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ENN 新奥

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

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2688)**

## PROPOSED ISSUE OF SENIOR NOTES

The Company proposes to conduct an international offering of senior notes and will commence a series of presentations beginning on or around May 2, 2011 to institutional investors in Asia, Europe and the United States. In connection with the offering, the Company will provide certain institutional investors with recent corporate and financial information regarding the Group, which information may not have previously been made public. A summary of the updated information which the Company considers to be material to the operation of the Company is set out in this announcement.

Completion of the Proposed Notes Issue is subject to market conditions and investor interest. Citi and BOC International, as joint global coordinators, and Citi, BOC International, Barclays Capital and RBS, as the joint lead managers and joint bookrunners, are managing the Proposed Notes Issue. The Company intends to use the proceeds of the Notes to refinance its 2012 Guaranteed Notes, to pay off certain short-term loans of its PRC subsidiary, Xinao (China) Gas Investment Company Limited, and project loans of certain of its project companies, for business expansion and the acquisition of new projects, to finance its capital expenditures and for general corporate purposes.

Approval in-principle has been received from the SGX-ST, for the listing and quotation of the Notes on the Official List of the SGX-ST. Admission of the Notes to the Official List of, and quotation of the Notes on the SGX-ST is not to be taken as an indication of the merits of the Company, its associated companies or the Notes.

**As no binding agreement in relation to the Proposed Notes Issue has been entered into as at the date of this announcement, the Proposed Notes Issue may or may not materialise. Investors and shareholders of the Company are urged to exercise caution when dealing in the securities of the Company.** A further announcement in respect of the Proposed Notes Issue will be made by the Company should the Purchase Agreement be signed.

## THE PROPOSED NOTES ISSUE

### Introduction

The Company proposes to conduct an international offering of senior notes and will commence a series of presentations beginning on or around May 2, 2011 to institutional investors in Asia, Europe and the United States. In connection with the offering, the Company will provide certain institutional investors with recent corporate and financial information regarding the Group, which information may not have previously been made public. A summary of the updated information which the Company considers to be material to the operation of the Company is set out in this announcement.

Completion of the Proposed Notes Issue is subject to market conditions and investor interest. Citi and BOC International, as joint global coordinators, and Citi, BOC International, Barclays Capital and RBS, as the joint lead managers and joint bookrunners, are managing the Proposed Notes Issue. The Notes will only be offered (1) to qualified institutional buyers in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A and (2) outside the United States in offshore transactions in compliance with Regulation S under the Securities Act. None of the Notes will be offered to the public in Hong Kong.

### Reasons for the Proposed Notes Issue

The Group is a one of the largest privately-owned piped gas operators in China. The Group's principal business is the investment in, and the construction, operation and management of, gas pipeline infrastructure, the sale and distribution of piped gas and bottled LPG and the operation of vehicle refueling stations in China. The Group is also involved in the sale of gas appliances and equipment, the production of stored value card gas meters, the provision of repair, maintenance and other services in connection with gas supply and energy management services that assist its customers in optimizing energy usage.

The Group commenced its operations in 1993 and has since developed into one of the leading privately owned gas operators in the PRC piped gas industry. As of the date of this announcement, the Group had a total of 90 operational locations.

The Group intends to grow organically by increasing the penetration rates and the number of connected customers for its 90 existing operational locations while continuing to acquire new projects in China, with a particular focus on the commercial and industry zones of emerging cities. In 2008, 2009 and 2010, we secured four, seven and eleven new projects, respectively, in China, which added an urban connectable population of approximately 0.8 million, 1.4 million and 2.7 million, respectively to our total connectable urban population as of December 31, 2010.

The Group intends to maintain its position as a leading piped gas operator in China by focusing on the development of its core business of distributing piped natural gas while growing its vehicle refueling station business and energy management services.

The Proposed Notes Issue is being undertaken to refinance its 2012 Guaranteed Notes, to pay off certain short-term loans of its PRC subsidiary, Xinao (China) Gas Investment Company Limited, and project loans of certain of its project companies, for business expansion and the acquisition of new projects, to finance its capital expenditures and for general corporate purposes.

### Listing

Approval in-principle has been received from the SGX-ST, for the listing and quotation of the Notes on the Official List of the SGX-ST. Admission of the Notes to the Official List of, and quotation of the Notes on the SGX-ST is not to be taken as an indication of the merits of the Company, its associated companies or the Notes. No listing of the Notes has been sought in Hong Kong.

## GENERAL

**As no binding agreement in relation to the Proposed Notes Issue has been entered into as at the date of this announcement, the Proposed Notes Issue may or may not materialise. Investors and shareholders of the Company are urged to exercise caution when dealing in the securities of the Company.**

Further announcement in respect of the Proposed Notes Issue will be made by the Company should the Purchase Agreement be signed.

## UPDATED INFORMATION ABOUT THE COMPANY

### Business Overview

We are one of the largest privately-owned piped gas operators in China. Our principal business is the investment in, and the construction, operation and management of, gas pipeline infrastructure, the sale and distribution of piped gas and bottled LPG and the operation of vehicle refueling stations in China. We are also involved in the sale of gas appliances and equipment, the production of stored value card gas meters, the provision of repair, maintenance and other services in connection with gas supply and energy management services that assist our customers in optimizing energy usage.

We commenced operations in 1993 and have since developed into one of the leading privately owned gas operators in the PRC piped gas industry. As of the date of this announcement, we had a total of 90 operational locations. We operate our piped natural gas distribution infrastructure on an exclusive basis, for periods ranging from 20 to 30 years, in cities and urban areas located in 15 provinces, municipalities and autonomous regions. In April 2010, we also acquired our first international pilot project in Vietnam through a joint venture with The Vietnam Oil and Gas Group (or PetroVietnam) to develop piped gas and vehicle gas refueling businesses.

