ENN Energy Holdings Limited
新奥能源控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2688)

(Website: www.xinaogas.com)

INTERIM RESULTS
Interim Results Announcement
For The Six Months Ended 30 June 2010

The Board of Directors (the "Board") of ENN Energy Holdings Limited (formerly known as "Xinao Gas 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 2010 (the "Period"). The unaudited condensed consolidated financial statements have been reviewed by the Company's auditors and audit committee.

** for identification only*

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2010

		Six months ended 30 June	
		2010	**2009**
		(unaudited)	**(unaudited)**
	NOTES	*RMB'000*	*RMB'000*
Revenue	*3*	5,043,719	4,016,415
Cost of sales		(3,623,029)	(2,791,900)
Gross profit		1,420,690	1,224,515
Other income		61,020	38,516
Selling expenses		(90,677)	(67,550)
Administrative expenses		(482,214)	(378,025)
Other gains and losses	*4*	(5,222)	(92,790)
Share of results of associates		6,713	10,853
Share of results of jointly controlled entities		138,720	82,828
Finance costs		(150,627)	(174,428)
Profit before taxation		898,403	643,919
Taxation	*5*	(203,744)	(148,748)
Profit and total comprehensive income for the period		694,659	495,171
Profit and total comprehensive income for the period attributable to:			
Owners of the Company		533,323	374,224
Non-controlling interests		161,336	120,947
		694,659	495,171
Earnings per share	*7*		
Basic		50.79 cents	36.87 cents
Diluted		50.78 cents	36.57 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2010

	NOTES	At 30 June 2010 (unaudited) RMB'000	At 31 December 2009 (audited) RMB'000
Non-current assets			
Property, plant and equipment		9,745,263	9,092,059
Prepaid lease payments		667,130	528,909
Investment properties		72,625	72,625
Goodwill		191,841	171,862
Intangible assets		717,072	449,773
Interests in associates		331,084	323,880
Interests in jointly controlled entities		1,111,406	1,015,641
Available-for-sale investments		14,056	14,056
Loan receivable		6,000	9,000
Other receivable		30,288	30,581
Amounts due from associates		71,743	71,795
Amount due from a jointly controlled entities		24,847	26,644
Amounts due from related companies		22,252	34,582
Deferred tax assets		103,146	33,678
Deposits paid for investments		143,075	62,200
Deposits paid for acquisition of property, plant and equipment, land use rights and operation rights		6,182	10,010
Restricted bank deposits		13,471	2,200
		13,271,481	11,949,495
Current assets			
Inventories		277,896	286,046
Trade and other receivables	*8*	1,509,127	1,208,275
Prepaid lease payments		12,274	11,105
Amounts due from customers for contract work		304,198	241,415
Amounts due from associates		12,215	4,301
Amounts due from jointly controlled entities		265,640	155,041
Amounts due from related companies		3,125	16,684
Restricted bank deposits		68,010	118,270
Fixed bank deposits		40,000	-
Cash and cash equivalents		2,451,037	2,712,661
		4,943,522	4,753,798
Current liabilities			
Trade and other payables	*9*	2,866,519	2,771,574
Amounts due to customers for contract work		622,859	564,898
Amounts due to associates		75,016	76,405
Amounts due to jointly controlled entities		364,462	327,826
Amounts due to related companies		21,476	21,261
Taxation payable		158,058	97,906
Dividend payable		200,158	-
Bank and other loans – due within one year		1,298,818	675,796
Short-term debentures		821,196	808,699
Financial guarantee liability		2,932	3,383
Deferred income - current portion		22,788	16,290
		6,454,282	5,364,038
Net current liabilities		(1,510,760)	(610,240)
Total assets less current liabilities		11,760,721	11,339,255
Capital and reserves			
Share capital		109,879	109,879
Reserves		5,395,478	5,051,946
Equity attributable to owners of the Company		5,505,357	5,161,825
Non-controlling interests		1,399,961	1,316,432
Total equity		6,905,318	6,478,257

Non-current liabilities		
Bank and other loans – due after one year	2,865,603	3,048,805
Guaranteed notes	1,346,590	1,351,209
Deferred taxation	249,828	180,859
Deferred income - non-current portion	393,382	280,125
	4, 855,403	4,860,998
	11,760,721	11,339,255

Notes:

1. Basis of Preparation

The change of the English name of the Company from "XinAo Gas Holdings Limited" to "ENN Energy Holdings Limited" has become effective on 13 August 2010.

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

In preparing the Interim Financial Statements, the directors of the Company (the "Directors") have given careful consideration of the Group in light of its net current liabilities of RMB1,510,760,000 as at 30 June 2010. On the basis that the Group has secured credit facilities of approximately RMB2,545,000,000 which remains unutilised at the date of approval of the Interim Financial Statements and issued debenture of RMB800,000,000 subsequent to the end of the reporting period. 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 Interim Financial Statements have been prepared on a going concern basis.

