Building a Modern Energy System
Improving the Quality of Life
創建現代能源體系
提高人民生活品質

ENN 新奧

ENN Energy Holdings Limited
新奧能源控股有限公司
（Stock code 股份代號: 2688）

INTERIM REPORT 2018
二零一八年中期業績報告

CONTENTS

FINANCIAL AND OPERATIONAL HIGHLIGHTS

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		Increased/
	2018	2017	(Decreased) by
	(Unaudited)	(Unaudited)	
Results			
Revenue (RMB million)	**26,530**	21,424	23.8%
Gross profit (RMB million)	**4,662**	3,873	20.4%
Profit attributable to owners of the Company (RMB million)	**1,782**	1,649	8.1%
Earnings per share – Basic (RMB)	**1.64**	1.52	7.9%
Operational data#			
Number of city-gas projects in China	**178**	165	13
Urban population coverage (thousand)	**88,609**	78,090	13.5%
Residential households coverage (thousand)	**29,536**	26,030	13.5%
New natural gas customers developed during the period:			
– residential households (thousand)	**1,078**	951	13.4%
– C/I customers (sites)	**10,764**	9,650	1,114
– installed designed daily capacity for C/I customers (thousand m^3)	**8,228**	6,957	18.3%
Accumulated number of piped gas customers:			
– residential households (thousand)	**17,300**	15,098	14.6%
– C/I customers (sites)	**102,643**	78,329	24,314
– installed designed daily capacity for C/I customers (thousand m^3)	**96,129**	78,138	23.0%
Piped gas penetration rate	**58.6%**	58.0%	0.6ppt
Unit of natural gas sold to residential households (thousand m^3)	**1,614,262**	1,188,473	35.8%
Unit of natural gas sold to C/I customers (thousand m^3)	**6,263,730**	5,037,878	24.3%
Unit of natural gas sold to vehicles (thousand m^3)	**612,674**	693,478	(11.7%)
Wholesale of gas volume (thousand m^3)	**2,570,857**	2,267,279	13.4%
Number of CNG refuelling stations	**325**	325	–
Number of LNG refuelling stations	**281**	281	–
Number of natural gas processing stations	**176**	170	6
Combined daily capacity of natural gas processing stations (thousand m^3)	**118,500**	87,635	35.2%
Total length of existing intermediate and main pipelines (km)	**42,032**	35,036	20.0%
Accumulated number of integrated energy projects in operation	**46**	22	24

The Group's operational data included the data of its subsidiaries, joint ventures and associates.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In the first half of 2018, China's economic growth remained stable, with a modifying and upgrading economic structure, the improvement in quality and return drove gross domestic product (GDP) to grow by 6.8% year-on-year. Following the introduction of "Work Plan for Air Pollution Prevention and Control in Beijing-Tianjin-Hebei and Surrounding Areas in 2017" which aimed at improving the air quality in Beijing-Tianjin-Hebei and surrounding areas ("2+26" cities) last year, the State Council this year further released the "Three-year Action Plan to Win the Blue Sky Defense War", aiming to lower the proportion of coal in the country's total energy consumption to below 58% by 2020, and expand the coverage of key areas from "2+26" cities to a wider region such as the Yangtze River Delta region and the Fen-Wei Plain. The government will continue to strictly control the consumption of coal, and the total emission of air pollutants and greenhouse gas in key areas, setting a goal to reduce the number of days with heavy pollution by more than 25% compared with 2015 by 2020. In addition to the above key areas, Henan, Anhui, Hebei and Guangdong have also issued corresponding action plans, demonstrating a growing effort to promote clean energy across the nation. Benefiting from the steady growth of macro-economy, the government's determination to control air pollution and the tightening environmental protection policies from the local governments, the downstream demand for natural gas remained strong during the period, driving the apparent natural gas consumption in China to record a growth of 17.5% year-on-year, 2.3 ppts higher than that for the same period of last year.

During the period, leveraging on its strong foothold in the industry and execution competency, the Group's natural gas distribution business continued to outperform national average and achieved all business goals set at the beginning of the year. The total natural gas sales volume reached 11,062 million cubic metres, representing an increase of 20.4% year-on-year, in which retail gas sales including gas sold to residential users, C/I users and vehicle gas refuelling stations reached 8,491 million cubic metres, representing a significant increase of 22.7% year-on-year. Meanwhile, the strong downstream demand for natural gas, coupled with the Group's powerful gas sources acquisition and dispatching capabilities, driving sales volume of energy trading business to reach 2,571 million cubic metres, representing a year-on-year increase of 13.4% and maintaining a leading market share of 23%.

China is building a clean, low-carbon, efficient and economical energy system which aims at raising the quality and efficiency of energy use, coupled with the government's successive introduction of energy reform policies, as well as the ongoing advancement of energy efficiency technology, the integrated energy industry in China is experiencing an explosive growth. The Group actively grasped this growth opportunity and accelerated the expansion of integrated energy business. During the period, the Group signed 131 new integrated energy projects with potential energy sales of 36,424 million kWh per year. 15 integrated energy projects were put into operation during the period, accumulative number of projects in operation amounted to 46, laying down a solid foundation for the Group's strategic transformation.

New Customers Development

From the end of last year, the central and local governments have successively issued a series of environmental protection policies, including “Plan on Winter Heating Using Clean Energy in Northern China (2017–2021)”, “Three-year Action Plan to Win the Blue Sky Defense War”, “Implementation Plan for the Prevention and Control of Air Pollution in 2018” in Henan Province, “Work Plan for Prevention and Control of Air Pollution in 2018” in Anhui Province and “Work Plan on Winter Heating Using Clean Energy in 2018” in Hebei Province, to push forward “coal-to-gas” conversion, eliminate coal-fired boilers with a capacity below 35 steam tons/hour in key cities and those with a capacity below 10 steam tons/hour in the built-up areas at or above county level, and thereby encouraging businesses to adopt cleaner energies to replace highly polluting fuels, including coal, heavy oil and low-quality diesel.

The Group actively co-operated with local governments to accelerate the promotion of industrial “coal-to-gas” conversion, and the development of high-quality commercial customers with higher affordability. It also offered integrated energy supply and services by customising integrated energy solutions for customers to improve their energy efficiency and reduce energy bills. During the period, the Group developed 10,764 new C/I customers (installed gas appliances with designed daily capacity of 8,228,222 cubic metres), with an average installation fee of RMB100 per cubic meter. In which, new connections to customers from “coal-to-gas” conversion reached 2,902,400 cubic metres/day, accounting for 35.3% of newly developed C/I customers. The installed gas appliances with designed daily capacity for commercial users was 1,398,800 cubic metres, accounting for 17% of newly developed C/I customers. As of 30 June, the Group had a total of 102,643 C/I customers (installed gas appliances with designed daily capacity of 96,128,735 cubic metres).

According to the "13th Five-year Plans on Natural Gas Development", the percentage of population living in urban areas will increase from currently 58.52% to 60% by 2020. The increase of each percentage point in urbanisation rate will bring about 14 million's urban population as well as an energy consumption equivalent to 80 million tons of standard coal, thus, the advancement of urbanisation progress will continue to drive new residential customers development and their gas consumption volume.

Capitalising on the rapid urbanisation, the Group sped up development of new and existing buildings, meanwhile carried out "coal-to-gas" conversion projects in rural areas with higher affordability such as Hebei, Henan and Shandong. During the period, the Group developed 1,078,407 residential households, among which new buildings, existing buildings and rural areas were 749,050, 208,242 and 121,115, representing 69.5%, 19.3% and 11.2% of new residential households respectively. The average construction and installation fee of RMB2,706 per household. As of 30 June 2018, the number of household coverage of the Group's city-gas projects in China reached 29,536,000, the aggregate number of developed piped gas residential customers reached 17,299,550. The average penetration rate increased from 57.5% at the end of 2017 to 58.6%.

Natural Gas Sales

Benefiting from the continuous growth of newly developed industrial and commercial customers and the increasing gas consumption by existing customers, during the period, natural gas sold to C/I customers amounted to 6,264 million cubic metres, representing an increase of 24.3% year-on-year. In which, gas sales to industrial and commercial customers recorded 5,012 million cubic metres and 1,252 million cubic metres respectively, representing an increase of 23.6% and 27.5% year-on-year respectively.

With the ramping up of gas consumption by newly developed residential customers as well as natural gas space heaters users, during the period, natural gas sold to residential users recorded 1,614 million cubic metres, up 35.8% year-on-year. As of 30 June 2018, the Group together with its associates and joint ventures cumulatively developed 950,000 natural gas space heaters users, representing an increase of 380,000 users year-on-year.

The National Development and Reform Commission issued the "Notice on Unification of Residential City-gate Price" in May this year. The Group's projects in Guangdong, Guangxi, Yunnan, Fujian, Guizhou and Zhejiang were not affected while projects with residential automatic pass through mechanism had simultaneously adjusted retail gas prices already, the Group expects most of the remaining projects to complete price adjustment soon. The unification of residential city-gate price will encourage upstream suppliers to increase gas supply, enabling the growing demand for natural gas to be satisfied and facilitate a healthy development of the natural gas industry.

New Projects

Leveraging on its strong business development, excellent safety operation capability and good corporate image, the Group actively expanded its gas concessions and customer base. In the first half of 2018, the Group successfully acquired 6 new projects and 19 new concessions around its existing projects, with an additional population coverage of 1.99 million. As of 30 June 2018, the Group had 178 projects in China, covering a population of 88.61 million. Along with the execution of return on asset regulation for natural gas distribution, it's believed that a number of small and medium-sized gas companies with low operational efficiency and single business model may face greater challenges. The Group will actively explore merger and acquisition opportunities which will bring synergy to the Group's existing projects and strive to expand the operational areas of city gas business.

Projects	The Group's shareholding	Major industries
1. Zhoushan City, Zhejiang	46%	Hotel, catering, food processing, machinery manufacturing
2. Feidong County, Anhui	60%	Pharmaceutical and food, mechanical processing, logistics and industrial parks, hotel
3. Tianchang, Anhui	90%	Food, chemical, pharmaceutical, electronics, foundry
4. Zhaoyuan County, Shandong	60%	Gold production and processing, machinery manufacturing, chemicals, food processing
5. Industrial Cluster, Yanling County, Xuchang, Henan	80%	Textile, luggage and leather, machinery manufacturing
6. Industrial Cluster, Ye County, Henan	80%	Salt-based chemical, machinery manufacturing

The 19 new concessions nearby existing projects include:

Provinces	Operational areas
Hunan	Jinjing Town, Kaihui Town, Lukou Town, Guoyuan Town, Fulin Town, Qingshanpu Town, Gaoqiao Town, Jiangbei Town, Chunhua Town, and Beishan Town in Changsha County
Shandong	Zhangxing Town, Jinling Town, and Canzhuang Town in Zhaoyuan
Zhejiang	Toutuo Town, and Beiyang Town in Taizhou
Henan	Dayu Town, Lingtou Town, Xiadian Town, and Jiaocun Town in Ruzhou

Among which, the Zhoushan project in Zhejiang Province is the first national strategic level new district, aiming to become a pilot area and experimental zone for the comprehensive development of a maritime economy in Zhejiang, and a key economic growth driver in the Yangtze River Delta region. By the end of 2017, local population reached 1.17 million.

The major industries in Zhoushan city include shipbuilding and marine products processing, which create a huge demand for natural gas. While on the commercial side, large-scale starred hotels, restaurants, schools and hospitals bring the Group with more quality commercial customers with higher affordability.

According to the statistics from Zhoushan Energy Department, there are a total of 519 highly polluting industrial boilers in Zhoushan city currently, as the local government is actively carrying out the action plan on preventing and controlling air pollution, the Group believes natural gas demand from Zhoushan project will experience a rapid growth.

Integrated Energy Business

According to the "Implementation Opinions on the Integration and Optimisation of Demonstrative Project Construction" by National Development and Reform Commission and the National Energy Administration, by 2020, the proportion of existing industrial parks adopting integrated energy solutions will reach 30%, and the proportion of newly-established industrial parks adopting integrated energy solutions will reach 50%. Currently there are more than 1,500 national and provincial-level industrial parks nationwide, and more than 5,000 other industrial parks of various scales, these industrial parks are the key market for integrated energy business, demonstrating a huge market potential.

In the context of a rapidly growing integrated energy market, capitalising on its huge customer base and first-mover advantage, the Group actively adjusted strategy and accelerated the development of integrated energy business, aiming to foster a new driver for profit growth and stimulate the development of natural gas distribution business. The acquisition of ENN Ubiquitous Energy Network Technology Co., Ltd., one of the leading integrated energy service providers in China, was approved by independent shareholders in the extraordinary general meeting held on 8 August 2018. Through the acquisition, the Group successfully obtained the core technological know-hows on planning, designing and operating integrated energy projects, and thereby strengthening its competitive advantages in integrated energy business. The establishment of core technological barrier also facilitates the Group to grab opportunities arisen in the industry and expand its market share quickly by developing high-quality projects and customers.

During the period, the Group signed 131 new integrated energy projects, with potential energy sales of 36,424 million kWh per year; 15 integrated energy projects were put into operation, including 4 industrial parks and 11 stand-alone C/I sites. Among which, Zhejiang Yuhang Economic and Technological Development Zone is a national-level and established industrial park with more than 200 large-scale enterprises, whose industries spanning from equipment manufacturing, protective clothing to food and pharmaceutical, creating a strong demand for steam and electricity. Although this project is not located in the Group's gas concession, along with the vigorous promotion of coal-to-gas conversion and clean energy initiatives in Zhejiang province, the Group broke through the barriers of gas concession to construct a clean energy ecosystem for Yuhang Development Zone with its leading integrated energy technology and development concept, as well as its strong market development capabilities, so as to satisfy both the customers and the government in terms of the need for multiple energy and environmental quality.

As of 30 June 2018, the Group operated 46 integrated energy projects with 38 projects under construction. The sales volume of integrated energy including cooling, heating, electricity and steam reached 1,016 million kWh and generated a revenue of RMB369 million, representing a significant growth of 276.5% year-on-year.

Among the 46 projects that were put into operation, some of the major national and provincial-level industrial parks are presented as follow:

Provinces	Projects	The Group's shareholding	Major industries
Hebei	Jingbin Industrial Park	100%	High technology, education, hotel, commercial, finance, urban facilities
Shandong	China-Germany Industrial Park, Qingdao	100%	High-end manufacturing and supporting services such as Electric vehicles, marine equipment, new energy equipment manufacturing, green real estate, international business, modern life services
Guangdong	Haofeng Industrial Park, Machong Town, Dongguan	49%	Electroplating, bleaching, washing, printing
Zhejiang	Chengnan Industrial Zone, Longyou Industrial Park	45%	Special paper, advanced equipment manufacturing, textile and apparel
	Jinhai Industrial Park, Wenzhou Economic and Technological Development Zone	100%	Electrical machinery, communication equipment, clothing, shoe leather, plastic products
	New Energy Automobile Industrial Park, Jinhua Economic and Technological Development Zone	100%	Automotive and accessories, biomedicine, electronic information, mechatronics and new materials
	Datong Industrial Park, Jiande, Xiaoshan	100%	Processing, green agriculture
	Yuhang Economic and Technological Development Zone	100%	Equipment manufacturing, textile and apparel, electronic communication, food and pharmaceutical
Anhui	Tongling Industrial Park, Guzhen County	100%	Modern agriculture, machinery manufacturing

The Group will continue to expand the potential energy consumption scale of its integrated energy business through signing more quality projects, and seizing the development window strategically, aiming to "get quality projects" and "execute well". The Group will focus on exploring national and provincial-level industrial parks with enterprises from various industries, and those with stable energy consumption, diversified customer base and multiple energy demand. For newly-signed projects, the Group will expedite the planning and designing of integrated energy systems to improve their operation efficiency and increase return, creating a comprehensive sales package of steam, electricity and heat, bringing a rapid growth on revenue.

