
	<u>120,202</u>	<u>18,171</u>

Note: During the six months ended 30th June, 2020, the Group has received subsidies of HK\$64,421,000 (2019: HK\$2,221,000) from the relevant PRC governments for promoting the use of natural gas. There are no conditions attached to the subsidies granted to the Group.

7. FINANCE COSTS

	For the six months ended 30th June,	
	2020	2019
	HK\$'000	HK\$'000
Interest on borrowings	189,264	170,114
Interest on lease liabilities	<u>2,938</u>	<u>9,559</u>
	192,202	179,673
Amortisation on loan facilities fees relating to bank borrowings	<u>23,044</u>	<u>19,061</u>
Total borrowing costs	215,246	198,734
Less: Amounts capitalised in construction in progress included in property, plant and equipment	<u>(68,316)</u>	<u>(87,772)</u>
	<u><u>146,930</u></u>	<u><u>110,962</u></u>

8. INCOME TAX EXPENSES

	For the six months ended 30th June,	
	2020	2019
	HK\$'000	HK\$'000
PRC Enterprise Income Tax	<u><u>259,114</u></u>	<u><u>226,449</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% for both periods.

On 21st March, 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “Bill”) which introduced 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, 2020, no withholding tax (2019: 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,
2020 2019
HK\$'000 **HK\$'000**

Profit for the period has been arrived at after charging:

Amortisation of other intangible assets (included in cost of sales)	36,553	19,925
Depreciation of right-of-use assets	10,537	8,652
Depreciation of property, plant and equipment	<u>164,612</u>	<u>153,387</u>

10. DIVIDENDS

During the six months ended 30th June, 2020, a final dividend in respect of the year ended 31st December, 2019 of HK5 cents (2019: final dividend in respect of the year ended 31st December, 2018 of HK7 cents) per ordinary share, in an aggregate amount of HK\$132,242,000 (2019: HK\$177,675,000), 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, 2020 (2019: nil).

Subsequent to the end of reporting period, an interim dividend of HK2 cents per ordinary share for 2020 (2019: HK2 cents), in an aggregate amount of HK\$52,897,000 (2019: HK\$50,764,000), has been proposed by the Directors.

11. EARNINGS PER SHARE

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

	For the six months ended 30th June,	
	2020	2019
	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>513,088</u>	<u>507,293</u>
	For the six months ended 30th June,	
	2020	2019
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,540,405	2,537,328
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	<u>3,965</u>	<u>30,684</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>2,544,370</u>	<u>2,568,012</u>

12. TRADE RECEIVABLES

The Group allows an average credit period of 30 days (2019: 30 days) to its trade customers. The following is an aged analysis of trade receivables from contracts with customers net of allowance for credit losses presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates for sales of gas and the respective construction contracts completion dates, as appropriate:

	30th June, 2020 HK\$'000	31st December, 2019 HK\$'000
0 – 30 days	1,113,056	724,759
31 – 90 days	68,718	45,579
91 – 180 days	108,720	73,442
181 – 360 days	165,502	318,699
Over 360 days	365,540	169,109
Trade receivables	<u>1,821,536</u>	<u>1,331,588</u>

As at 30th June, 2020, total bills received amounting to HK\$40,360,000 (2019: HK\$173,569,000) 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, 2020, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK\$677,494,000 (2019: HK\$579,768,000) which are past due as at the reporting date. Out of the past due balances, HK\$586,942,000 (2019: HK\$547,013,000) has been past due 90 days or more and is not considered as in default as these are represented by the debtors without bad debt history or the PRC local governments with low credit risks. The Group does not hold any collateral over these balances.

13. TRADE PAYABLES

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

	30th June, 2020 <i>HK\$'000</i>	31st December, 2019 <i>HK\$'000</i>
0 – 30 days	730,823	592,132
31 – 90 days	159,909	228,734
91 – 180 days	135,034	120,080
Over 180 days	<u>433,321</u>	<u>278,780</u>
Trade payables	<u><u>1,459,087</u></u>	<u><u>1,219,726</u></u>

The average credit period on purchase of goods is 90 days (2019: 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, 2020, the total assets of the Group increased by HK\$747,567,000 or 3.7% to HK\$21,036,666,000 (2019: HK\$20,289,099,000).

As at 30th June, 2020, the Group has net current liabilities of HK\$2,252,431,000 (2019: HK\$1,558,870,000). Increase in net current liabilities was mainly due to increase in borrowings due within one year.

As at 30th June, 2020, the Group's current ratio, represented by a ratio of total current assets to total current liabilities, was approximately 0.7 (2019: 0.8).

As at 30th June, 2020, the total borrowings and lease liabilities increased by HK\$87,144,000 or 0.8% to HK\$11,189,776,000 (2019: HK\$11,102,632,000).

