ENN 新奧

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

FUELING A GREENER LIFE

傳承 綠色生活

interim report 2014
二零一四年中期業績報告

CONTENTS

Financial and Operational Highlights

Dear Shareholders,

The Board of Directors (the "Directors") of ENN Energy Holdings Limited (the "Company", and together with its subsidiaries, the "Group") is pleased to announce that the unaudited profit attributable to owners of the Company for the six months ended 30 June 2014 (the "Period") was RMB1,214 million, representing an increase of RMB477 million or 64.7% as compared to RMB737 million for the corresponding period last year.

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		
	2014 (Unaudited)	2013 (Unaudited)	Increase
Revenue (RMB million)	**14,351**	10,386	38.2%
Gross profit (RMB million)	**2,938**	2,721	8.0%
Profit attributable to owners of the Company (RMB million)	**1,214**	737	64.7%
Earnings per share – Basic (RMB)	**1.12**	0.68	64.7%
Connectable urban population	**61,645,000**	57,467,000	7.3%
Connectable residential households	**20,548,000**	19,156,000	7.3%
New natural gas connections made during the period:			
– residential households	**650,484**	630,183	3.2%
– commercial/industrial ("C/I") customers (sites)	**4,115**	3,510	605
– installed designed daily capacity for C/I customers (m^3)	**4,653,800**	3,973,117	17.1%
Accumulated number of connected natural gas customers:			
– residential households (Notes 1 & 2)	**9,852,169**	8,399,466	17.3%
– C/I customers (sites) (Notes 1 & 2)	**42,958**	34,151	8,807
– installed designed daily capacity for C/I customers (m^3) (Notes 1 & 2)	**46,524,925**	37,355,317	24.5%
Accumulated number of connected piped gas (including natural gas) customers:			
– residential households	**9,931,749**	8,489,432	17.0%
– C/I customers (sites)	**43,156**	34,464	8,692
– installed designed daily capacity for C/I customers (m^3)	**46,581,062**	37,401,007	24.5%
Natural gas penetration rate	**47.9%**	43.8%	4.1%
Piped gas (including natural gas) penetration rate	**48.3%**	44.3%	4.0%
Unit of piped gas sold to residential households (m^3)	**653,657,000**	561,826,000	16.3%
Unit of piped gas sold to C/I customers (m^3)	**3,319,048,000**	2,538,857,000	30.7%
Unit of gas sold to vehicles (m^3)	**675,841,000**	538,711,000	25.5%
Unit of wholesale gas sold (m^3)	**364,599,000**	138,317,000	163.6%
Number of vehicle gas refuelling stations	**485**	376	109
Number of natural gas processing stations	**141**	129	12
Total length of existing intermediate and main pipelines (km)	**25,179**	22,588	11.5%

Notes:

1. Including a total of 1,519,407 natural gas residential customers and 3,546 natural gas C/I customers (with a total designed daily capacity of 2,812,687m^3) from acquisition/conversion at 30 June 2014.

2. Including a total of 1,307,416 natural gas residential customers and 3,044 natural gas C/I customers (with a total designed daily capacity of 2,369,684m^3) from acquisition/conversion at 30 June 2013.

Management Discussion and Analysis

Business Review

Amid China's steady economic growth in the first half of 2014, thanks to the efforts of our employees, the Group maintained persistent growth in all business segments and further enhanced internal control, laying a solid foundation to achieve the annual business guidance.

Gas Sales

During the period, the Group's total gas sales volume was 5,013 million cubic metres, up 32.7% from the corresponding period last year, in which 5,000 million cubic metres were attributable to natural gas sales, up 34.1% year-on-year. The proportion of natural gas sold to residential households, commercial/industrial ("C/I") customers and vehicle users amounted to 13.0%, 66.4% and 13.3%, increased by 16.4%, 32.8% and 25.2% year-on-year respectively.

