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)

INTERIM RESULTS
Interim Results Announcement
For The Six Months Ended 30 June 2012

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 2012 (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 2012

		Six months ended 30 June	
		2012	**2011**
	NOTES	*RMB million (unaudited)*	*RMB million (unaudited)*
Revenue	*3*	8,774	7,202
Cost of sales		(6,363)	(5,311)
Gross profit		2,411	1,891
Other income		94	84
Other gains and losses	*4*	3	(20)
Distribution and selling expenses		(169)	(126)
Administrative expenses		(785)	(607)
Share of results of associates		22	12
Share of results of jointly controlled entities		135	172
Finance costs		(309)	(238)
Profit before tax		1,402	1,168
Income tax expense	*5*	(414)	(327)
Profit and total comprehensive income for the period		988	841
Profit and total comprehensive income for the period attributable to:			
Owners of the Company		730	629
Non-controlling interests		258	212
		988	841
Earnings per share	*7*		
Basic		68.78 cents	59.88 cents
Diluted		68.54 cents	59.30 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2012

	NOTES	At 30 June 2012 RMB million (unaudited)	At 31 December 2011 RMB million (audited)
Non-current assets			
Property, plant and equipment		13,904	13,073
Prepaid lease payments		723	695
Investment properties		57	57
Goodwill		196	196
Intangible assets		1,239	1,051
Interests in associates		766	694
Interests in jointly controlled entities		1,814	1,733
Available-for-sale financial assets		14	14
Loan receivable		2	3
Other receivables		7	5
Amounts due from associates		42	39
Amounts due from jointly controlled entities		98	66
Amounts due from related companies		24	26
Deferred tax assets		216	176
Deposits paid for investments		137	41
Deposits paid for acquisition of property, plant and equipment, land use rights and operation rights		65	68
Restricted bank deposits		10	7
		19,314	17,944
Current assets			
Inventories		297	272
Trade and other receivables	*8*	1,956	1,837
Prepaid lease payments		15	17
Amounts due from customers for contract work		183	201
Amounts due from associates		129	31
Amounts due from jointly controlled entities		656	404
Amounts due from related companies		60	31
Restricted bank deposits		2,752	2,675
Cash and cash equivalents		3,618	3,349
		9,666	8,817
Assets classified as held for sale		74	127
		9,740	8,944
Current liabilities			
Trade and other payables	*9*	4,172	4,172
Amounts due to customers for contract work		964	989
Amounts due to associates		112	119
Amounts due to jointly controlled entities		705	627
Amounts due to related companies		31	37
Taxation payables		247	234
Bank and other loans – due within one year		3,636	1,913
Short-term debentures		1,340	1,300
Financial guarantee liability		4	9
Dividend payable		315	–
Deferred income		53	44
		11,579	9,444
Liabilities associated with assets held for sale		63	76
		11,642	9,520
Net current liabilities		(1,902)	(576)
Total assets less current liabilities		17,412	17,368

Capital and reserves		
Share capital	111	110
Reserves	7,577	6,936
Equity attributable to owners of the Company	7,688	7,046
Non-controlling interests	1,851	1,794
Total equity	9,539	8,840
Non-current liabilities		
Bank and other loans – due after one year	1,531	2,327
Corporate bond	496	496
Senior notes	4,654	4,636
Deferred tax liabilities	343	337
Deferred income	849	732
	7,873	8,528
	17,412	17,368

Notes:

1. Basis of Preparation

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

In preparing the condensed consolidated financial statements, the directors of the Company (the "Directors") have given careful consideration of the Group in light of its net current liabilities of approximately RMB1,902 million as at 30 June 2012. Having considered the secured credit facilities of approximately RMB5,486 million which remain unutilised at the date of approval of the condensed consolidated financial statements, the Directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the condensed consolidated financial statements for the period ended 30 June 2012 have been prepared on a going concern basis.

In addition, the Directors have also considered the impact of the potential obligations under the pre-conditional general offer of the shares of China Gas Holdings Limited (the "Offer") announced by the Company on 12 December 2011 on the Group's financial position and are confident that the Group can obtain sufficient funding and banking facilities to finance the acquisition had the Offer been successfully made in 2012.

