ENN 新奧

新奧能源控股有限公司
ENN Energy Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2688)

Interim Results Announcement for the Six Months Ended 30 June 2016

Highlights of the Interim Results:

- Total natural gas sales volume increased by 17.2% to 6,479 million cubic metres
- Residential natural gas sales volume increased by 23% to 954 million cubic metres and C/I natural gas sales volume increased by 7.4% to 3,744 million cubic metres
- 907,168 residential households were connected, and 6,059,148 cubic metres installed designed daily capacity for C/I customers were connected during the Period
- Revenue decreased by 1.6% to RMB15,639 million due to natural gas price adjustment, whereas gross profit increased by 15.1% to RMB3,732 million
- Profit attributable to shareholders for the Period increased by 29.3% to RMB1,587 million

The Board of Directors (the "**Board**") of ENN Energy Holdings Limited (the "**Company**" and together with its subsidiaries, the "**Group**") is pleased to announce the unaudited consolidated results of the Group for the six months ended 30 June 2016 (the "**Period**") together with the comparative unaudited figures for the corresponding period in 2015.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2016

		Six months ended 30 June	
		2016	**2015**
	Notes	*RMB million (unaudited)*	*RMB million (unaudited)*
Revenue	*3*	15,639	15,887
Cost of sales		(11,907)	(12,644)
Gross profit		3,732	3,243
Other income		349	203
Other gains and losses	*4*	(37)	(161)
Distribution and selling expenses		(252)	(240)
Administrative expenses		(1,040)	(990)
Share of results of associates		40	42
Share of results of joint ventures		262	297
Finance costs		(303)	(264)
Profit before tax		2,751	2,130
Income tax expense	*5*	(714)	(572)
Profit for the period		2,037	1,558
Other comprehensive income (expense)			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translating foreign operations		26	(2)
Other comprehensive income (expense) for the period		26	(2)
Total comprehensive income for the period		2,063	1,556
Profit for the period attributable to:			
Owners of the Company		1,587	1,227
Non-controlling interests		450	331
		2,037	1,558
Total comprehensive income for the period attributable to:			
Owners of the Company		1,613	1,225
Non-controlling interests		450	331
		2,063	1,556
		RMB	*RMB*
Earnings per share	*7*		
Basic		1.47	1.13
Diluted		1.30	1.13

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2016

	Notes	At 30 June 2016 RMB million (unaudited)	At 31 December 2015 RMB million (audited)
Non-current assets			
Property, plant and equipment		21,326	21,121
Prepaid lease payments		1,207	1,190
Investment properties		114	114
Goodwill		767	752
Intangible assets		1,464	1,454
Interests in associates		1,080	1,024
Interests in joint ventures		3,616	3,810
Available-for-sale financial assets		4,169	4,169
Derivative financial instruments		23	-
Other receivables		18	27
Amounts due from associates		54	74
Amounts due from joint ventures		328	190
Deferred tax assets		667	582
Deposits paid for investments		111	26
Deposits paid for acquisition of property, plant and equipment, land use rights and operation rights		187	123
Restricted bank deposits		404	506
		35,535	35,162
Current assets			
Inventories		579	404
Trade and other receivables	*8*	3,428	3,051
Prepaid lease payments		33	28
Amounts due from customers for contract work		198	197
Amounts due from associates		206	156
Amounts due from joint ventures		654	455
Amounts due from related companies		95	46
Restricted bank deposits		63	99
Cash and cash equivalents		5,404	7,355
		10,660	11,791
Assets classified as held for sale		-	66
		10,660	11,857
Current liabilities			
Trade and other payables	*9*	6,763	7,133
Amounts due to customers for contract work		1,905	2,248
Amounts due to associates		189	66
Amounts due to joint ventures		1,647	1,988
Amounts due to related companies		487	400
Taxation payables		697	706
Dividend payable		693	-
Bank and other loans – due within one year		1,134	2,600
Corporate bonds		-	498
Convertible bonds at fair value through profit and loss		-	3,556
Financial guarantee liability		25	29
Deferred income		170	150
		13,710	19,374
Liability associated with assets classified as held for sale		-	34
		13,710	19,408
Net current liabilities		(3,050)	(7,551)
Total assets less current liabilities		32,485	27,611

Capital and reserves		
Share capital	113	113
Reserves	14,243	13,355
Equity attributable to owners of the Company	14,356	13,468
Non-controlling interests	2,712	2,627
Total equity	17,068	16,095
Non-current liabilities		
Bank and other loans – due after one year	266	836
Corporate bonds	2,988	2,489
Senior notes	4,685	4,584
Medium-term notes	700	700
Convertible bonds at fair value through profit and loss	3,477	-
Unsecured bonds	426	417
Amounts due to joint ventures	108	-
Deferred tax liabilities	384	393
Deferred income	2,383	2,097
	15,417	11,516
	32,485	27,611

Notes:

1. Basis of Preparation

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

In preparing the condensed consolidated financial statements, the directors of the Company (the "**Directors**") have given careful consideration of the Group in light of its net current liabilities of approximately RMB3,050 million as at 30 June 2016. Having considered the secured credit facilities of approximately RMB7,785 million which remain unutilised at the date of approval of the condensed consolidated financial statements, the Directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the condensed consolidated financial statements for the period ended 30 June 2016 have been prepared on a going concern basis.

2. Principal Accounting Policies

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015.

In the Period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the HKICPA:

Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle

The amendments to HKFRSs have been applied retrospectively or prospectively as required by the respective amendments. Except as described below, the application of the other amendments to HKFRSs in the Period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

Amendments to HKAS 1 Disclosure Initiative

The Group has applied the amendments to HKAS 1 Disclosure Initiative for the first time in the Period. The amendments to HKAS 1 clarify that an entity need not provide a specific disclosure required by an HKFRS if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information for disclosure purposes. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in HKFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial positon and financial performance.