2. Principal Accounting Policies

The Interim Financial Statements have been prepared on the historical cost basis except for certain properties, which are measured at revaluation amounts or fair values, as appropriate.

Except as described below, the Interim Financial Statements should be read in conjunction with the annual financial statements for the year ended 31 December 2009. The accounting policies used in the Interim Financial Statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2009.

In the current interim period, the Group has applied, for the first time, a number of new and revised standards, amendments and interpretations ("new or revised HKFRSs") issued by the HKICPA, which are effective for the Group's financial year beginning 1 January 2010.

HKFRS 3 (Revised 2008) Business Combinations

During the six months ended 30 June 2010, the Group applied HKFRS3 (Revised) "Business Combination" to the acquisition of 廣州富都管道燃氣有限公司 and 盤錦遼濱盛泰燃氣有限公司 in the current period.

HKFRS 3 (Revised) allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interests (previously referred to as "minority" interests). In the current period, the Group has elected to measure non-controlling interests at the proportionate share of the acquirees' net identified assets at the respective acquisition dates.

The Group has not had contingent consideration in each acquisition of business. In the current period, changes in policies have no material impact for these acquisitions.

HKAS 27 (Revised 2008) Consolidated and Separate Financial Statements

The application of HKAS 27 (Revised) "Consolidated and Separate Financial Statements" has resulted in changes in the Group's accounting policies regarding increases or decreases in ownership interests in subsidiaries that did not involve loss of control of the Group after 1 January 2010. In prior years, in the absence of specific requirements in HKFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. The impact of decreases in interests in subsidiaries that did not involve loss of control (being the difference between the consideration received and the carrying amount of the share of net assets disposed of) was recognised in profit or loss. Under HKAS 27 (Revised), all increases or decreases in such interests are dealt with in equity, with no impact on goodwill or profit or loss.

During the six months ended 30 June 2010, the Group has acquired additional interest in a subsidiary and recognised the difference between the consideration and the carrying amount of non-controlling interests amounting to RMB2,085,000 in special reserves.

HKAS 27 (Revised) also required when control of a subsidiary is lost as a result of a transaction, event or other circumstances, any retained interest in the former subsidiary is recognised at its fair value at the date the control is lost. A gain or loss on loss of control is recognised in profit or loss as the difference between the proceeds, if any, and these adjustments. The Group has applied these requirements of HKAS 27 (Revised) to a subsidiary becoming the Group's jointly controlled entity during the six months ended 30 June 2010 and recognised a gain of RMB9,633,000 in profit or loss.

Amendment to HKFRS 17 Lease

As part of Improvements to HKFRSs issued in 2009, HKAS 17 Leases has been amended in relation to the classification of leasehold land. Before the amendment to HKAS 17, leasees were required to classify leasehold land as operating leases and presented as prepaid lease payments in the consolidated statement of financial position. The amendment has removed such a requirement. Instead, the amendment requires the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee.

In accordance with the transitional provisions set out in the amendment to HKAS 17 Lease, the Group reassessed the classification of land elements of unexpired leases at 1 January 2010 based on information which existed at the inception of these leases and there is no impact to the Group upon adoption of this amendment.

The adoption of other new and revised HKFRSs has had no material impact on the reported results and financial position of the Group for prior accounting periods. Accordingly, no prior period adjustment has been recognised and changes in policies have no material impact for current peroid.

The Group has not early applied the following new standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs issued in May 2010[1]
HKAS 24 (Revised)	Related Parties Disclosures [2]
HKAS 32 (Amendment)	Classification of Right Issues [3]
HKFRS 1 (Amendment)	Limited Exemptions from Comparative IFRS 7 Disclosures for First-time Adoptors[3]
IFRS 9	Financial Instruments [4]
HK (IFRIC) - Int 14 (Amendment)	Prepayments of a Minimum Funding Requirements [2]
HK (IFRIC) - Int 19	Extinguishing Financial Liabilities with Equity Intruments [4]

[1] Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

[2] Effective for annual periods beginning on or after 1 January 2011

[3] Effective for annual periods beginning on or after 1 February 2010

[4] Effective for annual periods beginning on or after 1 January 2013

[5] Effective for annual periods beginning on or after 1 July 2010

3. Segment Information

Operating segments are identified on the basis of internal reports about components of the Group and regularly reviewed by the chief operating decision maker, the Company's Chief Executive Officer (the "CEO"), in order to allocate resources to the segment and to assess its performance.

