ENN 新奥

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

(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 2011

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 2011 (the "Period"). The unaudited condensed consolidated financial statements have been reviewed by the Company's auditors and audit committee.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2011

		Six months ended 30 June	
		2011	**2010**
	NOTES	*RMB'000*	*RMB'000*
		(unaudited)	*(unaudited)*
			(restated)
Revenue	*4*	7,202,237	5,043,719
Cost of sales		(5,310,988)	(3,622,591)
Gross profit		1,891,249	1,421,128
Other income		84,047	61,020
Other gains and losses	*5*	(20,202)	(5,222)
Distribution and selling expenses		(126,301)	(90,677)
Administrative expenses		(607,219)	(482,214)
Share of results of associates		12,560	6,713
Share of results of jointly controlled entities		171,659	138,720
Finance costs		(238,151)	(150,627)
Profit before tax		1,167,642	898,841
Income tax expense	*6*	(326,820)	(203,744)
Profit and total comprehensive income for the period		840,822	695,097
Profit and total comprehensive income for the period attributable to:			
Owners of the Company		628,835	533,761
Non-controlling interests		211,987	161,336
		840,822	695,097
Earnings per share	*8*		
Basic		59.88 cents	50.83 cents
Diluted		59.30 cents	50.82 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2011

	NOTES	At 30 June 2011 RMB'000 (unaudited)	At 31 December 2010 RMB'000 (audited)
Non-current assets			
Property, plant and equipment		11,556,774	10,800,123
Prepaid lease payments		675,838	658,096
Investment properties		53,845	53,845
Goodwill		195,343	191,841
Intangible assets		713,311	702,352
Interests in associates		561,013	487,683
Interests in jointly controlled entities		1,622,754	1,361,265
Available-for-sale financial assets		14,433	14,433
Loan receivable		3,000	6,000
Other receivables		71,957	72,439
Amounts due from associates		21,215	20,700
Amounts due from related companies		13,930	20,489
Deferred tax assets		157,771	130,954
Deposits paid for investments		40,800	30,000
Deposits paid for acquisition of property, plant and equipment, land use rights and operation rights		4,867	5,376
Restricted bank deposits		5,315	5,305
		15,712,166	14,560,901
Current assets			
Inventories		281,499	249,019
Trade and other receivables	*9*	1,884,086	1,356,055
Prepaid lease payments		13,263	12,576
Amounts due from customers for contract work		294,507	306,913
Amounts due from associates		12,852	11,501
Amounts due from jointly controlled entities		439,434	213,585
Amounts due from related companies		19,847	12,808
Restricted bank deposits		42,701	64,891
Cash and cash equivalents		5,657,083	2,851,300
		8,645,272	5,078,648
Current liabilities			
Trade and other payables	*10*	4,021,507	3,572,688
Amounts due to customers for contract work		713,849	664,839
Amounts due to associates		90,803	69,297
Amounts due to jointly controlled entities		574,279	554,223
Amounts due to related companies		36,069	41,137
Taxation payables		238,239	172,288
Bank and other loans – due within one year		1,261,941	1,568,742
Short-term debentures		823,580	810,607
Financial guarantee liability		4,757	5,544
Deferred income		35,762	29,109
		7,800,786	7,488,474
Net current assets (liabilities)		844,486	(2,409,826)
Total assets less current liabilities		16,556,652	12,151,075
Capital and reserves			
Share capital		109,879	109,879
Reserves		6,276,467	5,921,570
Equity attributable to owners of the Company		6,386,346	6,031,449
Non-controlling interests		1,574,182	1,508,402
Total equity		7,960,528	7,539,851

Non-current liabilities

Bank and other loans – due after one year	2,469,022	2,567,632
Corporate bond	495,881	—
Guaranteed notes	—	1,315,932
Senior notes	4,788,137	—
Deferred tax liabilities	240,427	225,034
Deferred income	602,657	502,626
	8,596,124	4,611,224
	16,556,652	12,151,075

Notes:

1. Basis of Preparation

The condensed consolidated 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 "Listing Rules") and in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

2. Change in Accounting Policy

During the year ended 31 December 2010, the Group changed its accounting policy to state the land and buildings held for use in production or supply of goods or services at cost, less any accumulated depreciation and accumulated impairment losses. This change in accounting policy has been accounted for in accordance with HKAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". The change in accounting policy has been accounted for retrospectively. The change in accounting policy has also resulted in the adjustments to the equity items as at 1 January 2010, details of which are set out in the Group's annual financial statements for the year ended 31 December 2010.