As regards the structure of the financial statements, the amendments provide examples of systematic ordering or grouping of notes.

The Group has applied these amendments retrospectively. The application of the amendments to HKAS 1 has not resulted in any impact on the financial performance or financial position of the Group in these condensed consolidated financial statements.

3. Segment Information

Information reported to the chief operating decision maker, the Company's President (the "**President**"), for the purposes of resource allocation and performance assessment among segments focuses specifically on different type of goods and services. Specifically, the Group's operating and reportable segments under HKFRS 8 *Operating Segments* are gas connection, sales of piped gas, vehicle gas refuelling stations, wholesale of gas, sales of other energy, sales of gas appliances and sales of material. Segment profit reviewed by the President represents the gross profit earned by each segment.

Segment profit represents the profit earned by each segment without allocation of central administration costs, distribution and selling expenses, share of results of associates and joint ventures, other income, other gains and losses and finance costs. This is the measure reported to the President for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

The following is an analysis of the Group's revenue and results by reportable segments which are also the operating segments for the periods under review:

Six months ended 30 June 2016

	Gas connection	**Sales of piped gas**	**Vehicle gas refuelling stations**	**Wholesale of gas**	**Sales of other energy**	**Sales of gas appliances**	**Sales of material**	**Consolidation**
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Segment revenue	3,383	11,077	1,624	3,753	70	246	623	20,776
Inter-segment sales	(483)	(2,405)	(3)	(1,615)	-	(172)	(459)	(5,137)
Revenue from external customers	2,900	8,672	1,621	2,138	70	74	164	15,639
Segment profit before depreciation and amortisation	1,926	1,927	214	45	20	27	9	4,168
Depreciation and amortisation	(76)	(295)	(54)	(3)	(7)	(1)	-	(436)
Segment profit	1,850	1,632	160	42	13	26	9	3,732

Six months ended 30 June 2015

	Gas connection	Sales of piped gas	Vehicle gas refuelling stations	Wholesale of gas	Sales of other energy	Sales of gas appliances	Sales of material	Consolidation
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Segment revenue	2,973	12,418	1,963	3,114	37	192	502	21,199
Inter-segment sales	(416)	(2,793)	(4)	(1,561)	-	(134)	(404)	(5,312)
Revenue from external customers	2,557	9,625	1,959	1,553	37	58	98	15,887
Segment profit before depreciation and amortisation	1,608	1,737	255	25	13	27	12	3,677
Depreciation and amortisation	(70)	(312)	(45)	(1)	(5)	(1)	-	(434)
Segment profit	1,538	1,425	210	24	8	26	12	3,243

Geographical Information

Geographical information is analysed by the Group based on the location of the principal operations of the subsidiaries. Over 90% of the Group's revenue and non-current assets are located in the People's Republic of China (the "**PRC**"), therefore no geographic segment information is presented.

The President also reviews the following analysis of the Group's domestic and overseas operations based on the locations of the subsidiaries. The basis for attributing the revenue is based on the location of customers from which the revenue is earned.

Six months ended 30 June 2016

	PRC	North America	Europe	Consolidation
	RMB million	*RMB million*	*RMB million*	*RMB million*
Revenue	20,691	78	7	20,776
Inter-segment sales	(5,137)	-	-	(5,137)
Revenue from external customers	15,554	78	7	15,639
Profit (loss) before depreciation and amortisation	4,173	(6)	1	4,168
Depreciation and amortisation	(428)	(8)	-	(436)
Gross profit (loss)	3,745	(14)	1	3,732

Six months ended 30 June 2015

	PRC	North America	Europe	Consolidation
	RMB million	*RMB million*	*RMB million*	*RMB million*
Revenue	21,129	63	7	21,199
Inter-segment sales	(5,312)	-	-	(5,312)
Revenue from external customers	15,817	63	7	15,887
Profit (loss) before depreciation and amortisation	3,688	(12)	1	3,677
Depreciation and amortisation	(425)	(9)	-	(434)
Gross profit (loss)	3,263	(21)	1	3,243

4. Other Gains and Losses

	Six months ended 30 June	
	2016	**2015**
	RMB million	*RMB million*
Other gains and losses comprise:		
Fair value gain (loss) of convertible bonds (note a)	79	(109)
Fair value gain of derivative financial instruments (note b)	23	-
Loss on foreign exchange, net	(81)	(26)
Impairment loss on trade and other receivables, net	(38)	(20)
Loss on disposal of property, plant and equipment	(23)	(6)
Gain on disposal of a joint venture	3	-
	(37)	(161)

Notes:

(a) On 26 February 2013, the Company issued zero coupon United States dollar ("**USD**") denominated convertible bonds with the aggregate principal amount of USD500 million (approximately RMB3,141 million) (the "**Bonds**"). The Bonds, traded on the Singapore Exchange Securities Trading Limited, were designated as financial instrument at fair value through profit and loss and the over-the-counter market price represented the fair value of the Bonds.

As at 30 June 2016, the over-the-counter market price of the Bonds was USD524 million (approximately RMB3,477 million) (31 December 2015: USD548 million, approximately RMB3,556 million). There was fair value gain of approximately RMB79 million (six months ended 30 June 2015: fair value loss of approximately RMB109 million) during the Period.

(b) The Group is exposed to foreign currency risk mainly arising from various bonds denominated in the USD. To mitigate the foreign currency exposure, the Group entered into various structured foreign currency forward contracts ("**Structured Forwards**") with certain financial institutions during the Period.

