

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



元亨燃氣

YUANHENG GAS

YUAN HENG GAS HOLDINGS LIMITED

元亨燃氣控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 332)

**INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017**

The Board of Directors (“the Board”) of Yuan Heng Gas Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2017 (the “Period”), together with the comparative figures, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Six months ended 30 September	
	<i>Notes</i>	2017	2016
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Turnover	3	4,289,932	3,821,558
Operating costs	4	(4,218,060)	(3,793,259)
Gross profit		71,872	28,299
Other income	5	72,521	26,005
Other gains and losses		3,267	4,863
Distribution and selling expenses		(3,705)	(4,269)
Administrative expenses		(32,030)	(31,283)
Share of results of associates		(5,694)	(1,899)
Finance costs		(17,872)	(20,807)

		Six months ended	
		30 September	
		2017	2016
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Profit before tax	7	88,359	909
Income tax (expense) credit	8	(20,989)	910
		<hr/>	<hr/>
Profit for the period		67,370	1,819
Other comprehensive income for the period			
<i>Items that may be reclassified subsequently</i>			
<i>to profit or loss:</i>			
Exchange differences arising on translation		(841)	413
		<hr/>	<hr/>
Total comprehensive income for the period		66,529	2,232
		<hr/>	<hr/>
Profit(loss) for the period attributable to:			
Owners of the Company		59,062	4,957
Non-controlling interests		8,308	(3,138)
		<hr/>	<hr/>
		67,370	1,819
		<hr/>	<hr/>
Total comprehensive income(expense) attributable to:			
Owner of the Company		58,221	5,370
Non-controlling interests		8,308	(3,138)
		<hr/>	<hr/>
		66,529	2,232
		<hr/>	<hr/>
Earnings per share (RMB cents)	<i>10</i>		
– Basic		0.906	0.087
		<hr/>	<hr/>
– Diluted		0.906	0.087
		<hr/>	<hr/>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 30 September 2017	As at 31 March 2017
	<i>Notes</i>	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	<i>13</i>	768,665	788,127
Prepaid lease payments		36,809	37,309
Goodwill		34,070	34,070
Intangible asset		7,968	8,166
Interests in associates		150,868	136,562
Long-term receivable		5,138	37,325
Deposits paid for acquisition of an associate		190,748	190,748
Deferred tax assets		–	576
Available-for-sale investment		202,200	202,200
		<u>1,396,466</u>	<u>1,435,083</u>
CURRENT ASSETS			
Inventories		25,211	26,784
Trade and other receivables	<i>11</i>	1,935,191	821,839
Prepaid lease payments		1,362	1,362
Long-term receivable due within one year		60,937	59,181
Amounts due from non-controlling equity owners of subsidiaries		8,194	12,810
Amount due from a related party		–	1,878
Amount due from an associate		7,450	–
Pledged bank deposits		236,109	186,099
Bank balances and cash		47,835	463,222
		<u>2,322,289</u>	<u>1,573,175</u>