2. Principal Accounting Policies

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011.

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

HKFRS 7 (Amendments)	Financial Instruments: Disclosures - Transfers of Financial Assets; and
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets

<u>Amendments to HKAS 12 Deferred Tax: Recovery of Underlying Assets</u>

Under the amendments to HKAS 12 *Deferred Tax: Recovery of Underlying Assets*, investment properties that are measured using the fair value model in accordance with HKAS 40 *Investment Property* are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The Group measures its investment properties using the fair value model. As a result of the application of the amendments to HKAS 12, the Directors reviewed the Group's investment property portfolios and concluded that the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time through rental income and that the presumption set out in the amendments to HKAS 12 is rebutted.

The application of above amendments to 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.

3. Segment Information

Information reported to the chief operating decision maker, the Company's Chief Executive Officer (the "CEO") for the purposes of resources allocation and performance assessment among segments focuses specifically on different type of goods and services. Specifically, the Group's operating and reportable segment under HKFRS 8 are gas connection segment, sales of piped gas segment, vehicle refuelling stations segment, wholesale of gas segment, distributions of bottled liquefied petroleum gas segment, sales of gas appliances segment and sales of material segment.

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 2012 (unaudited)

	Gas connection	Sales of piped gas	Vehicle gas refuelling stations	Wholesale of gas	Distributions of bottled liquefied petroleum gas	Sales of gas appliances	Sales of material	Consolidation
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Revenue from external customers	1,694	5,107	1,063	552	74	43	241	8,774
Segment profit before depreciation and amortisation	1,081	1,193	258	49	2	18	34	2,635
Depreciation and amortisation	(28)	(172)	(18)	(3)	(2)	(1)	—	(224)
Segment profit	1,053	1,021	240	46	—	17	34	2,411

Six months ended 30 June 2011 (unaudited)

	Gas connection	Sales of piped gas	Vehicle gas refuelling stations	Wholesale of gas	Distributions of bottled liquefied petroleum gas	Sales of gas appliances	Sales of material	Consolidation
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Revenue from external customers	1,580	3,863	741	585	102	43	288	7,202
Segment profit before depreciation and amortisation	995	807	163	66	4	16	25	2,076
Depreciation and amortisation	(28)	(137)	(12)	(5)	(2)	(1)	—	(185)
Segment profit	967	670	151	61	2	15	25	1,891

Segment profit represents the gross profit earned by each segment without allocation of other income, other gains and losses, distribution and selling expenses, administrative expenses, share of results of associates and jointly controlled entities, finance costs and income tax expense. This is the measure reported to the CEO for the purposes of resources allocation and performance assessment.

4. Other Gains and Losses

	Six months ended 30 June	
	2012	**2011**
	RMB million	*RMB million*
Impairment loss reversed (recognised) on:		
- Trade receivables	1	(8)
- Other receivables	7	27
Loss on disposal of property, plant and equipment	–	(3)
Gain of derecognition of subsidiaries	28	–
Early redemption premium of guaranteed notes (note a)	–	(95)
(Loss) gain on foreign exchange, net (note b)	(14)	59
Arrangement fee of banking facilities (note c)	(19)	–
	3	(20)

Notes:

a. On 28 June 2011 (the "Redemption Date"), the Company redeemed the entire outstanding guaranteed notes in full at a redemption price equal to 100% of the principal amount outstanding thereof which was US$200 million (equivalent to approximately RMB1,294 million), plus the applicable premium of approximately US$15 million (equivalent to approximately RMB95 million) and accrued and unpaid interest of approximately US$6 million (equivalent to approximately RMB38 million) as of the Redemption Date. The guaranteed notes were originally matured in 2012. The premium of approximately RMB95 million was recognised.

b. Included in the balance for the period ended 30 June 2012 is an amount of approximately RMB18 million which is the exchange loss arising from the translation of senior notes denominated in United State dollar to RMB.

c. The arrangement fee is in connection with the pre-conditional commitment and is non-refundable notwithstanding whether the related banking facilities are utilised.