In order to enhance the returns to our shareholders and fully utilise our non-pipeline transportation capacity, the Group continued to conduct the natural gas wholesale business and sold 365 million cubic metres of natural gas during the period, representing a year-on-year increase of 163.6% and accounting for 7.3% of the total gas sales volume.

During the period, revenue from gas sales amounted to RMB12,020 million, representing an increase of 43.4% over the same period last year. The proportion of revenue attributable to gas sales out of the Group's total revenue further increased to 83.7% from 80.6% in the same period last year. Driven by the robust growth of gas sales, which is our major revenue stream providing long-term and stable income, the Group's revenue structure has been further optimised.

Gas Connection

During the period, the Group conducted 650.5 thousand new connections for residential households, representing an increase of 3.2% over the corresponding period last year. As at the end of June 2014, the accumulated number of the Group's connected residential households using natural gas was 9,852.2 thousand. Including other piped gas, the connected residential households totaled 9,931.7 thousand. The average gas penetration rate rose to 48.3% from 45.6% at the end of 2013. New connections for 4,115 C/I customers were conducted (with total installed designed daily capacity of 4,653.8 thousand cubic metres) and the accumulated number of connected C/I customers was 42,958 (with total installed designed daily capacity of 46.52 million cubic metres) as at the end of June 2014. Including other piped gas, the connected C/I customers totaled 43,156 (with total installed designed daily capacity of 46.58 million cubic metres).

The Group's ability to maintain stable growth in gas connection business fully demonstrated its market insight and the strong capability to capitalise market opportunities. At present, the mere 5.1% share of natural gas out of China's primary energy consumption and the relatively low gas penetration rate show a broad prospect for the Group's business.

As at the end of June 2014, the accumulated length of intermediate and main pipelines constructed by the Group was 25,179 kilometres and the number of natural gas processing stations reached 141, allowing a daily natural gas supplying capacity of 59.30 million cubic metres, and enabling the Group to meet long-term demand arising from existing natural gas projects.

During the period, the Group's gas connection fee revenue reached RMB2,122 million, representing an increase of 14.5% over the corresponding period last year. The average connection fees for residential households and C/I customers were RMB2,785 (per household) and RMB145 (per cubic metre) respectively, similar to the same period last year.

Construction and Operation of Vehicle Gas Refuelling Stations

With further efforts of the Chinese government to optimise energy structure and control pollution, vehicles using clean energy have become a ubiquitous trend. In addition to the price competitiveness of natural gas compared with gasoline and diesel, the prospects for the development of vehicle CNG and LNG refuelling businesses will be promising. The Group further expanded this operation by constructing and putting into operation 9 CNG refuelling stations and 28 LNG refuelling stations during the period. We have 277 CNG and 208 LNG refuelling stations in operation respectively.

During the period, the natural gas sales volume of vehicle gas refuelling stations increased by 25.2% to 667 million cubic metres, accounting for 13.3% of the overall gas sales volume of the Group. Sales revenue attributable to vehicle gas sales was RMB1,810 million, up 31.7% compared with the corresponding period last year.

Development of LNG Bunkering Business

During the period, the Group continued to actively expand its LNG bunkering business by participating in national pilot projects, strengthening partnership, exploring ship refuelling business model and broadening client base. Since its successful engine conversion and trial run of an LNG bunkering vessel in Xinyi, Jiangsu Province last year, the Group has completed more engine conversions and LNG refuelling for 11 dredgers and 1 LNG bunkering vessel in Jiangsu Province and Shandong Province in the first half of the year. Meanwhile, the Group commenced the construction of an LNG bunkering terminal and a brand new LNG bunkering vessel in Xinyi, Jiangsu Province as well as a bunkering barge in Xijiang, Guangxi Province. In addition to more strategic planning for developing LNG bunkering business in the coastal cities along the Yangtze River, the Grand Canal and the Pearl River leveraging its city-gas business, the Group also conducted extensive research on bunkering, vessel engine conversion and bunkering terminal construction to facilitate the steady development of the LNG bunkering business.