		As at 30 September 2017 <i>RMB'000</i> (Unaudited)	As at 31 March 2017 <i>RMB'000</i> (Audited)
CURRENT LIABILITIES			
Trade and other payables	12	1,902,139	1,149,753
Amounts due to associates		13,553	12,949
Tax payable		64,637	56,915
Bank and other borrowings due within one year	14	283,740	415,708
Convertible bond		68,263	65,200
Embedded derivatives		3,313	15,547
		<u>2,335,645</u>	<u>1,716,072</u>
NET CURRENT LIABILITIES		<u>(13,356)</u>	<u>(142,897)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,383,110</u>	<u>1,292,186</u>
CAPITAL AND RESERVES			
Share capital	15	549,014	549,014
Reserves		693,209	634,988
Equity attributable to owners of the Company		1,242,223	1,184,002
Non-controlling interests		93,753	79,645
TOTAL EQUITY		<u>1,335,976</u>	<u>1,263,647</u>
NON-CURRENT LIABILITIES			
Deferred tax liabilities		7,134	4,539
Bank and other borrowings due after one year	14	40,000	24,000
		<u>47,134</u>	<u>28,539</u>
		<u>1,383,110</u>	<u>1,292,186</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company									
	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Other reserve <i>RMB'000</i> <i>(note a)</i>	Statutory surplus reserve <i>RMB'000</i> <i>(note b)</i>	Designated safety fund <i>RMB'000</i> <i>(note c)</i>	Translation reserve <i>RMB'000</i>	(Accumulated losses) retained earnings <i>RMB'000</i>	Total <i>RMB'000</i>	Non- controlling interests <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 April 2016 (audited)	475,031	4,031,177	(3,775,606)	27,108	20,328	2,619	(7,389)	773,268	105,332	878,600
Profit (loss) for the period	-	-	-	-	-	-	4,957	4,957	(3,138)	1,819
Other comprehensive income for the period	-	-	-	-	-	413	-	413	-	413
Total comprehensive income (expense) for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>413</u>	<u>4,957</u>	<u>5,370</u>	<u>(3,138)</u>	<u>2,232</u>
Transfer to designated safety fund	-	-	-	-	7,205	-	(7,219)	(14)	-	(14)
At 30 September 2016 (unaudited)	<u>475,031</u>	<u>4,031,177</u>	<u>(3,775,606)</u>	<u>27,108</u>	<u>27,533</u>	<u>3,032</u>	<u>(9,651)</u>	<u>778,624</u>	<u>102,194</u>	<u>880,818</u>
At 1 April 2017 (audited)	549,014	4,452,014	(3,775,606)	28,255	27,714	3,124	(100,513)	1,184,002	79,645	1,263,647
Profit for the period	-	-	-	-	-	-	59,062	59,062	8,308	67,370
Other comprehensive expense for the period	-	-	-	-	-	(841)	-	(841)	-	(841)
Total comprehensive income (expense) for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(841)</u>	<u>59,062</u>	<u>58,221</u>	<u>8,308</u>	<u>66,529</u>
Capital injection by non-controlling interests	-	-	-	-	-	-	-	-	5,800	5,800
Transfer to designated safety fund	-	-	-	-	6,130	-	(6,130)	-	-	-
At 30 September 2017 (unaudited)	<u>549,014</u>	<u>4,452,014</u>	<u>(3,775,606)</u>	<u>28,255</u>	<u>33,844</u>	<u>2,283</u>	<u>(47,581)</u>	<u>1,242,223</u>	<u>93,753</u>	<u>1,335,976</u>

Notes:

- (a) Other reserve of the Group mainly represents (i) the financial impact of adopting merger accounting for the acquisition of Union Honor Limited (“UHL”) and its subsidiaries and (ii) a debit arising from the deemed distribution to shareholder which represents the cash consideration of the acquisition of UHL of HK\$70,000,000 (equivalent to RMB55,595,000) paid to the vendor during the year ended 31 March 2014.
- (b) In accordance with the relevant laws and regulations of the People’s Republic of China (the “PRC”) and the Articles of Association of certain subsidiaries of the Company, they are required to provide for PRC statutory reserves, by way of appropriations from their respective statutory net profit (based on their PRC statutory financial statements) but before dividend distributions. They are required to transfer 10% of the profit after taxation to the statutory reserves. The appropriation to the statutory surplus reserve may cease if the balance of the statutory surplus reserve has reached 50% of the registered capital of the relevant companies. The statutory surplus reserve can be used to make up prior year losses, if any, and can be applied in conversion into capital by means of a capitalisation issue. However, when converting the statutory surplus reserve into capital, the remaining balance of such reserve must not be less than 25% of the registered capital of the relevant companies.
- (c) Pursuant to the relevant PRC regulation, certain subsidiaries are required to transfer a certain percentage based on a progressive rate on revenue generated from manufacturing and transportation of gas or other dangerous chemical into a designated fund. The fund will be used for installation and repair and maintenance of safety facilities. The movement during the period represents the difference between the amounts provided based on the relevant PRC regulation and the amount utilised during the period.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended	
	30 September	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Net cash (used in) from operating activities	<u>(360,453)</u>	<u>92,029</u>
Net cash used in investing activities	<u>(31,891)</u>	<u>(59,970)</u>
Net cash used in financing activities	<u>(22,208)</u>	<u>(23,306)</u>
Net (decrease) increase in cash and cash equivalents	(414,552)	8,753
Cash and cash equivalents at 1 April	463,222	61,129
Effect of foreign exchange rate changes, net	<u>(835)</u>	<u>408</u>
Cash and cash equivalents at 30 September	<u>47,835</u>	<u>70,290</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (the “HKAS”) No. 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the applicable disclosure requirements set out in Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Group reported a consolidated profit attributable to owners of the Company of approximately RMB59,062,000 for the six months ended 30 September 2017 (for the six months ended 30 September 2016: RMB4,957,000) and as at 30 September 2017 the Group had net current liabilities of approximately RMB13,356,000 (As at 31 March 2017: RMB142,897,000).

2. SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements.

The accounting policies adopted in the preparation of these condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2017, except for the first time of the following new Interpretation and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) that are relevant for the preparation of the Group’s condensed consolidated financial statements.

Amendments to HKAS 7	<i>Disclosure Initiative;</i>
Amendments to HKAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses; and</i>
Amendments to HKFRS 12	<i>Disclosure of Interests in Other Entities.</i>
included in Annual Improvements 2014-2016 Cycle	

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

3. TURNOVER

	Six months ended	
	30 September	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
The Group's turnover includes:		
Gross proceeds from oil and gas sales contracts (<i>note</i>)	2,787,839	2,486,728
Revenue from sales of goods		
– Wholesale of LNG	1,407,928	1,247,894
– Vehicle gas refuelling stations	7,222	4,484
– Sales of piped gas	80,562	76,265
Revenue from provision of services		
– LNG transportation	5,317	6,187
– Construction of gas pipeline infrastructure	1,064	–
	4,289,932	3,821,558

Note: The net income from oil and gas contracts for the period is RMB5,833,000 (six months ended 30 September 2016: RMB13,477,000) which is derived from the gross proceeds from oil and gas sales contracts of RMB2,787,839,000 (six months ended 30 September 2016: RMB2,486,728,000) minus the gross amounts of oil and gas purchase contracts of RMB2,782,006,000 (six months ended 30 September 2016: RMB2,473,251,000).

4. OPERATING COSTS

	Six months ended	
	30 September	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
The Group's operating costs includes:		
Gross amount from oil and gas purchase contracts	2,782,006	2,473,251
Cost of sales of goods	1,424,751	1,308,443
Cost of provision of services	11,303	11,565
	4,218,060	3,793,259

5. OTHER INCOME

	Six months ended	
	30 September	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest income from:		
– banks	1,143	1,272
– long-term receivables	1,756	–
– deposits paid for acquisition of an associate (<i>note a</i>)	43,612	–
– advances to suppliers	–	12,803
	<u>46,511</u>	<u>14,075</u>
Impairment loss reversed in respect of a receivable	6,716	11,930
Damages claim (<i>note b</i>)	19,075	–
Others	219	–
	<u>72,521</u>	<u>26,005</u>

Note a: The amount represents the deposit paid by the subsidiary for acquisition of 11.5% equity interest of Quanzhou Zhenrong Petrochemical Storage Company Limited which is interest bearing according to the Cooperation Agreement. Details of which were set out in note 17.

Note b: The amount represents the damages for breach of the relevant agreements according to the Cooperation Agreement. Details of the damages claim were set out in note 17.

6. SEGMENT INFORMATION

The Group is organised into business units based on the types of customers and methods used to distribute their products and provide their services, based on which information is prepared and reported to the chief operating decision maker (“CODM”), the directors of the Company, for the purposes of resource allocation and assessment of performance. Segment profit/loss represents the profit earned by/loss from each segment without allocation of central administration costs, share of results of associates, interest income, finance costs and gain on bargain purchase. This is the measure reported to the CODM. The accounting policies of the reportable segments are the same as the Group’s accounting policies. The Group’s operating and reportable segments under HKFRS 8 Operating Segments are as follows:

Production and sales of Liquefied natural gas (“LNG”)	Wholesale of LNG
Oil and gas transactions	Entering into oil and gas sales and purchase contracts
Other operations	Vehicle gas refuelling stations, sales of piped gas, LNG transportation, construction of gas pipeline infrastructure

Segments turnover and results

For the six months ended 30 September 2017

	Production and sales of LNG RMB'000 (Unaudited)	Oil and gas transactions RMB'000 (Unaudited)	Others operations RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Segment turnover from external customers	1,407,928	2,787,839	94,165	4,289,932
Inter-segment turnover	<u>123,065</u>	–	–	<u>123,065</u>
Segment turnover	<u>1,530,993</u>	<u>2,787,839</u>	<u>94,165</u>	4,412,997
Elimination				<u>(123,065)</u>
Total turnover				<u>4,289,932</u>
Segment results	<u>44,800</u>	<u>3,018</u>	<u>18,654</u>	66,472
Interest income				46,511
Share of result of associates				(5,694)
Finance costs				(17,872)
Unallocated corporate expenses				<u>(1,058)</u>
Profit before tax				<u>88,359</u>

For the six months ended 30 September 2016

	Production and sales of LNG <i>RMB'000</i> (Unaudited)	Oil and gas transactions <i>RMB'000</i> (Unaudited)	Others operations <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
Segment turnover from external customers	1,247,894	2,486,728	86,936	3,821,558
Inter-segment turnover	7,345	–	–	7,345
Segment turnover	<u>1,255,239</u>	<u>2,486,728</u>	<u>86,936</u>	3,828,903
Elimination				<u>(7,345)</u>
Total turnover				<u>3,821,558</u>
Segment results	<u>543</u>	<u>12,561</u>	<u>(3,284)</u>	9,820
Interest income				14,075
Share of result of associates				(1,899)
Finance costs				(20,807)
Unallocated corporate expenses				<u>(280)</u>
Profit before tax				<u>909</u>

Segment assets and liabilities

Information of the operating segments of the Group reported to the CODM for the purposes of resource allocation and performance assessment does not include any assets and liabilities. Accordingly, no segment assets and liabilities information are presented.

Geographical segments

The following table provides an analysis of the Group's segment turnover by geographical location of customers irrespective of the origin of the goods delivered or services rendered and the Group's non-current assets by geographical location of the assets:

	Turnover							
	Production and sales of LNG		Oil and gas transactions		Other operations		Non-current assets*	
	Six months ended 30 September		Six months ended 30 September		Six months ended 30 September		As at 30 September	As at 31 March
	2017	2016	2017	2016	2017	2016	2017	2017
<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	
The PRC, other than Hong Kong	1,407,928	1,247,894	–	112,361	94,165	86,936	1,189,060	1,194,855
Singapore	–	–	2,787,839	2,374,367	–	–	–	–
Hong Kong	–	–	–	–	–	–	68	127
	<u>1,407,928</u>	<u>1,247,894</u>	<u>2,787,839</u>	<u>2,486,728</u>	<u>94,165</u>	<u>115,965</u>	<u>1,189,128</u>	<u>1,194,982</u>

* Non-current assets exclude financial instruments and deferred tax assets.

7. PROFIT BEFORE TAX

	Six months ended	
	30 September	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit before taxation has been arrived at after charging (crediting):		
Amortisation of intangible assets	198	197
Amortisation of prepaid lease payments	500	858
Cost of inventories recognised as an expense	1,424,751	342,201
Depreciation of property, plant and equipment	30,839	30,566
Directors' emoluments	1,873	1,817
Operating lease payment in respect of office premises	1,336	1,282
Salaries and other benefits	14,590	20,993
Retirement benefits contributions	2,212	2,845
Total staff costs (excluding directors' emoluments)	<u>16,802</u>	<u>23,838</u>
Exchange (loss) gain	(8,967)	698
Gain on fair value change of embedded derivatives	<u>12,234</u>	<u>4,165</u>
Other gains	<u>3,267</u>	<u>4,863</u>

8. INCOME TAX (EXPENSE) CREDIT

	Six months ended	
	30 September	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
The (charge) credit comprises:		
Current taxation		
Hong Kong	(363)	(652)
PRC Enterprise Income Tax ("EIT")	<u>(18,463)</u>	<u>(3,635)</u>
	(18,826)	(4,287)
Deferred taxation		
Current year	<u>(2,163)</u>	<u>5,197</u>
	<u>(20,989)</u>	<u>910</u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both interim periods.