Information reported to the Company's CEO for the purposes of resource allocation and performance assessment among segments focuses specifically on different type of goods and services.

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

Six months ended 30 June 2010

	Gas connection	**Sales of piped gas**	**Distributions of bottled liquefied petroleum gas**	**Sales of gas appliances**	**Vehicle gas refuelling stations**	**Consolidation**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers	1,272,621	3,040,885	146,515	28,231	555,467	5,043,719
Segment profit before depreciation and amortisation	712,900	729,500	7, 221	13, 544	121,203	1,584,368
Depreciation and amortisation	(24,846)	(125,862)	(2,075)	(902)	(9,993)	(163,678)
Segment profit	688,054	603,638	5,146	12,642	111,210	1,420,690
Other income						61,020
Selling expenses						(90,677)
Administrative expenses						(482,214)
Other gains and losses						(5,222)
Share of results of associates						6,713
Share of results of jointly controlled entities						138,720
Finance costs						(150,627)
Profit before taxation						898,403
Taxation						(203,744)
Profit for the period						694,659

Six months ended 30 June 2009

	Gas connection	Sales of piped gas	Distributions of bottled liquefied petroleum gas	Sales of gas appliances	Vehicle gas refuelling stations	Consolidation
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers	1,182,883	1,792,007	597,768	44,645	399,112	4,016,415
Segment profit before depreciation and amortisation	726,319	501,319	9,441	14,610	106,786	1,358,475
Depreciation and amortisation	(24,099)	(100,244)	(2,417)	(1,042)	(6,158)	(133,960)
Segment profit	702,220	401,075	7,024	13,568	100,628	1,224,515
Other income						38,516
Selling expenses						(67,550)
Administrative expenses						(378,025)
Other gains and losses						(92,790)
Share of results of associates						10,853
Share of results of jointly controlled entities						82,828
Finance costs						(174,428)
Profit before taxation						643,919
Taxation						(148,748)
Profit for the period						495,171

Segment profit represents the gross profit earned by each segment without allocation of selling expenses, administration expenses, other income, other gains and losses, share of results of associates and jointly controlled entities and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

4. Other Gains and Losses

	Six months ended 30 June	
	2010	**2009**
	RMB'000	*RMB'000*
Gain (loss) on disposal of		
- Prepaid lease payments	3,658	-
- Property, plant and equipment	(14,660)	(4,783)
- A subsidiary	-	(1,571)
- An associate	-	5,023
Gain of derecognition of a subsidiary to jointly controlled entity	9,633	-
Impairment loss on:		
- Property, plant and equipment (note (a))	-	(12,536)
- Trade receivables	(15,905)	(18,556)
- Other receivables (note (b))	(1,009)	(59,681)
Exchange gain (loss), net	13,061	(686)
	(5,222)	(92,790)

Notes:

(a) In 2008, the Group had replaced the pipelines for delivery of coal gas into pipelines for delivery of natural gas in Shijiazhuang, Hebei Province, the People's Republic of China ("PRC"). During the six months ended 30 June 2009, the Director considered that the resalable value of such coal gas pipelines is immaterial and the cost for reuse outweighs the carrying values, therefore, impairment loss of RMB12,536,000 was recognised in profit or loss during the six months ended 30 June 2009.

(b) Included in other receivables as at 30 June 2009 were amounts of RMB214,240,000, of which RMB43,000,000 was due from Shantou Longpeng Energy Investment Co., Ltd. ("Shantou Longpeng Investment") and RMB171,240,000 was due from a subsidiary of Shantou Longpeng Investment. In August 2009, the Group had assigned the whole amount without recourse to an independent third party, 渤海國際信托有限公司 ("Bohai Xintuo"), at a cash consideration of RMB140,000,000. Having taken into settlement received from this debtor amounting to RMB20,000,000 in September 2009 and proceeds from disposal of the receivables, the Group had provided impairment of RMB54,240,000 during the six months ended 30 June 2009.

5. Taxation

	Six months ended 30 June	
	2010	**2009**
	RMB'000	*RMB'000*
PRC Enterprise Income Tax	264,119	139,353
Deferred taxation	(60,375)	9,395
	203,744	148,748

PRC Enterprise Income Tax of the Group mainly comprises income tax of the Company and its subsidiaries which are recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used is 25% for the six months ended 30 June 2010 (six months ended 30 June 2009: 25%).