As at 30th June, 2020, the Group had total net debts of HK\$9,619,350,000 (2019: HK\$9,199,319,000), measured as total borrowings and lease liabilities minus the bank balances and cash and pledged bank deposit. As at 30th June, 2020, the Group had net gearing ratio of approximately 1.62 (2019: 1.69), measured as total net debts to total equity of HK\$5,941,106,000 (2019: HK\$5,436,073,000).

Financial resources

During the period under review, the Group entered into a loan agreement with several banks in Hong Kong, pursuant to which loan facility of up to US\$200,000,000 in total were made available to the Group.

During the six months ended 30th June, 2020, the Group generally financed its operations with internally generated resources and bank and other borrowings. As at 30th June, 2020, 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 the first half of 2020, 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, 2020, the Group did not employ any financial instruments for hedging purposes.

EMPLOYEE INFORMATION

As at 30th June, 2020, the Group had a total of 4,497 employees (2019: 4,117) in Hong Kong and the PRC, and the total employee benefit expenses (other than directors) for the period under review was approximately HK\$223,676,000 (2019: HK\$248,958,000, which included equity-settled share option expenses of HK\$21,901,000). The decrease was mainly due to the reduction in society security contribution made by the Group as PRC government waived part of employers' contribution during the COVID-19 pandemic. 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.

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, 2019: 1,005,800) 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, 2019 over the number of issued shares of the Company as at that date: 0.04%).

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

				<u>Number of share options granted under the Old Share Option Scheme</u>				
Name of Directors	Date of grant	Exercise/vesting period	Exercise price HK\$	Outstanding at 1st January, 2020	Granted during the period under review	Exercised during the period under review	Lapsed/ Cancelled during the period under review	Outstanding at 30th June, 2020
Xu Yongxuan	11th April, 2011	11th April, 2011 to 10th April, 2021	0.4872	1,005,800	–	–	–	1,005,800
				<u>1,005,800</u>	<u>–</u>	<u>–</u>	<u>–</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>–</u>	<u>–</u>	<u>HK\$0.4872</u>

The New Share Option Scheme shall be valid and effective for a period of ten years commencing on 3rd May, 2013 and will expire on 2nd May, 2023. Under the New Share Option Scheme, the Directors may offer 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.

The scheme mandate limit of the New Share Option Scheme is 252,400,768. As at the date of this announcement, 126,730,800 share options were granted, 3,017,400 share options have lapsed in accordance with the terms of the New Share Option Scheme and the number of share options outstanding was 17,098,600. The maximum number of share options which may be granted under the New Share Option Scheme is 128,687,368. The outstanding share options, if converted in full into shares of the Company, and the number of options available for future grant, if granted and converted in full, represent approximately 0.65% and 4.87% 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 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, 2020	Granted during the period under review	Exercised during the period under review	Lapsed/ Cancelled during the period under review	Outstanding at 30th June, 2020
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	17th December, 2019 to 4th January, 2028	5.468	1,508,700	–	–	–	1,508,700
				<u>17,098,600</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>17,098,600</u>
Exercisable at the end of the period								<u>17,098,600</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, 2020, certain bank borrowings were secured by the Group's trade receivables and fixed assets with the carrying amount of HK\$69,742,000 and HK\$52,467,000 respectively (2019: nil).

As at 30th June, 2020, pledged bank deposit of HK\$164,745,000 (2019: nil) was used to secure the short-term general banking facilities granted to the Group.

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITION AND DISPOSALS OF SUBSIDIARIES

During the period under review, 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, 2020, the Board did not have any specific plans for material investment or capital assets.

CAPITAL AND OTHER COMMITMENTS

As at 30th June, 2020, the capital expenditure in respect of the acquisition of property, plant and equipment and right-of-use assets contracted for but not provided in the consolidated financial statements is HK\$117,312,000 (2019: HK\$94,110,000).

CONTINGENT LIABILITIES

As at 30th June, 2020, the Group did not have any contingent liabilities (2019: nil).

BUSINESS REVIEW

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

New Downstream Piped Gas Distribution Projects

As at 30th June, 2020, the Group had 69 gas projects with exclusive rights in the PRC. No additional concession right was obtained during the period under review.