We typically apply for and obtain exclusive rights to distribute piped natural gas from the local governments in China. We may also acquire exclusive rights by entering into joint-ventures with existing local piped gas distributors. In addition, we construct and maintain city piped gas networks in locations in which we have acquired exclusive rights to supply piped gas. We charge connection fees from residential customers on a "per connection" basis and C/I customers on a "daily maximum capacity" basis for connection to our piped gas network. We receive gas usage charges from connected customers based on the tariffs set by the local governments.

We intend to grow organically by increasing the penetration rates and the number of connected customers for our 90 existing operational locations while continuing to acquire new projects in China, with a particular focus on the commercial and industry zones of emerging cities. In 2008, 2009 and 2010, we secured four, seven and eleven new projects, respectively, in China, which added an urban connectable population of approximately 0.8 million, 1.4 million and 2.7 million, respectively to our total connectable urban population as of December 31, 2010. As the projects in our operational locations continue to mature, we have become less reliant on one-time gas connection fees and sales of piped gas have increased as a proportion of our revenue, creating a more stable source of recurring revenue.

For the three years ended December 31, 2008, 2009 and 2010, our audited consolidated revenue was approximately RMB8,265.5 million, RMB8,412.9 million and RMB11,215.1 million (US$1,699.3 million), respectively, and our audited consolidated net profit was approximately RMB870.7 million, RMB1,078.9 million and RMB1,401.2 million (US$212.3 million), respectively. As of December 31, 2010, our audited consolidated total assets were approximately RMB19,639.5 million (US$2,975.7 million) and our shareholders' funds were approximately RMB6,031.4 million (US$913.9 million).

Our shares were listed on the Growth Enterprise Market of the Stock Exchange, or GEM, on May 10, 2001 and were transferred to the Main Board of the Stock Exchange (stock code: 2688) on June 3, 2002. Based on the closing price of our shares on the Stock Exchange on April 28, 2011, our market capitalization was approximately HK$27.9 billion (US$3.6 billion).

**Strategies**

We intend to maintain our position as a leading piped gas operator in China by focusing on the development of our core business of distributing piped natural gas while growing our vehicle refueling station business and energy management services.

We intend to achieve our strategic objectives by:

***Increasing gas penetration rates and gas consumption by C/I customers in our existing operational locations***

We intend to grow organically by increasing the gas penetration rates and the number of connected customers for our 90 existing operational locations. As of December 31, 2010, the overall piped gas penetration rate of residential households across our 90 operational locations in China was approximately 36.0%. We seek to increase piped gas penetration rates of residential households to 80% to 90% in line with penetration rates achieved in some of our more mature projects in China.

Through our marketing efforts, we also plan to increase gas consumption by C/I customers by (i) converting the consumption preference of C/I customers, which we expect to contribute substantially to the demand for natural gas in the near future, from more expensive energy sources and other high-emission energy sources to piped gas by emphasizing the advantages of clean energy, including price advantages over other energy sources; and (ii) converting our acquired coal gas or LPG pipeline networks into natural gas pipeline networks. We believe this indicates significant growth potential within our existing projects. In addition, the conversion of such pipeline networks can be completed at a relatively low cost and allows us to further expand the scale and coverage of our gas pipeline infrastructure to facilitate new connections and to devote our resources to providing value-added services to our customers and enhancing safety control.

*Expanding our vehicle gas refueling station businesses*

We intend to continue our efforts to expand the scope of our vehicle refueling station business. As of December 31, 2010, we operated 192 vehicle refueling stations in 46 locations across China. In addition, we have obtained approval from local governments for the construction of 385 vehicle refueling stations across China, approximately 5% of which are LNG vehicle refueling stations. We intend to leverage our experience in the CNG vehicle refueling station business to expand into the LNG vehicle refueling station market. We plan to construct LNG vehicle refueling stations along major truck routes with the goal of developing a network of such stations over the next few years. We expect to further expand our vehicle refueling station business in a number of operational locations and expect that the vehicle natural gas usage will constitute a significant portion of overall gas consumption in the future.

In recent years, the PRC government has been increasingly focused on reducing air pollution, including from vehicle emissions, and has been encouraging the use of highly efficient and non-oil products such as natural gas. As natural gas is 25% to 40% cheaper than gasoline and some cities subsidize vehicle owners to convert their vehicles to burn natural gas, there is an increasing number of consumers that are attracted to the prospect of converting their vehicles into natural gas vehicles. As a result of such initiatives and the rapid increase in the number of vehicles in China, there is growing demand for natural gas from vehicle owners as an alternative energy source. To help promote the conversion of vehicles into natural gas vehicles, we promote our conversion services and the environmental benefits and potential cost savings from use of natural gas to owners of vehicles which provide city transportation services such as taxis and buses and to private car owners.

As of December 31, 2010, we completed the conversion of approximately 40,000 vehicles into natural gas vehicles. From 2009 to 2010, natural gas sales to vehicles increased by 37.6%. To capitalize on such demand, we intend to continue to expand our network of vehicle refueling stations both inside and outside of our existing operational locations and to increase the proportion of income received from this business. Our Vietnam joint-venture project company is currently constructing a large-scale CNG storage facility in Xiefu. We plan to sell the CNG stored in this facility to C/I customers on the outskirts of Ho Chi Minh City, but may use it to expand into the vehicle refueling station business in Vietnam. To achieve these goals, we will continue to evaluate market conditions including customer demand and competitive landscape to design a suitable network and gauge our development scale for sustainable growth.

## Customer Base

Our customers can be classified into three broad categories, namely (i) residential customers, (ii) C/I customers, and (iii) vehicle customers. Different marketing strategies are adopted for different customer groups.