5. Income Tax Expense

	Six months ended 30 June	
	2012	**2011**
	RMB million	*RMB million*
PRC Enterprise Income Tax	448	345
Deferred taxation	(34)	(18)
	414	327

PRC Enterprise Income Tax of the Group mainly comprises income tax of the Company and its subsidiaries. The PRC Enterprise Income Tax rate is 25% for the six months ended 30 June 2012 (six months ended 30 June 2011: 25%).

The Group's effective income tax rate for the six months ended 30 June 2012 is 29.5% (six months ended 30 June 2011: 28.0%) as a result of an increase of the preferential tax rate of certain subsidiaries of the Group. During the six months ended 30 June 2012, the preferential tax rate applicable to these subsidiaries is 25% (six months ended 30 June 2011: 24% to 25%) and the reduced tax rate is 12.5% (six months ended 30 June 2011: 12% to 12.5%). In addition, during the six months ended 30 June 2012, the Group has not recognised the deferred tax assets in respect of the unused tax losses of RMB376 million (six months ended 30 June 2011: RMB294 million) 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.

For the purposes of presentation in the condensed consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	At 30 June 2012	**At 31 December 2011**
	RMB million	*RMB million*
Deferred tax assets	216	176
Deferred tax liabilities	(343)	(337)
	(127)	(161)

The followings are the major deferred tax liabilities and assets recognised and movements thereon during the current and preceding interim periods:

	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 million	*RMB million*	*RMB million*	*RMB million (Note)*	*RMB million*	*RMB million*	*RMB million*
At 1 January 2011	5	142	44	37	(134)	—	94
Acquisition of a business	—	7	—	—	—	—	7
(Credit) charge to profit or loss	—	(3)	1	11	(27)	—	(18)
At 30 June 2011	5	146	45	48	(161)	—	83
At 1 January 2012	5	231	65	56	(196)	—	161
(Credit) charge to profit or loss	—	(6)	9	11	(30)	(18)	(34)
At 30 June 2012	5	225	74	67	(226)	(18)	127

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 probably be reversed in the foreseeable future upon distribution of profit by the respective group entities.

6. Dividend

The final dividend in respect of fiscal year 2011 of HK$36.23 cents (equivalent to approximately RMB29.37 cents) per share on 1,066,594,397 shares (six months ended 30 June 2011: final dividend in respect of 2010 of HK$28.35 cents (equivalent to approximately RMB24.12 cents) per share) amounting to approximately RMB313 million (six months ended 30 June 2011: RMB248 million) were declared on 25 March 2012 and were not paid as at 30 June 2012.

During the six months ended 30 June 2011, there was a special dividend in respect of fiscal year 2010 of HK$5.66 cents (equivalent to approximately RMB4.82 cents) per share amounting to approximately RMB49 million, which was declared on 25 March 2011 and was paid on 22 June 2011.

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2012 (six months ended 30 June 2011: 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	
	2012	**2011**
	RMB million	*RMB million*
Earnings		
Earnings for the purposes of basic earnings per share and diluted earnings per share	730	629

	Six months ended 30 June	
	2012	**2011**
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,062,064	1,050,149
Effect of dilutive potential ordinary shares arising from share options	3,582	10,233
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,065,646	1,060,382

8. Trade and Other Receivables

Included in the trade and other receivables are trade receivables amounting to RMB515 million (31 December 2011: RMB463 million). 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 2012	**At 31 December 2011**
	RMB million	*RMB million*
0-3 months	406	358
4-6 months	40	58
7-9 months	42	29
10-12 months	20	10
More than 1 year	7	8
	515	463

9. Trade and Other Payables

Included in trade and other payables are trade payables of RMB1,338 million (31 December 2011: RMB1,437 million). The following is an aged analysis of trade payables at the end of the reporting period:

	At 30 June 2012	At 31 December 2011
	RMB million	*RMB million*
0-3 months	1,102	1,060
4-6 months	76	191
7-9 months	55	34
10-12 months	17	13
More than 1 year	88	139
	1,338	1,437