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)
	2020	2019	
Number of operational locations (<i>Note a</i>)	69	65	4
– Henan Province	28	26	2
– Hebei Province	22	21	1
– Jiangsu Province	6	6	-
– Shandong Province	4	4	-
– Jilin Province	2	2	-
– Fujian Province	1	1	-
– Heilongjiang Province	2	1	1
– Zhejiang Province	2	2	-
– Anhui Province	2	2	-
Connectable population ('000) (<i>Note b</i>)	19,363	17,110	13.2%
Connectable residential households ('000)	5,523	4,889	13.0%
New piped gas connections by the Group made during the period			
– Residential households	364,631	278,641	30.9%
(i) “Coal-to-gas” projects	192,719	155,818	23.7%
(ii) Non “Coal-to-gas” projects	171,912	122,823	40.0%
– Industrial customers	98	151	(35.1)%
– Commercial customers	631	936	(32.6)%
Accumulated number of connected piped gas customers			
– Residential households	3,849,758	3,264,628	17.9%
– Industrial customers	3,030	2,673	13.4%
– Commercial customers	14,326	11,948	19.9%
Penetration rate of residential pipeline connection (<i>Note c</i>)	69.7%	66.8%	2.9%
Unit of piped natural gas sold ('000 m ³)	898,575	805,401	11.6%
– Residential households	329,422	228,485	44.2%
– Industrial customers	500,035	490,688	1.9%
– Commercial customers	56,906	78,684	(27.7)%
– Wholesale customers	12,212	7,544	61.9%

	Six months ended 30th June, (unaudited)		Increase/ (Decrease)
	2020	2019	
Unit of LNG sold ('000 m ³)			
– Wholesale customers	52,297	63,722	(17.9)%
Number of CNG/LNG vehicle filling stations			
– Accumulated	63	62	1
– Under construction	8	9	(1)
Unit of natural gas sold to vehicles ('000 m ³)	32,878	42,391	(22.4)%
Total length of existing intermediate and main pipelines (km)	24,355	18,796	29.6%
Average selling price of natural gas (pre-tax) (RMB per m ³)			
– Residential households	2.42	2.33	3.9%
– Industrial customers	2.67	3.03	(11.9)%
– Commercial customers	3.12	3.31	(5.7)%
– Wholesale customers	2.22	2.70	(17.8)%
– Wholesale customers (LNG)	2.14	2.61	(18.0)%
– CNG/LNG vehicle filling stations	2.89	3.45	(16.2)%
Average purchase cost of natural gas (RMB per m ³) (Note d)	2.08	2.39	(13.0)%
Average connection fee for residential households (RMB)			
– “Coal-to-gas” projects	2,704	3,037	(11.0)%
– Non “Coal-to-gas” projects	2,669	2,823	(5.5)%

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 RMB0.22 per m³ (2019: RMB0.23 per m³).

FINANCIAL REVIEW

Overall

The Group's turnover for the six months ended 30th June, 2020 decreased by 1.0% to HK\$4,276,591,000 (2019: HK\$4,321,868,000). The gross profit increased to HK\$1,265,958,000 (2019: HK\$1,139,398,000) as a result of increase in gross profit margin of sales of gas and increase in new piped gas connections for the period under review. The Group's profit attributable to owners of the Company increased by 1.1% to HK\$513,088,000 (2019: HK\$507,293,000). The basic and diluted earnings per share attributable to the owners of the Company were HK20.20 cents and HK20.17 cents respectively for the six months ended 30th June, 2020, as compared with that of HK19.99 cents and HK19.75 cents respectively for the corresponding period last year.

Non-HKFRS profit attributable to owners of the Company amounted to HK\$666,614,000 (2019: HK\$539,070,000). Non-HKFRS basic and diluted earnings per share attributable to the owners of the Company for the period under review were HK26.24 cents (2019: HK21.25 cents) and HK26.20 cents (2019: HK20.99 cents) respectively.

Turnover

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

	For the six months ended 30th June,				
	2020 HK\$'000	% of total	2019 HK\$'000	% of total	Increase/ (Decrease)
Sales of Gas	2,723,451	63.7%	2,882,143	66.7%	(5.5)%
Revenue from Gas Pipeline					
Construction	1,119,765	26.2%	1,015,434	23.5%	10.3%
Sales of Stoves and Other Services	326,019	7.6%	251,719	5.8%	29.5%
Operation of CNG/LNG Vehicle					
Filling Stations	104,901	2.4%	168,958	3.9%	(37.9)%
Sub-total	4,274,136	99.9%	4,318,254	99.9%	(1.0)%
Sales of Liquefied Petroleum Gas	2,455	0.1%	3,614	0.1%	(32.1)%
Total	<u>4,276,591</u>	<u>100%</u>	<u>4,321,868</u>	<u>100%</u>	<u>(1.0)%</u>

The turnover for the period under review amounted to HK\$4,276,591,000 (2019: HK\$4,321,868,000). The increase in revenue from gas pipeline construction and sales of stoves and other services was offset by decline in sales of gas and revenue from operation of CNG/LNG vehicle filling stations.

Sales of Gas

Sales of gas for the six months ended 30th June, 2020 amounted to HK\$2,723,451,000 (2019: HK\$2,882,143,000), representing a slight decrease of 5.5% over the corresponding period last year.