Winter Gas Supply Assurance

In response to the gas shortage in certain areas of northern China last winter, the government and upstream gas suppliers actively plan ahead to secure winter gas supply and sped up the construction of storage facilities. Meanwhile, with the accelerating construction of China-Russia East-Route Natural Gas Pipeline, the Line D of Central Asia-China Gas Pipeline as well as an increasing number of LNG terminals coming on stream, the transmission capacity of imported gas pipeline and the import volume of LNG will be further increased. The PRC government also encouraged natural gas trading on the Shanghai Petroleum and Natural Gas Exchange as well as Chongqing Petroleum and Natural Gas Exchange, along with the liberalisation of natural gas price and the accelerating progress to open up onshore midstream infrastructure, it is believed that more upstream participants will enter the domestic market, making natural gas supply more adequate and diversified.

To cope with tightening gas supply in winter time, the Group has taken various measures to ensure stable gas supply. Firstly, as one of the largest LNG traders in China, the Group's energy trading team capitalised on its well-established upstream resources network and dispatching capability, cooperated to lock in onshore LNG supplies with major LNG suppliers and manufacturers for the coming winter, so as to ensure adequate gas sources to satisfy surging gas demand.

Secondly, along with the commencement of the LNG terminal invested by ENN Group in Zhoushan, the Group will take advantage of the priority access to terminal facilities to commence the long-term LNG import contracts entered into with Chevron, Total and Origin. The Group will also procure spot LNG depending on the spot market price as well as the downstream demand, so as to increase its own gas supply. The Group believes that the diversified international procurement sources could effectively alleviate the supply pressure in heating season and help maintain a stable procurement cost for city-gas projects in winter.

Lastly, the Group will continue to enhance its gas storage capacity by co-constructing large scale gas storage facilities with other gas distributors, leasing capacity from third parties and purchasing gas storage services. The Group has an existing gas storage capacity of approximately 58 million cubic meters, which could satisfy the demand from city-gas projects for approximately 1.5 days. The Group will focus on investing in and constructing gas storage facilities in regions with high natural gas demand in winter such as Henan, Shandong and Hebei.

Global Awards

With steady growth in operating results and enhancement of management capability, the Group received the following honours in the first half of 2018:

- The title of "Most Honored Company", "Best IR Project (ranked No.2 overall)", "Best Corporate Governance (ranked No.2 overall)", "Best Analyst Days (ranked No. 2 overall)" and "Best IR Professional (ranked No. 3 overall)" in Power Sector in 2018 All-Asia Executive Team Rankings by Institutional Investor, an international financial magazine highly recognised by investment professionals;
- "Certificate of Excellence" in the "4th Investor Relations Awards 2018" organised by Hong Kong Investor Relations Association; and
- Ranked 166th in "China Top 500" 2018 by Fortune magazine, up twenty places from last year.

Financial Resources Review

Key Financial Data

During the period, the Group's revenue amounted to RMB26,530 million, representing an increase of 23.8% comparing to the corresponding period in 2017. Gross profit margin of the Group was 17.6%, down 0.5 percentage point year-on-year, while net profit margin was 8.7%, down 1.0 percentage point year-on year. The slight decrease in gross profit margin was mainly due to the increasing share of revenue from natural gas sales which was a recurring revenue stream, and the increase in its average procuring cost. The decrease in net profit margin was mainly due to the decline in gross profit margin, foreign exchange loss and fair value loss of convertible bonds. Profit attributable to shareholders was RMB1,782 million, representing an increase of 8.1% year-on-year. Basic earnings per share was RMB1.64, representing an increase of 7.9% year-on-year.

Liquidity and Financial Resources

Currently, the Group's operating and capital expenditures are funded by operating cash flows, current assets, bank loans, bonds and share capital. The Group has sufficient sources of funds and unutilised banking facilities to meet its working capital requirements and future capital expenditure. An analysis of the Group's cash, current and non-current debts is as follows:

	At 30 June 2018 RMB million	At 31 December 2017 RMB million	Increased/ (Decreased) by RMB million
Bank balances and cash (excluding restricted bank deposits)	**6,266**	7,972	(1,706)
Long-term debts (including bonds)	**9,658**	9,699	(41)
Short-term debts (including bonds)	**7,528**	8,368	(840)
Total debts	**17,186**	18,067	(881)
Net debts[1]	**10,920**	10,095	825
Total equity	**21,490**	20,217	1,273
Net gearing ratio[2]	**50.8%**	49.9%	0.9ppt
Net current liabilities	**8,905**	7,979	926
Unutilised banking facilities	**9,370**	8,851	519

1 Net debts = Total debts – Bank balances and cash (excluding restricted bank deposits)

2 Net gearing ratio = Net debts / Total equity

Borrowings Structure

The Group has been adopting a prudent management policy on financial resources to ensure the stability of the Group's capital structure. As at 30 June 2018, the Group's total debts amounted to RMB17,186 million (31 December 2017: RMB18,067 million). Short-term debts (including bonds) amounted to RMB7,528 million (31 December 2017: RMB8,368 million) while the remaining debts were long-term debts with terms more than one year. Except for the bank loans amount to RMB464 million that are secured by assets with a carrying value of RMB346 million, all other debts are unsecured. The Group's bank balances and cash (excluding restricted bank deposits) amounted to RMB6,266 million (31 December 2017: RMB7,972 million). As at 30 June 2018, the Group's net gearing ratio was 50.8% (31 December 2017: 49.9%), and the fixed-rate debts to total debts ratio was 96.0% (31 December 2017: 94.3%).

As at 30 June 2018, the Group's major bonds were listed below:

Major bonds	Currency	Maturity date	Interest rate	Principal amount
Five-year Unsecured Bonds	USD	23 October 2019	3.25%	65 million
Three-year Corporate Bonds	RMB	2 December 2019	3.55%	2,500 million
Maximum Five-year Corporate Bonds	RMB	17 December 2020	3.68%	2,500 million
Ten-year Senior Notes	USD	13 May 2021	6.00%	366 million
Five-year Unsecured Bonds	USD	24 July 2022	3.25%	600 million

The Group seeks to maintain strict control over the debt level and strike a balance between duration of loan and cost. In managing long-term borrowings, the Group will seek and spread the maturity dates evenly over different years as possible in order to reduce the time pressure and cost of refinancing.

Foreign Exchange Risk Management

As the major operations of the Group are in China, revenues and expenses are mainly denominated in RMB, therefore, the Group is not exposed to significant foreign exchange risk in its operation. The Group's foreign exchange risk mainly arises from bonds and loans denominated in foreign currencies and international LNG procurement business conducted in USD.

The Group has established corresponding foreign exchange risk management policies so as to prudently manage and mitigate the impact of exchange rate fluctuation on the Group's operation and cash flows.

The Group will monitor market interest rates, exchange rates, international oil prices, trend of natural gas price indices and macroeconomies on an ongoing basis, so as to refine the Group's strategy on foreign debt financing (including financing manner, currency, interest rate, terms, etc.) as appropriate and to use appropriate foreign currency derivative instruments for hedging under favorable market conditions.

Foreign exchange risk arising from bonds and loans denominated in foreign currencies

As at 30 June 2018, the principal amount of the Group's borrowings denominated in foreign currencies amounted to USD1,621 million (31 December 2017: USD1,550 million), in which the carrying value was approximately RMB10,677 million (31 December 2017: RMB10,579 million), and among which 58.2% (31 December 2017: 66.2%) of long-term foreign debts has been hedged against the foreign exchange risk. The Company entered into foreign currency derivative contracts, mainly cross currency swaps, with various financial institutions. The terms and clauses of which are in line with that of the USD600 million bonds due in 2022. Such foreign currency derivative contracts effectively eliminate the foreign exchange risk arising from the interest and principal payments of the USD600 million bonds due in 2022. The Group will continue to monitor the foreign exchange market and proceed to hedge the remaining unhedged foreign debts in due course and raise the hedged ratio on long-term debts to approximately 70% so as to reduce the uncertainty arising from foreign currency exposure.

Foreign exchange risk arising from international LNG procurement business

In addition, the international LNG procurement contracts with a term of five to ten years entered into by the Group will be enforced starting from the second half of 2018. The settlement of these LNG procurement contracts is in USD. In order to mitigate the foreign exchange risk arising from the settlement of LNG procurement contracts in the future, the Group is tracking and monitoring the trends of international oil prices, natural gas price indices, exchange rates and interest rates based on the future shipping and delivery schedule, so as to make reasonable assessment on the hedging ratio and manner. Meanwhile, the Group will adopt, when appropriate, suitable foreign exchange risk management measures and use foreign exchange derivatives to reduce the level of foreign exchange exposure arising from LNG procurement business to reasonable range.

Credit Rating

Benefiting from the government's encouragement of the use of clean energy (including natural gas) and the Company's enhancing ability in operational management and control as well as the stable capital structure, Standard & Poor's believes that the Company will maintain positive growth in the next two or three years. Standard & Poor's therefore upgraded its credit rating on the Company from BBB to BBB+ in June 2018 and issued a "stable" outlook. Moody's maintained Baa2 investment-grade credit rating on the Company and "stable" outlook; and Fitch maintained BBB investment-grade credit rating and "stable" outlook. Such ratings reflect the wide recognition of the Group's development strategy and its sound financial performance by the market. Following the upgrade by Standard & Poor's, it is believed that the finance cost of the Group's potential financing will be further reduced, and thereby providing sufficient financial resources for the Group's long-term healthy development.

As of the date of this report, the credit ratings of the Company are summarised below:

	Standard & Poor's	Moody's	Fitch Ratings
Long-term credit rating	⬆ BBB+	Baa2	BBB
Outlook	Stable	Stable	Stable

Contingent Liabilities

As at 30 June 2018, the Group has no significant contingent liabilities.

Financial Guarantee Liability

As at 30 June 2018, the Group had issued guarantees to banks to secure loan facilities granted to joint ventures to the extent of approximately RMB36 million (31 December 2017: RMB126 million). The amounts have been utilised at the end of the reporting period.

Commitments

	At 30 June 2018 RMB million	At 31 December 2017 RMB million
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided	**716**	643
Commitments in respect of		
– investments in joint ventures	**217**	207
– investments in associates	**91**	86
– other equity investments	**–**	86

Significant Investment

The Company through its wholly-owned subsidiary subscribed in 2014 for an approximately 1.13% unlisted equity interest in Sinopec Marketing Co., Ltd ("Sinopec Marketing"), being a subsidiary of China Petroleum & Chemical Corporation ("Sinopec") with its shares listed on the Main Board of the Hong Kong Stock Exchange (stock code: 386.HK) and the Shanghai Stock Exchange (stock code: SH600028) and with its American depository receipts listed on the New York Stock Exchange and the London Stock Exchange (stock code: SNP), at approximately RMB4 billion. Sinopec Marketing is engaged in storage and logistics, sales and distribution of petroleum products and operation of non-fuel business (such as convenience stores and car services). The investment in Sinopec Marketing was made and has been held by the Group for strategic reasons. The Group did not acquire further or dispose of any equity interest in Sinopec Marketing during the six months ended 30 June 2018.

The equity interest in Sinopec Marketing is unlisted and Sinopec has announced a plan for the spin-off and separate listing of Sinopec Marketing. The Group's investment in Sinopec Marketing was accounted for in its financial statements at cost less impairment according to HKFRSs. As disclosed in 2017 Annual Report, HKFRS 9 "Financial Instruments" becomes effective for annual periods beginning on or after 1 January 2018, transitional provisions have been adopted by the Group. For the six months ended 30 June 2018, a fair value loss of approximately RMB55 million for such investment was recognised in profit or loss and the Group received dividend income of approximately RMB249 million (2017: RMB70 million) from Sinopec Marketing.

Such investment in Sinopec Marketing generates recurring dividend income to the Group and has maintained its fair value of approximately RMB4 billion as at 30 June 2018, and it suits the Group's objective of maintaining business relationship and developing cooperation with Sinopec. The Group thus considers such investment has been properly made and has no intention to realise such investment in the near future. The Group will from time to time to review such investment having regard to market conditions, the Group's working capital needs and professional advice as appropriate.

Strategies and Prospects

China is pushing an energy reform to make a clean and low-carbon society, by shifting the development of energy industry from extensive consumption to improving the quality and efficiency of energy usage. The government is committed to reducing unit energy consumption and optimising the primary energy mix. According to the "13th Five-Year Plan on Energy Conservation and Emission Reduction" and the "13th Five-year Plan on Energy Development", by 2020, the energy consumption per unit of GDP will be 15% lower than that in 2015, and the proportion of natural gas in primary energy consumption will rise to 10%.

In a context of energy reform, natural gas gradually becomes a dominant energy source. In addition, the National Development and Reform Commission issued the consultation paper on "Comment on the Regulation Measures on the Fairness and Openness of Oil and Gas Pipeline Network Facilities" on 3 August this year, proposing the opening up of oil and gas pipelines network (excluding city-gas network), which is conducive to the reform of natural gas industry and the full implementation of a market-oriented pricing mechanism. The accelerated construction of facilities for upstream exploration, midstream pipeline transportation, LNG receiving terminals and gas storage, is becoming a strong support for the long-term growth of downstream natural gas consumption.

The Group has been rooted in city-gas business for over 20 years, and will continue to promote the steady growth of traditional gas business, exploit the market potential of city-gas business, and expand the gas consumption scale of industrial and commercial customers by cooperating with local governments in eliminating coal-fired boilers. The Group will also expand its development of urban residential customers and strategically promote coal-to-gas conversion in rural areas, so as to drive the growth of both gas volume and profit of the Group. Meanwhile, leveraging on the technological advantages of ENN Ubiquitous Energy Network Technology Co., Ltd., the Group will focus on acquiring high-quality industrial park projects, based on customers' energy demand and the Group's deep understanding of customers. The Group will continue to develop integrated energy business with the sales of electricity, heating and cooling, so as to bring in new growth engines and profit growth drivers beyond the traditional gas sales business. The Group will continue to promote management restructuring to improve its corporate governance and speed up the business transformation and strategic upgrade, so as to realise its transformation from a pure natural gas distributor into an industry-leading integrated energy service provider.

The Corporate Governance Code

The board of directors (the "Board") and the management of the Company have been continuously reviewing and enhancing the corporate governance practices with reference to local and international standards. Since its listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company has adopted the Code of Corporate Governance (the "CG Code") as contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") as the main guideline for corporate governance practices.