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		
	2012 (Unaudited)	**2011 (Unaudited)**	**Increase/ (Decrease)**
Revenue (RMB million)	8,774	7,202	21.8%
Gross profit (RMB million)	2,411	1,891	27.5%
Profit attributable to owners of the Company (RMB million)	730	629	16.1%
Earnings per share – Basic (RMB)	68.78 cents	59.88 cents	14.9%
Connectable urban population	53,389,000	49,135,000	8.7%
Connectable residential households	17,796,000	16,378,000	8.7%
New natural gas connections made during the period:			
– residential households	566,127	522,881	8.3%
– commercial/industrial ("C/I") customers (sites)	3,130	2,684	446
– installed designed daily capacity for C/I customers (m^3)	3,903,963	3,578,678	9.1%
Accumulated number of connected natural gas customers:			
– residential households	7,294,633 (1)	5,948,313 (2)	22.6%
– C/I customers (sites)	26,968 (1)	20,687 (2)	6,281
– installed designed daily capacity for C/I customers (m^3)	29,176,519 (1)	21,267,618 (2)	37.2%
Accumulated number of connected piped gas (including natural gas) customers:			
– residential households	7,436,007	6,122,143	21.5%
– C/I customers (sites)	27,327	21,146	6,181
– installed designed daily capacity for C/I customers (m^3)	29,737,646	21,758,054	36.7%
Natural gas penetration rate	41.0%	36.3%	4.7%
Piped gas (including natural gas) penetration rate	41.8%	37.4%	4.4%
Unit of piped gas sold to residential households (m^3)	510,957,000	451,109,000	13.3%
Unit of piped gas sold to C/I customers (m^3)	2,128,610,000	1,741,846,000	22.2%
Unit of gas sold to vehicles (m^3)	438,965,000	314,635,000	39.5%
Unit of wholesale gas sold (m^3)	118,602,000	133,440,000	(11.1%)
Unit of bottled liquefied petroleum gas ("LPG") sold (ton)	10,967	17,584	(37.6%)
Unit of steam sold (ton)	65,391	48,498	34.8%
Number of vehicle refuelling stations	276	203	73
Number of natural gas processing stations	116	103	13
Total length of existing intermediate and main pipelines (km)	19,952	17,264	15.6%

Notes:

1. Including a total of 1,294,644 natural gas residential customers and 3,007 natural gas C/I customers (with a total designed daily capacity of 1,950,234m^3) from acquisition/conversion.
2. 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.

Amid the continuous domestic economic slowdown and the increasingly complicated competitive environment during the first half of 2012, in order to pursue highly efficient, steady and healthy development, the Group, supported by the concerted efforts of our employees, took advantage of our years of experience and advanced progress in different areas including informatisation, development of market and strategic performance system, promotion and application of the system efficiency concept as well as the use of active management control model to maintain persistent business growth and ensure that the half-year targets can be achieved. By doing so, we are able to enhance corporate governance significantly while further strengthening our leading position in the industry, and thus form a solid foundation for attaining continuous operational excellence in the long run.

Pipeline Construction

During the Period, gas connection fee revenue reached RMB1,694 million, representing an increase of 7.2% over the corresponding period last year and accounting for 19.3% of the total revenue. Due to the sustained increase in gas penetration rate, the largest component in the Group's source of revenue has changed from connection fees to revenue generated from gas sales which has also contributed significantly to the business growth of the Group. The average connection fees for residential households and commercial/industrial ("C/I") customers were RMB2,729 and RMB140 (per m^3) respectively. As compared to the figures in 2011, 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.

The average gas penetration rate (i.e. the ratio of the number of connected residential households actually consuming gas to the total number of residential households covered) of gas projects managed by the Group is 41.8%. According to the Group's experience, the gas penetration rate may reach as high as 80%-90% per city. It is expected that the number of new connections made to residential households and C/I customers will increase steadily year by year and contribute additional revenue from connection fees and gas sales.