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

The deferred taxation balances are as follows:

	At 30 June 2010	**At 31 December 2009**
	RMB'000	*RMB'000*
Deferred tax assets	103,146	33,678
Deferred tax liabilities	(249,828)	(180,859)
	(146,682)	(147,181)

The movements of deferred taxation for the period are as follows:

	Attributable to						
	Valuation of properties	Intangible assets	Capitalisation of interest in property, plant and equipment	Undistributed retained profit of PRC entities from 1 January 2008	Deferred income	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(note)*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2010	21,612	87,124	36,174	39,371	(35,521)	(1,579)	147,181
Acquisition of businesses	-	59,876	-	-	-	-	59,876
(Credit) charge to profit or loss	-	(2,317)	4,057	5,510	(67,625)	-	(60,375)
At 30 June 2010	21,612	144,683	40,231	44,881	(103,146)	(1,579)	146,682

Note: The amount represents deferred taxation in respect of the temporary differences attributable to the undistributed retained profits earned after 1 January 2008 by the group entities registered in the PRC. The amount has been provided based on the temporary differences that the Director considers to be probably reversed in the foreseeable future upon distribution of profit by the respective group entities located in the PRC to non-PRC shareholders.

6. Dividend

The final dividend in respect of fiscal year 2009 of HKD21.65 cents (equivalent to approximately RMB19.06 cents) per share (2009: final dividend in respect of 2008 of HKD17.71 cents (equivalent to approximately RMB15.62 cents) per share) amounting to approximately RMB200,158,000 (2009: RMB157,644,000) were declared on 31 March 2010 and were paid on 13 July 2010.

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2010 (six months ended 30 June 2009: 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	
	2010	**2009**
	RMB'000	*RMB'000*
Earnings		
Earnings for the purposes of basic earnings per share and diluted earnings per share (profit for the period attributable to owners of the Company)	533,323	374,224

	Six months ended 30 June	
	2010	**2009**
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,050,149,397	1,014,891,828
Effect of dilutive potential ordinary shares arising from share options	99,022	8,371,705
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,050,248,419	1,023,263,533

8. Trade and Other Receivables

Included in the trade and other receivables are trade receivables amounting to RMB400,759,000 (as at 31 December 2009: RMB493,142,000). The Group allows an average credit period of 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, at the end of the reporting period:

	At 30 June 2010	**At 31 December 2009**
	RMB'000	*RMB'000*
0 - 3 months	308,667	352,018
4 - 6 months	50,754	56,237
7 - 9 months	11,630	32,825
10 - 12 months	26,894	23,411
More than 1 year	2,814	28,651
	400,759	493,142

9. Trade and Other Payables

Included in trade and other payables are trade payables of RMB961,848,000 (as at 31 December 2009: RMB1,124,627,000). The following is an aged analysis of trade payables at the end of the reporting period:

	At 30 June 2010	**At 31 December 2009**
	RMB'000	*RMB'000*
0 - 3 months	450,152	631,472
4 - 6 months	121,342	144,349
7 - 9 months	128,685	133,426
10 - 12 months	75,940	59,929
More than 1 year	185,729	155,451
	961,848	1,124,627

BUSINESS REVIEW

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		
	2010 (Unaudited)	**2009 (Unaudited)**	**Increase/ (Decrease)**
Revenue (RMB)	5,043,719,000	4,016,415,000	25.6%
Gross profit (RMB)	1,420,690,000	1,224,515,000	16.0%
Profit attributable to owners of the Company (RMB)	533,323,000	374,224,000	42.5%
Earnings per share – Basic (RMB)	50.79 cents	36.87 cents	37.8%
Connectable urban population	45,663,000	41,874,000	9.0%
Connectable residential households	15,221,000	13,958,000	9.0%
New natural gas connections made during the Period:			
– residential households	426,245	356,675	19.5%
– commercial/industrial ("C/I") customers (sites)	1,821	1,196	625
– installed designed daily capacity for C/I customers (m^3)	2,376,246	1,394,926	70.3%
Accumulated number of connected natural gas customers:			
– residential households	4,965,321(1)	4,045,135(2)	22.7%
– C/I customers (sites)	15,405(1)	12,064(2)	3,341
– installed designed daily capacity for C/I customers (m^3)	15,380,603(1)	10,457,977(2)	47.1%
Accumulated number of connected piped gas (including natural gas) customers:			
– residential households	5,165,474	4,210,159	22.7%
– C/I customers (sites)	16,059	12,495	3,564
– installed designed daily capacity for C/I customers (m^3)	15,914,980	10,919,138	45.8%
Natural gas penetration rate	32.6%	29.0%	3.6%
Piped gas (including natural gas) penetration rate	33.9%	30.2%	3.7%
Unit of piped gas sold to residential households (m^3)	346,813,000	263,636,000	31.5%
Unit of piped gas sold to C/I customers (m^3)	1,390,526,000	887,087,000	56.8%
Unit of gas sold to vehicles (m^3)	250,231,000	187,522,000	33.4%
Unit of bottled liquefied petroleum gas ("LPG") sold (ton)	29,384	248,052	(88.2%)
Unit of steam sold (ton)	42,521	-	100%
Number of vehicle refuelling stations	176	141	35
Number of natural gas processing stations	95	91	4
Total length of existing intermediate and main pipelines (km)	15,537	13,222	17.5%

Notes:

1. Including a total of 1,003,319 natural gas residential customers and 2,072 natural gas C/I customers (with a total designed daily capacity of 1,067,232m^3) from acquisition/conversion.
2. Including a total of 1,000,984 natural gas residential customers and 2,071 natural gas C/I customers (with a total designed daily capacity of 1,067,016m^3) from acquisition/conversion.