The Structured Forwards have a total notional amount of USD300 million and maturity date on 14 February 2018. The Structured Forwards will enable the Group to buy USD at the predetermined RMB/USD exchange rate on the maturity date. The Structured Forwards are not designated as hedging instruments and the above arrangement is not qualified for hedge accounting. Accordingly, the Structured Forwards are classified and accounted for as financial instrument at fair value through profit and loss.

The fair value gain of the Structured Forwards amounting to approximately RMB23 million (six months ended 30 June 2015: nil) is included in the other gains and losses during the Period.

5. Income Tax Expense

	Six months ended 30 June	
	2016	**2015**
	RMB million	*RMB million*
PRC Enterprise Income Tax:		
Current tax	744	615
Withholding tax	77	32
	821	647
Deferred tax:		
Current period	(107)	(75)
	714	572

PRC Enterprise Income Tax mainly comprises income tax of the Group which are recognised based on the applicable statutory tax rate of 25% expected for the full financial year (six months ended 30 June 2015: 25%).

No provision for Hong Kong Profits Tax has been made as the Group has no assessable profits arising in Hong Kong for the six months ended 30 June 2016 and 2015.

6. Dividend

The final dividend in respect of fiscal year 2015 of HK$0.76 (equivalent to approximately RMB0.64) per ordinary share (six months ended 30 June 2015: final dividend in respect of fiscal year 2014 of HK$0.83 (equivalent to approximately RMB0.66) per ordinary share) amounting to approximately RMB693 million (six months ended 30 June 2015: RMB715 million) were declared on 22 March 2016 and were not paid as at 30 June 2016.

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: nil).

7. 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:

	Six months ended 30 June	
	2016	**2015**
	RMB million	*RMB million*
Earnings		
Earnings for the purposes of basic earnings per share	1,587	1,227
Effect of dilutive potential ordinary shares:		
- fair value gain of convertible bonds	(79)	-
Earnings for the purposes of diluted earnings per share	1,508	1,227

	Six months ended 30 June	
	2016	**2015**
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,082,341	1,083,059
Effect of dilutive potential ordinary shares:		
- share options issued by the Company	229	267
- convertible bonds	79,779	-
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,162,349	1,083,326

The impact arising from the share options granted by the Company on 9 December 2015 was anti-dilutive and accordingly had not been taken into account in the computation of the diluted earnings per share for the six months ended 30 June 2016.

The impact arising from the convertible bonds of USD500 million issued by the Company on 26 February 2013 was anti-dilutive and accordingly had not been taken into account in the computation of the diluted earnings per share for the six months ended 30 June 2015.

8. Trade and Other Receivables

Included in the trade and other receivables are trade receivables amounting to RMB992 million (31 December 2015: RMB1,096 million). The Group allows a credit period ranging from 60 to 90 days to its trade customers, except for certain customers with credit period more than 90 days. The following is an aged analysis of trade receivables, net of impairment, presented based on the invoice date as at 30 June 2016, which approximated the respective revenue recognition dates:

	At 30 June 2016	**At 31 December 2015**
	RMB million	*RMB million*
Within three months	794	925
4 to 6 months	117	79
7 to 9 months	52	69
10 to 12 months	29	23
	992	1,096

9. Trade and Other Payables

Included in trade and other payables are trade payables of RMB1,520 million (31 December 2015: RMB1,651 million). The following is an aged analysis of trade payables presented based on the invoice date as at 30 June 2016:

	At 30 June 2016	**At 31 December 2015**
	RMB million	*RMB million*
Within three months	1,102	1,260
4 to 6 months	211	189
7 to 9 months	67	56
10 to 12 months	19	37
More than one year	121	109
	1,520	1,651

BUSINESS REVIEW

In the first half of 2016, the economic benefit of natural gas over substitute energy has been restored after the gas price cut in November last year and the gradual recovery of international oil price since the beginning of the year. Coupled with the continuous promotion of natural gas utilisation projects including "coal-to-gas" conversion by the PRC government with an aim to improve air quality, downstream natural gas market demand has gradually improved. According to the figures from the National Development and Reform Commission ("**NDRC**"), the national apparent consumption of natural gas in the first half of the year amounted to 99.5 billion cubic metres, up 9.8% year-on-year. Despite the challenging operating environment still persisted, with the concerted efforts of the Group's employees, its core businesses continued to record strong growth. During the Period, the Group's total natural gas sales volume was 6,479 million cubic metres, up 17.2% over the corresponding period last year. For the half year ended 30 June 2016, the Group's turnover and profit attributable to shareholders amounted to RMB15,639 million and RMB1,587 million, down 1.6% and up 29.3% over the corresponding period last year respectively. Earnings per share increased by 29.3% to RMB1.47. Excluding the impact from other gains and losses and amortisation of share option expenses, core profit grew by 19% to RMB1,652 million. The Group will continue to leverage on favourable government policies to promote the usage of natural gas, and will ride on its competitive edge to further develop existing core businesses while proactively develop new synergistic businesses, so as to expand its revenue stream and increase shareholders' return.