As a result, the comparative financial information for the six months ended 30 June 2010 was restated accordingly and summarised below:

	Six months ended 30 June 2010 (originally stated) *RMB'000*	**Adjustments arising from change in accounting policy** *RMB'000*	**Six months ended 30 June 2010 (as restated)** *RMB'000*
Cost of sales/net impact on profit attributable to the owners of the Company	3,623,029	(438)	3,622,591

The change in accounting policy has resulted in an increase in the profit of the Group for the six months ended 30 June 2011 by RMB438,000, and the increases in the basic and diluted earnings per share of the Group by RMB0.04 cents and RMB0.04 cents, respectively.

3. 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.

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 2010, except as described below.

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.

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

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

HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets [1]
HKFRS 9	Financial Instruments [2]
HKFRS 10	Consolidated Financial Statements [2]
HKFRS 11	Joint Arrangements [2]
HKFRS 12	Disclosure of Interests in Other Entities [2]
HKFRS 13	Fair Value Measurement [2]
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income [4]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets [3]
HKAS 19 (Revised 2011)	Employee Benefits [2]
HKAS 27 (Revised 2011)	Separate Financial Statements [2]
HKAS 28 (Revised 2011)	Investments in Associates and Joint Ventures [2]

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

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

[3] Effective for annual periods beginning on or after 1 January 2012

[4] Effective for annual periods beginning on or after 1 July 2012

The directors of the Company (the "Directors") are in the process of assessing the financial impact of these new or revised standards and amendments on the Group.

4. Segment Information

Information reported to the chief operating decision maker, the Company's Chief Executive Officer (the "CEO") for the purposes of resource allocation and performance assessment among segments focuses specifically on different type of goods and services.

During the six months ended 30 June 2011, the Group identified two new reportable operating segments, namely sales of material and wholesale of gas, which are separated from the gas connection and sales of piped gas segments, respectively, reported in the prior period. Accordingly, the segment information reported for the prior period has been restated to reflect the newly reportable segment as a separate segment as well as the effect of change in accounting policy set out in Note 2.

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

Six months ended 30 June 2011 (unaudited)

	Gas connection	Sales of piped gas	Distributions of bottled liquefied petroleum gas	Sales of gas appliances	Vehicle gas refuelling stations	Sales of material	Wholesale of gas	Consolidation
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers	1,580,137	3,863,147	102,289	42,527	741,362	287,859	584,916	7,202,237
Segment profit before depreciation and amortisation	995,486	806,857	4,206	15,930	162,768	25,514	65,855	2,076,616
Depreciation and amortisation	(27,538)	(136,715)	(2,429)	(1,099)	(12,157)	—	(5,429)	(185,367)
Segment profit	967,948	670,142	1,777	14,831	150,611	25,514	60,426	1,891,249
Other income								84,047
Other gains and losses								(20,202)
Distribution and selling expenses								(126,301)
Administrative expenses								(607,219)
Share of results of associates								12,560
Share of results of jointly controlled entities								171,659
Finance costs								(238,151)
Profit before tax								1,167,642
Income tax expense								(326,820)
Profit for the period								840,822

Six months ended 30 June 2010 (unaudited) (restated)

	Gas connection	Sales of piped gas	Distributions of bottled liquefied petroleum gas	Sales of gas appliances	Vehicle gas refuelling stations	Sales of material	Wholesale of gas	Consolidation
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers	1,135,882	2,651,542	146,515	28,231	555,467	136,739	389,343	5,043,719
Segment profit before depreciation and amortisation	692,246	683,711	7,221	13,544	121,203	20,654	45,789	1,584,368
Depreciation and amortisation	(24,846)	(120,475)	(2,075)	(902)	(9,993)	—	(4,949)	(163,240)
Segment profit	667,400	563,236	5,146	12,642	111,210	20,654	40,840	1,421,128
Other income								61,020
Other gains and losses								(5,222)
Distribution and selling expenses								(90,677)
Administrative expenses								(482,214)
Share of results of associates								6,713
Share of results of jointly controlled entities								138,720
Finance costs								(150,627)
Profit before tax								898,841
Income tax expense								(203,744)
Profit for the period								695,097

Segment profit represents the gross profit earned by each segment without allocation of distribution and selling expenses, administrative 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 CEO for the purposes of resource allocation and performance assessment.