Pipeline Construction

During the Period, gas connection fee revenue reached RMB1,272,621,000, representing an increase of 7.6% over the corresponding period last year and accounting for 25.2% of the total revenue. However, as the connection fee income from certain projects was recognised by amortisation since 2009, the actual growth rate of connection fee income would reach 11.6% if the amount being amortised was included in connection fee income. The average connection fees for residential households and C/I customers were RMB2,610 and RMB150 (per m^3) respectively. As compared to the figures in 2009, the average connection fees for residential households during the Period remained at a similar level, which reveals that China maintains a stable policy over the charge of connection fees. On the other hand, the Group constantly provides C/I customers with promotions on connection fee in order to boost the gas sales.

Taking advantage of its industry experience and good management, the Group achieved sustained growth in the number of new connections. The new piped natural gas connections made to residential households and the designed daily capacity for C/I customers newly installed during the Period increased by 19.5% and 70.3% respectively as compared to the corresponding period last year. The robust growth in C/I customers not only evidenced the Group's excellent execution ability but also showed the competitive advantages of natural gas over other kinds of energy. Currently, the potential for making new gas connections for both residential households and C/I customers in the areas already covered by the Group is still enormous.

The liquefied natural gas ("LNG") terminal in Fujian Province had commenced operation in 2009, which helped the Group achieving good gas sales scale in that region during the Period. As a result, gas supply for the Group's seven projects in the Fujian province, including the one in Quanzhou city, an important industrial centre in South-East China, has been further secured. In addition, the completion of the western section of the West-East Pipeline II and the Sichuan-East Pipeline will facilitate more connections to both residential households and C/I customers because of the sufficient gas supply and so strengthen the Group with more stable and long-term revenue.

Gas Sales

During the Period, piped gas sales revenue reached RMB3,040,885,000, representing an increase of 69.7% over the corresponding period last year and accounting for 60.3% of the total revenue.

Sales of piped gas and vehicle gas continue to accelerate, contributing to 71.3% of the total revenue in aggregate. As compared with the percentage of 54.5% during the corresponding period last year, the gas sales revenue has achieved an obvious increase and become the major source of revenue of the Group. This shows that the Group has a more stable and long-term revenue base. The further decrease in reliance on one-off connection fee leads to a more enhanced revenue structure. On the other hand, the number of vehicle gas refuelling stations ("refuelling stations") has further increased from 141 to 176 compared with the same period last year, whilst the number of refuelling stations that are under construction or have already been built and will come into operation was 30. As a result, the gas sales to vehicles increased by 39.2% as compared to the corresponding period last year. Thanks to its contribution to environmental protection, the great reduction in fuel cost for vehicle users and the rapid increase in the number of vehicles in China, natural gas refuelling station business which provides clean energy as a substitute for gasoline for vehicle use is expected to experience rapid growth continuously. The Group can thus further optimise its current advantage on gas sources and increase the economies of scale for the gas projects on hand. It is expected that the refuelling station business will become one of the major catalysts for the increase in the Group's gas sales revenue in the long run.

During the Period, sales revenue from bottled LPG reached RMB146,515,000, representing a decrease of 75.5% as compared to the corresponding period last year, leading to a shrink in its share over the total revenue from 14.9% in the corresponding period last year to 2.9%. Given the drop in the sales of bottled LPG, the Group allocated more resources to gas connections and sales of natural gas which can both generate higher margins.

Gross and Net Profit Margins

During the Period, the overall gross profit margin and net profit margin (before minority interests) of the Group were 28.2% and 13.8% respectively, representing a decrease of 2.3% and an increase of 1.5% respectively as compared to the corresponding period last year.

The decrease in gross profit margin was mainly resulted from the continuous improvement in the Group's revenue structure. In total revenue, the share of one-off connection fee that has higher gross profit margin was dropping consistently, while that of gas sales which is on a long-term and continuous basis has achieved substantial increase. Another reason that leads to the decrease in gross profit margin was because more connection fee income was recognised by amortisation during the Period.