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

	Six months ended 30 June		**Increase/**
	2016 (Unaudited)	**2015 (Unaudited)**	**(Decrease)**
Revenue (RMB million)	15,639	15,887	(1.6%)
Gross profit (RMB million)	3,732	3,243	15.1%
Profit attributable to owners of the Company (RMB million)	1,587	1,227	29.3%
Basic earnings per share (RMB)	1.47	1.13	29.3%
Connectable urban population	72,136,000	65,625,000	9.9%
Connectable residential households	24,045,000	21,875,000	9.9%
New natural gas connections made during the Period:			
– residential households	907,168	791,822	14.6%
– commercial/industrial ("**C/I**") customers (sites)	4,830	4,621	209
– installed designed daily capacity for C/I customers (m^3)	6,059,148	4,225,616	43.4%
Accumulated number of connected piped gas (including natural gas) customers:			
– residential households	13,233,204	11,396,420	16.1%
– C/I customers (sites)	61,688	52,310	9,378
– installed designed daily capacity for C/I customers (m^3)	64,667,309	54,468,771	18.7%
Piped gas (including natural gas) penetration rate	55.0%	52.1%	2.9%
Total gas sales volume ('000 m^3)	6,493,193	5,550,601	17.0%
Natural gas sales volume ('000 m^3)	6,479,425	5,526,877	17.2%
– Unit of natural gas sold to residential households ('000 m^3)	954,211	775,581	23.0%
– Unit of natural gas sold to C/I customers ('000 m^3)	3,744,428	3,486,368	7.4%
– Unit of natural gas sold to vehicles ('000 m^3)	758,906	743,168	2.1%
– Unit of wholesale gas sold ('000 m^3)	1,021,880	521,760	95.9%
Number of vehicle gas refuelling stations	587	543	44
Number of natural gas processing stations	161	155	6
Total length of existing intermediate and main pipelines (km)	31,204	29,637	5.3%

CITY-GAS BUSINESS

Residential Customers

During the Period, the Group's residential natural gas sales volume was 954 million cubic metres, up 23% over the corresponding period last year. The rapid growth of residential gas sales volume was mainly due to last year's newly connected residential customers gradually started gas consumption, their gas consumption was relatively stable, and with improving living standards, more residential households adopt individual natural gas heating system not only in the northern regions, but also in the southern part of China during winter. The Group took the initiative to establish residential tier-pricing mechanism in its city-gas projects. As of the end of June this year, the Group had a total of 104 projects with residential tier-pricing mechanism, relevant preparations to set up such mechanism were in progress for remaining projects. It is expected that residential gas sales dollar margin will gradually reach reasonable levels when more projects execute residential tier-pricing mechanism.

Commercial/Industrial ("C/I") Customers

During the Period, the Group's C/I natural gas sales volume was 3,744 million cubic metres, representing a growth of 7.4% over the corresponding period last year. The Group kept up its proactive customer management policies, enhanced customer relationship with key accounts so as to understand their needs and difficulties through regular communications. Leveraging on natural gas price cut, the Group adopted flexible pricing strategy taking into consideration the affordability of its customers and the price of substitute energy, thus, successfully retained existing gas usage and expanded new usage even under the challenging environment. The Group also took advantage of more competitive gas price to actively expand its distributed energy businesses, and develop new C/I customers utilising distributed energy technology, such as hospitals, airports and urban complexes, so as to boost its gas sales volume. Meanwhile, the Group pushed forward the implementation of "coal-to-gas" conversion together with local governments, and attracted customers to use natural gas by providing them with energy conservation solutions and lowering their overall energy consumption costs. It is worth noting that tertiary industries have become the new driver of economic growth in China under the transformation of national economic structure. In the first half of the year, the Group continued its proactive effort in developing more commercial customers who had higher affordability and stable demand to further optimise our customer base.

New Customers Development

During the Period, the Group's gas connection revenue was RMB2,900 million, up 13.4% over the corresponding period last year.

The Group connected 907,168 residential households during the Period, and the average connection fee was RMB2,718 per residential household. As at 30 June 2016, the aggregate number of connected piped gas (including natural gas) residential households reached 13,233,204, representing an increase of 16.1% over the corresponding period last year.

In the first half of the year, the government played an active role in facilitating the healthy development of real estate market by destocking and adopting a series of easing measures for home purchases, such as lowering the ratio of down payment and interest rate, the real estate market therefore showed signs of recovery. According to the "Recommendations for the Development of the National Economy and Society under the 13th Five-year Plan from the Central Government", the current urbanisation rate in the PRC reached 55%. It was proposed in the new urbanisation plan that the urbanisation rate would reach 60% by 2020, implying that urbanisation will advance steadily in the next few years, creating significant housing demand. By grasping the opportunities raised by the recovery of the real estate industry, the Group has edged up its efforts in developing new buildings connections, while also sparing more efforts on exploring the market potential of unconnected old buildings. To date, the Group's city-gas projects in China covered a connectable population of 72.14 million with an average gas penetration rate of only 55%. Given the gas penetration rate of mature city-gas projects could reach above 80%, there is still significant room for the Group to connect old buildings.

During the Period, the Group connected 4,830 C/I customers (with total installed designed daily capacity of 6,059,148 cubic metres), and the average connection fee was RMB126 per cubic metre. As of the end of June 2016, the Group's aggregate number of connected piped gas (including natural gas) C/I customers reached 61,688 (with total designed installed daily capacity of 64,667,309 cubic metres).

The National Energy Administration indicated that China should aim at green and low-carbon development during the 13th Five-year Plan period and implement control on both total energy consumption volume and intensity. Targets of the plan included more stringent control on coal consumption reduction, substitution of coal in key regions, and increasing the proportion of natural gas and non-fossil energies in the energy mix. In 2016, China would strive to eliminate obsolete coal production capacity of 60 million tonnes. It also suspended the approval of new coal mine projects in the next three years. It is expected that the volume of natural gas required for "coal-to-gas" conversion would reach 112 billion cubic metres by 2020. During the Period, the Group captured opportunity brought by the "coal-to-gas" initiative, conducted many conversions from industrial coal-fired boilers and kilns with stable energy usage. The Group also provided energy conservation solutions to industrial customers so as to lower their overall energy costs and enhance energy efficiency. During the Period, "coal-to-gas" conversion accounted for 44% of the newly developed C/I customers, showing continuous growth. The Group believes that with the steady promotion of "coal-to-gas" conversion in all province, it would become one of the drivers for the Company's continuous growth of natural gas sales in the future.