The following table provides a breakdown of our customer base by number of customers and volume of gas sales for the periods indicated:

| | As of or for the Year ended December 31, | | |
|---|---|---|---|
| | 2008 | 2009 | **2010** |
| **Customer base** | | | |
| Number of gas residential customers | 3,745,145 | 4,706,663 | **5,618,583** |
| Volume of piped gas sales to residential customers (million $m^3$) | 420.9 | 520.2 | **640.6** |
| Number of gas C/I customers | 11,288 | 14,020 | **18,424** |
| Volume of piped gas sales to C/I customers (million $m^3$) | 1,816.9 | 2,031.2 | **2,988.3** |
| Total installed designed daily capacity for C/I customers of piped gas (million $m^3$) | 9.5 | 13.5 | **18.2** |
| Volume of gas sales to vehicles (million $m^3$) | 334.0 | 388.4 | **520.4** |

***Residential Customers***

Gas is primarily used by residential owners for cooking and water and space heating. We focus on marketing to property developers, government departments and organizations and SOEs as these entities enter into master supply contracts with us for the connection of gas to all the units within a residential development (including new or existing, owned by such entities or their employees). These entities are responsible for, or coordinate, the advance payment of connection fees to us, while gas usage charges are paid by the individual users. Due to PRC government policies promoting energy conservation and emission reductions and increased urbanization in China, we believe that piped natural gas usage by residential owners will grow substantially in the coming years.

During the years ended December 31, 2008, 2009 and 2010, we completed piped natural gas connections to 710,035, 788,281 and 875,744 residential households respectively. As of December 31, 2010, we provide piped natural gas to a total of 5,618,583 residential customers in China.

***Commercial and Industrial Customers***

Commercial customers use natural gas primarily for air conditioning, water and space heating and cooking purposes. These customers include, among others, owners of hotels, restaurants, office buildings, shopping malls, hospitals, educational establishments, sports and leisure facilities and exhibition halls. Natural gas has a wide variety of applications for industrial customers such as fueling industrial boilers, furnaces, ovens, incinerators, foundries and steamers as well as water and space heating in staff canteens and dormitories within the industrial customers' premises. We enter into supply contracts with these customers for the connection of gas to their premises, and both connection fees (payable in advance by installments based on the percentage of completion of the pipeline construction work) and gas usage charges (payable monthly in arrears) are borne by such customers.

During the years ended December 31, 2008, 2009 and 2010, we completed piped natural gas connections to C/I customers connected to gas appliances with a total installed designed daily capacity of 9,009,892 $m^3$, 13,024,142 $m^3$ and 17,649,198 $m^3$, respectively. As of December 31, 2010, we have a total of 18,424 C/I customers connected to gas appliances with a total installed designed daily capacity of 18,175,160 $m^3$ in China. Although the existing number of C/I customers is less than the number of residential customers, these customers are equally important to us as they are much higher volume gas users than residential customers and their demand for natural gas tends to be less seasonal.

***Vehicle Customers***

Vehicle customers use natural gas as fuel for their automobiles. These customers include owners and operators of taxis and buses who generally operate their vehicles within a defined geographic location. Gas purchases at our refueling stations are paid at the time of the gas purchase and may also be prepaid using stored value cards. We provide discounts for large purchases. The use of stored value cards help us generate more stable cash flow. For the three years ended December 31, 2008, 2009 and 2010, we sold 317.0 million $m^3$, 370.0 million $m^3$ and 509.1 million $m^3$ of natural gas through our vehicle refueling stations, respectively, representing 14.4%, 14.1% and 13.4% of our total volume of natural gas sales for the respective years. As of December 31, 2010, we completed the conversion of approximately 40,000 vehicles into natural gas vehicles.

***Sales***

For the three years ended December 31, 2008, 2009 and 2010, gas connection fees accounted for approximately 29.3%, 30.4% and 27.2% of our total revenue, respectively. Sales of piped gas accounted for approximately 37.4%, 48.5% and 59.1% of our total revenue for the three years ended December 31, 2008, 2009 and 2010. Distributions of bottled LPG accounted for approximately 24.3%, 10.6% and 2.2% of our total revenue for the three years ended December 31, 2008, 2009 and 2010, respectively. Revenue from vehicle refueling stations accounted for approximately 8.0%, 9.5% and 10.8% of our total revenue for the three years ended December 31, 2008, 2009 and 2010, respectively.

The following tables set forth for the periods indicated, the performance highlights as well as the contribution to our revenue and profit before tax, from our principal business activities:

| | **Year ended December 31,** | | | |
|---|---|---|---|---|
| | 2008 | 2009 | **2010** | |
| | *RMB'000* | *RMB'000* | ***RMB'000*** | ***US$'000*** |
| **Revenue:** | | | | |
| Sales of piped gas | 3,094,767 | 4,077,527 | **6,632,734** | **1,004,960** |
| Gas connection fees | 2,421,617 | 2,553,755 | **3,048,777** | **461,936** |
| Vehicle gas refueling station | 661,160 | 797,663 | **1,209,385** | **183,240** |
| Distribution of bottled LPG | 2,009,304 | 897,121 | **240,290** | **36,407** |
| Sales of gas appliances | 78,660 | 86,814 | **83,903** | **12,713** |
| | 8,265,508 | 8,412,880 | **11,215,089** | **1,699,256** |