As for the increase in net profit margin, other than the effective cost control maintained by the Group, the substantial decrease in provision for bad debts, one-off loss and impairment of fixed assets have also played a significant role. Moreover, in light of the further growth in the business of the Group, the share of results of jointly controlled entities increased by 67.5% as compared to the corresponding period last year, which in turn provides a good foundation for the Group's profits and cash flows. On the other hand, the sound financial management performed by the Group was another factor for the increase in net profit margin. The Group has raised US$150 million syndicated loan at the end of 2009 which was mainly used for repaying the short-term loans in China. Such syndicated loan bears interests at a rate much lower than the lending rate in China. During the Period, the finance costs of the Group decreased by 13.6% as compared to the corresponding period last year.

New Projects

During the Period, the Group secured the following 10 new piped gas projects:

Country/Province	City	Connectable urban population
Vietnam	Hanoi, Ho Chi Minh, Da Nang	8,920,000
Guangdong, China	Huadu District, Guangzhou	444,000
Guangdong, China	Fengkai County	80,000
Guangdong, China	Luoding City	288,000
Guangdong, China	Huaiji County	124,000
Guangdong, China	Guangning County	80,000
Guangdong, China	Xinyi City	250,000
Guangdong, China	Lianzhou City	150,000
Hunan, China	Huaihua City	430,000
Yunnan, China	Wenshan County	252,000

The commercial and industrial development in these project cities in China are relatively robust, in particular, the gross domestic product per capita in the Guangzhou Huadu District in Guangdong Province reached RMB66,870 in 2008, significantly above the national average. The pillar industries in Huadu included automobile, port economy and jewelry. The other six projects in the Guangdong Province are also especially well-developed in both industrial and commercial sectors, with particularly robust industries including electronics, textile, chemical, mineral processing, paper-making and machining, and all these industries have played a significant role in boosting the gas sales of the Group; Following the acquisition of Changsha, Zhuzhou, and Xiangtan, Huaihua City is the fourth project obtained by the Group in the Hunan province. The economy of Huaihua City is comparatively well-developed with pillar industries including medical and pharmaceutical, chemical and food processing which have also helped stimulate the Group’s gas sales; Being the first project in the Yunnan Province and with relatively well-developed industries such as medical and pharmaceutical, tobacco and agricultural product processing, the acquisition of the Wenshan County will be favourable to the further expansion of the Group’s business in that province. With the above nine projects included, as of 30 June 2010, the number of piped gas projects operated by the Group in China amounted to 88, while the total connectable urban population further increased to 45,663,000. If the connectable urban population of 8,920,000 for the Vietnam project is also included, the total connectable urban population of the Group would reach 54,583,000. Meanwhile, in the first half of the year, the Group has formally established business cooperation with The Vietnam Oil and Gas Group (PetroVietnam) to develop piped gas and vehicle gas refuelling businesses in the near future. The Group’s joint venture in Vietnam has obtained rights to operate piped natural gas projects in every city in Vietnam, among which the Group will first begin operation in the most economically developed cities, including Hanoi, Ho Chi Minh and Da Nang. Being an emerging market, Vietnam demonstrates huge development potential and considerable growth rate, and such cooperation represented the prelude to breaking into the international market by the Group. Moreover, during the Period, the number of vehicle gas refuelling stations completed and started operation was 14, adding to a total of 176 vehicle gas refuelling stations located in 46 cities of the state, among which 12 were not piped gas project cities of the Group. In future, we will continue to expand the vehicle gas refuelling business and cover more cities.

Given the Group’s strategy of acquiring projects with low gas penetration rates, as of 30 June 2010, the overall gas penetration rate of the Group’s China projects is 33.9% only. From the Group’s past experience, the gas penetration rates can reach as high as 80% to 90%. In view of the huge number of connectable but not yet connected population under the coverage of the Group’s projects which have obtained exclusive operational rights, the low gas penetration rate not only shows that the Group is still at the rapid development stage but also ensures good revenue in the future.

Human Resources

As at 30 June 2010, the total number of staff employed by the Group was 18,141, of which 11 were based in Hong Kong. The number of staff was increased to cope with the needs arising from new projects and business development of the Group. The staff was remunerated at the market level with benefits such as bonus, retirement benefit and share option scheme.

FINANCIAL RESOURCES REVIEW

Liquidity and Financial Resources

As at 30 June 2010, the Group's cash on hand (including fixed bank deposits) was equivalent to RMB2,491,037,000 (31 December 2009: RMB2,712,661,000), and its total debts amounted equivalent to RMB6,332,207,000 (31 December 2009: RMB5,884,509,000). Its net gearing ratio, i.e. the ratio of net debt to equity (including minority interests), was 55.6% (31 December 2009: 49.0%).