Gas Sales

During the Period, piped gas sales revenue reached RMB5,107 million, representing an increase of 32.2% over the corresponding period last year and accounting for 58.2% of the total revenue. In addition to the existing piped natural gas business, the Group also enhanced the gas combustion efficiency through technological reform so that the price competitive advantage of gas over other substitute energy can be sharpened to further strength existing customer base. The Group has also focused heavily on expanding business in the development zones and new regions in existing project cities and enlarging the size of its existing operational area. During the Period, the operational areas in three existing project cities have been enlarged.

Revenue from vehicle gas refuelling stations ("refuelling stations") amounted to RMB1,063 million during the Period, showing a growth of 43.5% as compared to the corresponding period last year and accounting for 12.2% 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 203 to 276, being located in 71 cities of the state, among which 89 were situated in 29 cities outside piped gas projects of the Group. We will continue to expand the vehicle gas refuelling business to more cities in the future. Thanks to its contribution to environmental protection and the great reduction in fuel cost for vehicle users, natural gas refuelling station business which provides clean energy as a substitute for gasoline and diesel 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 continue to be one of the major catalysts for the growth in natural gas sales.

Through engaging in natural gas wholesale business, the Group sold part of its natural gas to customers with high gas consumption level in relatively remote areas. Although the profit margin of wholesale gas is lower than that of piped natural gas, it enables the Group to utilise existing gas equipments and the well-established fleet of trucks 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 RMB552 million, representing a decrease of 5.6% as compared to the corresponding period last year and accounting for 6.3% of the total revenue.

Sales of piped gas, vehicle gas and wholesale gas continue to accelerate, contributing to 76.7% of the total revenue in aggregate. As compared with the figure of 72.0% during the corresponding period last year, 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 liquefied petroleum gas ("LPG") reached RMB74 million, representing a decrease of 27.5% as compared to the corresponding period last year, leading to a shrink in its share over the total revenue from 1.4% in the corresponding period last year to 0.8%. 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 non-controlling interests) of the Group were 27.5% and 11.3% respectively, representing an increase of 1.2% and a decrease of 0.4% respectively as compared to the corresponding period last year.

Benefited by the new gas sources from the West-East Pipeline II for some of the Group's projects since 2012, the gas purchasing cost has dropped and thus increased the Group's gross profit margin during the Period. The fact that some of our projects secured new gas sources from different pipelines and hence reduced the gas purchasing cost has evidenced the Group's achievements in enlarging its investments to build pipeline infrastructure in recent years which enabled more gas projects gaining direct access to piped natural gas. During the Period, the profit margin for piped gas and vehicle gas refuelling businesses increased from 17.3% and 20.4% to 20.0% and 22.6% respectively, and hence established an even better revenue base for the Group in the long run. Moreover, in terms of cost management, by adopting activity-based costing to further optimise the procedures and structures of group companies, the Group has successfully reduced its cost during the Period.

The slight decrease in net profit margin was mainly attributed to foreign exchange impact during the Period. Due to the depreciation in Renminbi at the end of the Period comparing with the end of 2011, the Group recorded a non-cash exchange loss of RMB12.36 million (30 June 2011: exchange gains of RMB59.31 million) on its books for the US$750 million bond and other foreign currency loans, and it caused the profits for the Period to reduce by RMB71.67 million as compared with the corresponding period last year. Although the additional agency fees and costs arising from fund preparation for the proposed acquisition of China Gas Holdings Limited reduced our profits for the Period, it is expected that such impact will no longer exist once the project is closed. If the impact of these one-off revenue and expenses incurred during the Period and the corresponding period last year was eliminated, the net profit of the Group's core businesses grew by over 23%, achieving the target set at the beginning of the year.