5. Other Gains and Losses

	Six months ended 30 June	
	2011	**2010**
	RMB'000	*RMB'000*
Impairment loss (recognised) reversed on:		
- Trade receivables	(8,214)	(15,905)
- Other receivables	26,585	(1,009)
Gain (loss) on disposal of		
- Prepaid lease payments	—	3,658
- Property, plant and equipment	(2,858)	(14,660)
Gain of derecognition of a subsidiary to jointly controlled entity	—	9,633
Early redemption premium of guaranteed notes	(95,029)	—
Gain on foreign exchange, net	59,314	13,061
	(20,202)	(5,222)

6. Income Tax Expense

	Six months ended 30 June	
	2011	**2010**
	RMB'000	*RMB'000*
PRC Enterprise Income Tax	345,114	264,119
Deferred taxation	(18,294)	(60,375)
	326,820	203,744

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 2011 (six months ended 30 June 2010: 25%).

The Group's effective income tax rate for the six months ended 30 June 2011 is 28.0% (six months ended 30 June 2010: 22.7%) as a result of the transition from preferential tax rate to a new tax rate in certain subsidiaries of the Group. During the six months ended 30 June 2011, the rates applicable to these subsidiaries range from 24% to 25% (six months ended 30 June 2010: 22% to 25%) and the reduced tax rates range from 12% to 12.5% (six months ended 30 June 2010: 11% to 12.5%). In addition, during the six months ended 30 June 2011, the Group has not recognised the deferred tax assets in respect of the unused tax losses of RMB294,136,000 (six months ended 30 June 2010: RMB176,032,000) due to the uncertainty of future profit streams.

No provision for Hong Kong Profits Tax has been made as the Group has no assessable profit for the period.

The deferred taxation balances are as follows:

	At 30 June 2011	At 31 December 2010
	RMB'000	*RMB'000*
Deferred tax assets	157,771	130,954
Deferred tax liabilities	(240,427)	(225,034)
	(82,656)	(94,080)

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 2011	4,990	142,150	43,985	36,893	(132,700)	(1,238)	94,080
Acquisition of a business	—	6,870	—	—	—	—	6,870
(Credit) charge to profit or loss	—	(3,392)	1,059	11,264	(26,769)	(456)	(18,294)
At 30 June 2011	4,990	145,628	45,044	48,157	(159,469)	(1,694)	82,656

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 total amount of undistributed retained profits of certain PRC entities from 1 January 2008 attributable to non-PRC shareholders as the Directors consider the amount will be probably reversed in the foreseeable future upon distribution of profit by the respective group entities.

7. Dividend

The final dividend in respect of fiscal year 2010 of HK$28.35 cents (equivalent to approximately RMB24.12 cents) per share (six months ended 30 June 2010: final dividend in respect of 2009 of HK$21.65 cents (equivalent to approximately RMB19.06 cents) per share) amounting to approximately RMB247,588,000 (six months ended 30 June 2010: RMB200,158,000) were declared on 25 March 2011 and were paid on 22 June 2011.

The special dividend in respect of fiscal year 2010 of HK$5.66 cents (equivalent to approximately RMB4.82 cents) per share (six months ended 30 June 2010: nil) amounting to approximately RMB49,430,000 (six months ended 30 June 2010: nil) were declared on 25 March 2011 and were paid on 22 June 2011.

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2011 (six months ended 30 June 2010: nil).

8. 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 2011 *RMB'000*	Six months ended 30 June 2010 *RMB'000* *(restated)*
Earnings		
Earnings for the purposes of basic earnings per share and diluted earnings per share	628,835	533,761

	Six months ended 30 June 2011	Six months ended 30 June 2010
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,050,149,397	1,050,149,397
Effect of dilutive potential ordinary shares arising from share options	10,232,587	99,022
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,060,381,984	1,050,248,419

9. Trade and Other Receivables

Included in the trade and other receivables are trade receivables amounting to RMB576,524,000 (31 December 2010: RMB464,453,000). 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 2011 *RMB'000*	At 31 December 2010 *RMB'000*
0 - 3 months	500,245	378,052
4 - 6 months	47,541	50,346
7 - 9 months	24,417	16,018
10 - 12 months	1,913	13,206
More than 1 year	2,408	6,831
	576,524	464,453