Seven-year 7.375% Fixed Rate Bonds

On 5 August 2005, the Company issued 7-year bonds in the aggregate principal amount of US$200,000,000 (equivalent to RMB1,614,040,000) with issue price and redemption price of 100%, which are unconditionally and irrevocably guaranteed by the guarantor subsidiaries. The guarantor subsidiaries are wholly-owned subsidiaries of the Company and are primarily holding companies that operate through their subsidiaries. The coupon of the bonds is 7.375%, and interests are paid semi-annually.

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 and working capital requirements for its existing projects.

Borrowings Structure

As at 30 June 2010, the Group's total debts amounted equivalent to RMB6,332,207,000 (31 December 2009: RMB5,884,509,000), including loans and bonds of US$375,000,000 (equivalent to RMB2,534,998,000) and mortgage loans of HK$14,517,000 (equivalent to RMB12,664,000). Apart from the US$200,000,000 bonds which are fixed coupons, other US dollar loans and HK dollar mortgage loans bear interest at floating rates, and the remaining bank and other borrowings are denominated in Renminbi and bear interests at rates announced by the People's Bank of China. The project companies used the Renminbi loans as their working capital and operational expenditure. Except for the loan amount equivalent to RMB1,364,520,000 that are secured by assets with the carrying amount equivalent to RMB63,409,000, all of the other loans are unsecured. Short-term loans were equivalent to RMB2,120,014,000 while the remaining were long-term loans falling due after one year or above.

As all the operations of the Group are in the China, revenues and expenses were mainly denominated in Renminbi. Hence, there were no significant foreign exchange exposures or risks. The Group will monitor the market trends of interest rates closely and adopt appropriate measures when necessary.

Financial Guarantee Liability

As at 30 June 2010, the Group had issued guarantees to banks to secure loan facilities granted to associates and jointly controlled entities to the extent of RMB87,000,000 (31 December 2009: RMB87,000,000) and RMB142,000,000 (31 December 2009: RMB92,000,000) respectively. The amounts have been utilised at the balance sheet date.

Capital Commitment

	At 30 June 2010 *RMB'000*	**At 31 December 2009** *RMB'000*
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided	30,338	22,851
Capital commitment in respect of investment in joint ventures	121,721	145,721

PROSPECTS

The Group reached the critical mass in terms of the number of gas projects and the connectable population in China, and this enables the Group to selectively acquire high-quality new piped gas projects in recent years, boost the gas penetration rates of our existing gas projects, develop the business of compressed natural gas (as a substitute for gasoline) refuelling stations that can increase long-term natural gas sales, as well as develop the energy distribution channels in peripheral towns and cities of our gas projects, so as to achieve sustainable business expansion. During the Period, the Group has expanded into the international market through obtaining its first overseas downstream project of piped natural gas—Vietnam. That means the Group's business internationalisation programme has already kicked off. Having Vietnam as a pilot project, we can determine a set of standards and foundation for acquiring and operating international projects, and after more and more experience in managing international projects is gained, the feasibility of developing other international markets will be further studied. As such, the Group's limitation on acquiring new projects in China can be broken, bringing in more diversified business growth to the Group in the future, and thus delivering enhanced gains and returns for the shareholders.

With the continuous growth in the Group's gas sales volume, secured gas supply is of utmost importance. Besides the LNG import terminal in Putian, Fujian Province which provided secured gas supply for the Group's seven projects in the Fujian Province, the construction of the western section of the West-East Pipeline II and Sichuan-East Pipeline, which connect China from east to west and north to south, were also completed. On the other hand, the eastern section of the West-East Pipeline II will be completed phase by phase within next two years, and after that, the West-East Pipeline II will be extended to cover the Guangxi Autonomous Region. Consequently, these new gas sources fundamentally secure the gas supply for the Group's piped natural gas projects in Guangdong Province, Guangxi Autonomous Region, Fujian Province and Zhejiang Province. In addition to these large-scale natural gas infrastructure projects by the State, the Group also develops its own upstream projects which have annual LNG production capacity of over 300million m^3 and can benefit more downstream projects of the Group. On the other hand, through importing natural gas from Qatar via the LNG terminal of CNOOC in Guangdong Province, the Group was able to offer stronger protection and greater flexibility to the gas supply for its projects in the Guangdong Province during the Period.