New Projects

During the Period, the Group secured the following seven new piped gas projects and independent industrial park projects:

Province	City	Connectable urban population
Hebei	Gaocheng City	128,000
Hebei	Shenze County	40,000
Hebei	Wenan Industrial Park	-
Fujian	Longyan Development Zone	170,000
Henan	Xinxiang Weifei City (Tangzhuang Town) Industrial Agglomeration Zone	30,000
Shandong	Qingdao Sino-German Ecopark	-
Zhejiang	Wenzhou Wanquan Light Industrial Base	-

The commercial and industrial developments are relatively robust in these projects. The largest industries in Gaocheng City include chemical, food, building materials, light textile, mechanics and medicine while in Shenze County, paper-making, mechanical processing, textile and medicine industries are relatively well-established. In Wenan Industrial Park, primary industries are the manufacturing of electronic products, wood products, electric wires and cables, mechanical and automobile assemblies. After acquiring the above projects which are located in the proximity of the Group's existing project Shijiazhuang and Langfang, the number of urban gas projects of the Group in Hebei Province increased to ten and the operational efficiency could be enhanced by fully optimising the management and operational advantages and economies of scale in the existing projects. On the other hand, the automobile and machining industries in Longyan Development Zone of Fujian Province are quite well-developed while in Xinxiang Weifei City (Tangzhuang Town) Industrial Agglomeration Zone in Henan Province, the production of advanced energy-saving building materials and modern food industries are leading the market; With high-end manufacturing as the core industries, the Qingdao Sino-German Ecopark is mainly focusing on the development of the commercial and financial sectors and the production of modern daily products inside the park. In Wenzhou Wanquan Light Industrial Base in Zhejiang Province, the leading industries are the manufacturing of mechanics, electroplating and home furniture products.

During the Period, the Group also acquired the following 12 industrial park projects under our existing urban gas projects:

Province	Industrial park
Anhui	Bozhou Wuhu Modern Industrial Park
Guangdong	Zhaoqing Beishui Ceramics Industrial Park
Hebei	Tangshan Luanxian Equipment Production Industrial Park
Hebei	Xinji Clean Chemical Industrial Park
Hunan	Heling Industrial Park
Jiangsu	Haian Changan Textile Science and Technology Park
Jiangsu	Lianyungang Dongxin Farm
Shandong	Binzhou Beihai New Zone
Shandong	Dongying Animal Husbandry Demonstration Zon
Zhejiang	Huzhou Miaoxi Southern Development Zone
Zhejiang	Wenzhou Jinhai Park
Zhejiang	Wenzhou Konggang Park

As the industrial customers are centralised in the industrial parks, it is favourable for the Group to enlarge gas sales scale. It is expected that the natural gas sales volume of the above new projects will reach nearly 1 billion cubic meters per year after maturity. Given that industrial park project contributes enormous gas sales but requires a lower level of investments on pipeline network, it can further enlarge the gas sales scale and generate higher returns on investments for the Group. Therefore, it is the key business expansion strategy adopted by the Group to acquire more industrial park projects.

As of 30 June 2012, the number of gas projects in China managed by the Gorup is 110, with a total connectable population of 53,389,000. Currently, pipeline network and gas sources in China are still actively under development and so upcoming opportunities in acquiring new projects can be expected in the future, providing a solid foundation and good opportunities for further growth for the Group.

Human Resources

As at 30 June 2012, the total number of staff employed by the Group was 22,541, of which 12 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 2012, the Group's bank balances and cash amounted to RMB6,150 million (31 December 2011: RMB5,869 million) which include cash and cash equivalents (including fixed bank deposits) of RMB3,618 million (31 December 2011: RMB3,349 million) and a bank deposit of RMB2,532 million (31 December 2011: RMB2,520 million) in the restricted bank deposits as an escrow for an pre-conditional offer. Total debts amounted to RMB11,657 million (31 December 2011: RMB10,672 million) while the net gearing ratio, i.e. the ratio of net debt to equity (including non-controlling interests), was 57.7% (31 December 2011: 54.3%).