China is currently in progress of economic structural reform, and tertiary industries, mainly modern service industries with continuous growth such as catering, tourism and internet e-commerce, have already become the new momentum for economic development in China. As such, the Company actively explored this type of commercial customers to optimise its customer base. In the first half of 2016, out of the 6,059,148 cubic metres of newly connected C/I customers, the share of commercial customers increased from 19% to 47%, up 28 percentage points over the corresponding period last year.

New Projects
In line with its strategy of building a city-gas network around major project cities, the Group stepped up its expansion effort in areas such as major cities and peripheral counties, industrial parks and densely-populated new towns by way of participation in bidding and tendering organised by the government, forging alliances and cooperation as well as project acquisition. At the same time, the Group continued to promote alliances and co-operation with other gas distributors to tap into new markets, and acquired new industrial parks and development zones via offering integrated energy solutions through distributed energy technology. The Group managed to acquire 6 new projects in the first half of the year with additional connectable urban population of 600,000 on the back of its outstanding management system, solid track record and ability to secure gas supply. It also secured 5 new concessions nearby existing projects, further expanding its operational coverage. As of 30 June 2016, the Group had 158 projects in China, covering a connectable population of 72.14 million.

Projects	**The Group's shareholding**	**Major industries**
1. Dingzhou, Hebei	51%	Energy, automobiles and components, coal chemicals and food processing
2. Changle County, Shandong	70%	Chemicals, construction materials, paper making, machinery and plastic production
3. Gongyi Private Technology and Innovation Park, Henan	70%	Metallic products production and precision medical machinery manufacturing
4. Shenzhen Bao'an (Longchuan) Industrial Park, Guangdong	70%	Electronics and electrical appliances
5. Liaoning Yingkou Industrial Park, Liaoning	24%	Equipment manufacturing, shipbuilding, logistics, petrochemical and electronic information
6. Rizhao Haiyou Economic Development Zone, Shandong	60%	Petrochemicals, new materials, warehousing and logistics, machinery production and construction materials

The 5 new concessions nearby existing projects include:

Provinces	Operational areas
Anhui Province	Sanbing Town and Ba Town in Chaonan District, Chaohu
Hebei Province	Mengjin Luobei Modern Service Industry Zone and Langfang Airport New Zone
Henan Province	Luoyang Tianzhuang Industry Zone

VEHICLE REFUELLING AND BUNKERING BUSINESS

Construction and Operation of Vehicle Gas Refuelling Stations

During the Period, the Group's vehicular natural gas sales volume in the PRC increased by 2.1% to 759 million cubic metres, of which the gas sales volume of CNG decreased by 12.2% to 436 million cubic metres and the gas sales volume of LNG increased by 30.9% to 323 million cubic metres. During the Period, 9 CNG refuelling stations and 2 LNG refuelling stations were constructed and put into operation, bringing the total number of CNG and LNG refuelling stations to 315 and 272 respectively.

The decline in CNG gas sales was mainly attributable to the fact that oil price still hovered at low levels even though there was slight rebound in the first half of 2016, thus, the price competitiveness of natural gas over gasoline was not restored to the previous level in some regions. In addition, popular internet vehicle hailing services in the mainland affected the business of traditional taxis, and the measures on promoting electric vehicles implemented by local governments also affected the utilisation of CNG refuelling stations. On the contrary, LNG gas sales remained the stronger growth driver which benefited from the targeted market development strategies adopted by the Group. In the northern regions where economic benefits are of greater concern, the Group rapidly developed the market via alliances and market-driven pricing strategies to develop more new LNG vehicle users. Whereas in the southern regions, the Group actively communicated with the governments and public transport companies so as to increase the penetration rate of LNG passenger vehicles.

Impacted by the contracted oil and gas price differences, the refuelling station business is currently encountering considerable challenges, yet such an environment also gives the Group a chance for market consolidation. Leveraging its sound brand image and operational experience, the Group fostered the co-operation with PetroChina and Sinopec in the construction of stations, and expanded our influence and market share through alliances and co-operation. The Group continued to expand customer base and, on top of traditional users such as taxis, public transport and heavy-duty trucks, reinforced the development of social vehicles such as vehicles for internet car hailing and urban public services. The Group optimised its stations and implemented an accountability system for each station, which is a profit-based business incentive mechanism that can enhance the operational efficiency and profitability of its existing stations. At the same time, the gas sales volume was boosted via the "Smart Card" alliance by optimising the station network, capturing more customer resources as well as organising and implementing cross-regional joint marketing. With topped-up membership cards, customers could refuel at the refuelling stations and alliance stations, which offered solutions to refuelling along the transportation route, while materialising resources sharing and enhanced customers loyalty, and in turn raised the overall business competitiveness within the region. In addition, the "E vehicle E station" brand on the provision of value-added businesses – such as express repair, supermarket and insurance – was commenced in refuelling stations at the beginning of the year in order to enhance customer loyalty and broaden revenue streams. At present, "E vehicle E station" supermarkets became operational in 4 refuelling stations in Langfang and Dongguan, which received great responses from customers. It is planned that the "E vehicle E station" brand value-added service will continuously extend into more refuelling stations.

Development of LNG Bunkering Business

In the first half of the year, the Group's LNG bunkering barge in Xijiang, Guangxi, continued to provide bunkering services for Run Gui's No. 629 bulk freighter. Besides, the Group signed bunkering service agreement with CNOOC's tugboats in May this year and completed the bunkering for CNOOC's 525/526 tugboats. Looking ahead, the Group will continue to co-operate with various governmental departments to establish favourable industry policies and standards, while fostering alliances and co-operation with shipping companies, port and shipping authorities and various provincial and municipal transportation departments to seize opportunities to set up more stations at major ports and to facilitate market development for newly built vessels and vessel conversion, and to explore integrated clean energy solutions for vessels.