To further narrow down the difference between gas tariff in the PRC and the international market, the National Development and Reform Commission ("NDRC") has announced the content of the natural gas price reform. Whereby, it has decided to raise the onshore benchmark wellhead price of natural gas by RMB 230 per thousand cubic meter since 1 June 2010. Up to August 2010, among the Group's 88 project cities in the PRC, 26 projects have increased their upstream tariff and the price increase per cubic meter is RMB0.29, of which 15 projects have also increased their downstream tariff, with a tariff increase of RMB0.40 per cubic meter. Both the progress on implementing the price adjustment and the amounts of the tariff adjustments have been satisfactory. On 22 July 2010, the NDRC has promulgated the Notice on Accelerating the Finalisation of Proposal on Natural Gas Price Adjustment, whereby the NDRC procures local governments to finalise the natural gas price adjustment as soon as possible. This is not only favourable to the progress on price adjustment but also beneficial to the development of the whole industry. It is expected that tariff adjustment can be successfully implemented to all projects finally.

The sustained growth in the Chinese economy has exerted great pressure on its energy resources and environment. The high energy consumption along with economic development and the excessive emission of pollutants and greenhouse gas have also imposed a serious threat to the continuous development of the economy and society. Thanks to the increase in energy consumption efficiency and decrease in cost resulted from the improvement of technology, and enhancement in the public awareness of environmental protection, efficient use of clean energy has now gained wider recognition in the society. After years of excellent operation, the Group has built a strong brand identity and extensive customer resources. It has also taken a proactive stance to formulate new business model. On the other hand, primarily through the provision of comprehensive regional clean energy solutions, the Group has formulated various energy distribution systems and established supply models for multi-energy products including gas, photoelectricity and calorific capacity. By applying its extensive experience and utilising its advantage on advanced information systems, the Group has exercised effective management on the energy business and provided energy management services to its customers. Currently, the Group has certain energy management projects in implementation, such as the polygeneration project for the Changsha Huanghua Airport and the cascading use of energy for the Liuyang Biomedical Park in Changsha. All these projects greatly enhance the utilisation efficiency of energy resources and lower the energy consumption costs for customers through the transformation, recycle use, cascading use, in-depth processing and diversified supply of energy resources. As a result, emission reduction can be achieved while the revenue and earnings level for the Company can also be further enhanced in the future.

Currently, as compared to most countries and regions in other parts of the world, China still maintains healthy and stable growth in respect of its economic development. The boost in new gas connections and sales volume to C/I customers shows that there is still a good momentum for growth in China. Also, contributed by the stability feature of the public utilities sector, the Group has delivered impressive performance during the Period with a growth rate exceeding the original target set at the beginning of the year.

As for the macro environment, the Chinese government has devoted a great deal of effort in promoting the development of clean energy, new energy and renewable energy. Various laws and plans in relation to energy development have also been introduced by the Chinese government to support the promotion of energy. One of the examples of the supporting actions taken by the government is the development of energy infrastructure projects which includes construction of long distance natural gas pipelines and LNG terminal. With such strong support from the government, and complemented by the energy services business vigorously promoted by the Group, sound management as well as the effective use of resources, the Group believes that, besides making contribution to environmental protection, the benefits of all shareholders and employees and the utilisation of social resources have been maximised at the same time.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The Company established an Audit Committee on 28 March 2001. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control (including financial control, operational control, compliance control, risk management function and the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function, as well as their training programmes and budget) and financial reporting matters. Members of the Audit Committee are Mr. Wang Guangtian, Ms. Yien Yu Yu, Catherine and Mr. Kong Chung Kau, who are all independent non-executive Directors. An audit committee meeting was held on 25 August 2010 to review the unaudited interim results and interim financial report for the six months ended 30 June 2010. Deloitte Touche Tohmatsu, the Group's external auditors, have carried out a review of the unaudited interim financial report for the six months ended 30 June 2010 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 CODE ON CORPORATE GOVERNANCE PRACTICES

To the knowledge of the Board, the Company has complied with the Code Provisions set out in the Code on Corporate Governance Practices as contained in Appendix 14 to the Listing Rules throughout the Period except a deviation from Code Provision E.1.2 because the Chairman of the Board was unable to attend the annual general meeting of the Company held on 30 June 2010 due to business trip. Alternatively, Mr. Cheng Chak Ngok, the Executive Director and Company Secretary of the Company, attended and acted as the chairman of the said annual general meeting.

By order of the Board
WANG YUSUO
Chairman

Hong Kong, 26 August 2010

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

Executive Directors:
Mr. Wang Yusuo (Chairman)
Mr. Cheung Yip Sang (Chief Executive Officer)
Mr. Zhao Jinfeng
Mr. Yu Jianchao
Mr. Cheng Chak Ngok
Mr. Liang Zhiwei
Ms. Zhai Xiaoqin

Non-executive Directors:
Ms. Zhao Baoju
Mr. Jin Yongsheng

Independent Non-executive Directors:
Mr. Wang Guangtian
Ms. Yien Yu Yu, Catherine
Mr. Kong Chung Kau