New Projects

The Group acquired 6 new city-gas projects and industrial parks during the period, including:

Projects	The Group's shareholding	Major industry
Yangxi County, Guangdong Province	100%	Green food processing, construction materials and glass manufacturing industry
Dingan County, Hainan Province	60%	Tourism, real estate, food & beverage, pharmaceutical industry
Changjiang County, Hainan Province	60%	Tourism, real estate, rubber, deep processing of steel, iron and ores, and construction materials industry
Ledong County, Hainan Province	60%	Tourism, real estate
Wangdu Economic Development Zone, Hebei Province	100%	Green food processing, machinery and footwear industry
Guannan Development Zone, Jiangsu Province	100%	Chemicals, metal processing and shipbuilding industry

The above projects enjoy tremendous development potential with robust industrial and commercial activities and strong industrial agglomeration effect. The Group expected these projects to further expand its scale of natural gas distribution. As of 30 June 2014, the Group managed 140 city-gas projects in China, with a connectable population coverage of 61.65 million people. In light of the energy structure optimisation, urbanisation and industrialisation in China, the Group will be able to acquire more new projects in the future.

In addition to the above city-gas projects and individual industrial parks, the Group also acquired 10 industrial parks managed by existing city-gas projects, including the Xinxiang Fengquan Industrial Zone, Xinxiang Dakuai Town Industrial Zone and Song County Industrial Zone in Henan Province; Xinghua Changrong Industrial Park and Funing Goudun Town Industrial Park in Jiangsu Province; Zhaoqing Southern China Renewable Resources Industrial Park in Guangdong Province, as well as Lingao Jinpai Harbour Provincial Development Zone, Longbo Bay Development Zone, Maniao Bay Development Zone and Haikou Longwan Zone in Hainan Province. The high concentration of industrial users in the industrial parks will enlarge the Group's gas sales volume. Meanwhile, their close proximity to existing projects of the Group also allows it to further lower the operating costs through economies of scale.

Proposed Disposal of LNG Processing Plants

While formulating future development strategy, the Group also reviews its present operations by taking into consideration the changes in overall market and related policies to develop an appropriate investment strategy and allocate more resources to its core downstream operations. During the period, the Group sold 55% and 30% of its equity interests in the LNG processing plants in Beihai and Ningxia to a gas source supplier and a joint venture partner respectively. According to the Group's announcements issued on 21 July 2014 and 15 August 2014 regarding the disposal of 45% and 100% of its equity interests in the LNG processing plants in Beihai and Qinshui respectively, and upon the valuation conducted by an independent third-party valuer, the Group and the buyers entered into the sale and purchase agreement, pursuant to which the Group agreed to sell its interests for a consideration of RMB230 million. The agreement will take effect upon satisfaction of all conditions precedent. The LNG processing plants, which had primarily served to secure the gas supply for downstream gas projects, were not part of the Group's core business, while natural gas supply is becoming more abundant in China, the Group's need for operating its own LNG processing plants has diminished. The management believed the disposal of these LNG processing plants would help the Group focus on expanding its core downstream business and better allocate its resources.

Gross and Net Profit Margins

During the period, the Group's overall gross profit margin and net profit margin were 20.5% and 10.7% respectively. Compared to the corresponding period last year, the gross profit margin decreased by 5.7%, while the net profit margin remained at the similar level.

The decline in gross profit margin was caused by the Group's continuous improvement in its revenue structure. The proportion of revenue attributable to connection fee, which has higher margin but was one-off, decreased progressively, down from 17.8% last year to 14.8%, while the proportion of revenue attributable to stable and recurring gas sales gradually increased. Besides, due to the natural gas city-gate price hike in the second half last year, the Group completed cost pass-through to most of the downstream users so as to maintain stable dollar margin, but the gross profit margin in percentage decreased. In addition, the Quanzhou project, which gross profit margin was lower than the average level of other projects, recorded a significant growth in revenue from gas sales, dragging the overall gross profit margin.