North American Gas Refuelling Business

In the first half of 2016, the vehicle refuelling stations in North America generated a revenue of RMB78 million, up 23.8% year-on-year. Under the operating environment with relatively small price differences between oil and gas, the Group shared the tax rebate of USD0.50/gallon from the sales of LNG with some of its customers in North America, while implemented measures such as strengthening cost control and selling diesel in some stations, the Group managed to narrow the net loss recorded in the region's gas refuelling business.

DEVELOPMENT OF NEW BUSINESSES

Energy Trading Business

During the Period, the Group's wholesale volume of natural gas reached 1,022 million cubic metres, representing a significant year-on-year growth of 95.9%. The Group continued to supply natural gas to those customers yet to be covered by natural gas pipeline network and also offered LNG distribution service to Sinopec and CNOOC from their LNG terminals. In the first half of the year, sufficient LNG supply in China kept the downstream selling price at low level, thus, downstream demand remained robust. The Group capitalised on the sufficient gas sources and favourable distribution environment to vigorously extend its reach to users, thus, the gas sales volume for wholesale business recorded significant growth. The Group will continue to utilise its logistics fleet with a total capacity up to 22.6 million cubic metres, natural gas trading platform and solid upstream resources procurement capability to develop its gas wholesale business and enhance its profitability with this asset-light business model.

Development of Distributed Energy Project

With the growing energy demand, rising pressure to achieve energy savings and emissions reduction, and the introduction of supportive government policies, China became one of the fastest growing markets in the world for distributed energy. The NDRC promulgated the "Guiding Opinions on Promoting the Development of 'Internet + Smart Energy" on 29 February 2016, and proposed the establishment of an integrated energy network based on smart power grid with connection to various kinds of networks, such as thermal pipelines and natural gas pipeline network, as well as with the co-ordinated operation of concentrated and distributed energy. Establishment of infrastructure for flexible conversion, effective storage and smart co-ordination of different kinds of energy, including electricity, cooling, heating and natural gas, would also be promoted and supported.

Riding on favourable policies and opportunities offered by the country's electricity market reform, the Group proactively developed its distributed energy business with a focus on public utilities and industrial parks customers, and customised suitable energy system based on different customers' energy demand to boost natural gas sales volume. During the Period, the Group signed 6 new distributed energy projects, including Suqian Binhai New Zone project, Bengbu Huaxia Yungu micro grid project, Dongguan Haofeng Machong Industrial Park, Huzhou Central Hospital, Wenzhou Jinhai New Zone and Hangzhou Shengda Industrial Park. As of the first half of the year, 2 projects, namely Changsha Huanghua Airport and Yancheng Tinghu Hospital, have been connected to the power grid and in full operation, while 5 projects, namely, Zhuzhou Vocational City, Zhuzhou Shennong City, Zhaoqing New Zone, Qingdao Sino-German Ecopark and Shijiazhuang Junlebao, have realised partial energy supply.

Progress of Electricity Sales Business

During the Period, the country's electricity reform has further accelerated its progress with the introduction of regulations on electricity reform in 5 provinces and cities, including Yunnan, Guangdong, Shenzhen, Chongqing and Shanxi. On 7 March 2016, the "Implementation Plan on Electricity Marketisation and Trading in Yunnan for 2016" was promulgated in Yunnan Province, proposing the establishment of an intra-provincial and cross-regional electricity trading market for power plants, users and electricity sales companies to conduct annual, monthly and daily transactions for incremental capacity. It is the first detailed implementation plan on electricity market trading nationwide. On 15 June 2016, the "Notice on Issues Regarding to Direct Trading between Large-scale Electricity Users and Power Generation Enterprises for 2016" was promulgated in Guangdong Province. It addressed the electricity sales companies as main entities for the first time, and stipulated that electricity sales enterprises on the list of provincial electricity sales enterprises – after having registered with the Guangdong Electricity Trading Centre – are allowed to trade electricity directly with C/I users and power generation enterprises.

The Group announced on 8 January 2016 that it would explore and enter into the electricity sales business in Kunming High Tech Zone in Yunnan and Zhaoqing New Zone in Guangdong as pilot projects. The Group will fully utilise its existing customer resources from its city-gas business, and take advantage of its distributed energy technology, to provide customers with customised integrated energy usage solutions to realise combined sales of gas and electricity. The Group will also co-operate with different high-tech zones, economic and technology development zones, industrial parks, logistics parks to facilitate the development of new customers, so as to create new revenue streams for the Group.

INTERNATIONAL AWARDS

With steady growth in operating results and enhanced management capability, the Group received the following honours in the first half of 2016:

- "Best CFO" (second place in power sector) and "Best Analyst Days" (third place in power sector) in 2016 All-Asia Executive Team Rankings by Institutional Investor, an international financial magazine highly recognised by investment professionals;
- "China Top 500 in 2016" by Fortune Magazine; and
- "Top 100 Hong Kong-listed Companies in 2015" organised by QQ.com and Finet.

These accolades demonstrate the industry's widespread recognition of the Group's commitment to enhance investor relations and transparency in the past year, and prove that the business performance, corporate governance and fulfilment of social responsibilities of the Group has gained recognition from investors, shareholders and industry analysts. In view of this, the Group will continue to redouble its efforts to ensure that investors and shareholders can share its fruitful results.

HUMAN RESOURCES

As at 30 June 2016, the Group employed a total of 28,127 employees. The workforce was expanded to support the Group's new projects and business development. The employees were remunerated at the market level with benefits such as bonuses, retirement benefits, professional training and share option schemes.