| | Year ended December 31, | | | |
|---|---|---|---|---|
| | 2008 | 2009 | **2010** | |
| | *RMB'000* | *RMB'000* *(Restated)* | ***RMB'000*** | ***US$'000*** |
| **Profit before tax:** | | | | |
| Sales of piped gas | 849,355 | 1,089,176 | **1,387,654** | **210,251** |
| Gas connection fees | 1,496,436 | 1,527,183 | **1,700,727** | **257,686** |
| Vehicle gas refueling station | 176,710 | 198,554 | **232,806** | **35,274** |
| Distribution of bottled LPG | (50,423) | 8,230 | **11,990** | **1,817** |
| Sales of gas appliances | 19,285 | 19,018 | **22,367** | **3,388** |
| Unallocated items(1) | 436,476 | 187,729 | **491,817** | **74,518** |
| Unallocated expenses: | | | | |
| – depreciation and amortization(2) | (244,822) | (302,011) | **(343,888)** | **(52,104)** |
| – corporate expenses | (1,552,338) | (1,344,521) | **(1,692,508)** | **(256,441)** |
| | 1,130,679 | 1,383,358 | **1,810,965** | **274,389** |

(1) Unallocated items include other income, other gains and losses, share of result of associates and share of results of jointly controlled entities.

(2) The amount represents principally depreciation and amortization of property, plant and equipment relating to the gas connection, piped gas and LPG operation.

***Sales of Piped Gas***

Sales of piped gas constituted our most significant source of revenue for the years ended December 31, 2008, 2009 and 2010 and we intend to increase the percentage contribution of this business in the future. During the year ended December 31, 2010, we sold 640,597,000 $m^3$ of piped gas to residential households and 2,988,321,000 $m^3$ to C/I customers. Sales to C/I customers made up 72.0% of the total volume of gas sales. Gas usage charges are based on actual usage on a per $m^3$ basis. The gas usage charges per $m^3$ vary between operational locations, and the payment mechanism between different categories of customers is different.

Residential customers of project companies formed by us purchase gas units in cash at our sales outlets with details of the prepaid gas units stored electronically in a stored value card. The stored value card is inserted into a stored value card gas meter installed at the user's premises to activate the gas supply. Units of gas used are deducted from the stored value card. When the level of prepaid gas units drops to a certain level (currently pre-set at 3 $m^3$), the gas meter will produce a sound signal to remind the customer to replenish the value stored in the stored value card. The stored value card system minimizes payment default risks with respect to gas sales to residential customers.

For C/I customers and those residential customers without stored value card gas meters installed (amounting to approximately 1,150,000 households), payment for gas usage charges is made in arrears. Gas meters that record actual gas consumption are installed at the users' premises and meter readings are taken physically by us every month. Monthly bills based on the prior month's actual usage are then sent to customers. In general, settlements are received by us about one week from the date of billing. In the event a customer defaults in the payment of gas usage charges, the customer's gas supply will be suspended within one month of billing. In respect of commercial users with large gas usage volume, we may offer discounts on the approved charges, the extent of which will be subject to negotiation and agreement.

***Gas Connection Fees***

Gas connection fee income was our second most important source of revenue for the three years ended December 31, 2008, 2009 and 2010. We charge residential customers or real estate companies a different flat connection fee for connections made in respect of each different type of gas appliance, namely cooking stoves, water heaters and boilers for cooking, and water heating. The level of connection fees and whether such fees are inclusive of a particular gas appliance vary among operational locations and are approved by the relevant local state price bureau.

An individual residential customer is required to pay the connection fee in full prior to commencement of connection work. In some cases, connection fees are paid by the real estate developers constructing a new residential development. In respect of new residential developments, connection fees are collected in advance by installments based on the percentage-of-completion of the pipeline construction work. We generally provide property developers with a credit period of 60 to 90 days after construction is completed irrespective of whether the units are sold or occupied. However, the actual supply of gas will only commence after all connection fees are settled. In the event supply contracts are entered into for the connection of gas to a large number of households within a residential development (e.g. staff quarters of SOEs or governmental organizations), we may offer discounts of the approved fee payable, the extent of which will be subject to negotiation and agreement of the contract parties.

Our customers are usually required to provide 30% of the connection fee as deposit upon signing of the supply contract, 40% to 50% of the connection fee during the construction period and the remaining 20% to 30% upon completion. During the years ended December 31, 2008, 2009 and 2010, we completed piped natural gas connections to 710,035, 788,281 and 875,744 residential households respectively. During the year ended December 31, 2010, the average connection fee charged by us was RMB2,854.0 per household.

For C/I customers, the connection fee is determined based on the designed capacity of the gas appliance facilities (on a per $m^3$ per day basis) installed at the customers' premises. If any additional appliance is installed subsequently, additional connection fees will be charged to reflect the additional capacity installed. Discounts of the approved fee payable may be offered to high gas usage volume C/I customers, subject to negotiation and agreement of the contract parties. Connection fees are collected in advance by installments based on the percentage-of-completion of the pipeline construction work. In general, a C/I customer is required to provide 30% of the connection fee as deposit upon signing of supply contract, 40% to 50% of the connection fee during the construction period and the remaining 20% to 30% upon completion. In the event customers default in the payment of connection fees, we will not start the supply of gas to these customers until the connection fees are fully paid. The deposits received from customers upon the signing of supply contracts would normally cover our costs.

During the years ended December 31, 2008, 2009 and 2010, we completed piped natural gas connections to 2,548, 2,715 and 4,178 C/I customers, respectively. During the year ended December 31, 2010, the average connection fee charged by us was RMB177 per $m^3$.

### *Vehicle Gas Refueling Stations*

We derive a portion of our revenue from the distribution and sale of CNG and LNG through our vehicle gas refueling stations. During the three years ended December 31, 2008, 2009 and 2010, sales through these stations generated revenue of RMB661.2 million, RMB797.7 million and RMB1,209.4 million, respectively.