Human Resources

As at 30 June 2014, the Group employed a total of 27,378 employees, of which 14 were based in Hong Kong. The workforce was expanded to support the Group's new projects and business development. The employees were remunerated at the market level with benefits such as bonus, retirement benefit, professional training and share option scheme.

International Awards

After receiving honors from Institutional Investor in 2013, the Group once again received honors in The 2014 All-Asia Executive Team ranking by the magazine, including No. 1 in "Asia's Best CEOs", No. 2 in "Asia's Best CFOs", No. 2 in "Asia's Best IR Professionals and No. 2 in "Asia's Best Investor Relations Company" under power sector. The Group was also honored No. 6 in Best Investor Relations by FinanceAsia, "Top 100 for Investor Relations in Greater China" by IR Magazine, "Mainland Enterprise Listed in HK Ranking – Best Company in Clean and Renewable Energy Industry" by Yazhou Zhoukan, etc. These honours fully demonstrated that the Group's business performance and management's profound execution ability was acclaimed by investors, shareholders and analysts in the sector. We will continue to redouble our efforts to ensure that investors and shareholders will be able to share our fruitful results that come along the Group's development.

Financial Resources Review

Liquidity and Financial Resources

As at 30 June 2014, the Group's bank balances and cash amounted to RMB7,109 million (31 December 2013: RMB6,822 million). Total debts amounted to RMB12,040 million (31 December 2013: RMB12,443 million) while the net gearing ratio, i.e. the ratio of net debt to equity (including non-controlling interests), was 38.9% (31 December 2013: 47.3%).

Currently, the Group's operating and capital expenditures are funded by operating cash flow, internal liquidity, bank loans and issued bonds. The Group has sufficient sources of funds and unutilised banking facilities to meet the future capital expenditure and working capital requirements.

Borrowings Structure

As at 30 June 2014, the Group's total debts amounted to RMB12,040 million (31 December 2013: RMB12,443 million), including fixed rate bonds of US$750 million (equivalent to RMB4,543 million) and zero coupon convertible bonds of US$500 million (equivalent to RMB3,869 million). Except for bank loans of US$150 million (equivalent to RMB910 million), the remaining bank and other loans are denominated in Renminbi and bear interest at the interest rate announced by the People's Bank of China. Short-term loans amounted to RMB692 million while the remaining were long-term loans falling due after one year or above.

Ten-year 6% Fixed Rate Bonds

On 13 May 2011, the Company issued 10-year bonds in the aggregate principal amount of US$750 million (equivalent to RMB4,543 million) with an issue price of 99.274% and a redemption price of 100%. The coupon of the bonds is 6.0%, and interests are paid semi-annually. The terms of the bonds require Mr. Wang Yusuo, the Chairman of the Company, to retain not less than 25% of the issued share capital of the Company throughout the term of the bonds.

Five-year Zero Coupon Convertible Bonds

On 29 January 2013, the Group announced a proposed issuance of zero coupon convertible bonds denominated in dollar with an aggregate principal amount of US$500 million, which started trading officially on the Singapore Exchange on 27 February 2013. Excluding commissions and administrative charges, the net proceeds of approximately US$490 million were used for refinancing existing debts and other general purposes to improve the Company's debt structure, reduce interest expenses and improve cash flow and profitability.

As all of the Group's core businesses are located in China, any appreciation in Renminbi will benefit the Group in receiving revenues in Renminbi and repaying loans in foreign currencies, thereby reducing the costs arising from foreign loans indirectly.

Financial Guarantee Liability

As at 30 June 2014, the Group had issued guarantees to banks to secure loan facilities granted to associates and joint ventures to the extent of approximately RMB466 million (31 December 2013: RMB466 million). The amounts have been utilised on the balance date.