SHARE OPTION INCENTIVE SCHEME

To enable the Directors and certain employees to enjoy the benefits brought by the Company's growth and to incentivise their enthusiasm, motivation and creativity in the challenging business environment, thereby enhancing operating performance and core competitiveness, the Group granted a total of 12 million share options to them on 9 December 2015. Such share options have an exercise price of HK$40.34 per share and are valid for a period of 10 years (commencing on 9 December 2015 and ending on 8 December 2025).

The Group recognised share-based payment expenses of RMB28 million and no option was exercised during the Period.

FINANCIAL RESOURCES REVIEW

Key Financial Data

During the Period, although the Company recorded growth in its gas sales volume, the total revenue decreased by 1.6% year-on-year to RMB15,639 million due to the natural gas price cut. Revenue attributable to piped gas sales, the vehicle gas refuelling business and gas connection decreased by 9.9%, 17.3% and increased by 13.4% to RMB8,672 million, RMB1,621 million and RMB2,900 million, respectively, while revenue from wholesale of gas, sales of gas appliances and materials, and sales of other energy reached RMB2,138 million, RMB238 million and RMB70 million, respectively, representing increases of 37.7%, 52.6% and 89.2%. During the Period, the Group's overall gross profit margin and net profit margin were 23.9% and 13.0% respectively, representing an increase of 3.5 percentage points and 3.2 percentage points respectively. The increase in gross profit margin was mainly due to smaller base of sales price after the natural gas price cut which drove up the gross profit margin of piped gas sales, while the increase in net profit margin was also due to the dividend income from Sinopec Marketing Co., Ltd. and better operating efficiency.

Liquidity and Financial Resources

As at 30 June 2016, the Group's total debts amounted to RMB13,676 million (31 December 2015: RMB15,680 million) and the bank balances and cash for the purpose of computing net gearing ratio amounted to RMB5,404 million (31 December 2015: RMB7,355 million). The Group's net gearing ratio, i.e. ratio of net debt to equity (including non-controlling interests), was 48.5% (31 December 2015: 51.7%).

Currently, the Group's operating and capital expenditures are funded by operating cash flow, internal liquidity, bank loans and issued bonds. The Group has sufficient sources of funds and unutilised banking facilities to meet the future capital expenditure, working capital requirements and repayment of debts.

Borrowings Structure

As at 30 June 2016, the Group's total debts included fixed rate bonds of USD715 million (equivalent to RMB4,685 million) and USD65 million (equivalent to RMB426 million), zero coupon convertible bonds of USD500 million (equivalent to RMB3,477 million), as well as fixed rate bond of RMB2,500 million. The bank and other loans are denominated in Renminbi and bear interest at the interest rate announced by the People's Bank of China. Except for the loan amount equivalent to RMB376 million that are secured by assets with a carrying value equivalent to RMB11 million and the Group's rights to receive gas connection and gas supply fee income of certain subsidiaries and joint ventures, all of the other loans are unsecured. Short-term loans amounted to RMB1,134 million while the remaining were long-term loans falling due after one year or above.

Maximum Five-year 3.68% Fixed Rate RMB Bonds

On 18 December 2015, the Group issued five-year bonds in the aggregate principal amount of RMB2,500 million for the replacement of part of the USD400 million 3.25% bonds due in 2019. The coupon of the bonds is 3.68% and have a term of not more than 5 years (with an option for the issuer to raise the coupon rate and for the investors to put at the end of the third year). The bond was listed on the Shanghai Stock Exchange on 2 February 2016.

Five-year 3.25% Fixed Rate Bonds

On 23 October 2014, the Company issued five-year bonds in the aggregate principal amount of USD400 million with issue price of 99.502% and redemption price of 100%. The coupon of the bonds is 3.25%, and interests are paid semi-annually. The terms of the bonds require Mr. Wang Yusuo, Chairman of the Company ("Mr. Wang"), to retain not less than 20% of the issued share capital of the Company throughout the term of the bonds. To respond to the influence brought by Renminbi depreciation, in 2015, the Company repurchased approximately USD335 million principal amount of the bonds for cash. The principal amount of the bonds outstanding as at 30 June 2016 amounted to approximately USD65 million.

Ten-year 6% Fixed Rate Bonds

On 13 May 2011, the Company issued 10-year bonds in the aggregate principal amount of USD750 million with an issue price of 99.274% and a redemption price of 100%. The coupon of the bonds is 6%, and interests are paid semi-annually. The terms of the bonds require Mr. Wang to retain not less than 25% of the issued share capital of the Company throughout the term of the bonds. The Company repurchased a principal amount of USD35 million of the bonds in 2015. The principal amount of the bonds outstanding as at 30 June 2016 amounted to USD715 million.

Five-year Zero Coupon Convertible Bonds

On 26 February 2013, the Company issued zero coupon USD denominated convertible bonds with the aggregate principal amount of USD500 million. Each bond will, at the option of the holders, be convertible into fully paid ordinary shares with a par value of HK$0.10 each in the issued and paid up capital of the Company at an initial conversion price of HK$48.62 per share. Conversion may occur at any time on or after 8 April 2013 up to 16 February 2018. If the Bonds have not been converted, they will be redeemed on 26 February 2018 at 102.53 per cent of their principal amount. If the Bonds are converted into shares, they will be converted into 79,778,897 ordinary shares, representing 7.37% of the total issued share capital of the Company.

For details of major terms about the Bonds, please refer to the announcement in relation to the proposed issue of the Bonds published on 30 January 2013 and the "Offering Memorandum" attached in the overseas regulatory announcement published on 27 February 2013.

As at 30 June 2016, no Bonds were converted into ordinary shares.

Foreign Currency Risk
As the major operations of the Group are in China, revenues and expenses were mainly denominated in RMB, therefore, the Group is not exposed to significant foreign currency risk from operation.