10. Trade and Other Payables

Included in trade and other payables are trade payables of RMB1,483,370,000 (31 December 2010: RMB1,263,307,000). The following is an aged analysis of trade payables at the end of the reporting period:

	At 30 June 2011 *RMB'000*	At 31 December 2010 *RMB'000*
0 - 3 months	997,430	844,645
4 - 6 months	241,909	174,909
7 - 9 months	110,628	74,996
10 - 12 months	22,570	26,436
More than 1 year	110,833	142,321
	1,483,370	1,263,307

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 2011 (Unaudited)	**2010 (Unaudited) (Restated)**	**Increase/ (Decrease)**
Revenue (RMB)	7,202,237,000	5,043,719,000	42.8%
Gross profit (RMB)	1,891,249,000	1,421,128,000	33.1%
Profit attributable to owners of the Company (RMB)	628,835,000	533,761,000	17.8%
Earnings per share – Basic (RMB)	59.88 cents	50.83 cents	17.8%
Connectable urban population	49,135,000	45,663,000	7.6%
Connectable residential households	16,378,000	15,221,000	7.6%
New natural gas connections made during the Period:			
– residential households	522,881	426,245	22.7%
– commercial/industrial (“C/I”) customers (sites)	2,684	1,821	863
– installed designed daily capacity for C/I customers (m^3)	3,578,678	2,376,246	50.6%
Accumulated number of connected natural gas customers:			
– residential households	5,948,313 [(1)]	4,965,321[(2)]	19.8%
– C/I customers (sites)	20,687 [(1)]	15,405[(2)]	5,282
– installed designed daily capacity for C/I customers (m^3)	21,267,618 [(1)]	15,380,603[(2)]	38.3%
Accumulated number of connected piped gas (including natural gas) customers:			
– residential households	6,122,143	5,165,474	18.5%
– C/I customers (sites)	21,146	16,059	5,087
– installed designed daily capacity for C/I customers (m^3)	21,758,054	15,914,980	36.7%
Natural gas penetration rate	36.3%	32.6%	3.7%
Piped gas (including natural gas) penetration rate	37.4%	33.9%	3.5%
Unit of piped gas sold to residential households (m^3)	451,109,000	346,813,000	30.1%
Unit of piped gas sold to C/I customers (m^3)	1,741,846,000	1,303,150,000	33.7%
Unit of gas sold to vehicles (m^3)	314,635,000	241,522,000	30.3%
Unit of wholesale gas sold (m^3)	133,440,000	87,376,000	52.7%
Unit of bottled liquefied petroleum gas (“LPG”) sold (ton)	17,584	29,384	(40.2%)
Unit of steam sold (ton)	48,498	42,521	14.1%
Number of vehicle refuelling stations	203	176	27
Number of natural gas processing stations	103	95	8
Total length of existing intermediate and main pipelines (km)	17,264	15,537	11.1%

Notes:

1. Including a total of 1,013,931 natural gas residential customers and 2,313 natural gas C/I customers (with a total designed daily capacity of 1,111,870m^3) from acquisition/conversion.
2. 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.

Pipeline Construction

During the Period, gas connection fee revenue reached RMB1,580,137,000, representing an increase of 39.1% over the corresponding period last year and accounting for 21.9% of the total revenue. The average connection fees for residential households and C/I customers were RMB2,738 and RMB152 (per m3) respectively. As compared to the figures in 2010, 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 22.7% and 50.6% 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.

Gas Sales
During the Period, piped gas sales revenue reached RMB3,863,147,000, representing an increase of 45.7% over the corresponding period last year and accounting for 53.6% of the total revenue.

Revenue from vehicle gas refuelling stations ("refuelling stations") amounted to RMB741,362,000 during the Period, showing a growth of 33.5% as compared to the corresponding period last year and accounting for 10.3% of the total revenue. On the other hand, as compared to the same period last year, the number of refuelling stations has further increased from 176 to 203, being located in 50 cities of the state, among which 57 were situated in 14 cities outside piped gas projects of the Group. 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.