Ten-year 6% Fixed Rate Bonds

On 13 May 2011, the Company issued 10-year bonds in the aggregate principal amount of US$750 million (equivalent to RMB4,863 million) 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 2012, the Group's total debts amounted to RMB11,657 million (31 December 2011: RMB10,672 million), including loans and bonds of US$775 million (equivalent to RMB4,901 million) and mortgage loans of HK$10,203,000 (equivalent to RMB8,318,000). Apart from the US$750 million 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 RMB1,109 million that are secured by assets with the carrying amount equivalent to RMB96,134,000, all of the other loans are unsecured. Short-term loans were equivalent to RMB4,976 million 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$775 million and HK$10,203,000 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. 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 2012, the Group had issued guarantees to banks to secure loan facilities granted to associates and jointly controlled entities to the extent of RMB45 million (31 December 2011: RMB45 million) and RMB50 million (31 December 2011: RMB50 million) respectively. The amounts have been utilised at the balance sheet date.

Commitments

(a) Capital commitments

	At 30 June 2012 *RMB million*	**At 31 December 2011** *RMB million*
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided	114	124
Capital commitment in respect of investments in associates or joint controlled entities	84	57

(b) Other commitments

As at 30 June 2012, the Group has commitment amounting to RMB30 million (31 December 2011: RMB32 million) in respect of acquisition of land use rights in the PRC.

(c) Pre-conditional commitment

In the announcement dated 12 December 2011 (the "Announcement"), China Petroleum & Chemical Corporation ("Sinopec" and the Company jointly announced the formation of a consortium and intend to, subject to the satisfaction or waiver (as applicable) of the pre-conditions as set out in the Announcement, make a voluntary conditional cash offer (i) to acquire all of the outstanding shares in the issued share capital of China Gas Holdings Limited ("China Gas") (other than those shares in China Gas already held by Sinopec or the Company or other parties acting in concert with Sinopec or the Company) at cash consideration of HK$3.50 per share and (ii) to cancel all outstanding share options in China Gas at cash consideration of HK$0.90 to HK$2.79 per share option.

As stated in the Announcement, with respect of the Company, assuming that all the outstanding share options are exercised before the close of the Offer and the share offer is accepted in full, the financial resources required by the Company in order to satisfy the obligations in respect of full acceptance of the Offer amount to approximately HK$9,185 million (equivalent to approximately RMB7,446 million).

Pursuant to the announcement dated 6 August 2012 jointly made by Sinopec and the Company, the Long Stop Date, which is the last date for the offerors to confirm that the pre-conditions to the Offer are satisfied or waived (as applicable), was extended to 6 September 2012.

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.

On 27 June 2012, the Chinese government has issued *The Planning for National Urban Gas Development During the 12th Five-Year Plan* (the "Planning"). According to the Planning, during the 12th Five-Year Plan, in order to promote healthy and stable development of the urban gas industry, China will insist on using natural gas in primary consumption, LPG and manufactured coal gas as second choice, with other substitute gas as supplements. Moreover, to facilitate energy saving and emission reduction, the research and development activities on technology and independent innovation must be carried on. By expanding the scope and depth of service in urban gas industry, the use of natural gas distributed energy and natural gas vehicles can be vigorously promoted, leading to an improvement in the consumption pattern, saving level and utilisation efficiency of energy.

In addition, the Planning also clearly suggests that by the end of the 12th Five-Year Plan, the total supply capacity of urban gas will reach approximately 178.2 billion cubic meters, representing an increase of 113% over the end of the 11th Five-Year Plan, which includes supply capacity of natural gas of approximately 120 billion cubic meters. In respect of gas consumption, by the end of the 12th Five-Year Plan, the connected residential population will reach over 625 million, with a consumption level of 33 billion cubic meters; the consumption by industrial, commercial and service providing enterprises will reach 81 billion cubic meters while the consumption by transportation users will reach 30 billion cubic meters; there will be a consumption of 12 billion cubic meters by distributed energy projects and 22.2 billion cubic meters by other users as well. In respect of pipeline network, it is expected that there will be newly constructed pipelines of approximately 250,000 km in length in urban areas during the 12th Five-Year Plan, resulting in a total length of 600,000 km by the end of the 12th Five-Year Plan. Moreover, in respect of gas sources for emergency use and infrastructure construction, the gas storage ability for emergency use will be greatly enhanced by the end of the 12th Five-Year Plan, leading to a total storage capacity of approximately 1.5 billion cubic meters for emergency use.