Commitments

(a) Capital commitments

	At 30 June 2014 RMB million	At 31 December 2013 RMB million
Capital expenditure in respect of acquisition of property, plant and equipment contracted but not provided for	**44**	55
Capital commitment in respect of investments in:		
– joint ventures	**93**	118
– associates	**17**	–

(b) Other commitments

As at 30 June 2014, the Group had commitment amounting to RMB45 million (31 December 2013: RMB46 million) in respect of the acquisition of land use rights in the PRC.

Prospects

According to the statistics published by the National Development and Reform Commission, in the first half of 2014, domestic natural gas production volume, natural gas import volume (including LNG) and natural gas apparent consumption volume reached 63.2 billion cubic metres, 28.3 billion cubic metres and 88.7 billion cubic metres respectively, representing increases of 7.5%, 14.4% and 8.9% respectively.

The natural gas industry will enter into a new stage of rapid development on the back of social progress and national reforms. In particular, as the Chinese government proactively implemented the Atmospheric Pollution Prevention Action Plan, and the State Council and local governments signed the Letters of Responsibility for atmospheric pollution prevention, the use of clean energy will grow at a faster pace, promoting the broader use of natural gas in China. The "Circular Concerning Opinions on Establishing a Long-term Mechanism for Securing the Stable Supply of Natural Gas" published by the General Office of the State Council on 14 April 2014 stated that the domestic natural gas supply will be increased and the natural gas supply is expected to reach 400 billion or even 420 billion cubic metres by 2020. To achieve this target, the Chinese government has been enhancing the natural gas supply capability and constructing infrastructure gradually. A number of national long distance pipelines were put into operation, including the Panjing–Double6 Gas Storage Facility Pipeline, the Lianmuqin-Guazhou section of West-East Pipeline III, as well as the Duyun, Kunming East, Zunyi-Heping South and Qinzhou branches of the China-Myanmar Natural Gas Pipeline in the first half of 2014. Moreover, as of the first half of this year, a total of 10 LNG import terminals were constructed and put into operation, with an aggregate receiving capacity of 56.2 million tons per year. The construction of such infrastructure is expected to accelerate in order to meet the strong demand for natural gas in China.

Looking forward, the Group will seize the opportunities brought by the strong development of natural gas in China by allocating resources in a prudent and scientific manner after taking into account the impact of macro-economic environment and the development of the natural gas industry. The Group will also strive to achieve the annual business targets and develop solid strategic plans for the future. In terms of operation, the Group will continue to expand the distribution and trading of natural gas and promote the development of vehicle/ship LNG business. Meanwhile, the Group will further enhance its management standard by strengthening cost control, measurement and project management, as well as improve customer service, ensure operation safety, and advance with the goal of operational excellence.

The use of clean energy has become a major trend in China and the natural gas industry will enjoy more rapid growth and extensive development in the foreseeable future. Seizing this opportunity, the Group will leverage on its strengths to adapt to any market changes and meet customers' needs. Apart from making significant contribution to environmental protection and energy sectors both within and beyond the country, the Group will also maximise the long-term interests of the shareholders and employees.

Report on Review of Condensed Consolidated Financial Statements

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 9 to 34, which comprise the condensed consolidated statement of financial position as of 30 June 2014 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 Main Board Listing 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
22 August 2014

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2014

	Notes	Six months ended 30 June **2014** **RMB million** **(unaudited)**	 2013 RMB million (unaudited)
Revenue	3	**14,351**	10,386
Cost of sales		**(11,413)**	(7,665)
Gross profit		**2,938**	2,721
Other income	4	**134**	107
Other gains and losses	5	**36**	(182)
Distribution and selling expenses		**(200)**	(173)
Administrative expenses		**(890)**	(784)
Share of results of associates		**45**	42
Share of results of joint ventures		**228**	178
Finance costs	6	**(204)**	(346)
Profit before tax	7	**2,087**	1,563
Income tax expense	8	**(554)**	(517)
Profit and total comprehensive income for the period		**1,533**	1,046
Profit and total comprehensive income for the period attributable to:			
Owners of the Company		**1,214**	737
Non-controlling interests		**319**	309
		1,533	1,046
Earnings per share	10	**RMB**	RMB
Basic		**1.12**	0.68
Diluted		**1.00**	0.68