Since 2010, the Group has started the wholesale business of natural gas, and this enabled the Group to utilise existing gas equipments more effectively to increase our gas sales revenue and enhance our overall returns on investments. During the Period, the revenue from wholesale of gas reached RMB584,916,000, representing an increase of 50.2% as compared to the corresponding period last year and accounting for 8.1% of the total revenue.

Sales of piped gas and sales of gas from refuelling stations and wholesale of gas continue to accelerate, contributing to 72.1% of the total revenue in aggregate. As compared with the percentage of 71.3% during the corresponding period last year, the gas sales revenue has achieved a further growth and is still 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. It is expected that the percentage of gas sales revenue over total revenue will continue to increase in the future.

During the Period, sales revenue from bottled LPG reached RMB102,289,000, representing a decrease of 30.2% as compared to the corresponding period last year, leading to a shrink in its share over the total revenue from 2.9% in the corresponding period last year to 1.4%. 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 much 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 26.3% and 11.7% respectively, representing a decrease of 1.9% and 2.1% 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 persistent increase. On the other hand, on 1 June 2010, there was a uniform purchase price increase of over 10% for onshore natural gas in China. Despite the fact that the Group is able to increase the sales profit per unit of gas, the gross profit margin of gas sales has dropped due to the above reason and resulted in a decrease in the Group's overall gross profit margin given that gas sales is the major source of revenue for the Group.

As for the decrease in net profit margin, other than the impact caused by gross profit margin mentioned above, the one-off expense of RMB95,029,000 arising from the early redemption of the USD200million 7-year high-yield bond issued in 2005 during the Period is also a reason. Meanwhile, the Group issued a USD750million 10-year bond during the Period, which increases the total debt and in turn the total finance cost of the Group. In addition, non-cash expense of RMB23,080,000 arising from the grant of share options to the management by the Group in June 2010 were accounted for during the Period, whilst such expense amounted to RMB8,282,000 only in the corresponding period last year. All these factors are the major reasons for the decrease in the Group's net profit margin.

New Projects

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

Country/Province	City	Connectable urban population
Hunan	Yongzhou	600,000
Hunan	Wangcheng County	150,000
Hunan	Ningxiang County Development Zone, Jinzhou Hi-tech zone	300,000
Jiangsu	Hongze County	400,000
Fujian	Anxi County	120,000
Hebei	Rongcheng County	70,000
Yunnan	Kunming City Hi-tech Zone	40,000
Liaoning	Dayou Linhai Economic Zone, Linghai City	20,000
Jiangsu	Yancheng Environmental Protection Industrial Park	—
Guangxi	Guiping Industrial Park, Guigang City	—

The commercial and industrial development in these project cities are relatively robust. In Hunan Province, the largest industries in Yongzhou City include chemical, paper-making and production of flue-cured tobacco; in Wangcheng County, ceramics and food processing industries are more well-developed while in Ningxiang County, food, textile and new material processing industries are relatively well-established. After acquiring the above three projects, the number of projects of the Group in Hunan Province increased to nine and the operating cost of the three new projects could be lowered through the location and scale of the existing six projects. The Hongze County in Jiangsu Province, being the ninth project of the Group in that province, is more developed in its chemical sector. The Anxi County in Fujian province is most famous for its tea industry, in particular the production of Tie Guanyin, a renowned brand of Chinese tea. The Rongcheng County in Hebei Province has a robust textile industry, while the largest industries in Kunming City Hi-tech Zone of Yunnan Province include pharmacy, food and electrical equipments. The Dayou Linhai Economic Zone in Linghai City is more developed in its metallurgical and aerospace material processing industries. As to the Yancheng Environmental Protection Industrial Park in Jiangsu Province and the Guiping Industrial Park in Guigang City of Guangxi Province, eco-industrial material processing, vehicle fitting processing and ceramics production are their key sectors. All of the above industries are favourable to the sales of natural gas and it is expected that these new projects will contribute 700 million cubic meters of natural gas sales per year to the Group. As of 30 June 2011, the Group has 100 piped gas projects in China with a total connected urban population of 49,135,000. When the only one overseas gas project is included, the total connected urban population increased to 58,055,000.