To the knowledge of the Board, the Company has complied with the Code Provisions set out in the CG Code as contained in Appendix 14 to the Listing Rules throughout the period except a deviation from Code Provision E.1.2 that Mr. Wang Yusuo (Chairman of the Board) was unable to attend the annual general meeting (the "AGM") of the Company held on 18 May 2018 due to business trip. Alternatively, Mr. Wang Dongzhi, the Executive Director of the Company, attended and acted as the chairman of the said annual general meeting.

Audit Committee

The Company established an Audit Committee in accordance with requirements under the Listing Rules for the purpose of reviewing with the management the accounting principles and practices adopted by the Group and discuss auditing, internal control and financial reporting matters. The audit committee also maintains an appropriate relationship with the Company's independent auditor and provides advice and comments to the Board.

The Company's audit committee meeting was held on 22 August 2018 to review the Group's unaudited interim results and interim financial report for the six months ended 30 June 2018. Deloitte Touche Tohmatsu, the Company's independent auditor, has carried out a review of the unaudited financial information for the six months ended 30 June 2018 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 Hong Kong Institute of Certified Public Accountants.

At the Company's AGM held on 18 May 2018, the re-appointment of Deloitte Touche Tohmatsu as the Company's independent auditor for the financial year ending 31 December 2018 was approved by shareholders with support of over 99% of the votes.

Board of Directors

As at 30 June 2018, the composition of the Board of the Company is set out below:

Executive Directors	**Independent Non-executive Directors**
Mr. Wang Yusuo (Chairman)	Mr. Ma Zhixiang
Mr. Cheung Yip Sang (Vice Chairman)	Mr. Yuen Po Kwong
Mr. Wang Zizheng (Executive Chairman)	Mr. Law Yee Kwan, Quinn
Mr. Han Jishen (Chief Executive Officer)	
Mr. Liu Min (President)	
Mr. Wang Dongzhi	

The Directors subject to re-election at the 2018 AGM, namely Mr. Cheung Yip Sang, Mr. Han Jishen, Mr. Wang Dongzhi, Mr. Law Yee Kwan, Quinn and Mr. Liu Min, were all re-elected with the approval of the shareholders.

On 12 January 2018, Mr. Sean S J Wang resigned as an Executive Director and the Chief Executive Officer, and ceased to be a member of the risk management committee; Mr. Han Jishen has been appointed as the Chief Executive Officer, and ceased to be the President; and Mr. Liu Min has been appointed as an Executive Director, the President and a member of the risk management committee. On 11 May 2018, Mr. Wang Zizheng has been re-designated as an Executive Director, and appointed as the Executive Chairman and the chairman of the risk management committee and Mr. Cheung Yip Sang has no longer served as the member of the remuneration committee and the chairman of the risk management committee. Save as disclosed above, there had been no other change in the Board composition during the period and up to the date of this report.

Change in Information of Director

Pursuant to the disclosure requirement of Rule 13.51(B)(1) of the Listing Rules, Mr. Wang Dongzhi, an Executive Director of the Company has been appointed by Abterra Ltd. (a company listed on Singapore Stock Exchange, stock code: ABTR.SI) as an independent director, the chairman of nomination committee, a member of remuneration committee, a member of audit committee, and a member of the employee share option scheme committee on 24 July 2018.

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 Securities Transactions by Directors of Listed Issuers ("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.

Disclosure of Interests

Directors' interests or short positions in shares, underlying shares and debentures

The interests and short positions of each Director and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as contained in Appendix 10 to the Listing Rules as at 30 June 2018 were as follows:

Name of Director	Capacity	Interests in shares – Corporate interests	Total interests in shares	Interests in underlying shares pursuant to share options	Total aggregate interests in shares and underlying shares	Approximate percentage of the Company's total issued shares as at 30 June 2018
Wang Yusuo ("Mr. Wang")	Beneficial owner and interest of controlled corporation	329,249,000 (Note 1)	329,249,000	580,000	329,829,000	30.39%
Cheung Yip Sang	Beneficial owner	–	–	399,000	399,000	0.04%
Wang Zizheng	Beneficial owner	–	–	60,000	60,000	0.01%
Han Jishen	Beneficial owner	–	–	316,000	316,000	0.03%
Wang Dongzhi	Beneficial owner	–	–	327,000	327,000	0.03%
Ma Zhixiang	Beneficial owner	–	–	45,000	45,000	0.00%
Yuen Po Kwong	Beneficial owner	–	–	60,000	60,000	0.01%
Law Yee Kwan, Quinn	Beneficial owner	–	–	60,000	60,000	0.01%

Note:

1. Such shares are held by ENN Group International Investment Limited ("EGII"), which is beneficially owned as to 50% by Mr. Wang and 50% by Ms. Zhao Baoju, the spouse of Mr. Wang.

Details of the Directors' interests in share options granted by the Company are set out under the heading "Directors' rights to acquire shares" in this report.

Save as disclosed above, as at 30 June 2018, the register maintained by the Company pursuant to Section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code recorded no other interests or short positions of the Directors and chief executives in any shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO).

Directors' rights to acquire shares

Pursuant to the Company's share option schemes, the Company has granted options to subscribe for the Company's ordinary shares in favour of certain Directors. The interest of each Directors and chief executive in the share options of the Company as at 30 June 2018 were as follows:

Name of Director	Date of grant	Exercise period (Note 1)	Exercise price (HK$)	Outstanding as at 1 January 2018	Reclassified during the period (Note 2)	Exercised during the period (Note 2)	Lapsed during the period (Note 2)	Outstanding as at 30 June 2018
Wang Yusuo	09.12.2015	01.04.2017–08.12.2025	40.34	145,000	–	–	–	145,000
	09.12.2015	01.04.2018–08.12.2025	40.34	145,000	–	–	–	145,000
	09.12.2015	01.04.2019–08.12.2025	40.34	145,000	–	–	–	145,000
	09.12.2015	01.04.2020–08.12.2025	40.34	145,000	–	–	–	145,000
Cheung Yip Sang (Note 3)	09.12.2015	01.04.2018–08.12.2025	40.34	133,000	–	–	–	133,000
	09.12.2015	01.04.2019–08.12.2025	40.34	133,000	–	–	–	133,000
	09.12.2015	01.04.2020–08.12.2025	40.34	133,000	–	–	–	133,000
Wang Zizheng	09.12.2015	01.04.2017–08.12.2025	40.34	15,000	–	–	–	15,000
	09.12.2015	01.04.2018–08.12.2025	40.34	15,000	–	–	–	15,000
	09.12.2015	01.04.2019–08.12.2025	40.34	15,000	–	–	–	15,000
	09.12.2015	01.04.2020–08.12.2025	40.34	15,000	–	–	–	15,000
Han Jishen (Note 3)	09.12.2015	01.04.2017–08.12.2025	40.34	250	–	–	–	250
	09.12.2015	01.04.2018–08.12.2025	40.34	105,250	–	–	–	105,250
	09.12.2015	01.04.2019–08.12.2025	40.34	105,250	–	–	–	105,250
	09.12.2015	01.04.2020–08.12.2025	40.34	105,250	–	–	–	105,250
Wang Dongzhi (Note 3)	09.12.2015	01.04.2017–08.12.2025	40.34	40,500	–	–	–	40,500
	09.12.2015	01.04.2018–08.12.2025	40.34	95,500	–	–	–	95,500
	09.12.2015	01.04.2019–08.12.2025	40.34	95,500	–	–	–	95,500
	09.12.2015	01.04.2020–08.12.2025	40.34	95,500	–	–	–	95,500

Name of Director	Date of grant	Exercise period (Note 1)	Exercise price (HK$)	Outstanding as at 1 January 2018	Reclassified during the period (Note 2)	Exercised during the period (Note 2)	Lapsed during the period (Note 2)	Outstanding as at 30 June 2018
Ma Zhixiang	09.12.2015	01.04.2018–08.12.2025	40.34	15,000	–	–	–	15,000
	09.12.2015	01.04.2019–08.12.2025	40.34	15,000	–	–	–	15,000
	09.12.2015	01.04.2020–08.12.2025	40.34	15,000	–	–	–	15,000
Yuen Po Kwong	09.12.2015	01.04.2017–08.12.2025	40.34	15,000	–	–	–	15,000
	09.12.2015	01.04.2018–08.12.2025	40.34	15,000	–	–	–	15,000
	09.12.2015	01.04.2019–08.12.2025	40.34	15,000	–	–	–	15,000
	09.12.2015	01.04.2020–08.12.2025	40.34	15,000	–	–	–	15,000
Law Yee Kwan, Quinn	09.12.2015	01.04.2017–08.12.2025	40.34	15,000	–	–	–	15,000
	09.12.2015	01.04.2018–08.12.2025	40.34	15,000	–	–	–	15,000
	09.12.2015	01.04.2019–08.12.2025	40.34	15,000	–	–	–	15,000
	09.12.2015	01.04.2020–08.12.2025	40.34	15,000	–	–	–	15,000
Total				1,847,000	–	–	–	1,847,000

Notes:

1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.
2. “Period” refers to the period from 1 January 2018 to 30 June 2018.
3. The vesting of share options is subject to the fulfilment of performance target.

Save as disclosed above, at no time during the period was the Company or its subsidiaries a party to any arrangements to enable the Directors and chief executives, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares or underlying shares in, or debentures of, the Company or its associated corporations.

Substantial Shareholders

The interests and short positions of substantial shareholders of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of Part XV of the SFO as at 30 June 2018 were as follows:

Name of shareholder	Capacity	Total interests in shares	Interests in shares pursuant to share options	Total aggregate interests in shares and underlying shares (Note 4)	Approximate percentage of the Company's total issued shares as at 30 June 2018
Wang Yusuo ("Mr. Wang")	Beneficial owner and interest of controlled corporation	329,249,000 (Note 1)	580,000 (Note 2)	329,829,000 (L)	30.39%
Zhao Baoju ("Ms. Zhao")	Interest of controlled corporation and interest of spouse	329,249,000 (Note 1)	580,000 (Note 2)	329,829,000 (L)	30.39%
EGII	Beneficial owner	329,249,000 (Note 1)	–	329,249,000 (L)	30.34%
The Capital Group Companies, Inc.	Interest of controlled corporation	129,829,400 (Note 3)	–	129,829,400 (L)	11.96%
Capital Research and Management Company	Investment manager	129,829,400	–	129,829,400 (L)	11.96%
Commonwealth Bank of Australia	Interest of controlled corporation	72,439,717	–	72,439,717 (L)	6.68%

Notes:

1. The three references to 329,249,000 shares relate to the same block of shares. Such shares are held by EGII, which is beneficially owned as to 50% by Mr. Wang and 50% by Ms. Zhao, the spouse of Mr. Wang.
2. As Mr. Wang's spouse, Ms. Zhao is deemed as holding Mr. Wang's interests in shares.
3. 129,829,400 shares are held by Capital Research and Management Company (a company which is wholly owned by The Capital Group Companies, Inc.).
4. (L) represents Long Position; (S) represents Short Position; (P) represents Lending Pool.

Save for the shareholders as disclosed herein, the Directors are not aware of any persons who, as at 30 June 2018, were entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and were also, as a practicable matter, able to direct or influence the management of the Company.

Save as disclosed above, as at 30 June 2018, the Company had not been notified of any other person who had interest or short position in the shares or underlying shares of the Company, which are required to be recorded in the register maintained by the Company pursuant to Section 336 of Part XV of the SFO and the Listing Rules.

Share Option Schemes

The Company has adopted share option schemes pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on 21 May 2002 (the "2002 Scheme") and passed at an annual general meeting of the Company held on 26 June 2012 (the "2012 Scheme") respectively.

The following table discloses details of the Company's share options held by the employees (including Directors) and movements in such holdings under the 2002 Scheme and 2012 Scheme during the period:

Scheme/Grantee	Date of grant	Exercise period (Note 1)	Exercise price (HK$)	Outstanding as at 1 January 2018	Reclassified during the period	Exercised during the period	Lapsed during the period	Outstanding as at 30 June 2018 (Note 2)
2002 Scheme								
Employees	14.06.2010	14.12.2010–13.06.2020	16.26	100,000	–	–	–	100,000
	14.06.2010	14.06.2012–13.06.2020	16.26	100,000	–	–	–	100,000
Total				200,000	–	–	–	200,000
2012 Scheme								
Directors	09.12.2015	01.04.2017–08.12.2025	40.34	230,750	–	–	–	230,750
	09.12.2015	01.04.2018–08.12.2025	40.34	538,750	–	–	–	538,750
	09.12.2015	01.04.2019–08.12.2025	40.34	538,750	–	–	–	538,750
	09.12.2015	01.04.2020–08.12.2025	40.34	538,750	–	–	–	538,750
Employees	09.12.2015	01.04.2017–08.12.2025	40.34	980,500	–	(416,950)	(62,500)	501,050
	09.12.2015	01.04.2018–08.12.2025	40.34	2,020,000	–	(308,050)	(474,750)	1,237,200
	09.12.2015	01.04.2019–08.12.2025	40.34	2,020,000	–	–	(292,250)	1,727,750
	09.12.2015	01.04.2020–08.12.2025	40.34	2,020,000	–	–	(292,250)	1,727,750
Total				8,887,500	–	(725,000)	(1,121,750)	7,040,750

Notes:

1. The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

2. A total number of 200,000 shares, representing 0.02% of the issued shares of the Company as at the date of this report are available for issue under the 2002 Scheme and a total number of 7,040,750 shares, representing 0.63% of the issued shares of the Company as at the date of this report, are available for issue under the 2012 Scheme. The vesting of certain part of the 7,040,750 share options is subject to the fulfilment of performance target.

3. The weighted average closing price of the Company's shares immediately before the dates on which the share options were exercised is HK$74.61.

Details of the movements in the share options granted to the Directors by the Company during the period are set out under the heading "Directors' rights to acquire shares" in this report.

Save as disclosed above, no share option was granted, exercised, lapsed or cancelled during the period.

Purchase, Sale or Redemption of the Company's Listed Securities

During the six months ended 30 June 2018, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

Loan Agreements Imposing Specific Performance Obligations on Controlling Shareholders

The Company issued 10-year senior notes on 13 May 2011 (the "2021 Senior Notes") with a principal amount of USD750 million (equivalent to approximately RMB4,863 million). The terms and conditions of the 2021 Senior Notes require Mr. Wang, the controlling shareholder of the Company, to retain his interests in the Company of at least 25% of the total issued share capital of the Company throughout the term of the agreement. The outstanding principal balance of the 2021 Senior Notes as at 30 June 2018 is USD366 million (equivalent to approximately RMB2,399 million).

Moreover, the Company issued two 5-year bonds on 23 October 2014 (the "2019 Unsecured Bonds") and on 24 July 2017 (the "2022 Unsecured Bonds") which were due on 2019 and 2022 respectively. The terms and conditions of these two bonds required Mr. Wang, the controlling shareholder of the Company, to retain his interests in the Company of at least 20% of the total issued share capital of the Company throughout the terms of the bonds. The principal balances of these two bonds issued are USD400 million (equivalent to approximately RMB2,460 million) and USD600 million (equivalent to RMB4,066 million). As at 30 June 2018, the outstanding balances are USD64.8 million (equivalent to approximately RMB428 million) and USD600 million (equivalent to RMB3,946 million) respectively.