Sales of gas for the period under review contributed 63.7% of the total turnover of the Group, as compared with the percentage of 66.7% 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,					
	2020	% of total	2019	% of total	Increase/ (Decrease)
	HK\$'000		HK\$'000		
Industrial customers	1,491,752	54.8%	1,748,722	60.7%	(14.7)%
Residential households	881,656	32.4%	616,070	21.4%	43.1%
Commercial customers	196,281	7.2%	301,262	10.4%	(34.8)%
Wholesale customers	29,985	1.1%	23,590	0.8%	27.1%
Wholesale customers (LNG)	123,777	4.5%	192,499	6.7%	(35.7)%
Total	<u>2,723,451</u>	<u>100%</u>	<u>2,882,143</u>	<u>100%</u>	<u>(5.5)%</u>

Industrial customers

The sales of gas to the Group's industrial customers for the period under review decreased by 14.7% to HK\$1,491,752,000 from HK\$1,748,722,000 for the corresponding period last year. During the period under review, the Group connected 98 new industrial customers. The outbreak of the COVID-19 pandemic did not have severe impact on sales of gas to industrial customers. Factories resumed production quickly in the second quarter of 2020 after the quarantine measures were lifted in the PRC. During the period under review, the piped natural gas usage provided by the Group to its industrial customers slightly increased by 1.9% to 500,035,000 m³ (2019: 490,688,000 m³). However, in response to lower cost of natural gas from suppliers, the average selling price of natural gas for industrial customers for the period under review was adjusted downward by 11.9% to RMB2.67 per m³ (2019: RMB3.03 per m³) when compared to the corresponding period last year.

The sales of gas to our industrial customers for the period under review contributed 54.8% of the total sales of gas of the Group (2019: 60.7%) 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 43.1% to HK\$881,656,000 from HK\$616,070,000 for the corresponding period last year. The growth in sales of gas to residential households was supported by the increase in construction work for gas pipeline connection and the growth in population in the Group's existing project cities in the PRC. The new residential households obtained in 2019 new projects also contributed to the growth in sales of gas during the period under review. Since the outbreak of the COVID-19 pandemic, the government has strongly urged the public to stay at home as much as possible, which boosted the gas consumption of residential households as well. During the period under review, the Group provided new natural gas connections for 364,631 residential households and the piped natural gas usage provided by the Group to residential households was increased by 44.2% to 329,422,000 m³ (2019: 228,485,000 m³). After years of promotion of clean energy heating plan, more residential households are willing to use natural gas for indoor heating in winter. The average selling price of natural gas for residential customers increased by 3.9% to RMB2.42 per m³ (2019: RMB2.33 per m³).

The sales of gas to our residential households for the period under review contributed 32.4% of the total sales of gas of the Group (2019: 21.4%).

Commercial customers

The sales of gas to our commercial customers for the period under review decreased by 34.8% to HK\$196,281,000 from HK\$301,262,000 for the corresponding period last year. The sales of gas to commercial customers for the period under review contributed 7.2% of the total sales of gas of the Group (2019: 10.4%). During the period under review, the Group connected 631 new commercial customers. As at 30th June, 2020, the number of commercial customers of the Group reached 14,326, representing an increase of 4.6% as compared with 13,695 commercial customers as at 31st December, 2019.

The demand of gas from commercial customers were adversely impacted during the COVID-19 pandemic. Restaurants, schools and recreational facilities were temporarily closed. The gas consumption of commercial customers decreased by 27.7% to 56,906,000 m³ (2019: 78,684,000 m³) for the period under review. In response to the lower cost of natural gas from suppliers, the average selling price of natural gas for commercial customers was adjusted downward by 5.7% to RMB3.12 per m³ (2019: RMB3.31 per m³) when compared to the corresponding period last year.

Gas Pipeline Construction

Revenue from gas pipeline construction for the six months ended 30th June, 2020 amounted to HK\$1,119,765,000 representing an increase of 10.3% 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,

	2020	% of total	2019	% of total	Increase/ (Decrease)
	HK\$'000		HK\$'000		
Residential households					
– “Coal-to-gas” projects	575,239	51.4%	547,251	53.9%	5.1%
– Non “Coal-to-gas” projects	506,491	45.2%	401,801	39.6%	26.1%
Non-residential customers	38,035	3.4%	66,382	6.5%	(42.7)%
Total	<u>1,119,765</u>	<u>100%</u>	<u>1,015,434</u>	<u>100%</u>	<u>10.3%</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 2020, the Group selected new projects in a more cautious manner and focused on projects with better profitability and recoverability, such as projects partly sponsored by local governments. The revenue from gas pipeline construction for residential households for “coal-to-gas” projects for the six months ended 30th June, 2020 slightly increased by 5.1% to HK\$575,239,000 from HK\$547,251,000 for the corresponding period last year. During the period under review, the Group provided new natural gas connections for 192,719 residential households (2019: 155,818) under “coal-to-gas” projects and the average connection fee was RMB2,704 (2019: RMB3,037).