PRC EIT has been provided at the applicable income tax rate of 25% on the assessable profits of the companies comprising the Group during the periods, except for certain subsidiaries of the Group, namely, 鄂爾多斯市星星能源有限公司 (“Xingxing Energy”), 達州市匯鑫能源有限公司 (“Huixin Energy”) and 貴州華亨能源投資有限公司 (“Huaheng Energy”) which are taxed at concessionary rate in certain periods.

As set out below, the applicable EIT concessionary rate for Xingxing Energy, Huixin Energy and Huaheng Energy is 15%, which are under the preferential tax treatment that given to companies established in the western regions in the PRC and derived at least 70% of their total income from their main business in oil and gas industry which falling within the list of encouraged industries specified by the PRC government.

Xingxing Energy was registered with the local tax authority to be eligible to the reduced 15% enterprise income tax rate from 2013 to 2020. Accordingly, Xingxing Energy is eligible for the EIT of 15% (2016: 15%).

Huixin Energy was registered with the local tax authority to be eligible to the reduced 15% enterprise income tax rate from 2012 to 2020. Accordingly, Huixin Energy is eligible for the EIT of 15% (2016: 15%).

Huaheng Energy was entitled to a 15% preferential rate from since its establishment on 24 June 2011 with no definite period and subject to annual review and approval of local tax authority.

9. DIVIDEND

No dividend was paid, declared or proposed during both interim periods, nor has any dividend been proposed since the end of the reporting period.

10. EARNINGS PER SHARE

The calculation of the basic earnings per share for the six months ended 30 September 2017 is based on the profit attributable to owners of the Company of approximately RMB59,062,000 (for the six months ended 30 September 2016: approximately RMB4,957,000) and the weighted average number of 6,518,338,925 (as at 30 September 2016: 5,683,635,248) ordinary shares in issue during the period.

The computation of diluted earnings per share for the six months ended 30 September 2017 and 2016 does not assume the conversion of the Company’s outstanding convertible bond since their exercise would not result in a decrease in earnings per share.

11. TRADE AND OTHER RECEIVABLES

The Group generally requires prepayments made by customers before delivery of goods or provision of services, except for certain customers to which the Group allows an average credit period of 30 to 180 days. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the date of delivery of goods or rendering of services which approximated the respective dates on which revenue was recognised.

Trade receivables arose from oil and gas sales contracts which are either settled by letter of credit or bills issued by banks with high credit-ratings assigned by international credit-rating agencies and are receivable with an average credit period ranging from seven days to six months after the bills of lading date of delivery or by telegraphic transfer.

The following is an aged analysis of these receivables presented, based on the invoice date, at the end of the reporting period.

	As at 30 September 2017 RMB'000 (Unaudited)	As at 31 March 2017 RMB'000 (Audited)
Within 30 days	408,791	373,365
31 – 90 days	428,494	991
91 – 180 days	507,944	2,688
Over 180 days	28,352	28,601
	<u>1,373,581</u>	<u>405,645</u>

12. TRADE AND OTHER PAYABLES

Trade payables arisen from oil and gas purchase contracts are granted by suppliers with an average credit period ranging from seven days to six months after the bills of lading date of delivery, and trade payables arisen from production and sales of LNG are granted by suppliers with an average credit period ranging from 30 days to 90 days after the bills of lading date of delivery.

Besides, certain suppliers will also require to have prepayments received before the supply of materials. The Group will arrange for certain of its prepayments or settlement of trade payable by bills payables.

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

	As at 30 September 2017 RMB'000 (Unaudited)	As at 31 March 2017 RMB'000 (Audited)
Within 90 days	969,510	303,401
91 – 180 days	221	2,643
181 – 365 days	1,431	1,945
Over 1 years	1,738	1,922
	<u>972,900</u>	<u>309,911</u>

13. PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group spent approximately RMB1,156,000 (for the six months ended 30 September 2016: approximately RMB3,140,000) on property, plant and equipment.