By order of the Board
WANG Yusuo
Chairman

Hong Kong, 23 August 2018

Deloitte. 德勤

TO THE BOARD OF DIRECTORS OF ENN ENERGY HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the condensed consolidated financial statements of ENN Energy Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 24 to 76, which comprise the condensed consolidated statement of financial position as of 30 June 2018 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
23 August 2018

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	Notes	Six months ended 30 June 2018 RMB million (unaudited)	Six months ended 30 June 2017 RMB million (unaudited)
Revenue	3	**26,530**	21,424
Cost of sales		**(21,868)**	(17,551)
Gross profit		**4,662**	3,873
Other income	4	**608**	350
Other gains and losses	5	**(598)**	(241)
Distribution and selling expenses		**(384)**	(294)
Administrative expenses		**(1,189)**	(952)
Share of results of associates		**109**	66
Share of results of joint ventures		**261**	270
Finance costs	6	**(267)**	(262)
Profit before tax	7	**3,202**	2,810
Income tax expense	8	**(893)**	(735)
Profit for the period		**2,309**	2,075
Other comprehensive income			
Items that have been reclassified or may be reclassified subsequently to profit or loss:			
Exchange differences arising on translating foreign operations		**1**	(11)
Fair value loss on available-for-sale ("AFS") financial assets		**–**	(13)
Release of exchange reserve to profit or loss upon disposal of subsidiaries		**(40)**	–
Other comprehensive expense for the period		**(39)**	(24)
Total comprehensive income for the period		**2,270**	2,051
Profit for the period attributable to:			
Owners of the Company		**1,782**	1,649
Non-controlling interests		**527**	426
		2,309	2,075
Total comprehensive income for the period attributable to:			
Owners of the Company		**1,743**	1,625
Non-controlling interests		**527**	426
		2,270	2,051

	Notes	RMB	RMB
Earnings per share	10		
Basic		**1.64**	1.52
Diluted		**1.64**	1.52

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

	Notes	At 30 June 2018 RMB million (unaudited)	At 31 December 2017 RMB million (audited)
Non-current Assets			
Property, plant and equipment	11	**27,759**	25,490
Prepaid lease payments	11	**1,288**	1,262
Investment properties	11	**246**	246
Goodwill		**250**	192
Intangible assets	12	**2,200**	1,681
Interests in associates		**2,102**	1,505
Interests in joint ventures		**3,865**	3,929
Other receivables	14	**162**	183
AFS financial assets		**–**	4,578
Financial assets at fair value through profit or loss ("FVTPL")	13	**4,488**	5
Equity instruments at fair value through other comprehensive income ("FVTOCI")		**111**	–
Amounts due from associates	17	**146**	278
Amounts due from joint ventures	18	**131**	674
Deferred tax assets		**1,025**	941
Deposits paid for investments		**8**	35
Deposits paid for acquisition of property, plant and equipment, land use rights and right of operation		**56**	104
Restricted bank deposits	16	**442**	486
		44,279	41,589
Current Assets			
Inventories		**1,105**	744
Trade and other receivables	14	**6,167**	6,068
Contract assets	15	**679**	–
Amounts due from customers for contract work		**–**	553
Prepaid lease payments	11	**35**	37
AFS financial assets		**–**	528
Financial assets at FVTPL	13	**122**	4
Amounts due from associates	17	**548**	367
Amounts due from joint ventures	18	**1,747**	943
Amounts due from related companies	19	**119**	112
Restricted bank deposits	16	**103**	241
Cash and cash equivalents		**6,266**	7,972
		16,891	17,569
Assets classified as held for sale		**–**	57
		16,891	17,626

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

	Notes	At 30 June 2018 RMB million (unaudited)	At 31 December 2017 RMB million (audited)
Current Liabilities			
Trade and other payables	20	**4,294**	11,217
Contract liabilities		**8,918**	–
Deferred income		**17**	243
Amounts due to customers for contract work		**–**	2,134
Amounts due to associates	17	**190**	282
Amounts due to joint ventures	18	**2,110**	1,677
Amounts due to related companies	19	**876**	642
Taxation payables		**907**	982
Dividend payable		**952**	–
Bank and other loans – due within one year	21	**5,030**	1,737
Corporate bonds	22	**2,498**	2,996
Convertible bonds at FVTPL	23	**–**	3,635
Financial guarantee liability		**1**	5
Financial liabilities at FVTPL	13	**3**	17
		25,796	25,567
Liabilities associated with assets classified as held for sale		**–**	38
		25,796	25,605
Net Current Liabilities		**(8,905)**	(7,979)
Total Assets less Current Liabilities		**35,374**	33,610
Capital and Reserves			
Share capital	24	**112**	112
Reserves		**17,799**	16,840
Equity attributable to owners of the Company		**17,911**	16,952
Non-controlling interests		**3,579**	3,265
Total Equity		**21,490**	20,217
Non-current Liabilities			
Contract liabilities		**3,152**	–
Deferred income		**361**	3,185
Bank and other loans – due after one year	21	**390**	523
Corporate bonds	22	**2,495**	2,494
Senior notes		**2,399**	2,366
Unsecured bonds		**4,374**	4,316
Financial liabilities at FVTPL	13	**170**	81
Deferred tax liabilities		**543**	428
		13,884	13,393
		35,374	33,610

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

Six months ended 30 June 2018 (unaudited)

	Equity attributable to owners of the Company											
	Share capital RMB million (Note 24)	Share premium RMB million	Special reserve RMB million (note a)	Revaluation reserve RMB million	Share options reserve RMB million	Exchange reserve RMB million	Surplus reserve fund RMB million (note b)	Designated safety fund RMB million (note c)	Retained earnings RMB million	Total RMB million	Non-controlling interests RMB million	Total equity RMB million
At 31 December 2017 (audited)	112	72	(92)	(29)	74	37	2,082	59	14,637	16,952	3,265	20,217
Adjustments (Note 2)	–	–	–	45	–	–	–	–	12	57	–	57
At 1 January 2018 (restated)	112	72	(92)	16	74	37	2,082	59	14,649	17,009	3,265	20,274
Profit for the period	–	–	–	–	–	–	–	–	1,782	1,782	527	2,309
Other comprehensive income (expense) for the period												
– Exchange differences on translating foreign operations	–	–	–	–	–	1	–	–	–	1	–	1
– Release of exchange reserve to profit or loss upon disposal of subsidiaries	–	–	–	–	–	(40)	–	–	–	(40)	–	(40)
Total comprehensive income for the period	–	–	–	–	–	(39)	–	–	1,782	1,743	527	2,270
Recognition of equity-settled share-based payment (Note 25)	–	–	–	–	9	–	–	–	–	9	–	9
Issue of ordinary shares on conversion of Convertible Bonds (Note 23)	–	79	–	–	–	–	–	–	–	79	–	79
Issue of ordinary shares on exercise of share options (Note 25)	–	33	–	–	(10)	–	–	–	–	23	–	23
Disposal of subsidiaries (Note 28)	–	–	–	–	–	–	–	–	–	–	(35)	(35)
Acquisition of subsidiaries and businesses (Notes 26 & 27)	–	–	–	–	–	–	–	–	–	–	94	94
Capital contribution from non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	63	63
Dividends recognised as distribution (Note 9)	–	–	–	–	–	–	–	–	(952)	(952)	–	(952)
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	(335)	(335)
Transfer to surplus reserve fund	–	–	–	–	–	–	175	–	(175)	–	–	–
Transfer to designated safety fund	–	–	–	–	–	–	–	1	(1)	–	–	–
At 30 June 2018	112	184	(92)	16	73	(2)	2,257	60	15,303	17,911	3,579	21,490

Six months ended 30 June 2017 (unaudited)

	Equity attributable to owners of the Company											
	Share capital RMB million (Note 24)	Share premium RMB million	Special reserve RMB million (note a)	Revaluation reserve RMB million	Share options reserve RMB million	Exchange reserve RMB million	Surplus reserve fund RMB million (note b)	Designated safety fund RMB million (note c)	Retained earnings RMB million	Total RMB million	Non-controlling interests RMB million	Total equity RMB million
At 1 January 2017	112	20	(94)	13	54	125	1,869	46	12,821	14,966	2,888	17,854
Profit for the period	–	–	–	–	–	–	–	–	1,649	1,649	426	2,075
Other comprehensive expense for the period												
– Exchange differences on translating foreign operations	–	–	–	–	–	(11)	–	–	–	(11)	–	(11)
– Fair value change of AFS financial assets	–	–	–	(13)	–	–	–	–	–	(13)	–	(13)
Total comprehensive income for the period	–	–	–	(13)	–	(11)	–	–	1,649	1,625	426	2,051
Recognition of equity-settled share-based payment (Note 25)	–	–	–	–	17	–	–	–	–	17	–	17
Share repurchase (Note 24)	–	–	–	–	–	–	–	–	–	–	–	–
Acquisition of subsidiaries (Note 27)	–	–	–	–	–	–	–	–	–	–	2	2
Capital contribution from non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	42	42
Capital injection to a non-wholly owned subsidiary	–	–	2	–	–	–	–	–	15	17	(17)	–
Dividends recognised as distribution (Note 9)	–	–	–	–	–	–	–	–	(775)	(775)	–	(775)
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	(439)	(439)
Transfer to surplus reserve fund	–	–	–	–	–	–	155	–	(155)	–	–	–
Transfer to designated safety fund	–	–	–	–	–	–	–	1	(1)	–	–	–
At 30 June 2017	112	20	(92)	–	71	114	2,024	47	13,554	15,850	2,902	18,752

Notes:

a. The balance represented the difference between the fair values of consideration paid and the carrying values of net assets attributable to the additional interests of subsidiaries acquired or disposal of with no change in control.

b. In accordance with the People's Republic of China ("PRC") regulations, the surplus reserve fund retained by subsidiaries in the PRC is non-distributable.

c. Pursuant to relevant PRC regulation, the Group is required to transfer 1.5% on revenue generated from transportation of gas or other dangerous chemical into a designated fund. The fund will be used for installation and repair and maintenance of safety facilities. The movement during the six months ended 30 June 2018 and 2017 represents the difference between the amount provided based on the relevant PRC regulations and the amount utilised during the current and prior period.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	Notes	Six months ended 30 June 2018 RMB million (unaudited)	2017 RMB million (unaudited)
Net cash generated from operating activities		**1,909**	1,461
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(2,502)**	(1,267)
Purchases of wealth management products		**(10,304)**	(4,502)
Redemptions of wealth management products		**11,005**	4,340
Addition of restricted bank deposits		**(871)**	(534)
Release of restricted bank deposits		**1,053**	820
Net cash outflow on acquisition of subsidiaries and businesses	26 & 27	**(246)**	(35)
Net cash inflow (outflow) on disposal of subsidiaries	28	**43**	(1)
Amounts advanced to banks and other financial institutions by Xinao Finance Company Limited ("ENN Finance")		**–**	(1,501)
Amounts withdrawal from banks and other financial institutions by ENN Finance		**–**	1,223
Investments in associates		**(534)**	(23)
Settlement of financial assets/liabilities at FVTPL		**(125)**	–
Dividends received from joint ventures		**279**	310
Dividends received from financial assets at FVTPL		**249**	–
Dividends received from AFS financial assets		**–**	70
Amounts advanced to joint ventures		**(453)**	(457)
Amounts repaid by joint ventures		**127**	46
Deposits paid for unlisted equity investments		**–**	(27)
Other investing activities		**54**	(24)
Net cash used in investing activities		**(2,225)**	(1,562)
FINANCING ACTIVITIES			
New bank loans raised		**4,774**	4,043
Repayment of bank loans		**(1,838)**	(3,887)
Net proceeds from ordinary shares issued on exercise of share options		**23**	–
Proceeds used in redemption of Convertible Bonds		**(3,771)**	–
Repayment of 2011 Corporate Bonds		**(500)**	–
Dividends paid to non-controlling shareholders		**(335)**	(439)
Capital contribution from non-controlling shareholders		**63**	18
Interest paid		**(231)**	(201)
Amounts advanced from joint ventures		**518**	315
Amounts repaid to joint ventures		**(22)**	(34)
Amounts repaid to associates		**(76)**	(12)
Other financing activities		**(1)**	(28)
Net cash used in financing activities		**(1,396)**	(225)
Net decrease in cash and cash equivalents		**(1,712)**	(326)
Effect of foreign exchange rate changes		**3**	(9)
Cash and cash equivalents at the beginning of the period included in assets classified as held for sale		**3**	–
Cash and cash equivalents at the beginning of the period		**7,972**	7,163
Cash and cash equivalents at the end of the period		**6,266**	6,828

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 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 Company and its subsidiaries (collectively referred to as the "Group") in light of its net current liabilities of approximately RMB8,905 million as at 30 June 2018. Having considered the secured credit facilities of approximately RMB9,070 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 six months ended 30 June 2018 have been prepared on a going concern basis.

2. Principal Accounting Policies

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

Other than changes in accounting policies resulting from application of new Hong Kong Financial Reporting Standards ("HKFRSs"), 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 2017.

In the current period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

2. Principal Accounting Policies *(continued)*

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which result in changes in accounting policies, amounts reported and/or disclosures as described below.

Impacts and changes in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers"

The Group has applied HKFRS 15 for the first time in the current period. HKFRS 15 superseded HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations.

The Group recognises revenue from the following sources:

(1) Sales of goods

The Group sells multi-energy products, such as natural gas, LNG, CNG, heating, cooling and steam, to customers.

(2) Construction

The Group provides construction and installation service under construction contracts with its customers.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained earnings and comparative information has not been restated. Furthermore, in accordance with the transition provision in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 "Revenue" and HKAS 11 "Construction Contracts" and the related interpretations.

Key change in accounting policies resulting from application of HKFRS 15

HKFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

2. Principal Accounting Policies *(continued)*

Impacts and changes in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers" *(continued)*

Key change in accounting policies resulting from application of HKFRS 15 (continued)

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Contracts with multiple performance obligations (including allocation of transaction price)

For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

2. Principal Accounting Policies *(continued)*

Impacts and changes in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers" *(continued)*

Key change in accounting policies resulting from application of HKFRS 15 (continued)

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurement of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself or to arrange for those goods or services to be provided by the other party.

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

Costs to fulfil a contract

The Group incurs costs to fulfil a construction and installation contract. The Group first assesses whether these costs qualify for recognition as an asset in terms of other relevant standards, failing which it recognises an asset for these costs only if they meet all of the following criteria:

(a) the costs relate directly to a contract or to an anticipated contract that the Group can specifically identify;

(b) the costs generate or enhance resources of the Group that will be used in satisfying performance obligations in the future; and

(c) the costs are expected to be recovered.

The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the services to which the assets relate. The asset is subject to impairment review.