During the period under review, revenue from gas pipeline construction for residential households for non “coal-to-gas” projects increased by 26.1% to HK\$506,491,000 (2019: HK\$401,801,000). The growth was mainly attributable to the increase in construction work for gas pipeline connection completed by the Group for residential households for non “coal-to-gas” projects to 171,912 from 122,823 for the corresponding period last year. The average connection fee slightly dropped to RMB2,669 in 2020 from RMB2,823 in 2019.

Despite the gentle reduction in average connection fee for residential households in 2020, the gross profit margin for gas pipeline construction remained relatively stable at 76.3%.

The connection fee charged to industrial/commercial customers by the Group was significantly higher than that charged to residential households and was determined on a case-by-case basis. During the period under review, revenue from gas pipeline construction for non-residential customers decreased by 42.7% to HK\$38,035,000 from HK\$66,382,000 for the corresponding period last year.

As at 30th June, 2020, the Group’s penetration rates of residential pipeline connection amounted to 69.7% (2019: 66.8%) (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, 2020 amounted to HK\$326,019,000 (2019: HK\$251,719,000), representing an increase of 29.5% over the corresponding period last year. It contributed 7.6% of the total turnover of the Group, as compared with the percentage of 5.8% during the corresponding period last year.

Since 2017, the Group placed greater efforts in value-added services such as sales of stoves and related equipment, which involves the sales of safe and reliable kitchenware, including gas water heaters, gas cooking appliances and wall hung boilers under its own brand name, “中裕鳳凰” (Zhongyu Phoenix), to residential customers. 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. It is expected to be a growth driver for the Group in the coming years. In April 2020, the Group established a new online shopping platform, Zhongyu iFamille (中裕i家), for gas-related services and products as well as home grocery for its residential customers to enhance user convenience.

Operation of CNG/LNG Vehicle Filling Stations

The operation of CNG/LNG vehicle filling stations is facing keen competition. During the pandemic, the domestic transport was substantially reduced. Revenue from operating CNG/LNG vehicle filling stations for the six months ended 30th June, 2020 amounted to HK\$104,901,000, representing a decrease of 37.9% over the corresponding period last year. The unit of natural gas sold to vehicles declined by 22.4% to 32,878,000 m³ (2019: 42,391,000 m³) for the six months ended 30th June, 2020. In view of the keen competition, the average selling price of natural gas for CNG/LNG vehicle filling stations for the period under review also dropped by 16.2% to RMB2.89 per m³ (2019: RMB3.45 per m³) when compared to the corresponding period last year. Moreover, international crude oil prices remained at a low level, which also brought uncertainties to the operation of CNG/LNG vehicle filling stations.

During the period under review, the turnover derived from operating CNG/LNG vehicle filling stations accounted for 2.4% (2019: 3.9%) of the total turnover of the Group. As at 30th June, 2020, the Group had 63 CNG/LNG vehicle filling stations and commenced building an additional 8 CNG/LNG vehicle filling stations in the PRC.

Gross profit margin

The overall gross profit margin for the six months ended 30th June, 2020 was 29.6% (2019: 26.4%). The increase in overall gross profit margin in current period was mainly due to increase in the proportion of revenue from pipeline construction to total turnover.

The gross profit margin for the sales of piped natural gas increased to 10.7% (2019: 9.2%) as a result of lower average cost of piped natural gas from suppliers. The Group's energy trading business has been strengthened to secure stable gas supply from different sources, which also helped to reduce average cost of natural gas. The gross profit margin for the gas pipeline construction remained stable at 76.3% for the period under review (2019: 77.5%). The gross profit margin for sales of stoves and other services increased to 44.2% (2019: 38.4%) because of increment in gross profit margin of wall hung boilers in 2020. The gross profit margin for the operation of CNG/LNG vehicle filling stations reduced to -1.3% (2019: 8.3%) as a result of decline in average selling price and temporary closure of certain vehicle filling stations due to COVID-19.

Other gains and losses

The Group recognised other net loss of HK\$153,756,000 during the period under review (2019: other net gain of HK\$13,051,000). The amount mainly represented (i) net foreign exchange loss of HK\$153,526,000 (2019: HK\$9,876,000) mainly 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 2020 and (ii) net gain on disposal of property, plant and equipment of HK\$366,000 (2019: HK\$22,927,000).