### *Sales of LPG*

We sell bottled LPG, which typically commands a lower margin than natural gas, as a transitional gas source in certain projects without piped gas infrastructure. In the three years ended December 31, 2008, 2009 and 2010, our sales of LPG amounted to 599,567 tons, 357,364 tons and 47,919 tons, respectively, most of which were contributed by our LPG operations in Bengbu and Luoyang. We expect the sales of LPG by these projects to gradually be replaced by piped natural gas following the completion of the construction of piped gas infrastructure in these operational locations and their connection to piped gas sources.

### *Sales of Gas Appliances*

We derive a small portion of our revenue from sales of gas appliances such as cooking stoves, water boilers, heaters and stored-value card meters. During the year ended December 31, 2008, 2009 and 2010 we sold a total of 31,954, 13,852 and 6,682 cooking stoves, 8,564, 8,656 and 9,172 water boilers and 3,232, 3,606 and 1,557 heaters, respectively. We operate two stored value card meter factories with an annual production capacity of 850,000 units per year. Most of the meters produced were used by us for our own connection business which enabled us to achieve significant savings on stored-value card costs.

## Purchases

Our main categories of purchase are gas, pipes, machinery, equipment and gas appliances. All of the materials we have purchased were acquired from independent third parties during the year ended December 31, 2008, 2009 and 2010.

For each of the three years ended December 31, 2008, 2009 and 2010, the percentage of the purchases attributable from our five largest suppliers was less than 30%. None of our directors, their respective associates or, to the best knowledge of our directors, any of our shareholders who own more than 5% of the issued share capital of our Company has any interest in any of our five largest suppliers.

We have established firm business relationships with our major suppliers for long periods. We also benefit from the long-term gas supply contract entered into between the local government of each operational location and one or more upstream gas suppliers who will guarantee to the local government an adequate supply of gas to the operational location for 10 to 20 years. In addition, we have entered to and intend to continue to enter into take-or-pay or other long-term gas supply contracts with upstream gas suppliers or their distributors for some of our operational locations to secure long-term gas supply for such operational locations. We believe our scale has given us bargaining power in securing more favorable terms relative to most other piped gas companies. We believe we have good relationships with our suppliers and we have not experienced any difficulty in the sourcing of natural gas or other major supplies.

*Gas*

We have entered into agreements to purchase natural gas with terms ranging up to 25 years from three major upstream natural gas suppliers in China, namely PetroChina, Sinopec and CNOOC, or their distributors. The city-gate price of natural gas is agreed between us and the suppliers with reference to the benchmark wellhead price and transportation costs. The benchmark wellhead price is determined by the NDRC based on the category of use: industrial, fertilizer or residential use. By NDRC regulation, the wellhead price we pay is capped at 110% of the benchmark price. The NDRC also determines the transportation costs for gas transported over national long-distance pipelines. Provincial price control authorities set the transportation costs for provincial long-distance pipelines. The wholesale price of natural gas also includes valued added tax.

We purchase CNG and LNG, as appropriate, at the prevailing market price to supplement our natural gas supply. Each supply agreement is entered into by individual project companies with our upstream natural gas suppliers. The pricing terms under these agreements may vary depending on the supplier and the locality of our operations. Under certain agreements, we have to pay a higher price if our natural gas needs exceed the amount contracted for. Other agreements provide for two purchase prices: a basic gas price (基礎氣價) and an industrial gas price (工業氣價). We specify what percentage of our gas will be supplied for industrial use and pay upstream suppliers accordingly. Our natural gas sales/purchase contracts generally state that the stipulated selling/purchase price of natural gas is subject to adjustment according to any new PRC government pricing policies.

The quantity of natural gas to be supplied to us by our upstream suppliers is usually stated in our gas purchase agreements. Except for certain projects located in areas surrounding the long-distance pipelines such as the West-East Pipelines Project in connection with which we have entered into long term take-or-pay gas purchase contracts with upstream suppliers, we are only required to pay the actual quantity purchased. We believe that the stated quantities of natural gas as set out in the relevant existing gas purchase agreements are sufficient for the potential demand of gas by the respective project companies.

As of the date of this announcement, our piped gas projects in seven operational locations, namely Xinxiang, Chuzhou, Changzhou, Bengbu, Chaohu, Huaian and Lianyungang, utilize natural gas transmitted by the West-East Pipelines under take-or-pay or other long-term gas purchase contracts with PetroChina. Our take-or-pay contracts with PetroChina typically have terms up to 25 years. Our take-or-pay contracts with PetroChina typically contain a fixed purchase price for the first year of the term of the contract. From the second year, the purchase price for each year may be increased or decreased in accordance with a formula which takes into account the weighted average of movements of the United Kingdom's crude oil price, the PRC coal price and the Singapore LPG price, subject to a maximum increase or decrease of 8% each year. However, the final purchase price will be set by the policies of the NDRC. Certain of these contracts also set forth a committed take-or-pay volume for the year, which may be gradually increased on an annual basis. In 2011, our total gas supply volume committed in the take-or-pay or other long term supply agreements was 3.7 billion $m^3$. Such take-or-pay volumes represent the guaranteed gas supply volume under the contract. Some of our contracts also include a discount arrangement which effectively reduce our actual take-or-pay commitments. For example, in one of our agreements between PetroChina Chuzhou Xinao Gas Company Limited, we are only required to pay for a minimum of 80% of the take-or-pay volumes for the first, second and third years, respectively, if we cannot fully utilize the guaranteed volume. From the fourth year, we are only required to pay for a minimum of 90% of the annual take-or-pay volume.