2. Principal Accounting Policies *(continued)*

Impacts and changes in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers" *(continued)*

Summary of effects arising from initial application of HKFRS 15

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Notes	Carrying amounts previously reported at 31 December 2017 RMB million	Reclassification RMB million	Carrying amounts under HKFRS 15 at 1 January 2018* RMB million
Current Assets				
Contract assets	a & c	–	683	683
Amount due from customers for contract work	a	553	(553)	–
Trade and other receivables	c	6,068	(130)	5,938
Current Liabilities				
Contract liabilities	a, b & d	–	8,931	8,931
Amount due to customers for contract work	a	2,134	(2,134)	–
Trade and other payables	d	11,217	(6,569)	4,648
Deferred income	b	243	(228)	15
Non-current Liabilities				
Contract liabilities	b	–	2,867	2,867
Deferred income	b	3,185	(2,867)	318

* The amounts in this column are before the adjustments from the application of HKFRS 9.

2. Principal Accounting Policies *(continued)*

Impacts and changes in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers" *(continued)*

Summary of effects arising from initial application of HKFRS 15 (continued)

Notes:

a. For construction and installation contracts, the Group continues to recognise revenue over time and apply output method in estimating the performance obligations satisfied up to date of initial application of HKFRS 15. Amounts due from/to customers for contract work of RMB553 million and RMB2,134 million were reclassified to contract assets and contract liabilities respectively.

b. At the date of initial application, included in the deferred income was RMB3,095 million which represents fees charged to certain customers for the construction of main gas pipelines or provision of ongoing access to gas supply, and hence such balance was reclassified to contract liabilities.

c. At the date of initial application, unbilled revenue of RMB130 million arising from construction and installation contracts are conditional on the confirmation of acceptance by customers on construction service, and hence such balance was reclassified from trade and other receivables to contract assets.

d. At the date of initial application, considerations received from customers of RMB6,569 million in respect of the sale of goods or the construction and installation contracts previously included in trade and other payables were reclassified to contract liabilities.

2. Principal Accounting Policies *(continued)*

Impacts and changes in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers" *(continued)*

Summary of effects arising from initial application of HKFRS 15 (continued)

The following tables summarise the impacts of applying HKFRS 15 on the Group's condensed consolidated statement of financial position as at 30 June 2018 and its condensed consolidated statement of profit or loss and other comprehensive income for the current period for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the condensed consolidated statement of financial position

	As reported RMB million	Adjustments RMB million	Amounts without application of HKFRS 15 RMB million
Current Assets			
Contract assets	679	(679)	–
Amount due from customers for contract work	–	525	525
Trade and other receivables	6,167	154	6,321
Current Liabilities			
Contract liabilities	8,918	(8,918)	–
Amount due to customers for contract work	–	2,196	2,196
Trade and other payables	4,294	6,610	10,904
Deferred income	17	112	129
Non-current Liabilities			
Contract liabilities	3,152	(3,152)	–
Deferred income	361	3,152	3,513

2. Principal Accounting Policies *(continued)*

Impacts and changes in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers" *(continued)*

Summary of effects arising from initial application of HKFRS 15 (continued)

Impact on the condensed consolidated statement of profit or loss and other comprehensive income

	Note	As reported RMB million	Adjustments RMB million	Amounts without application of HKFRS 15 RMB million
Revenue	a	26,530	1,122	27,652
Cost of sales		21,868	1,122	22,990

Note:

a. Under HKAS 18, the Group was considered as a principal due to its significant exposure to credit risk of customers. Therefore, the Group recognised sales of material on gross basis. Upon application of HKFRS 15, the Group is considered as an agent. The performance obligation is to arrange for the provision of material by another party as the Group did not obtain the control over the goods before passing on to customers. This change in accounting policies resulted in a reduction of revenue by RMB1,122 million for the six months ended 30 June 2018.

Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments"

In the current period, the Group has applied HKFRS 9 "Financial Instruments" and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

In accordance with the transition provisions set out in HKFRS 9, the Group has applied HKFRS 9 by applying the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and not applying the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained earnings and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement".

2. Principal Accounting Policies *(continued)*

Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments" *(continued)*

Key changes in accounting policies resulting from application of HKFRS 9

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under HKAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 "Business Combinations" applies.

In addition, the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

2. Principal Accounting Policies *(continued)*

Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments" *(continued)*

Key changes in accounting policies resulting from application of HKFRS 9 (continued)

Equity instruments designated as at FVTOCI

At the date of initial application, the Group may make an irrevocable election to designate investments in equity instruments as at FVTOCI.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments and will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established in accordance with HKFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income" line item in profit or loss.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

The Directors reviewed and assessed the Group's financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement on the Group's financial assets and the impacts thereof are detailed in summary of effects arising from initial application of HKFRS 9.

2. Principal Accounting Policies *(continued)*

Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments" *(continued)*

Key changes in accounting policies resulting from application of HKFRS 9 (continued)

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables, contract assets, amounts due from joint ventures, associates and related companies, restricted bank deposits and cash and cash equivalents). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables, contract assets, amount due from joint ventures, associates and related companies arising from contracts with customers. The ECL on these assets are assessed collectively using a provision matrix with appropriate groupings except for significant balances which are assessed individually.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtors;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; and

2. Principal Accounting Policies *(continued)*

Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments" *(continued)*

Key changes in accounting policies resulting from application of HKFRS 9 (continued)

Significant increase in credit risk *(continued)*

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if (i) the financial instrument has a low risk of default; (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a financial asset to have low credit risk when it has an internal or external credit rating of "investment grade" as per globally understood definition.

Default has been considered occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial assets.

Except for investments in debt instruments/receivables that are measured at FVTOCI, the Group recognises an impairment gain or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables, contract assets, amounts due from joint ventures, associates and related companies where the corresponding adjustment is recognised through a loss allowance account. For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognised in OCI and accumulated in the revaluation reserve without reducing the carrying amounts of these debt instruments/receivables.

2. Principal Accounting Policies *(continued)*

Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments" *(continued)*

Key changes in accounting policies resulting from application of HKFRS 9 (continued)

Measurement and recognition of ECL *(continued)*

For financial guarantee contracts, the loss allowances are recognised at the higher of the amount of the loss allowance determined in accordance with HKFRS 9 and the amount initially recognised less, where appropriate, cumulative amount of income recognised over the guarantee period.

As at 1 January 2018, the Directors reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. The results of the assessment and the impact thereof are detailed in summary of effects arising from initial application of HKFRS 9.

Summary of effects arising from initial application of HKFSR 9

The table below illustrates the classification and measurement (including impairment) of financial assets under HKFRS 9 and HKAS 39 at the date of initial application (1 January 2018).

	Notes	AFS financial assets RMB million	Financial assets at FVTPL required by HKAS 39/ HKFRS 9 RMB million	Equity instruments at FVTOCI RMB million	Receivables* RMB million	Contract assets RMB million	Revaluation reserve RMB million	Retained earnings RMB million
Closing balance at 31 December 2017 – HKAS 39		5,106	9	–	8,625	–	29	(14,637)
Effect arising from initial application of HKFRS 15		–	–	–	(130)	683	–	–
Effect arising from initial application of HKFRS 9:								
Reclassification								
From AFS financial assets	a	(5,106)	4,998	108	–	–	(44)	44
From trade and other receivables	b	–	275	–	(275)	–	–	–
Remeasurement								
Impairment under ECL model	c	–	–	–	(2)	(1)	–	3
From cost less impairment to fair value	a	–	59	1	–	–	(1)	(59)
Opening balance at 1 January 2018		–	5,341	109	8,218	682	(16)	(14,649)

* The amounts in this column included trade and other receivables and amounts due from joint ventures, associates and related companies.

2. Principal Accounting Policies *(continued)*

Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments" *(continued)*

Summary of effects arising from initial application of HKFSR 9 (continued)

(a) Reclassification from AFS financial assets

From AFS financial assets to FVTPL

At the date of initial application of HKFRS 9, the Group's equity investments of RMB4,998 million were reclassified from AFS financial assets to financial assets at FVTPL. The fair value gains of RMB59 million relating to those equity investments previously carried at cost less impairment were adjusted to financial assets at FVTPL and retained earnings as at 1 January 2018. The fair value losses of RMB44 million relating to those investments previously carried at fair value were transferred from revaluation reserve to retained earnings as at 1 January 2018.

From AFS financial assets to FVTOCI

Except for the equity investments reclassified as financial assets at FVTPL, the Group elected to present in OCI for the fair value changes of all other equity investments previously classified as AFS financial assets, of RMB108 million relating to unquoted equity investments previously measured at cost less impairment under HKAS 39. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of HKFRS 9, RMB108 million were reclassified from AFS financial assets to equity instruments at FVTOCI. The fair value gains of RMB1 million relating to those unquoted equity investments previously carried at cost less impairment were adjusted to revaluation reserve as at 1 January 2018.

(b) Reclassification from trade and other receivables

From trade and other receivables to FVTPL

At the date of initial application of HKFRS 9, The Group's investments in wealth management products of RMB275 million were reclassified from other receivables to financial assets at FVTPL because their cash flows do not represent solely payments of principal and interest on the principal amount outstanding.

2. Principal Accounting Policies *(continued)*

Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments" *(continued)*

Summary of effects arising from initial application of HKFSR 9 (continued)

(c) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all contract assets, trade receivables and amounts due from joint ventures, associates and related companies arising from contracts with customers. To measure the ECL, contract assets, trade receivables and amounts due from joint ventures, associates and related companies arising from contracts with customers have been grouped based on shared credit risk characteristic. The contract assets relate to unbilled work in progress and have substantially the same risk characteristic as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for the trade receivables are a reasonable approximation of the expected loss rates for the contract assets.

Loss allowances for other financial assets at amortised cost mainly comprise of restricted bank deposits, bank balances and non-trade nature of amounts due from joint ventures, associates and related companies are measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, the additional credit loss allowance of RMB3 million has been recognised in retained earnings.

All loss allowances of financial assets including contract assets, trade receivables and amounts due from joint ventures, associates and related companies arising from contracts with customers at amortised cost as at 31 December 2017 reconcile to the opening loss allowances as at 1 January 2018 is as follows:

	Contract assets RMB million	Receivables RMB million
At 31 December 2017 – HKAS 39	–	201
Amounts remeasured through opening retained earnings	1	2
At 1 January 2018	1	203

2. Principal Accounting Policies *(continued)*

Impacts on opening condensed consolidated statement of financial position arising from the application of HKFRS 15 and HKFRS 9

	At 31 December 2017 RMB million (audited)	HKFRS 15 RMB million	HKFRS 9 RMB million	At 1 January 2018 RMB million (restated)
Non-current Assets				
AFS financial assets	4,578	–	(4,578)	–
Financial assets at FVTPL	5	–	4,529	4,534
Equity instruments at FVTOCI	–	–	109	109
Amounts due from associates	278	–	(4)	274
Amounts due from joint ventures	674	–	(8)	666
Current Assets				
Contract assets	–	683	(1)	682
Amount due from customers for contract work	553	(553)	–	–
Trade and other receivables	6,068	(130)	(240)	5,698
AFS financial assets	528	–	(528)	–
Financial assets at FVTPL	4	–	803	807
Amounts due from associates	367	–	(7)	360
Amounts due from joint ventures	943	–	(14)	929
Amounts due from related companies	112	–	(4)	108
Current Liabilities				
Contract liabilities	–	8,931	–	8,931
Amount due to customers for contract work	2,134	(2,134)	–	–
Trade and other payables	11,217	(6,569)	–	4,648
Deferred income	243	(228)	–	15
Capital and Reserves				
Revaluation reserve	(29)	–	45	16
Retained earnings	14,637	–	12	14,649
Non-current Liabilities				
Contract liabilities	–	2,867	–	2,867
Deferred income	3,185	(2,867)	–	318

3. Segment Information

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

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

Inter-segment sales are charged at prevailing market rates.

Disaggregation of revenue

	Six months ended 30 June 2018	
	Sales of goods **RMB million**	**Construction** **RMB million**
Types of goods or services		
Construction and installation	–	2,988
Sales of piped gas	14,901	–
Vehicle gas refuelling stations	1,400	–
Wholesale of gas	6,595	–
Sales of integrated energy and services	316	53
Sales of gas applications	160	–
Sales of material	117	–
	23,489	3,041
Timing of revenue recognition		
A point in time	23,489	–
Over time	–	3,041
	23,489	3,041

3. Segment Information *(continued)*

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

Six months ended 30 June 2018

	Construction and installation RMB million	Sales of piped gas RMB million	Vehicle gas refuelling stations RMB million	Wholesale of gas RMB million	Sales of integrated energy and services RMB million	Sales of gas appliances RMB million	Sales of material RMB million	Consolidation RMB million
Segment revenue	3,573	19,656	1,434	10,181	376	413	1,283	36,916
Inter-segment sales	(585)	(4,755)	(34)	(3,586)	(7)	(253)	(1,166)	(10,386)
Revenue from external customers	2,988	14,901	1,400	6,595	369	160	117	26,530
Segment profit before depreciation and amortisation	1,997	2,730	149	194	42	59	9	5,180
Depreciation and amortisation	(80)	(367)	(54)	(2)	(14)	(1)	–	(518)
Segment profit	1,917	2,363	95	192	28	58	9	4,662

Six months ended 30 June 2017

	Construction and installation RMB million	Sales of piped gas RMB million	Vehicle gas refuelling stations RMB million	Wholesale of gas RMB million	Sales of integrated energy and services RMB million	Sales of gas appliances RMB million	Sales of material RMB million	Consolidation RMB million
Segment revenue	3,368	14,752	1,578	7,368	98	334	1,624	29,122
Inter-segment sales	(471)	(3,452)	(57)	(2,737)	–	(245)	(736)	(7,698)
Revenue from external customers	2,897	11,300	1,521	4,631	98	89	888	21,424
Segment profit before depreciation and amortisation	1,888	2,170	160	56	(1)	34	27	4,334
Depreciation and amortisation	(86)	(303)	(59)	(2)	(10)	(1)	–	(461)
Segment profit (loss)	1,802	1,867	101	54	(11)	33	27	3,873

Substantially all of the Group's revenue are generated from the PRC. For the six months ended 30 June 2018, the revenues from PRC and overseas were RMB26,494 million (six months ended 30 June 2017: RMB21,320 million) and RMB36 million (six months ended 30 June 2017: RMB104 million), respectively.

4. Other Income

	Six months ended 30 June	
	2018	2017
	RMB million	RMB million
Other income mainly includes:		
Incentive subsidies (note)	**143**	70
Dividend income from financial assets at FVTPL	**249**	–
Dividend income from AFS financial assets	**–**	70
Bank interest income	**74**	102
Rental income from equipment, net	**24**	12
Sale of proprietary technology	**20**	27

Note: The amount mainly represents refunds of various taxes as incentives and other incentives related to the Group's operation by the government authorities in various cities of the PRC.