Other income

Other income increased to HK\$120,202,000 for the six months ended 30th June, 2020 compared to HK\$18,171,000 for the corresponding period last year. The balance in current period represented the bank interest income of HK\$3,042,000 (2019: HK\$4,731,000), interest income on amount due from an associate of HK\$1,783,000 (2019: HK\$1,500,000), interest income on loans to employees of HK\$12,458,000 (2019: nil), government subsidies of HK\$64,421,000 (2019: HK\$2,221,000), income from investments in life insurance contracts of HK\$1,393,000 (2019: HK\$1,369,000) and sundry income of HK\$37,105,000 (2019: HK\$8,350,000).

Selling and distribution costs and administrative expenses

Selling and distribution costs increased by 17.5% to HK\$82,663,000 in 2020 from HK\$70,376,000 in 2019. Administrative expenses increased by 1.0% to HK\$207,406,000 in 2020 from HK\$205,408,000 in 2019. The increase was mainly attributable to (i) increasing commission expenses for sales of stoves and other services; and (ii) additional depreciation expenses arisen from the revaluation of pipelines in prior year. In 2019, the Group also recognised share option expenses of HK\$21,901,000 arising from share options granted on 5th January, 2018. No share option expense was recognised in 2020.

Finance costs

Finance costs increased by 32.4% to HK\$146,930,000 for the six months ended 30th June, 2020 compared to HK\$110,962,000 for the corresponding period last year. The increase was mainly attributable to (i) the increase in average borrowings balance; and (ii) the decrease in finance costs capitalised in property, plant and equipment; but partly offset by (iii) reduction of effective interest rate.

Income tax expenses

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

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, 2020, no withholding tax (2019: 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, 2020 amounted to HK\$259,114,000 (2019: HK\$226,449,000).

Non-HKFRS EBITDA

For the purposes of this announcement, non-HKFRS EBITDA is defined as earnings from continuing operations before finance costs, taxation, depreciation, amortisation, foreign exchange gain/loss and share option expenses. Non-HKFRS EBITDA is a non-HKFRS measure used by the management for monitoring the business performance of the Group. The Company considers that the non-HKFRS EBITDA can provide shareholders and potential investors of the Company with further information on the performance of the Group in terms of its actual and ordinary business activities, and foreign exchange gain/loss and share option expenses were considered not directly resulting from the actual business activities and not indicators of the business performance of the Group. The non-HKFRS EBITDA may not be comparable to similar measures presented by other companies.

The Group’s non-HKFRS EBITDA was approximately HK\$1,330,723,000 for the six months ended 30th June, 2020, representing an increase of 20.9% as compared with that of approximately HK\$1,100,980,000 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\$513,088,000 for the six months ended 30th June, 2020, representing a mild increase of 1.1% as compared with that of HK\$507,293,000 for the corresponding period last year.

Excluding the net foreign exchange loss of HK\$153,526,000 (2019: HK\$9,876,000) and share option expenses of nil (2019: HK\$21,901,000), non-HKFRS profit attributable to owners of the Company would amount to HK\$666,614,000 (2019: HK\$539,070,000). Similar to the non-HKFRS EBITDA, the non-HKFRS profit attributable to owners of the Company is a non-HKFRS measure used by the management for monitoring the business performance of the Group and may not be comparable to similar measures presented by other companies.

Net profit margin

For the six months ended 30th June, 2020, the net profit margin, representing a ratio of profit attributable to owners of the Company to turnover, was 12.0% (2019: 11.7%).

Earnings per share

The basic and diluted earnings per share attributable to the owners of the Company were HK20.20 cents and HK20.17 cents respectively for the six months ended 30th June, 2020, as compared with that of HK19.99 cents and HK19.75 cents respectively for the corresponding period last year.

The non-HKFRS basic and diluted earnings per share attributable to the owners of the Company (calculated by reference to the non-HKFRS profit attributable to owners of the Company which excludes the net foreign exchange loss and share option expenses, if any, as the numerator) for the six months ended 30th June, 2020 were HK26.24 cents (2019: HK21.25 cents) and HK26.20 cents (2019: HK20.99 cents) respectively. Similar to the non-HKFRS EBITDA, the non-HKFRS basic and diluted earnings per share attributable to the owners of the Company are non-HKFRS measures used by the management for monitoring the business performance of the Group and may not be comparable to similar measures presented by other companies.

Net assets value per share

The net assets value per share attributable to the owners of the Company was HK\$1.97 as at 30th June, 2020, representing an increase of 8.8% as compared with that of HK\$1.81 as at 31st December, 2019.

PROSPECTS

In the PRC, as the COVID-19 pandemic has been under control since April 2020, normal daily life, business and production have gradually resumed across the country since the second quarter of 2020. Yet the increasing COVID-19 cases worldwide, together with the escalating geopolitical tensions, will continue to pose uncertainties and challenges to the global economy in the second half of 2020. Nonetheless, the Group has observed progressive recovery for manufacturing and exports activities in the PRC in the past months and expects that domestic gas consumption will continue to rebound.