Payments for the piped gas supplied to us are made on a weekly basis, the calculation of which includes elements of both payment in arrears based on actual use and payment in advance based on estimated usage. We believe that such arrangement is beneficial to us because it enables the relevant projects to secure long term guaranteed gas supply at a predictable price level (since the contracts are subject to an annual price ceiling of 8%), which is of strategic importance in the long run as we believe that demand for natural gas in China will continue to increase.

We have entered into take-or-pay or other long-term contracts with PetroChina for gas supplied by (i) the Zhong-Wu Pipelines to our piped gas projects located in Changsha, Xiangtan and Zhuzhou in Hunan Province; (ii) the Zhong-Chang Pipelines and Huabei Oil Field to our piped gas projects located in Liaocheng and Langfang, respectively; and (iii) the Shan-Jing Pipelines to our piped gas projects in Langfang. In addition, we have entered into take-or-pay contract with Hebei Province Gas Company for gas supplied by the Shan-Jing Pipeline to our piped gas project in Shijiazhuang.

We have also entered into take-or-pay or other long-term contracts with CNOOC's distributor for gas supplied by CNOOC's Bohai Pipelines to our piped gas projects located in Yantai, Laiyang and Huludao. In addition, we have entered into a take-or-pay or other long-term contract with CNOOC's Fujian LNG terminal and Dapeng LNG terminal. The gas obtained from these LNG terminals will primarily be supplied to our piped gas projects in Quanzhou and Dongguan, respectively.

In addition to PetroChina and CNOOC's distributors, we also have entered into long-term gas supply contracts with Sinopec for gas supplied by the Ji-Qing Pipelines and Jiao-Ri Pipelines to our piped gas projects located in the Jiaozhou Bay area and Rizhao. We have entered into take-or-pay or other long-term contracts with Shandong Luxin to supply gas to our project in Zhouping.

Except for the take-or-pay gas purchase contracts with PetroChina, payment for natural gas by us to our suppliers is made monthly in advance and is based on our quarterly submissions of estimated purchases. Any delivery of gas is recorded by a meter installed at the point where our intermediate pipelines connect with the suppliers' long distance pipelines. Payment for gas purchased is made by us through checks, bank drafts or remittance denominated in Renminbi in accordance with the gas supply agreements. For the years ended December 31, 2008, 2009 and 2010, the cost of pipeline gas purchases accounted for 42.0%, 57.5% and 72.4% of our cost of sales, respectively.

Besides fully utilizing such gas pipeline networks and LNG terminals, we have also endeavored to search for other sources of energy supply. Apart from the existing LNG processing plants in Beihai, an additional two LNG plants in Yinchuan, Ningxia Province and Jincheng, Shanxi Province were completed and came into operation as scheduled during 2009. The annual production capacity of these LNG plants is around 400 million $m^3$ in aggregate and has created new gas supply sources for our Group. Moreover, we possess a massive non-pipeline transportation system (including LNG and CNG transportation trucks) with a one-off maximum transportation capacity of over 5.5 million $m^3$. With this additional transportation system, we expect to be able to secure a more stable gas supply.

***Pipes, Machinery and Equipment***

We purchase pipes of various diameters and wall thickness for installation in different segments of the gas pipeline infrastructure (the specifications of which must comply with PRC standards and regulations). We purchase all of our pipes, machinery and equipment domestically and settle our payments in Renminbi with credit terms ranging from 30 to 90 days.

*LPG*

We obtain our LPG from various suppliers and LPG importers as needed at market price to supplement our natural gas supply. We primarily purchase LPG in final form. The source prices of LPG and of its components are subject to both short-term and long-term price fluctuations. We are able to obtain volume discounts from certain suppliers on our overall LPG purchases and receive short-term interest-free credit from our principal suppliers, in part due to the high volume generated by our bulk business. We are exposed to market risk for fluctuations in source prices of LPG used in our bulk and retail LPG business.

*Gas Appliances*

As residential customers can choose to purchase gas appliances facilities from us, we purchase gas appliances in bulk directly from manufacturers in China and hold a limited amount of stock. We will provide customers repair and maintenance services to the gas appliance facilities we have supplied and such gas appliance facilities have a warranty period of one year.

## DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS

To fund our existing projects and to finance our working capital requirements, we have in the past issued certain debt securities as well as borrowed money from various banks. As of December 31, 2010, our total borrowings, including the 2012 Guaranteed Notes and RMB-denominated short-term debentures, totaled RMB6,262.9 million. We set forth below a summary of the material terms and conditions of these loans and other indebtedness.

### 2012 Guaranteed Notes

On August 5, 2005, we entered into a trust deed, the 2005 Trust Deed pursuant to which we issued an aggregate principal amount of US$200,000,000 7.375% Guaranteed Notes due 2012. As of December 31, 2010, we had a total amount of US$200,000,000 principal amount of 2012 Guaranteed Notes outstanding. Our 2012 Guaranteed Notes are listed on the Hong Kong Stock Exchange.

*Guarantee*

The obligations pursuant to the 2012 Guaranteed Notes are guaranteed by certain of our subsidiaries other than our subsidiaries organized under the laws of the PRC, or the 2012 Subsidiary Guarantors. Each of the 2012 Subsidiary Guarantors, jointly and severally, unconditionally and irrevocably guarantee the due and punctual payment of the principal, any premium, and interest on, and all other amounts payable under the 2012 Guaranteed Notes.

*Interest*

The 2012 Guaranteed Notes bear interest at a rate of 7.375% per annum. Interest is payable semi-annually in arrears.

### *Covenants*

Subject to certain conditions and exceptions, the 2012 Guaranteed Notes and each of the related guarantees contain certain covenants, restricting us and each of the related restricted subsidiaries from, among other things:

- incurring additional indebtedness;
- making investments or other specified restricted payments;
- creating, permitting to exist or effecting any restrictions on distributions from restricted subsidiaries;
- issuing guarantees by restricted subsidiaries;
- selling assets;
- issuing or selling capital stock of restricted subsidiaries;
- entering into transactions with affiliates;
- creating liens;
- entering into sale and leaseback transactions;
- making investments in certain subsidiaries; and
- merging or consolidating with another company.