5. Other Gains and Losses

	Six months ended 30 June	
	2018	2017
	RMB million	RMB million
Fair value loss of:		
– Convertible bonds at FVTPL (Note 23)	**(249)**	(140)
– Financial assets/liabilities at FVTPL (Note 13)	**(179)**	(93)
(Loss) gain on foreign exchange, net (note a)	**(312)**	107
Impairment losses, net of reversal	**(59)**	(85)
Gain (loss) on disposal of:		
– Property, plant and equipment	**4**	(22)
– Prepaid lease payments	**2**	5
– Subsidiaries (Note 28)	**3**	(13)
Release of exchange reserve to profit or loss upon disposal of subsidiaries	**40**	–
Gain on redemption of convertible bonds at FVTPL (Note 23)	**34**	–
Gain on remeasurement of an interest in joint ventures previously held (note b)	**118**	–
	(598)	(241)

Notes:

a. Included in the amount for the six months ended 30 June 2018 is an exchange loss of approximately RMB268 million (six months ended 30 June 2017: exchange gain of approximately RMB89 million) arising from the translation of senior notes, unsecured bonds and bank loans denominated in United States Dollar ("USD") to RMB.

b. It represents a gain on remeasurement of an interest in joint ventures previously held upon acquisition of further 50% of the registered capital of 聊城金奧燃氣發展有限公司 and 聊城開發區金奧能源有限公司 (collectively referred to as "Liaocheng") (Note 26) during the six months ended 30 June 2018.

6. Finance Costs

	Six months ended 30 June	
	2018	2017
	RMB million	RMB million
Interest on:		
Bank and other loans	**81**	86
Medium-term notes	**–**	19
Senior notes	**73**	75
Corporate bonds	**97**	106
Unsecured bonds	**72**	7
	323	293
Less: Amount capitalised under construction in progress	**(56)**	(31)
	267	262

7. Profit Before Tax

	Six months ended 30 June	
	2018	2017
	RMB million	RMB million
Profit before tax has been arrived at after charging:		
Depreciation and amortisation:		
– property, plant and equipment	**545**	491
– intangible assets	**55**	49
Total depreciation and amortisation (note)	**600**	540
Release of prepaid lease payments	**19**	18

Note: The amount of total depreciation and amortisation included in cost of sales, administrative expenses and distribution and selling expenses are as follows:

	Six months ended 30 June	
	2018	2017
	RMB million	RMB million
Depreciation and amortisation included in:		
Cost of sales	**518**	461
Administrative expenses	**70**	75
Distribution and selling expenses	**12**	4
	600	540

8. Income Tax Expense

	Six months ended 30 June	
	2018	2017
	RMB million	RMB million
PRC Enterprise Income Tax:		
Current tax	**940**	775
Withholding tax	**50**	29
	990	804
Deferred tax:		
Current period	**(97)**	(69)
	893	735

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate applicable for PRC group entities is 25%.

Certain subsidiaries of the Company are qualified as "High and New Tech Enterprises", which are subject to PRC enterprise income tax at the preferential rate of 15% of the estimated assessable profit as determined in accordance with relevant tax rules and regulations in the PRC. This preferential rate could be applied for three years and the subsidiaries are eligible to apply the tax concession again upon expiry of the three-year period.

No provision for Hong Kong Profits Tax has been made as the Group has no assessable profit arising in Hong Kong for the six months ended 30 June 2018 and 2017.

9. Dividend

The final dividend in respect of fiscal year 2017 of HK$1.08 (equivalent to approximately RMB0.90) per ordinary share (six months ended 30 June 2017: final dividend in respect of fiscal year 2016 of HK$0.83 (equivalent to approximately RMB0.74) per ordinary share) amounting to approximately RMB952 million (six months ended 30 June 2017: RMB775 million) were declared on 22 March 2018 and were not paid as at 30 June 2018.

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: nil).

10. 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	
	2018	2017
	RMB million	RMB million
Earnings		
Earnings for the purpose of basic and diluted earnings per share	**1,782**	1,649

	Six months ended 30 June	
	2018	2017
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,084,291**	1,081,726
Effect of dilutive potential ordinary shares:		
– share options	**2,914**	121
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,087,205**	1,081,847

Diluted earnings per share for the six months ended 30 June 2018 and 2017 are calculated assuming all dilutive potential ordinary shares were converted, except for the conversion of the Company's outstanding convertible bonds since their exercise would result in an increase in earnings per share.

11. Property, Plant and Equipment, Prepaid Lease Payments and Investment Properties

During the six months ended 30 June 2018, the Group acquired property, plant and equipment and prepaid lease payments amounting to approximately RMB2,546 million and RMB28 million (six months ended 30 June 2017: RMB1,326 million and RMB45 million) respectively.

In addition, through acquisition of subsidiaries and businesses, the Group's property, plant and equipment and prepaid lease payments increased by approximately RMB325 million and RMB36 million respectively (six months ended 30 June 2017: RMB24 million and RMB10 million) during the current period.

No revaluation on investment properties was carried out during the current period. The valuation at 31 December 2017 was carried out by an independent firm of professional valuers on an open market value basis. The Directors consider that the carrying amounts of the investment properties at 30 June 2018 were not significantly different from their fair values on 31 December 2017.

12. Intangible Assets

During the six months ended 30 June 2018, the Group acquired intangible assets amounting to approximately RMB24 million (six months ended 30 June 2017: RMB87 million).

In addition, through acquisition of subsidiaries and businesses, the Group's intangible assets increased by approximately RMB550 million (six months ended 30 June 2017: RMB26 million).

13. Financial Assets/Liabilities at FVTPL

	At 30 June 2018 RMB million	At 31 December 2017 RMB million
Financial assets		
Foreign currency derivative contracts (note a)	**–**	4
Commodity derivative contracts (note a)	**74**	5
Reclassified as a result of initial application of HKFRS 9:		
1.13% equity interest in Sinopec Marketing Co., Ltd (note b)	**4,008**	–
Equity interest in Shanghai Dazhong Public Utilities (Group) Co., Ltd ("Shanghai Utilities") (note c)	**327**	–
Unlisted wealth management products (note d)	**102**	–
Other unlisted equity securities (note e)	**99**	–
	4,610	9
Financial liabilities		
Foreign currency derivative contracts (note a)	**(112)**	(95)
Commodity derivative contracts (note a)	**(61)**	(3)
	(173)	(98)
Analysed for reporting purpose as:		
Assets		
Current portion	**122**	4
Non-current portion	**4,488**	5
Liabilities		
Current portion	**3**	17
Non-current portion	**170**	81

13. Financial Assets/Liabilities at FVTPL *(continued)*

Notes:

a. The Group is exposed to foreign currency risk mainly arising from various bonds and bank loans denominated in USD. To manage and mitigate the foreign exchange exposure, the Group entered into various foreign currency derivative contracts (the "Foreign Currency Derivatives") with certain financial institutions. The Foreign Currency Derivatives have a total notional amount of USD600 million, of which the maturity dates match to the maturity dates of certain debts denominated in USD. The Foreign Currency Derivatives will enable the Group to buy USD at the predetermined RMB/USD exchange rates on the maturity dates.

   In addition, the Group is exposed to commodity price risk mainly arising from various long-term sale and purchase contracts on LNG, of which the pricing of LNG is tied to crude oil prices. In order to manage and mitigate the commodity price risk, the Group entered into various commodity derivative contracts (the "Commodity Derivatives") against the underlying LNG contracts with certain financial institutions.

   Both the Foreign Currency Derivative and Commodity Derivatives are not designated as hedging instruments. Accordingly, they are classified and accounted for as financial instruments at fair value through profit or loss. The fair value loss and realised loss of approximately RMB21 million (six months ended 30 June 2017: RMB94 million) and approximately RMB123 million (six months ended 30 June 2017: RMB4 million) on the Foreign Currency Derivative, and the fair value gain and realised loss of approximately RMB62 million (six months ended 30 June 2017: RMB5 million) and approximately RMB2 million (six months ended 30 June 2017: nil) on the Commodity Derivatives are included in other gains and losses during the current period.

b. The above investment represents 1.13% unlisted equity interest in Sinopec Marketing Co., Ltd ("Sinopec Marketing"). For the six months ended 30 June 2018, a fair value loss of approximately RMB55 million for such investment was recognised in profit or loss and the Group received dividend income of approximately RMB249 million (six months ended 30 June 2017: RMB70 million) from Sinopec Marketing.

c. The above listed investment represents 4.38% of the total issued share capital of Shanghai Utilities (1635.HK). During the six months ended 30 June 2018, the fair value loss in respect of the Group's investment amounted to RMB40 million (six months ended 30 June 2017: RMB13 million).

d. During the six months ended 30 June 2018 and 2017, the Group purchased certain wealth management products from financial institutions. As at 30 June 2018, the fair value of the products was approximately RMB102 million.

e. The above unlisted investment represents investment in unlisted equity securities issued by private entities incorporated in the PRC.

14. Trade and Other Receivables

The following is an aged analysis of trade receivables, net of impairment, presented based on invoice date at the end of the reporting period, which approximated the respective revenue recognition dates:

	At 30 June 2018 RMB million	At 31 December 2017 RMB million
Within three months	**1,845**	2,120
4 to 6 months	**286**	140
7 to 9 months	**118**	167
10 to 12 months	**47**	23
More than one year	**158**	–
Total trade receivables (note)	**2,454**	2,450
Other receivables	**1,642**	1,501
Investment in wealth management products	**–**	275
Notes receivable	**608**	552
Advances to suppliers and prepayments	**1,625**	1,473
Total trade and other receivables	**6,329**	6,251
Analysed for reporting purpose as:		
Current portion	**6,167**	6,068
Non-current portion	**162**	183

Note: The Group allows a credit period ranging from 30 to 90 days to its trade customers, except for certain customers with credit period more than 90 days.

15. Contract Assets

	At 30 June 2018 RMB million
Construction and installation	**679**

The contract assets primarily relate to the Group's right to consideration for work completed and not billed because the rights are conditioned on the confirmation of acceptance by customers at the reporting date on construction service. The contract assets are transferred to trade receivables when the rights become unconditional. The Group typically transfers the contract assets to trade receivables when it obtains the confirmation of acceptance from customers.

16. Restricted Bank Deposits

The restricted bank deposits carry fixed interest rate ranged from 0.30% to 5.25% (31 December 2017: 0.30% to 5.25%) per annum. Except for the amount of mandatory reserves in the People's Bank of China ("PBOC"), other restricted bank deposits will be released upon the settlement of bank letter of credit, the expiry of purchase contracts or operation rights. The mandatory reserves in the PBOC classified as non-current assets are deposits placed by ENN Finance, a non-wholly owned subsidiary of the Company, and the reserves amount is subject to change with respect to the savings accepted by ENN Finance and the PBOC reserve rate is adjusted from time to time.

17. Amounts Due from/to Associates

Included in the amounts due from/to associates are trade receivables, net of impairment, amounting to RMB181 million (31 December 2017: RMB235 million) and trade payables amounting to RMB23 million (31 December 2017: RMB40 million) and the aged analysis based on invoice date, which approximated the respective revenue recognition date, at the end of the reporting period is as follows:

	At 30 June 2018 RMB million	At 31 December 2017 RMB million
Trade receivables due from associates		
Within three months	**84**	143
4 to 6 months	**24**	44
7 to 9 months	**50**	33
10 to 12 months	**–**	6
More than one year	**23**	9
	181	235
Trade payables due to associates		
Within three months	**19**	26
4 to 6 months	**2**	11
7 to 9 months	**1**	1
More than one year	**1**	2
	23	40

18. Amounts Due from/to Joint Ventures

Included in the amounts due from/to joint ventures are trade receivables, net of impairment, amounting to RMB486 million (31 December 2017: RMB379 million) and trade payables amounting to RMB300 million (31 December 2017: RMB343 million) and the aged analysis based on invoice date, which approximated the respective revenue recognition date, at the end of the reporting period is as follow:

	At 30 June 2018 RMB million	At 31 December 2017 RMB million
Trade receivables due from joint ventures		
Within three months	**347**	287
4 to 6 months	**33**	49
7 to 9 months	**61**	9
10 to 12 months	**17**	18
More than one year	**28**	16
	486	379
Trade payables due to joint ventures		
Within three months	**233**	273
4 to 6 months	**27**	16
7 to 9 months	**6**	2
10 to 12 months	**4**	4
More than one year	**30**	48
	300	343

19. Amounts Due from/to Related Companies

Included in the amounts due from/to related companies are trade receivables, net of impairment, amounting to RMB117 million (31 December 2017: RMB69 million) and trade payables amounting to RMB806 million (31 December 2017: RMB630 million) and the aged analysis based on invoice date, which approximated the respective revenue recognition date, at the end of the reporting period is as follow:

	At 30 June 2018 RMB million	At 31 December 2017 RMB million
Trade receivable due from related companies		
Within three months	**40**	14
4 to 6 months	**37**	31
7 to 9 months	**5**	10
10 to 12 months	**22**	4
More than one year	**13**	10
	117	69
Trade payables due to related companies		
Within three months	**469**	447
4 to 6 months	**109**	55
7 to 9 months	**129**	42
10 to 12 months	**13**	14
More than one year	**86**	72
	806	630

The related companies are controlled by Mr. Wang Yusuo ("Mr. Wang"), who is a director and shareholder of the Company with significant influence.

20. Trade and Other Payables

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

	At 30 June 2018 RMB million	At 31 December 2017 RMB million
Within three months	**2,165**	2,678
4 to 6 months	**391**	174
7 to 9 months	**162**	72
10 to 12 months	**46**	38
More than one year	**255**	220
Trade payables	**3,019**	3,182
Advances received from customers	**–**	6,569
Accrued charges and other payables	**1,275**	1,466
	4,294	11,217

21. Bank and Other Loans

During the current period, the Group obtained new bank loans in the amount of RMB4,774 million (six months ended 30 June 2017: RMB4,043 million) and made repayments in the amount of RMB1,838 million (six months ended 30 June 2017: RMB3,887 million). The loans bear interest at the range from 2.18% to 7.83% (31 December 2017: 3.79% to 7.83%) per annum. These proceeds were used to finance the capital expenditure and general working capital of the Group.

At 30 June 2018, certain assets of the Group with aggregate carrying value of RMB135 million (31 December 2017: RMB259 million) were pledged as security for bank and other loans, bills facilities and contracts granted to the Group, its associates and joint ventures.

In addition, the Group has also pledged its rights to receive construction and installation and gas supply fee income of certain subsidiaries and joint ventures in favour of banks to secure banking facilities amounting to RMB1,320 million (31 December 2017: RMB1,320 million) granted to the Group, of which RMB438 million (31 December 2017: RMB395 million) has been utilised up to 30 June 2018.

22. Corporate Bonds

a. Corporate bonds issued in 2011 (the "2011 Corporate Bonds")

On 16 February 2011, a subsidiary of the Company, Xinao (China) Gas Investment Company Limited ("Xinao (China)"), issued corporate bonds of RMB500 million ("2011 Corporate Bonds"). The amount is unsecured and carries a fixed interest rate of 6.45% per annum and was repaid on 16 February 2018.

b. Corporate bonds issued in 2015 (the "2015 Corporate Bonds")

On 18 December 2015, Xinao (China) issued the 2015 Corporate Bonds of RMB2,500 million. The amount is unsecured and carries a fixed interest rate of 3.68% per annum and is repayable on 17 December 2020. The interest is payable to the holders of the bond on a yearly basis. The net proceeds after deducting the issuance costs, amounted to RMB2,489 million. The 2015 Corporate Bonds was listed on the Shanghai Stock Exchange on 2 February 2016.