The issue of the Planning not only guarantees considerable growth in the Group's well-established, mature business segments (i.e. supply of gas to C/I customers, CNG vehicle users and residential households) in the future but also provides huge development potentials for the recently advanced developed business areas such as distributed energy projects and vehicle/ship-use LNG business. During the Period, substantial progress was achieved for the Group's distributed energy projects as the construction for two projects, including the Zhuzhou Shennong Cultural Park and the Qingdao Sino-German Ecopark has commenced and is expected to begin operation within one or two years. Through integrated use of natural gas, the above three projects fully utilise the concept of energy efficiency to provide customers with different forms of energy such as cool, heat and power, so that the cost of energy consumption can be reduced while satisfying customers' demand for energy and enhancing the Group's profitability at the same time. On the other hand, the Group completed 112 energy saving and refit projects for industrial customers during the Period. These projects, with an annual gas consumption of over 186 million cubic meters of natural gas in total, greatly increase energy consumption efficiency and reduce cost and emission through the provision of technological enhancement and equipment refit. Moreover, the vehicle/ship-use LNG business has also grown rapidly during the Period, with 23 new LNG vehicle refuelling stations launched, accumulating to a total of 42 refuelling stations providing clean and economy LNG for 1,601 heavy trucks and buses.

Given that our downstream projects could be benefited directly by the supportive policies of the central government, the Group has started to enlarge its investments during the past few years. The capital expenditure per year has gradually increased from RMB1.5 billion in previous years to over RMB2.5 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. During the Period, a number of the Group's projects have successfully gained direct access to piped natural gas sources and hence stimulated both the gas sales and the profit margin of sales of piped gas to over 20% from 16.1% last year, fully exhibiting the fruitful results of the Group's investing efforts.

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.

During the Period, we have received a number of honours, including the medal and certificate of "Transformation in China: Pioneer Enterprise in Promoting Low-Carbon Economy" awarded to the Group and "Transformation in China: Personal Outstanding Contribution" awarded to our Chief Executive Officer by the China Enterprises Co-Association and the Organising Committee of the Development of Non-Public Enterprises Forum, as well as the four honourable titles, namely, "China's Best Service Management", "China's Best Sales Office", "China's Best Customer Service Manager" and "China's Outstanding Customer Service Representative" in the 7th Best Customer Service in China Award 2011-2012. In addition, during the Period, we were informed by the *Institutional Investor* that, among four of the awards in their global polling The 2012 All-Asia Executive Team participated by institutional investors and analysts from investment banks, we were honoured to be voted as the Best CEOs (Rank No. 1), the Best CFOs (Rank No. 1) and the Best Investor Relations (Rank No. 2) under the category of power sector in Asia. It is generally known that the polling conducted by the *Institutional Investor* is one of the most influential and recognised surveys in the financial sector, and the awards received by the Group show that both the business performance and quality of work by the management team of the Group are highly acclaimed among investors, shareholders and analysts in the sector. We will continue to redouble our efforts to ensure that the investment community and our shareholders will be able to share the fruitful results that come along with the rapid development of the natural gas industry. Taking this opportunity, we would also like to express our heartfelt gratitude to our shareholders, institutional investors, analysts in the sector, as well as our management team and staff.

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 27 August 2012 to review the unaudited interim results and interim financial report for the six months ended 30 June 2012. 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 2012 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 (effective until 31 March 2012) and the Corporate Governance Code (newly effective from 1 April 2012) (the "Code") as contained in Appendix 14 to the Listing Rules throughout the Period except a deviation from Code Provision A.6.7 and E.1.2. Mr. Wang Yusuo (Chairman of the Board), Ms. Zhao Baoju (Non-executive Director) and Mr. Wang Guangtian (Independent Non-executive Director) were unable to attend the annual general meeting of the Company held on 26 June 2012 due to business trips. 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, 27 August 2012

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 (Chief Financial Officer)
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