### *Events of Default*

The 2005 Trust Deed contains certain customary events of default, including default in the payment of principal or of any premium on the 2012 Guaranteed Notes when such payments become due and payable, default in payment of interest which continues for 30 days, and other events of default substantially similar to the Events of Default under the Indenture. If an event of default occurs and is continuing, the trustee under the 2005 Trust Deed at its sole discretion may, and if so requested in writing by the holders of at least 25% of the outstanding 2012 Guaranteed Notes, or if so directed by an extraordinary resolution shall (subject to being indemnified and/or secured by the holders to its satisfaction) declare the principal of the 2012 Guaranteed Notes plus any accrued and unpaid interest to be immediately due and payable.

### *Change of Control*

Upon the occurrence of certain events of change of control, we will make an offer to repurchase the outstanding 2012 Guaranteed Notes at a purchase price equal to 101% of their principal amount plus any accrued and unpaid interest, if any, to the repurchase date.

### *Maturity and Redemption*

The maturity date of the 2012 Guaranteed Notes is August 5, 2012. At any time prior to the maturity date, we may redeem the 2012 Guaranteed Notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the 2012 Guaranteed Notes, plus a premium and any accrued and unpaid interest to the redemption date.

At any time prior to August 5, 2008, we may redeem up to 35% of the aggregate principal amount of the 2012 Guaranteed Notes originally issued at a redemption price equal to 100% of the principal amount of the 2012 Guaranteed Notes, plus any accrued and unpaid interest to the redemption date, provided that at least US$100 million aggregate principal amount of the 2012 Guaranteed Notes originally issued remains outstanding after each such redemption and any such redemption takes place within 90 days of the closing date of the related sale of the Company's capital stock and subject to certain conditions.

Additionally, if under the 2005 Trust Deed would become obligated to pay certain additional amounts as a result of certain changes in specified tax law, we may redeem the 2012 Guaranteed Notes in whole, but not in part, at a redemption price equal to 100% of the principal amount of the 2012 Guaranteed Notes, plus any accrued and unpaid interest, subject to certain exceptions.

Concurrent with this offering of Notes, we have issued an irrevocable notice of redemption in respect of 100% of the aggregate principal amount outstanding of the 2012 Guaranteed Notes, which will be redeemed on June 28, 2011 at a redemption price equal to 100% of the aggregate principal amount plus a "make whole" premium and accrued and unpaid interest.

**RMB-Denominated Short-Term Debentures**

Pursuant to the approval of 2009 No. CP81 issued by the National Association of Financial Market Institutional Investors, or NAFMII dated August 12, 2009, NAFMII approved one of our wholly owned subsidiaries, Xinao (China) Gas Investment Company Limited, or Xinao (China), (新奧(中國)燃氣投資有限公司), to issue short-term debentures with a maximum limit of RMB1.6 billion up to August 12, 2011.

On August 3, 2010, Xinao (China) issued a short-term debenture to a third party with a face value of RMB800.0 million. The debenture is unsecured, carries an interest rate of 3.27% per annum and is payable on August 5, 2011.

Details of the outstanding balance as of December 31, 2010 are as follows:

| | December 31, 2008 *RMB'000* | December 31, 2009 *RMB'000* | **December 31, 2010** ***RMB'000*** |
|---|---|---|---|
| **Short-term debentures issued during the year and payable within one year** | | | |
| Principal | 600,000 | 800,000 | **800,000** |
| Interest payable | 30,043 | 8,699 | **10,607** |
| | 630,043 | 808,699 | **810,607** |

**PRC Bank Loans and Other Loans (Fixed and Floating Rate)**

Certain of our PRC subsidiaries have entered into loan agreements with various PRC banks and other institutions, including without limitation, the China Development Bank, Industrial and Commercial Bank of China Limited and Bank of China Limited. These loans are project loans to finance the construction of our projects and have terms ranging from 12 months to 10 years. As of December 31, 2010, the aggregate outstanding amount under these loans totaled approximately RMB3,776.5 million (US$572.2 million), RMB2,161.7 million (US$327.5 million) of which was due within one year and RMB1,614.8 million (US$244.7 million) of which was due after one year. Our project loans are typically secured by land use rights, properties and rights to receive gas connection and gas supply fee income as well guaranteed by certain of our other PRC subsidiaries. The Notes will be structurally subordinated to these loans and any other indebtedness incurred by our PRC subsidiaries.

***Interest***

The principal amounts outstanding under the project loans generally bear interest at: (i) fixed rates ranging from 3.38% to 7.12% or (ii) floating rates calculated by reference to the relevant bank's benchmark interest rate per annum. Floating interest rates generally are subject to review by the lending banks annually. Interest payments are payable either quarterly, semi-annually and annually and must be made on each payment date as provided in the particular loan agreement. As of December 31, 2010, the weighted average interest rate on the aggregate outstanding amount of our project loans was 4.9% per annum.

***Covenants***

Under these project loans, many of our subsidiary borrowers have agreed, among other things, not to take the following actions without first obtaining the relevant lenders' prior consent:

- create encumbrances on any part of their property or assets or deal with their assets in a way that may adversely affect their ability to repay their loans;
- grant guarantees to any third parties that may adversely affect their ability to repay their loans;
- make any major changes to their corporate structures, such as entering into joint ventures, mergers and acquisitions and reorganizations; and
- alter the nature or scope of their business operations in any material respect.