14. BANK AND OTHER BORROWING

During the current interim period, the Group obtained new bank and other loans amounting to approximately RMB147 million (for the six months ended 30 September 2016: approximately RMB85 million). The loans carry interest at fixed/variable market rates of 3.73%–7.20% and are repayable in instalments over a period of one to five years. During the current interim period, the Group repaid bank and other loans amounting to approximately RMB263 million (for the six months ended 30 September 2016: approximately RMB83 million).

15. SHARE CAPITAL

	Number of shares '000 (Unaudited)	Share capital RMB'000 (Unaudited)
THE COMPANY		
Ordinary shares, issued and fully paid:		
At 1 April 2017 and 30 September 2017, shares of HK\$0.10 each	<u>6,518,339</u>	<u>549,014</u>

16. RELATED PARTIES TRANSACTIONS

	Six months ended 30 September	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Sales of LNG to related parties	<u>–</u>	<u>26,601</u>
Purchase of oil and gas contract from related parties	<u>–</u>	<u>11,329</u>
Purchase of LNG from related parties	<u>–</u>	<u>142,397</u>
Purchase LNG from an associate	<u>72,940</u>	<u>42,371</u>
Services provided to a related party	<u>–</u>	<u>515</u>

17. EVENTS AFTER THE REPORTING PERIOD

On the maturity day, the Company redeemed the entire outstanding Convertible Bonds in an aggregate principal amount of USD10,000,000 together with all interest accrued but unpaid, and such Convertible Bonds have thereafter been cancelled in accordance with the terms and conditions of the Convertible Bonds. Details of the redemption were set out in the Company's announcement dated 23 October 2017.

On 9 November 2017, Ju Yuan, an indirect wholly-owned subsidiary of the Company, received an Arbitral Award from the China Guangzhou Arbitration Commission in relation to the claim of return of the Investment under the Cooperation Agreement between Ju Yuan against Zhenrong Storage, Quanzhou Terminal and Forever Fortune. Under the Arbitral Award, the Respondents should jointly and severally pay to Ju Yuan the Investment together with interest thereon, damages and costs related to the Arbitration. Details of the Arbitral Award were set out in the Company's announcements dated 9 August 2017, 13 September 2017 and 15 November 2017.

DIVIDEND

The Board of Directors have resolved not to declare an interim dividend for the six months ended 30 September 2017 (for the six months ended 30 September 2016: nil).

MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

BUSINESS REVIEW

Group results

During the period from 1 April 2017 to 30 September 2017 (the "Period") and at present, the Group has been principally engaged in (i) trading of oil and gas products and the provision of related consultancy services; and (ii) processing, distribution, sales, trading and transportation of LNG and other auxiliary operations and networks in the PRC.

During the Period, the Group recorded an unaudited consolidated turnover of approximately RMB4,290 million (six months ended 30 September 2016: approximately RMB3,822 million) with profit after tax of approximately RMB67 million (six months ended 30 September 2016: approximately RMB2 million), mainly contributed by the production and sales of LNG and the trading of oil and gas business.

Production and sales of LNG

During the Period, the Group produced approximately 254,800,000 cubic meters of LNG, representing an increase of approximately 44,000,000 cubic meters or 20.9% compared with the same period of last year. The turnover from the sales of LNG business for the Period was approximately RMB1,408 million, representing an increase of approximately RMB160 million or 12.8% compared with the same period of last year, contributing approximately 32.8% of the total turnover of the Group. Moreover, gross profit increased by approximately RMB53 million to approximately RMB63 million (six months ended 30 September 2016: approximately RMB10 million), with gross profit margin increased from approximately 0.8% to approximately 4.4%.

The increase in the sales of LNG and improve in the gross profit margin was predominantly due to (i) the implementation of China's air pollution control action plan, in particular the shift from coal to gas lead to a steady growth in the consumption demand for natural gas in China; and (ii) the continuous accelerating the supply-side structure reform (e.g. pricing) by the PRC government.