At the same time, half a year after the establishment of China Oil & Gas Piping Network Corporation in Beijing, the first batch of assets acquisition was finally announced in July 2020. The acquisition of China Petroleum & Chemical Corporation and PetroChina Company Limited's gas pipelines as well as assets has officially kicked off the prelude to the integration of oil and gas pipeline assets in the PRC. The formation of an "X+1+X" structure in the natural gas industry is expected to promote multi-entities and multi-channel supply of upstream oil and gas resources, an unified pipeline network in the midstream, and to open up flexible and efficient downstream market. Coupled with the ongoing construction of the China-Russia natural gas pipelines, the PRC's natural gas market is expected to continue to grow in the next few years with abundant supply and more affordable costs.

To embrace the opportunities arisen from the industry reform and stay competitive, the Group will continuously adhere its aim to becoming an integrated energy service provider, by leveraging its core advantages in city gas operation to expand along the supply chain vertically and horizontally. The strategies are (i) deepening its penetration in covered areas and focusing on exploring M&A targets with proximity to gas sources, healthy financials, and potential to create good synergy with existing businesses to bring in more values; (ii) enriching the product and service portfolio of the Group's brand Zhongyu Phoenix (中裕鳳凰) for value-added services and establishing a new online shopping platform – Zhongyu iFamille (中裕i家) to expand the customer reach; (iii) strengthening its trading business to secure gas source and expand business scope; and (iv) continuing its development of smart energy and decentralized energy business.

For the value-added business segment that commenced operation in 2017, the segment has been actively seeking new opportunities, exploring new markets, and has achieved notable growth with high profit margin over the past years. To capitalize its huge clientele across the PRC, the Group has started to offer gas-related products such as gas-fired boilers and stoves for industrial and commercial customers to provide extra convenience and increase income sources. Taking good advantage of its renowned retail brand Zhongyu Phoenix in the communities in covered areas, the Group has established Zhongyu iFamille to build a one-stop e-shopping platform for gas-related services and products, as well as home grocery for its residential users amid the pandemic outbreak. This has further expanded the Group's business coverage and enhanced its customer stickiness and loyalty by providing greater user convenience. The Group believes that this segment will be a growth driver for the Group in the coming years, and will continue to upgrade its retail platform by expanding its product offerings as well as optimizing its logistics and user experience, hence building an all-round ecosystem for its customers.

The Group's energy trading business has been further strengthened in the past two years to secure stable gas supply to its customers all year round. With its established network with gas suppliers and the massive gas volume handled over the years, the Group's trading operation has become sophisticated with scale, and has grown its external trading businesses in the domestic market. A number of logistics subsidiaries have been set up in the PRC to support the transportation of LNG to customers in more than ten provinces including Henan, Shanxi, Shandong and Hebei. The Group will further explore opportunities in the overseas market, and will put more focus on expanding to upper stream to offer one-stop energy solutions to the market.

The development of smart energy and decentralized energy business has always been the Group's mid to long-term goal. Commercial complexes, hospitals, and industrial customers with high added-value production and high energy consumption for new business development will continue to be the Group's core focus. The Group will also utilize latest information technology and big data in understanding its customers and managing energy efficiency, in order to deliver customized solutions to customers with different needs. All these progresses would surely move the Group forward to becoming the most valuable integrated energy service provider in the PRC and stay competitive in the market.

Despite the volatile macro environment ahead, the PRC government remains determined to speed up the restructuring of the national energy structure, to build a clean, low-carbon and efficient energy system through promoting the use of clean energy for heating and imposing restrictions on the use of coal. In view of this, the Group strongly believes that the natural gas industry is still full of opportunities and great potentials. Through years of effort, the Group has established a strong brand equity and clientele in the natural gas industry. With its proven business strategies, decades of operational excellence, and experienced management, the Group will continue to deepen its engagement in the industry and commit to developing a new and unique business ecology in the market.

Save as discussed above, there is no important event affecting the Group which have occurred since 31st December, 2019.

INTERIM DIVIDEND

The Board proposed the payment of an interim dividend of HK2 cents (2019: HK2 cents) per ordinary share for 2020 to shareholders whose names appear on the register of members of the Company on 20th October, 2020 and the proposed interim dividend is expected to be paid in cash on 16th November, 2020.