***Events of Default***

The loans contain certain customary events of default, including insolvency and breaches of the terms of the loan agreements. The banks are entitled to terminate their respective agreements and/or demand immediate repayment of the loans and any accrued interest upon the occurrence of an event of default.

*Guarantee and Security*

Certain of our PRC subsidiaries have entered into guarantee agreements with the PRC banks in connection with some of the project loans pursuant to which these subsidiaries have guaranteed all liabilities of the subsidiary borrowers under these project loans. Further, as of December 31, 2010, RMB1,431.9 million (US$217.0 million) of the loans were secured by land use rights, properties, rights to receive gas connection and gas supply fee income held by the subsidiary borrowers.

*Bank of China Syndicated Loan Facility*

On November 9, 2009, we entered into a US$150.0 million syndicated loan facility with six banks and financial institutions, with Bank of China (Hong Kong) Limited serving as arranger. The amount of interest to be paid on the outstanding amount of the loan will be the aggregate of (i) the applicable margin of 2.2% per annum and (ii) LIBOR.

The repayment of the loan will be made in three installments. The first payment, which will be in an amount equal to 15% of the aggregate amount of the loans outstanding, is due on November 9, 2011. The second payment, which will be in an amount equal to 25% of the aggregate amount of the loans outstanding, is due on November 9, 2012. The third and last payment, which will be in an amount equal to 60% of the aggregate amount of the loans outstanding, is due on November 9, 2013.

Pursuant to the terms of the Bank of China Syndicated Loan Facility agreement, we have agreed to certain financial covenants, including but not limited to the following, each as defined under the loan facility:

- the Consolidated Tangible Net Worth will at all times be more than RMB3,500,000,000;
- Consolidated Net Total Borrowing shall not at any time exceed 150% of Consolidated Tangible Net Worth;
- the ratio of consolidated EBITDA to Consolidated Interest Expense for any relevant period will be not less than 3.0 to 1.0; and
- Consolidated Secured Debt shall not at any time exceed 40% of Consolidated Total Debt.

As of December 31, 2010, the outstanding balance owed on this facility totaled US$150.0 million.

**2018 Corporate Bonds**

On February 16, 2011, through Xinao (China), we issued an aggregate principal amount of RMB500.0 million corporate bonds due 2018. The interest rate of the corporate bonds is fixed at 6.45% per annum for the first five years after issuance. On the fifth anniversary of the issue date, we have an option to increase the interest by up to 100 basis points for the remaining two years. Interest is payable once per annum on February 16 of each year, for as long as the corporate bonds are outstanding. The corporate bonds will mature after seven years from the issue date, and are puttable for early redemption at the principal amount upon the fifth anniversary of the issue date.

As of the date of this announcement, we have a total amount of RMB500.0 million principal amount of the corporate bonds outstanding.

## DEFINITIONS

In this announcement, the following expressions shall have the meanings set out below unless the context requires otherwise:

| | |
|---|---|
| "2012 Guaranteed Notes" | the 7.375% guaranteed notes due 2012 in the aggregate principal amount of US$200 million issued by the Company and guaranteed by certain subsidiaries of the Company |
| "Barclays Capital" | Barclays Bank PLC, one of the joint lead managers and joint bookrunners in respect of the offer and sale of the Notes |
| "Board" | the board of Directors |
| "BOC International" | BOCI Asia Limited, a joint global coordinator and one of the joint lead managers and joint bookrunners in respect of the offer and sale of the Notes |
| "Citi" | Citigroup Global Markets Inc., a joint global coordinator and one of the joint lead managers and joint bookrunners in respect of the offer and sale of the Notes |
| "C/I" | commercial and industrial |
| "CNG" | compressed natural gas |
| "Company" | ENN Energy Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange |
| "Directors" | the directors of the Company |
| "Group", "we", "our" and "us" | the Company and its consolidated subsidiaries |
| "Hong Kong" | the Hong Kong Special Administrative Region of the PRC |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange |
| "LNG" | liquefied natural gas |
| "LPG" | liquefied petroleum gas |
| "Notes" | the senior notes to be issued by the Company |
| "PRC" or "China" | the People's Republic of China, excluding Hong Kong, Macao Special Administrative Region of the PRC and Taiwan for the purposes of this announcement |
| "Proposed Notes Issue" | the proposed issue of the Notes by the Company |

| | |
|---|---|
| "Purchase Agreement" | the agreement proposed to be entered into between, among others, the Company, Citi, BOC International, Barclays Capital and RBS in relation to the Proposed Notes Issue |
| "RBS" | The Royal Bank of Scotland plc, one of the joint lead managers and joint bookrunners in respect of the offer and sale of the Notes |
| "Securities Act" | the United States Securities Act of 1933, as amended |
| "SGX-ST" | Singapore Exchange Securities Trading Limited |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "US$" | United States dollars |

By Order of the Board
**ENN ENERGY HOLDINGS LIMITED**
**Cheng Chak Ngok**
*Executive Director and Company Secretary*

Hong Kong, 29 April 2011

*As at the date of this announcement, the board of directors of the Company comprises nine executive directors, namely Mr. WANG Yusuo (Chairman), Mr. CHEUNG Yip Sang (Chief Executive Officer), Mr. ZHAO Jinfeng, Mr. YU Jianchao, Mr. CHENG Chak Ngok, Mr. LIANG Zhiwei, Ms. ZHAI Xiaoqin, Mr. ZHAO Shengli and Mr. WANG Dongzhi; two non-executive directors, namely Ms. ZHAO Baoju and Mr. JIN Yongsheng; and three independent non-executive directors, namely Mr. WANG Guangtian, Ms. YIEN Yu Yu, Catherine and Mr. KONG Chung Kau.*