Oil and gas transactions

During the Period, revenue arising from oil and gas transactions increased to approximately RMB2,788 million from approximately RMB2,487 million, representing a increase of approximately RMB301 million or 12.1% from the six month ended 30 September 2016. Gross profit, however, decreased to approximately RMB6 million from approximately RMB13 million, with gross profit margin decreased from approximately 0.54% to approximately 0.21% as a result of the fluctuation of oil and gas prices at the industry low range.

Given the volatility of the oil prices and the nature of the oil trading contracts, the management will continue to adopt cautionary steps while seeking for profitable trading opportunities.

Prospect

Along with the continuous adjustment of energy consumption structure and promotion of the clean energy, the development of the natural gas industry and demand of natural gas will maintain steady growth. The Group expects that the reforms in the natural gas market as well as the call for "coal to gas" policy would be conducive to the market environment, in which the Group operates.

The management is mindful of the market environment and will continue to adopt cautionary steps and implement various strategies to mitigate the adverse impact on the business arising from challenges as in this market condition. Looking forward, the Group will continue to develop its businesses in natural gas sector and to explore new business opportunities in order to create value for its shareholders.

FINANCIAL REVIEW

Turnover

The Group's turnover for the period ended 30 September 2017 was approximately RMB4,290 million (six months ended 30 September 2016: approximately RMB3,822 million). The increase in turnover was mainly attributable to the increase in revenue from the oil and gas transaction which reported a turnover of approximately RMB2,788 million during the Period (six months ended 30 September 2016: approximately RMB2,487 million).

Gross Profit

Gross profit for the period ended 30 September 2017 was approximately RMB72 million (six months ended 30 September 2016: approximately RMB28 million). The increase in gross profit was primarily due to the increase of the LNG price. The Group's gross profit margin for the six months ended 30 September 2017 increased from approximately 0.7% (six months ended 30 September 2016) to approximately 1.7%.

Other Income

Other income for the period ended 30 September 2017 was approximately RMB73 million (six months ended 30 September 2016: approximately RMB26 million). The increase in other income is mainly due to the non-recurring interest income and damages claim from deposit paid for acquisition of an associate.

Administrative Expenses

The Group's administrative expenses for the period ended 30 September 2017 amounted to approximately RMB32 million (six months ended 2016: approximately RMB31 million), which was flat with the same period in last year.

Finance Costs

The Group incurred finance costs of approximately RMB18 million during the Period (six months ended 30 September 2016: approximately RMB21 million), representing a decrease of approximately 14.1%. The decrease was mainly due to the decrease in the interest on bank borrowings.

Income Tax Expenses

For the period ended 30 September 2017, income tax expenses of the Group approximately RMB21 million (six months ended 2016: tax credit of approximately RMB0.9 million) represent an increase of approximately RMB22 million. The increase was mainly due to an increase in the taxable income.

Profit for the Period

As a result of the above, the Group recorded profit after tax for the Period for approximately RMB67 million (six months ended 30 September 2016: profit of approximately RMB2 million).

Working Capital Management

As at 30 September 2017, the Group maintained bank balances and cash of approximately RMB48 million (31 March 2017: approximately RMB463 million).

Liquidity, Financial Resources and Capital Structure

The net current liabilities of the Group as at 30 September 2017 were approximately RMB13 million (31 March 2017: approximately RMB143 million). The current ratio was approximately 0.99 (31 March 2017: approximately 0.92).

Notwithstanding the net current liabilities of the Group at 30 September 2017, the management are confident that the Group would have adequate funds to meet its obligation, as and when they fall due, having regard to the following:

- (i) the available long-term loan facilities of RMB416,830,000 and RMB3,420,000 with maturity up to September 2018 and September 2019, respectively; and
- (ii) the Group expects to generate positive operating cash flows.

The Group will further improve its financial position in providing liquidity and cash flows by implementing a number of measures, including but not limited to, raising further medium to long term banking facilities and rolling over short term banking facilities to medium term when they fall due.