DISCLOSURE OF INTERESTS

(a) Interests of Directors

As at 30th June, 2020, 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 of Hong Kong Limited (the “Stock Exchange”) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) contained in the Listing Rules were as follows:

Long positions in the shares/underlying shares of the Company

Name of Directors	Notes	Number of shares and/or underlying shares	Type of interests	Approximate shareholding interest as disclosed under the SFO (Note 10)
Mr. Wang Wenliang	1	761,399,206	Beneficial/Interest in controlled corporation/ Interest of spouse	28.79%
Mr. Xu Yongxuan	2	1,508,700	Beneficial	0.06%
Mr. Lui Siu Keung	3	21,707,179	Beneficial	0.85%
Mr. Lu Zhaoheng	4	6,040,984	Beneficial	0.24%
Mr. Li Yan	5	14,013,063	Beneficial	0.55%
Mr. Jia Kun	6	7,055,031	Beneficial	0.28%
Mr. Li Chunyan	7	1,510,761	Beneficial	0.06%
Dr. Luo Yongtai	8	1,508,700	Beneficial	0.06%
Ms. Liu Yu Jie	9	502,900	Beneficial	0.02%

Notes:

1. Among these shares and/or underlying shares, 731,636,289 shares were held by Hezhong Investment Holding Company Limited (“Hezhong”). Mr. Wang Wenliang was beneficially interested in 100% of the issued share capital of Hezhong. The remaining 19,324,616 shares and 10,438,301 shares were directly held by Mr. Wang Wenliang and his spouse respectively.
2. These underlying shares issuable 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 issuable upon exercise of the rights attaching to the 7,543,500 share options at an exercise price of HK\$5.468 per share granted under the New Share Option Scheme.
4. These comprise 3,023,584 shares directly held by Mr. Lu Zhaoheng and 3,017,400 underlying shares issuable upon exercise of the rights attaching to the 3,017,400 share options at an exercise price of HK\$5.468 per share granted under the New Share Option Scheme.
5. These shares 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 issuable upon exercise of the rights attaching to the 502,900 share options at an exercise price of HK\$5.468 per share granted under the New Share Option Scheme.
8. These comprise 1,005,800 shares directly held by Dr. Luo Yongtai and 502,900 underlying shares issuable upon exercise of the rights attaching to the 502,900 share options at an exercise price of HK\$5.468 per share granted under the New Share Option Scheme.
9. These underlying shares are issuable upon exercise of the rights attaching to the 502,900 share options at an exercise price of HK\$5.468 per share granted under the New Share Option Scheme.
10. As at 30th June, 2020, the total number of issued shares of the Company was 2,644,832,157. Had this number been used as the denominator for calculation of directors’ interests, the shareholding interests of Mr. Lui Siu Keung, Mr. Lu Zhaoheng, Mr. Li Yan and Mr. Jia Kun as at 30th June, 2020 would have been slightly different in percentage ratio (namely 0.82%, 0.23%, 0.53% and 0.27%, respectively), while the percentage ratio for the other Directors remains the same.

Save as disclosed above, as at 30th June, 2020, 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, 2020, the following entities (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Long positions in the shares of the Company

Name of shareholder	Notes	Type of interests	Number of shares	Approximate shareholding interest as disclosed under the SFO
				(Note 4)
China Gas Holdings Limited	1	Interest of controlled corporation	1,057,905,071	40.00%
Hezhong	2	Beneficial	731,636,289	27.66%
Ms. Feng Haiyan	3	Beneficial/Interest of spouse	761,399,206	28.79%

Notes:

1. According to the disclosure of interests pages as shown in the website of the Stock Exchange as at 30th June, 2020, China Gas Holdings Limited held these shares through Rich Legend International Limited ("Rich Legend"), its wholly-owned subsidiary, and is therefore deemed to be interested in the 1,057,905,071 shares held by Rich Legend.
2. Hezhong was beneficially interested in 731,636,289 shares. Mr. Wang Wenliang was beneficially interested in 100% of the issued share capital of Hezhong.
3. Ms. Feng Haiyan directly held 10,438,301 shares and was deemed to be interested in 750,960,905 shares under the SFO as she is the spouse of Mr. Wang Wenliang.
4. As at 30th June, 2020, the total number of issued shares of the Company was 2,644,832,157.

Save as disclosed above, as at 30th June, 2020, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

CORPORATE GOVERNANCE CODE

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted and complied with the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by Directors. Having made specific enquiry of all Directors, they have all confirmed their compliance with the required standard of dealings and the Model Code regarding securities transactions by Directors adopted by the Company during the six months ended 30th June, 2020.

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, 2020. 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, 2020.

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, 2020 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 Tuesday, 20th October, 2020 will qualify for the proposed interim dividend. The Company's transfer books and register of members will be closed from Monday, 19th October, 2020 to Tuesday, 20th October, 2020 (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 Friday, 16th October, 2020. The proposed interim dividend is expected to be paid on Monday, 16th November, 2020 to shareholders whose names appear on the register of members of the Company on Tuesday, 20th October, 2020.

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, 20th August, 2020