The Company is exposed to foreign currency risk mainly arising from various bonds denominated in USD. As at 30 June 2016, the Group's USD debt amounted to USD1,280 million (31 December 2015: USD1,394 million) with the breakdown as below:

USD debt	Maturity date	As at 30 June 2016 USD
Ten-year 6% Fixed Rate Bonds	13 May 2021	715 million
Five-year 3.25% Fixed Rate Bonds	23 October 2019	65 million
Five-year Zero Coupon Convertible Bonds	26 February 2018	500 million

In response to the risk of RMB depreciation, the Group early repaid a bank loan of USD114 million (equivalent to approximately RMB739 million). In addition, the Company entered into structured foreign currency forward contracts with certain financial institutions to manage its foreign currency risk. The Board will continue to monitor the trend on the market interest rate and exchange rate closely and take appropriate actions when necessary.

Financial Guarantee Liability
As at 30 June 2016, the Group had issued guarantees to banks to secure loan facilities granted to associates and joint ventures to the extent of approximately RMB320 million (31 December 2015: RMB320 million). The loan facilities have been utilised at the end of the reporting date.

Commitments
(a) Capital commitments

	At 30 June 2016 *RMB million*	**At 31 December 2015** *RMB million*
Capital expenditure in respect of acquisition of property, plant and equipment contracted but not provided for	189	281
Capital commitment in respect of investments in:		
- joint ventures	251	48
- associates	134	17
- share acquisition	183	112

(b) Other commitments
As at 30 June 2016, the Group has commitment amounting to RMB25 million (31 December 2015: RMB47 million) in respect of acquisition of land use rights in the PRC.

STRATEGIES AND PROSPECTS

Pursuant to the 13th Five-year Plan, the PRC government will continue to provide great support for its development. As at the end of 2015, the proportion of natural gas in primary energy consumption in the PRC only accounted for 5.9%, and the government has reiterated the targets of increasing the proportion of natural gas consumption to 10% and 15% by 2020 and 2030 respectively. To attain such goals, the PRC government has successively launched various important development plans over 2020, including the "National New Urbanisation Plan (2014-2020)", the "National Energy Development Strategy Action Plan (2014-2020)" and the "Work Plan on Strengthening Air Pollution Prevention and Control in Energy Industry". By submitting treaty documents to the United Nations in the Paris Climate Change Conference in June last year, China has committed to reduce the proportion of carbon dioxide emission per gross domestic product unit by 60%-65% in 2030 as compared to 2005.

In the future, the Group will establish and consistently implement market-oriented corporate development strategies taking into full consideration the macro-economic trend and the development trend of natural gas industry. The Group will make innovations and thoroughly unleash its potential to foster a solid growth of its core city-gas business, optimise vehicle gas refuelling stations network to enhance profitability, speed up the deployment of electricity sales business and advance the implementation of distributed energy projects. On the back of its scalable logistics fleet resources and the capabilities of upstream resources procurement and downstream market exploration, the Group will continue to develop wholesale of gas business and accelerate value-added businesses to diversify its revenue streams. The Group will ensure the completion of its annual operation targets and lay a strategic foothold for its future development.

As 2016 marks the beginning of the 13th Five-year Plan, the Group will continue to seize the opportunities and leverage its strengths to adapt to any changes in the market and to meet its customers' needs. Apart from making significant contributions to environmental protection and the energy sector both within and beyond the country, the Group will also maximise the long-term interests of its shareholders, customers and employees, as well as to society and itself.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the Period, the Company repurchased a total of 232,000 shares on the Stock Exchange at an aggregate consideration of HK$7,815,500. Details of the repurchases are as follows:

Date	Total number of shares repurchased	Price per share Highest HK$	Price per share Lowest HK$	Aggregate consideration HK$
11 January 2016	200,000	34.00	33.50	6,761,300
21 January 2016	32,000	33.00	32.45	1,054,200
Total	232,000			7,815,500

As at the date of this announcement, all of the above repurchased shares were cancelled.

The purpose of share repurchase is to increase net asset value per share and earnings per share. The share repurchase complied with the general mandate to the Board to repurchase the Company's shares passed in the Company's 2015 annual general meeting. Save as above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The Company established an Audit Committee in accordance with requirements under the Listing Rules for the purposes of reviewing with management the accounting principles and practices adopted by the Group and discuss auditing, internal control and financial reporting matters.

The Company's audit committee meeting was held on 22 August 2016 to review the Group's unaudited interim results and interim financial report for the six months ended 30 June 2016. Deloitte Touche Tohmatsu, the Company's independent auditor, has carried out a review of the unaudited interim report for the six months ended 30 June 2016 in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as contained in Appendix 10 to the Listing Rules. Specific enquiries have been made with all Directors who have confirmed that they have complied with the required standard set out in the Model Code and the code of conduct regarding Directors' securities transactions during the Period.

THE CORPORATE GOVERNANCE CODE

To the knowledge of the Board, the Company has complied with the Code Provisions set out in the Corporate Governance Code as contained in Appendix 14 to the Listing Rules throughout the Period.

By order of the Board
WANG YUSUO
Chairman

Hong Kong, 23 August 2016

As at the date of this announcement, the Board comprises the following directors:

Executive Directors:
Mr. Wang Yusuo (Chairman)
Mr. Cheung Yip Sang (Vice Chairman)
Mr. Han Jishen (President)
Mr. Wang Dongzhi (Chief Financial Officer)

Non-executive Directors:
Mr. Wang Zizheng
Mr. Jin Yongsheng

Independent Non-executive Directors:
Mr. Ma Zhixiang
Mr. Yuen Po Kwong
Mr. Law Yee Kwan, Quinn

The Interim Report 2016 will be dispatched to the shareholders and published on the websites of the Company and the Stock Exchange.