As at 30 September 2017, the Group had borrowings of approximately RMB284 million which are due within one year and approximately RMB40 million which are repayable after one year.

The gearing ratio, which is debt-to-equity ratio, of the Group was approximately 0.3 compared to approximately 0.4 as at 31 March 2017.

Capital Expenditure on Property, Plant and Equipment

Capital expenditure for purchase of property, plant and equipment amounted to approximately RMB1 million (six months ended 30 September 2016: approximately RMB3 million) for the Period.

Pledge of Assets

As at 30 September 2017, the Group pledged assets in aggregate amount of approximately RMB744 million (31 March 2017: approximately RMB717 million) to banks for banking facilities.

Capital Commitments

As at 30 September 2017, the Group had no material capital commitments.

Contingent Liabilities

As at 30 September 2017, the Group had contingent liabilities in respect of financial guarantees given by the Group to the banks for the bank loans obtained by associates of RMB135 million (31 March 2017: RMB135 million).

Treasury Policy

The Group mainly operates in China with most of the transactions denominated and settled in RMB and US Dollar. The exposure of exchange fluctuation in respect of RMB and US Dollar could affect the Group's performance and asset value. However, there are no significant differences of the carrying amount of the monetary assets and liabilities which are denominated in US Dollar so the Group has not experienced any material difficulties and liquidity problems resulting from currency exchange fluctuations. The Group still monitors the overall currency exposures.

Employee Information

As at 30 September 2017, the Group had about 470 employees (31 March 2017: about 470). The remuneration packages are generally structured with reference to market conditions and the individual qualifications. Salaries and wages of the Group's employees are normally reviewed on an annual basis based on performance appraisals and other relevant factors.

CORPORATE GOVERNANCE

The Company has complied with all the applicable code provisions set out in the Code on Corporate Governance Practices ("the CG Code") in Appendix 14 of the Listing Rules throughout the six months ended 30 September 2017, except for the deviations discussed below.

Code provision A.2.1

Pursuant to A.2.1 of the Code, the roles of chairman and chief executive officer ("CEO") should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. Mr. Wang Jianqing ("Mr. Wang") is the chairman of the Company since 27 January 2011 and was appointed the CEO of the Company on 15 September 2011. The Board considers that Mr. Wang possesses the essential leadership skills to manage the Board and extensive knowledge in the business of the Group. The present structure is more suitable to the Company because it can promote the efficient formulation and implementation of the Company's strategies. Through the supervision of the Board and the audit committee, balance of power and authority can be ensured and there is no imminent need to change the arrangement.

Code provision F.1.2

Pursuant to F.1.2 of the Code, the appointment of the company secretary should be dealt with by a physical board meeting rather than a written resolution. The appointment of the current company secretary was dealt with by a written resolution in September 2013. The Board considers that, prior to the execution of the written resolution to appoint the current company secretary, all Directors were individually consulted on the matter without any dissenting opinion and there was no need to approve the matter by a physical board meeting instead of a written resolution.

REVIEW OF INTERIM RESULTS

The interim results of the Group for the six months ended 30 September 2017 have been reviewed by the Audit Committee of the Company.

DEALING IN COMPANY'S LISTED SECURITIES

During the period, there were no purchases, sale or redemption by the Company or any of its subsidiaries, of the Company's listed securities.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This announcement of interim results is available for viewing on the website of Hong Kong Exchange and Clearings Limited at www.hkex.com.hk under "Latest Listed Company Information" and on the company website at www.yuanhenggas.com. The interim report of the Company containing all the information required by the Listing Rules will be published on the above websites in due course.

ACKNOWLEDGEMENT

I would like to take this opportunity to thank each and every of the management, staff and employees for their dedication, loyalty and commitment in the past.

By order of the Board
Yuan Heng Gas Holdings Limited
Wang Jianqing
Chairman and Chief Executive Officer

Hong Kong, 30 November 2017

As at the date of this announcement, the executive Directors are Mr. Wang Jianqing, Mr. Bao Jun and Mr. Zhou Jian; and the Independent non-executive Directors are Dr. Leung Hoi Ming, Mr. Wong Chi Keung and Mr. Tom Xie.