Given the Group's strategy of acquiring projects with low gas penetration rates, as of 30 June 2011, the overall gas penetration rate of the Group's China projects is 37.4%. 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 2011, the total number of staff employed by the Group was 20,192, of which 9 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 2011, the Group's cash and cash equivalents (including fixed bank deposits) was equivalent to RMB5,657,083,000 (31 December 2010: RMB2,851,300,000), and its total debts amounted equivalent to RMB9,838,561,000 (31 December 2010: RMB6,262,913,000). Its net gearing ratio, i.e. the ratio of net debt to equity (including non-controlling interests), was 52.5% (31 December 2010: 45.2%).

Seven-year 7.375% Fixed Rate Bonds
On 28 June 2011, the Company has completed the redemption of the 7-year bonds in aggregate principal amount of US$200,000,000 (equivalent to RMB1,614,040,000) in full.

Ten-year 6% Fixed Rate Bonds
On 13 May 2011, the Company issued 10-year bonds in the aggregate principal amount of US$750,000,000 (equivalent to RMB4,863,375,000) with issue price of 99.274% and redemption price of 100%. The coupon of the bonds is 6.0%, and interests are paid semi-annually. The terms of the bonds require Mr. Wang Yusuo, the Chairman of the Company, to retain not less than 25% of the issued share capital of the Company throughout the term of the bonds.

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 2011, the Group's total debts amounted equivalent to RMB9,838,561,000 (31 December 2010: RMB6,262,913,000), including loans and bonds of US$900,000,000 (equivalent to RMB5,824,440,000) and mortgage loans of HK$12,357,000 (equivalent to RMB10,276,000). Apart from the US$750,000,000 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 RMB1,144,731,000 that are secured by assets with the carrying amount equivalent to RMB53,337,000, all of the other loans are unsecured. Short-term loans were equivalent to RMB2,085,521,000 while the remaining were long-term loans falling due after one year or above.

As all of the operations of the Group are in China, except for the loans and bonds of US$900,000,000 and HK$12,357,000 which are denominated in US dollars and Hong Kong dollars respectively, revenues and expenses were mainly denominated in Renminbi. Hence, there were no significant foreign exchange exposures or risks in operation. The Group currently does not have foreign currency hedging policy but the Directors will monitor the market trends of exchange rates and interest rates closely and adopt appropriate measures when necessary.

Financial Guarantee Liability
As at 30 June 2011, the Group had issued guarantees to banks to secure loan facilities granted to associates and jointly controlled entities to the extent of RMB45,000,000 (31 December 2010: RMB45,000,000) and RMB50,000,000 (31 December 2010: Nil) respectively. The amounts have been utilised at the balance sheet date.

Capital Commitments

	At 30 June 2011	**At 31 December 2010**
	RMB'000	*RMB'000*
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided	94,915	85,563
Capital commitment in respect of investments in associates or joint controlled entities	96,546	68,564

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 and liquefied 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. The Group obtained its first international natural gas project Vietnam last year. The Vietnam project has started to develop customers

in Ho Chi Minh and Hanoi now and it is expected that the construction of pipeline networks will be commenced phase by phase in the coming two years and will then contribute to a even better earnings of the Group in the long run. Feasibility study on other potential gas projects in Asia will be carried on by the Group at the same time.

The year of 2011 marks the beginning of the 12th Five-year Plan, under which the Chinese government highlighted seven focuses of energy development: (1) to optimise the development of fossil fuels, reasonably control coal production capacity and enhance the supply of natural gas; (2)to accelerate the development of non-fossil fuels and ensure that the consumption of non-fossil fuels will account for 11% or above of the primary energy consumption by 2015; (3) to enhance the development of energy pipeline network; (4) to accelerate energy technology and facilities innovation; (5) to enhance energy saving and emission reduction; (6) to strengthen international energy cooperation; and (7) to promote the energy system reform. At the Copenhagen Climate Change Conference, the international community reached the consensus of developing a low-carbon economy. Natural gas, a clean and efficient fossil fuel, is the bridge in the transition to new energy as well as one of the pillars of low-carbon economy. It is estimated that the carbon dioxide emission of natural gas is 41% and 28% lower than that of coal and oil respectively. In the post global financial crisis era, extensive development and use of natural gas will be a realistic option for countries in response to global warming and an important strategy for maintaining the energy safety of a nation and enhancing its international competitiveness.