According to the terms and conditions of the 2015 Corporate Bonds, Xinao (China) has the right to adjust the coupon rate for the fourth and fifth year at the end of the third year, which is the 30th trading day before 18 December 2018 by giving a notice to the bondholder. The bondholders may accordingly at their option to require Xinao (China) to redeem the bonds at a redemption price equal to 100% of the principal plus accrued and unpaid interest to such redemption date. The remaining bonds will be subject to the interest rate offered by Xinao (China) at the end of the third year until the maturity date. As at 30 June 2018, the 2015 Corporate Bonds were classified as current liabilities in the Group's condensed consolidated financial statements as it is at the discretion of the holders to exercise their put option in December 2018. The effective interest rate of the 2015 Corporate Bonds is approximately 3.83% per annum after the adjustment for transaction costs.

c. Corporate bonds issued in 2016 (the "2016 Corporate Bonds")

On 30 November 2016, Xinao (China) issued the 2016 Corporate Bonds of RMB2,500 million. The amount is unsecured and carries a fixed interest rate of 3.55% per annum and is repayable on 2 December 2019. The interest is payable to the holders of the bond on a yearly basis. The net proceeds after deducting the issuance costs, amounted to RMB2,490 million. The 2016 Corporate Bonds was listed on the Shanghai Stock Exchange on 13 December 2016. The effective interest rate of the 2016 Corporate Bonds is approximately 3.70% per annum after the adjustment for transaction costs.

23. Convertible Bonds at FVTPL

On 26 February 2013, the Company issued zero-coupon USD denominated convertible bonds with the aggregate principal amount of USD500 million (approximately RMB3,141 million) (the "Convertible Bonds"). Each bond would, at the option of the bondholders, be convertible into fully paid ordinary shares with a par value of HK$0.10 each in the issued and paid up capital of the Company at an initial conversion price of HK$48.62 per share. The conversion price is subject to adjustments in the manner set out in the Convertible Bonds agreement. Conversion might occur at any time on or after 8 April 2013 and up to 16 February 2018. If the Convertible Bonds had not been converted, they would be redeemed on 26 February 2018 at 102.53 per cent of their principal amount.

23. Convertible Bonds at FVTPL *(continued)*

The Convertible Bonds, which were listed on the Singapore Exchange Securities Trading Limited ("SGX-ST"), and dealt with in over-the-counter market through a financial institution as the principal agent were designated as financial instrument at fair value through profit or loss and the over-the-counter market price represented the fair value of the Convertible Bonds.

During the period from 1 January 2018 to 13 February 2018, the Company, through its conversion agent, had received conversion notices from the holders in respect of their exercise of conversion rights attaching to the Convertible Bonds in the aggregate principle amount of USD479,250,000, representing all of the remaining outstanding Convertible Bonds. The Company had exercised its cash settlement option to satisfy the conversion rights of the Convertible Bonds in aggregate principle amount of USD469,250,000 by paying approximately USD597,000,000 (equivalent to approximately RMB3,771 million) pursuant to the terms and conditions governing the Convertible Bonds. As a result, a gain on redemption of RMB34 million was recognised and included in other gains and losses. The Company also satisfied the conversion rights of the Convertible Bonds in aggregate principal amount of USD10,000,000 by delivery of the Company's ordinary shares of 1,625,327 pursuant to the terms and conditions governing the Convertible Bonds. All of the outstanding Convertible Bonds were delisted on SGX-ST on 20 February 2018. A fair value loss of approximately RMB249 million (six months ended 30 June 2017: RMB140 million) is recognised during the current period.

24. Share Capital

During the six months ended 30 June 2018, 725,000 shares (six months ended 30 June 2017: nil) were issued at the exercise price of HK$40.34 per ordinary share in relation to the exercise of outstanding share options. These shares rank pari passu with the existing shares in all respects.

On 15 February 2018, the Company issued 1,625,327 ordinary shares at a price of HK$47.73 per ordinary share to satisfy the conversion rights attached to the Convertible Bonds as set out in Note 23.

On 16 May 2017, the Company repurchased 7,000 of its own ordinary shares through the Stock Exchange. The highest price was HK$38.00 and the lowest price was HK$37.85. The aggregate consideration paid was HK$265,750 (equivalent to approximately RMB236,000). The above ordinary shares were cancelled on 8 August 2017. None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities up to 30 June 2018.

25. Share Options

The Company has adopted share option schemes pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on 21 May 2002 (the "Scheme 2002") and an annual general meeting of the Company held on 26 June 2012 (the "Scheme 2012").

a. Scheme 2012

On 9 December 2015, the Company granted share options to the Directors and certain employees (the "Grantees") to subscribe for a total of 12,000,000 ordinary shares of HK$0.1 each in the share capital of the Company under the share option scheme adopted by the Company on 26 June 2012, subject to acceptance by the Grantees.

Among the share options granted above, 2,659,000 share options were granted to the Directors to subscribe for a total of 2,659,000 ordinary shares in the Company and 9,341,000 share options were granted to certain employees of the Group to subscribe for a total of 9,341,000 ordinary shares in the Company. Vesting of the share options is conditional upon the fulfilment of certain vesting conditions as set out in the respective offer letters of the Grantees, which may involve fulfilment of performance rating.

The following tables disclose details of the Company's share options held by the employees (including the Directors) and movements in such holdings under the share option scheme during the period:

					Number of options				
	Date of grant	Vesting period	Exercise period	Exercise price	Outstanding at 1.1.2018	Granted during the period	Exercised during the period	Forfeited during the period	Outstanding at 30.06.2018
Tranche 1	9.12.2015	9.12.2015 to 1.4.2017	1.4.2017 to 8.12.2025	HK$40.34	1,211,250	-	(416,950)	(62,500)	731,800
Tranche 2	9.12.2015	9.12.2015 to 1.4.2018	1.4.2018 to 8.12.2025	HK$40.34	2,558,750	-	(308,050)	(474,750)	1,775,950
Tranche 3	9.12.2015	9.12.2015 to 1.4.2019	1.4.2019 to 8.12.2025	HK$40.34	2,558,750	-	-	(292,250)	2,266,500
Tranche 4	9.12.2015	9.12.2015 to 1.4.2020	1.4.2020 to 8.12.2025	HK$40.34	2,558,750	-	-	(292,250)	2,266,500
					8,887,500	-	(725,000)	(1,121,750)	7,040,750
Exercisable at the end of the period									2,507,750
Weighted average exercise price					HK$40.34				HK$40.34

25. Share Options *(continued)*

a. Scheme 2012 *(continued)*

	Date of grant	Exercise period	Exercise price	Outstanding at 1.1.2018	Number of options Exercised during the period	Reclassified during the period	Forfeited during the period	Outstanding at 30.06.2018
Directors	9.12.2015	1.4.2017 to 8.12.2025	HK$40.34	230,750	–	–	–	230,750
	9.12.2015	1.4.2018 to 8.12.2025	HK$40.34	538,750	–	–	–	538,750
	9.12.2015	1.4.2019 to 8.12.2025	HK$40.34	538,750	–	–	–	538,750
	9.12.2015	1.4.2020 to 8.12.2025	HK$40.34	538,750	–	–	–	538,750
Employees	9.12.2015	1.4.2017 to 8.12.2025	HK$40.34	980,500	(416,950)	–	(62,500)	501,050
	9.12.2015	1.4.2018 to 8.12.2025	HK$40.34	2,020,000	(308,050)	–	(474,750)	1,237,200
	9.12.2015	1.4.2019 to 8.12.2025	HK$40.34	2,020,000	–	–	(292,250)	1,727,750
	9.12.2015	1.4.2020 to 8.12.2025	HK$40.34	2,020,000	–	–	(292,250)	1,727,750
				8,887,500	(725,000)	–	(1,121,750)	7,040,750

The following tables disclose details of the Company's share options held by the employees (including the Directors) and movements in such holdings under the share option scheme during the prior period:

	Date of grant	Vesting period	Exercise period	Exercise price	Outstanding at 1.1.2017	Number of options Exercised during the period	Forfeited during the period	Outstanding at 30.06.2017
Tranche 1	9.12.2015	9.12.2015 to 1.4.2017	1.4.2017 to 8.12.2025	HK$40.34	2,828,250	–	(492,500)	2,335,750
Tranche 2	9.12.2015	9.12.2015 to 1.4.2018	1.4.2018 to 8.12.2025	HK$40.34	2,828,250	–	(269,500)	2,558,750
Tranche 3	9.12.2015	9.12.2015 to 1.4.2019	1.4.2019 to 8.12.2025	HK$40.34	2,828,250	–	(269,500)	2,558,750
Tranche 4	9.12.2015	9.12.2015 to 1.4.2020	1.4.2020 to 8.12.2025	HK$40.34	2,828,250	–	(269,500)	2,558,750
					11,313,000	–	(1,301,000)	10,012,000
Exercisable at the end of the period								2,335,750
Weighted average exercise price					HK$40.34			HK$40.34

25. Share Options *(continued)*

a. Scheme 2012 *(continued)*

				Number of options			
	Date of grant	Exercise period	Exercise price	Outstanding at 1.1.2017	Reclassified during the period (note)	Forfeited during the period	Outstanding at 30.06.2017
Directors	9.12.2015	1.4.2017 to 8.12.2025	HK$40.34	574,250	(35,500)	–	538,750
	9.12.2015	1.4.2018 to 8.12.2025	HK$40.34	574,250	(35,500)	–	538,750
	9.12.2015	1.4.2019 to 8.12.2025	HK$40.34	574,250	(35,500)	–	538,750
	9.12.2015	1.4.2020 to 8.12.2025	HK$40.34	574,250	(35,500)	–	538,750
Employees	9.12.2015	1.4.2017 to 8.12.2025	HK$40.34	2,254,000	35,500	(492,500)	1,797,000
	9.12.2015	1.4.2018 to 8.12.2025	HK$40.34	2,254,000	35,500	(269,500)	2,020,000
	9.12.2015	1.4.2019 to 8.12.2025	HK$40.34	2,254,000	35,500	(269,500)	2,020,000
	9.12.2015	1.4.2020 to 8.12.2025	HK$40.34	2,254,000	35,500	(269,500)	2,020,000
				11,313,000	–	(1,301,000)	10,012,000

Note: Mr. Jin Yongsheng retired from office as non-executive director of the Company on 21 March 2017. The outstanding 142,000 share options granted to him were reclassified to employees.

Exercise price of the share options granted is HK$40.34 per share, which represents the highest of (i) the closing price of HK$39.00 per share as stated in the daily quotations sheet of the Stock Exchange on 9 December 2015, being the date of grant; (ii) the average closing price of HK$40.34 per share as stated in the daily quotations sheets of the Stock Exchange for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the share.

The total fair value of the options granted on 9 December 2015 calculated by using the binomial model was HK$194 million.

During the current period, 725,000 (six months ended 30 June 2017: nil) share options were exercised and 1,121,750 (six months ended 30 June 2017: 1,301,000) share options were forfeited. As at 30 June 2018, the number of outstanding share options is 7,040,750 (31 December 2017: 8,887,500). The Group recognised share-based payment expenses of RMB9 million (six months ended 30 June 2017: RMB17 million) during the current period.

25. Share Options *(continued)*

b. Scheme 2002

On 14 June 2010, the Company granted share options to the Directors and certain employees (the "Grantees") to subscribe for a total of 33,490,000 ordinary shares of HK$0.1 each in the share capital of the Company under the share option scheme adopted by the Company on 21 May 2002, subject to acceptance by the Grantees.

Among the share options granted above, 14,810,000 share options were granted to the Directors to subscribe for a total of 14,810,000 ordinary shares in the Company and 18,680,000 share options were granted to certain employees of the Group to subscribe for a total of 18,680,000 ordinary shares in the Company.

As at 30 June 2018, the number of outstanding share option granted to certain employees of the Group is 200,000 (31 December 2017: 200,000).

During the six months ended 30 June 2018 and 2017, the Group recognised no share-based payment expenses.

26. Acquisition of Businesses During the Six Months ended 30 June 2018

On 30 January 2018, the Group acquired 100% of the registered capital of 寧德利拓能源有限公司 ("Ningde") at a consideration of RMB29 million. Ningde is engaged in sales of piped gas.

On 8 February 2018, the Group acquired 55% of the registered capital of 玉田新奧燃氣有限公司 ("Yutian") at a consideration of RMB25 million. Yutian is engaged in sales of piped gas.

On 12 April 2018, the Group acquired 60% of the registered capital of 安徽省安燃燃氣有限公司 ("Anran") at a consideration of RMB96 million. Anran is engaged in sales of piped gas.

On 27 June 2018, the Group acquired further 50% of the registered capital of Liaocheng at a cash consideration of RMB180 million which then became wholly-owned subsidiaries of the Group. Liaocheng is engaged in sales of piped gas.

Ningde, Yutian, Anran and Liaocheng were acquired with the objective of expansion in market coverage of the Group's business.

26. Acquisition of Businesses During the Six Months ended 30 June 2018 *(continued)*

The provisional amounts of fair value of the assets and liabilities of Ningde, Yutian, Anran and Liaocheng at the date of acquisition are as follows:

	Ningde RMB million	Yutian RMB million	Anran RMB million	Liaocheng RMB million
Non-current assets				
Property, plant and equipment	15	22	77	138
Intangible assets – right of operation	18	42	190	250
Prepaid lease payments	–	–	27	5
Current assets				
Inventories	1	–	2	5
Trade and other receivables	10	2	44	41
Cash and cash equivalents	3	–	6	75
Current liabilities				
Trade and other payables	(14)	(11)	(128)	(114)
Bank and other loans – due within one year	–	–	(33)	–
Non-current liabilities				
Deferred tax liabilities	(4)	(10)	(50)	(64)
Bank and other loans – due after one year	–	–	(9)	–
Net assets acquired	29	45	126	336
Goodwill arising on acquisition (determined on a provisional basis)				
Total consideration	29	25	96	180
Add: Non-controlling interests	–	20	64	–
Add: Fair value of previously held interest (provisional value)	–	–	–	180
Less: Fair value of identified net assets acquired	(29)	(45)	(126)	(336)
Goodwill arising on acquisition	–	–	34	24
Total consideration satisfied by:				
Cash	29	17	86	180
Consideration payables (included in other payables)	–	8	10	–
	29	25	96	180
Net cash outflow arising on acquisition:				
Cash consideration paid	(29)	(17)	(86)	(180)
Less: Deposit paid in the prior year	14	7	–	–
Less: Cash and cash equivalents acquired	3	–	6	75
	(12)	(10)	(80)	(105)

26. Acquisition of Businesses During the Six Months ended 30 June 2018 *(continued)*

Impact of acquisition on the results of the Group

The fair value of property, plant and equipment and intangible assets at the date of acquisition is provisional and pending for the valuation by an independent professional valuer.