In 2009, the Chinese government pledged to reduce the emission of carbon dioxide per unit of gross domestic product by 40%-45% by 2020 as compared to 2005. In order to ensure the fulfillment of this goal, during the period of 12th Five-year Plan, China will put extra efforts in developing natural gas and increasing the share of electric power generated by natural gas. In particular, the development of coal-based power in Eastern China will be strictly controlled and gas power plants will be one of the focuses of the construction of power plants. To cope with the growing demand for natural gas, the Chinese government invested heavily in natural gas infrastructure. At the moment, the national natural gas pipeline network in China, which is fundamentally formed by the West-East Pipeline I and II, Shaanxi-Beijing Pipeline I, II and III, Zhong-Wu Pipeline, Sebei-Xining-Lanzhou Pipeline, Sichuan-East Pipeline, as well as two branch pipelines named Hebei-Nanjing Pipeline and Huai-Wu Pipeline, has been basically completed. According to the plan of the Chinese government, 17 natural gas pipeline projects including the West-East Pipeline III and IV and China-Myanmar Oil and Gas Pipeline will be completed and launched in the coming years. At the same time, more and more import LNG terminals will be built along the coast. The real “network era” for the natural gas industry will begin by then. The gradual completion of the infrastructures for such natural gas network will benefit the Group’s downstream projects directly and provide sufficient protection to the gas supply of the Group. On the other hand, it is also explicitly included in the 12th Five-year Plan that the annual consumption of natural gas will be boosted from the current 104.8 billion cubic meters to 260 billion cubic meters in 2015, representing an increase of 1.5 times in natural gas consumption in the coming four to five years and eventually enhancing the share of natural gas in primary energy from the current 3.9% to 8.3%.

Given that our downstream projects could be benefited directly by the support from the policies of the central government, the Group has started to expand its investments since last year. The capital expenditure per year has increased from RMB1.5 billion to over RMB2 billion, showing that the Group has high confidence on the industry and its own projects. As a result, it is expected that the sales volume of natural gas of the Group will achieve further growth in the future.

As the Chinese government takes more stringent stance on the implementation of energy saving and emission reduction policies, excellent development opportunities have arisen for the Group’s energy management business. The construction of the energy polygeneration project in Changsha Huanghua Airport the Group participated in and started last year has been completed on 9 June 2011 and equipment test was also finished. A comprehensive final test is expected to finish on 19 July 2011 and trial operation will begin by then. On the other hand, during the first half of 2011, the Group has contracted 123 industrial energy-saving improvement projects, of which 63 have received gas connection and the total daily gas consumption was 640,000 cubic meters.

In addition, in order to maintain a persistent and rapid business growth and further expand the gas source distribution scale, the Group takes a proactive stance in exploring new sources of business growth. Since natural gas has explicit advantages over diesel in terms of economic benefits and environmental friendliness, the Group has endeavored to launch the vehicle/ship-use LNG business during the year. This business mainly targets at city buses, heavy trucks and ships traveling on lakes and nearby seas and helps them to save energy, reduce emission and save costs by using natural gas, which is both lower priced and more environmental friendly, as their fuels. The profitability of the Group can also be enhanced at the same time. During the first half of 2011, 10 LNG refuelling stations located in Guangdong, Zhejiang, Shandong, Hebei provinces and Inner Mongolia Autonomous Region have been launched and put into trial operation. The Group believes that the LNG refuelling station business possesses enormous development potentials and will be able to make significant contributions to the growth of the Group's gas sales.

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.

Under the macro environment and the background of energy saving and emission reduction, 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 favour of 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.

To cope with our future business expansion plan, the Group successfully issued USD750 million ten-year bonds that carry a fixed interest of 6% during the Period. Through our great deal of efforts over the years, we have obtained investment grade ratings in both listed company and bond categories from three major globally recognised investment rating agencies, namely Standard and Poor's, Moody's Investors and Fitch Ratings at the same time, and thus become one of the very few on the market among privately-owned companies in China that receive investment grade ratings. Year 2011 marks the 10th anniversary of our listing on the Hong Kong Stock Exchange. With proven growth and performance achieved since listing, the Group would like to take this opportunity to express our heartfelt gratitude to our staff and management for their significant contribution over the years and to our shareholders and the investment community for their long-term support.

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 2011 to review the unaudited interim results and interim financial report for the six months ended 30 June 2011. 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 2011 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 31 May 2011 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 2011

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. Zhao Shengli
Mr. Wang Dongzhi

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