Included in the profit for the six months ended 30 June 2018 is RMB2 million of profit attributable to the additional businesses generated by Ningde, Yutian, Anran and Liaocheng. Revenue for the six months ended 30 June 2018 includes RMB83 million generated from Ningde, Yutian, Anran and Liaocheng.

Had the acquisitions of Ningde, Yutian, Anran and Liaocheng been effected on 1 January 2018, the revenue of the Group for the six months ended 30 June 2018 would have been approximately RMB26,830 million, and the profit for the period would have been approximately RMB2,326 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisitions been completed on 1 January 2018, nor is intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group, had Ningde, Yutian, Anran and Liaocheng been acquired on 1 January 2018, the Directors have calculated the depreciation and amortisation of property, plant and equipment and intangible asset acquired on the basis of the fair values rather than the carrying amounts recognised in the pre-acquisition financial statements.

27. Acquisition of Assets through Acquisition of Subsidiaries

a. Acquisition of assets through acquisition of subsidiaries during the six months ended 30 June 2018

To facilitate the Group's overall business, the Group will from time to time liaise with the local PRC governments and potential vendors to acquire the local rights of operation and gas assets by acquisition of subsidiaries. During the six months ended 30 June 2018, the Group has acquired assets through the acquisitions of the following subsidiaries:

On 5 January 2018, the Group acquired 90% of the equity interest of 上海綠環加氣有限公司 at a consideration of RMB0.4 million.

On 17 April 2018, the Group acquired 70% of the equity interest of 懷化中油振宇清潔能源有限公司 at a consideration of RMB5 million.

On 21 June 2018, the Group acquired 90% of the equity interest of 天長市徐礦天然氣有限公司 at a consideration of RMB72 million.

27. Acquisition of Assets through Acquisition of Subsidiaries *(continued)*

a. Acquisition of assets through acquisition of subsidiaries during the six months ended 30 June 2018 *(continued)*

The transactions were accounted for as acquisition of assets through acquisition of subsidiaries and the fair value of the considerations allocated to the assets and liabilities acquired are as follows:

	RMB million
Non-current assets	
Property, plant and equipment	73
Intangible assets – rights of operation	50
Prepaid lease payments	4
Current assets	
Inventories	1
Trade and other receivables	2
Cash and cash equivalents	5
Current liabilities	
Trade and other payables	(48)
Net assets acquired	87
Less: Non-controlling interests	(10)
Total consideration	77
Total consideration satisfied by:	
Cash	44
Consideration payables (included in other payables)	33
	77
Net cash outflow arising on acquisition:	
Cash consideration paid	(44)
Less: Cash and cash equivalents acquired	5
	(39)

27. Acquisition of Assets through Acquisition of Subsidiaries *(continued)*

b. Acquisition of assets through acquisition of subsidiaries during the six months ended 30 June 2017

On 6 April 2017, the Group acquired 93.41% of the equity interest of 炎陵新奧燃氣有限公司 at a consideration of RMB32 million.

On 5 June 2017, the Group acquired 100% of the equity interest of 株洲新奧淥口燃氣有限公司 at a consideration of RMB25 million.

The transactions were accounted for as acquisition of assets through acquisition of subsidiaries and the fair value of the considerations allocated to the assets and liabilities acquired are as follows:

	RMB million
Non-current assets	
Property, plant and equipment	24
Prepaid lease payment	10
Intangible assets – rights of operation	26
Current assets	
Cash and cash equivalents	4
Current liabilities	
Trade and other payables	(5)
Net assets acquired	59
Less: Non-controlling interests	(2)
Total consideration	57
Total consideration satisfied by:	
Cash	39
Deposit paid in the prior year	18
	57
Net cash outflow arising on acquisition:	
Cash consideration paid	(39)
Less: Cash and cash equivalents acquired	4
	(35)

28. Disposal of Subsidiaries

a. Disposal of subsidiaries during the six months ended 30 June 2018

On 31 January 2018, the Group disposed of 100% equity interest in Green Transportation Fuels North America LLC and ENN Canada Corporation (collectively referred to as "NA subsidiaries") at a cash consideration of USD3 million (approximately RMB18 million) to an independent third party. NA subsidiaries were classified as assets held for sale as at 31 December 2017.

On 5 June 2018, the Group disposed of 60% equity interest in 煙台新奧實業有限公司 ("Yantai Xinao") at cash consideration of RMB62 million to a joint venture. As a result, the Group lost control on Yantai Xinao and its subsidiary.

The net consideration from the transaction is summarised as follow:

	NA subsidiaries RMB million	**Yantai Xinao** RMB million
Cash consideration	18	62

The net assets of NA subsidiaries and Yantai Xinao at the date of disposal were as follow:

	NA subsidiaries RMB million	**Yantai Xinao** RMB million
Non-current assets		
Property, plant and equipment	47	93
Prepaid lease payments	–	3
Current assets		
Inventories	–	1
Trade and other receivables	5	67
Cash and cash equivalents	5	32
Current liabilities		
Trade and other payables	(42)	(98)
Taxation payables	–	(1)
Net assets	15	97
Less: Non-controlling interests	–	(35)
Net assets attributable to owners of the Company disposed of	15	62

28. Disposal of Subsidiaries *(continued)*

a. Disposal of subsidiaries during the six months ended 30 June 2018 *(continued)*

The gain on disposal of NA subsidiaries and Yantai Xinao recognised in profit or loss was calculated as below:

	NA subsidiaries RMB million	**Yantai Xinao** RMB million
Consideration received	18	62
Less: Net assets disposed of	(15)	(62)
Gain on disposal of subsidiaries	3	–

Net cash inflow arising from the disposal:

	NA subsidiaries RMB million	**Yantai Xinao** RMB million
Cash consideration received	18	62
Less: Cash and cash equivalents disposed of	(5)	(32)
	13	30

b. Disposal of a subsidiary during the six months ended 30 June 2017

On 30 June 2017, the Group disposed of 100% equity interest in ENN Clean Fuels B.V. ("ENN Clean Fuels") at cash consideration of RMB9 million to an independent third party. As a result, the Group lost full control on ENN Clean Fuels.

The net consideration from the transaction is summarised as follow:

	RMB million
Cash consideration	9

The net assets at the date of disposal were as follow:

	RMB million
Non-current assets	
Property, plant and equipment	12
Current assets	
Trade and other receivables	1
Cash and cash equivalents	1
Current liabilities	
Trade and other payables	(1)
Net assets disposed of	13

28. Disposal of Subsidiaries *(continued)*

b. Disposal of a subsidiary during the six months ended 30 June 2017 *(continued)*

The loss on disposal of ENN Clean Fuels recognised in profit or loss was calculated as below:

	RMB million
Consideration receivable	9
Less: Goodwill disposed of	(9)
Less: Net assets disposed of	(13)
Loss on disposal of a subsidiary	(13)

Net cash outflow arising on disposal:

	RMB million
Cash consideration received	–
Less: Cash and cash equivalents disposed of	(1)
	(1)

29. Fair Value Measurement of Financial Instruments

The following table gives information about how the fair values of financial instruments are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

29. Fair Value Measurement of Financial Instruments *(continued)*

The Group measures its derivative financial instruments, Convertible Bonds, Financial assets at FVTPL and Equity instruments at FVTOCI at the end of each reporting period on a recurring basis:

	Fair value as at 30 June 2018 RMB million	1 January 2018 RMB million	Fair value hierarchy	Valuation technique
Financial assets				
Derivative financial instruments	**74**	9	Level 2	Discounted cash flow Future cash flows are estimated based on forward commodity price and forward exchange rates at settlement date, contracted strike rate, cap rate and premium payment, discounted at the swap curves expected by various counterparties
Listed equity securities, equity interest in Shanghai Utilities	**327**	367	Level 1	Fair values are derived from quoted bid prices in an active market
Unlisted wealth management products	**102**	528	Level 3	Discounted cash flow Future cash flows are estimated based on the recoverable amount expected, discounted at a rate that reflects the credit risk of the counterparty
Unlisted equity instruments, 1.13% equity interest in Sinopec Marketing	**4,008**	4,063	Level 3	Discounted cash flow Future cash flows are estimated based on the future growth potential and firm-specific issues, discounted at weighted average cost of capital of the unlisted equity instrument that reflects market risk of the relevant industry
Other unlisted equity instruments – FVTPL	**99**	99	Level 3	Fair value is derived from price multiples of similar assets that have been traded in the market
Unlisted equity instruments – FVTOCI	**111**	109	Level 3	Fair values are derived from the fair value of the underlying assets and liabilities held by the investee
Financial liabilities				
Convertible Bonds at FVTPL	**–**	3,635	Level 2	Fair values are derived from quoted prices in an over-the-counter market
Derivative financial instruments	**173**	98	Level 2	Discounted cash flow Future cash flows are estimated based on forward commodity price and forward exchange rates at settlement date, contracted strike rate, cap rate and premium payment, discounted at the swap curves expected by various counterparties

29. Fair Value Measurement of Financial Instruments *(continued)*

Except as detailed in the following table, the Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values:

	At 30 June 2018		At 31 December 2017	
	Carrying amount RMB million	**Fair value RMB million**	Carrying amount RMB million	Fair value RMB million
Financial liabilities:				
Fixed-rate bank loans	**4,730**	**4,587**	1,225	1,215
Senior notes	**2,399**	**2,539**	2,366	2,757
Unsecured bonds	**4,374**	**4,245**	4,316	4,322
Corporate bonds	**4,993**	**4,929**	5,490	5,509

In the above table, other than the fair values of bank loans disclosed which are under the fair value hierarchy of Level 3, the rest of the fair values disclosed are under the fair value hierarchy of Level 2. The fair values of the senior notes and unsecured bonds are derived from the quoted prices in over-the-counter market, and the fair value of corporate bonds is derived from the inactive quoted prices in the Shanghai Stock Exchange. The fair values of the rest of the financial liabilities at amortised cost are derived from discounted cash flow technique by reference to the market interest rate of the loans with comparable maturity and credit risk of the respective group entities at the end of the reporting period.

30. Commitments

	At 30 June 2018 RMB million	At 31 December 2017 RMB million
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided	**716**	643
Commitments in respect of		
– investments in joint ventures	**217**	207
– investments in associates	**91**	86
– other equity investments	**–**	86

31. Related Party Transactions

Apart from the related party balances as stated in Notes 17, 18 and 19 and the equity transactions as stated in Note 28, the Group had the following transactions with certain related parties:

	Six months ended 30 June	
	2018	2017
	RMB million	RMB million
Nature of transaction		
Associates		
– Sales of gas to	**261**	188
– Sales of materials to	**47**	127
– Purchase of gas from	**139**	119
– Loan interest received from	**4**	4
– Deposit interest paid to	**1**	1
– Loan interest paid to	**1**	1
– Provision of gas transportation services to	**1**	2
– Provision of gas transportation services by	**4**	5
– Provision of supporting services by	**–**	1
– Purchase of equipment from	**–**	1
Joint ventures		
– Sales of gas to	**734**	528
– Sales of materials to	**74**	38
– Purchase of gas from	**1,518**	1,035
– Provision of gas transportation services to	**206**	120
– Loan interest received from	**28**	25
– Loan interest paid to	**3**	6
– Provision of supporting services to	**9**	11
– Sale of proprietary technology to	**20**	27
– Provision of construction services by	**16**	19
– Provision for construction and installation services to	**17**	39
– Deposit interest paid to	**5**	4
– Provision of gas transportation services by	**3**	1
– Purchase of equipment from	**4**	–
– Lease of vehicles to	**1**	–

31. Related Party Transactions *(continued)*

	Six months ended 30 June	
	2018	2017
	RMB million	RMB million
Nature of transaction		
Companies controlled by Mr. Wang		
– Sales of gas to	**5**	4
– Provision for construction services by	**575**	232
– Provision of efficiency technology services by	**185**	38
– Provision of construction and installation service to	**7**	6
– Provision for property management services by	**8**	8
– Provision of outsourcing services from	**22**	14
– Purchase of equipment from	**53**	5
– Lease of premises from	**2**	2
– Lease of premises to	**2**	1
– Provision of information technology services by	**79**	37
– Sales of materials to	**28**	11
– Provision of administrative services by	**19**	17
– Purchase of LNG from	**–**	8
– Purchase of property, plant and equipment from	**–**	23
– Provision of supporting services to	**3**	1
– Provision of technology services to	**20**	–
– Provision of electronic business services from	**2**	–

The Company issued senior notes on 13 May 2011 and unsecured bonds on 23 October 2014 and 24 July 2017. The terms and conditions of these notes and bonds require Mr. Wang to retain certain percentage of shareholding over the Company, failing which the Company would be required to repurchase all outstanding notes and bonds at predetermined prices.

A joint venture partner had issued guarantees to bank to secure loan facilities granted to the Group to the extent of approximately RMB30 million (31 December 2017: RMB330 million), of which RMB2 million (31 December 2017: RMB202 million) has been utilised up to 30 June 2018.

As at 30 June 2018, the Group had issued guarantees to bank to secure loan facilities granted to associates and joint ventures to the extent of approximately RMB36 million (31 December 2017: RMB126 million). The loan facilities have been utilised at the end of the reporting period.

31. Related Party Transactions *(continued)*

The compensation to key management personnel during the period is as follows:

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Short-term employee benefits	**6,048**	5,347
Post-employment benefits	**128**	81
Share-based payments	**1,449**	3,193
	7,625	8,621

32. Event After the Reporting Period

On 25 June 2018, the Company entered into a sale and purchase agreement (the "SPA") with Essential Investment Holding Company Limited (the "Vendor"), a company controlled by Mr. Wang, pursuant to which the Vendor has conditionally agreed to sell, and the Company has conditionally agreed to purchase the entire issued share capital of Excellence Award Holding Company Limited (the "Target Company"), a wholly-owned subsidiary of the Vendor. Pursuant to the SPA, the consideration is RMB2,606,595,755 (equivalent to approximately HK$3,194,122,681) and the share issue price is determined by the Company and the Vendor to be HK$80.00 per share after fair negotiation, which hence shall be fully settled by the allotment and issue, credit as fully paid, of 39,926,534 ordinary shares of the Company (the "Consideration Shares") to the Vendor at completion. Conditions precedent on completion include but not limited to the approvals from the Company's independent shareholders, the Stock Exchange for the listing of and permission to deal in the Consideration Shares, and the Securities and Futures Commission on the application of whitewash waiver. The Target Company and its subsidiaries (collectively referred to as the "Target Group") are engaged in the business of providing technology solutions of multiple forms of energy in the PRC.

Subsequent to the end of the reporting period, the transaction was completed on 16 August 2018 (the "Completion Date"). The Consideration Shares were then allotted and issued to the Vendor. Details of the acquisition are set out in the Company's circular dated 16 July 2018.

The fair value of the Consideration Shares was approximately RMB2,502 million which was calculated with reference to the closing stock price of the Company as quoted in the Stock Exchange on the Completion Date.

As at the date of the approval of this report, the initial accounting for the business acquisition has not been completed pending for valuation on the assets and liabilities of the Target Group.

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