Condensed Consolidated Statement of Financial Position

At 30 June 2014

	Notes	At 30 June 2014 RMB million (unaudited)	At 31 December 2013 RMB million (audited)
Non-current assets			
Property, plant and equipment	11	**17,805**	17,531
Prepaid lease payments	11	**1,062**	948
Investment properties	11	**76**	76
Goodwill		**191**	206
Intangible assets	12	**1,298**	1,294
Interests in associates		**837**	804
Interests in joint ventures		**3,176**	2,998
Available-for-sale financial assets		**114**	114
Other receivables	13	**28**	35
Amounts due from associates		**72**	55
Amounts due from joint ventures		**156**	183
Deferred tax assets		**351**	318
Deposits paid for investments		**51**	106
Deposits paid for acquisition of property, plant and equipment, land use rights and operation rights		**185**	130
Restricted bank deposits	14	**46**	10
		25,448	24,808
Current assets			
Inventories		**416**	419
Trade and other receivables	13	**2,677**	2,829
Prepaid lease payments	11	**23**	23
Amounts due from customers for contract work		**134**	193
Amounts due from associates	15	**92**	87
Amounts due from joint ventures	16	**541**	439
Amounts due from related companies	17	**68**	25
Restricted bank deposits	14	**72**	260
Cash and cash equivalents		**7,109**	6,822
		11,132	11,097

	Notes	At 30 June 2014 RMB million (unaudited)	At 31 December 2013 RMB million (audited)
Current liabilities			
Trade and other payables	18	**5,396**	6,166
Amounts due to customers for contract work		**2,247**	2,033
Amounts due to associates	15	**54**	88
Amounts due to joint ventures	16	**1,331**	1,187
Amounts due to related companies	17	**196**	18
Taxation payables		**314**	319
Bank and other loans – due within one year	19	**692**	921
Financial guarantee liability		**53**	59
Dividend payable		**411**	–
Deferred income	21	**83**	78
		10,777	10,869
Net current assets		**355**	228
Total assets less current liabilities		**25,803**	25,036
Capital and reserves			
Share capital	22	**113**	113
Reserves		**10,234**	9,430
Equity attributable to owners of the Company		**10,347**	9,543
Non-controlling interests		**2,329**	2,349
Total equity		**12,676**	11,892
Non-current liabilities			
Bank and other loans – due after one year	19	**1,739**	1,902
Corporate bond		**497**	497
Senior notes		**4,543**	4,498
Medium-term notes		**700**	700
Convertible bonds at fair value through profit and loss	20	**3,869**	3,925
Deferred tax liabilities		**406**	399
Deferred income	21	**1,373**	1,223
		13,127	13,144
		25,803	25,036

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2014

Six months ended 30 June 2014 (unaudited)

	Equity attributable to owners of the Company									
	Share capital RMB million	Share premium RMB million	Special reserve RMB million (note c)	Share option reserve RMB million	Statutory surplus reserve fund RMB million (note a)	Designated safety fund reserve RMB million (note b)	Accumulated profits RMB million	Total RMB million	Equity attributable to non-controlling interests RMB million	Total equity RMB million
At 1 January 2014	113	1,179	(18)	2	619	41	7,607	9,543	2,349	11,892
Profit for the period and total comprehensive income for the period	–	–	–	–	–	–	1,214	1,214	319	1,533
Acquisition of a subsidiary (Note 23)	–	–	–	–	–	–	–	–	10	10
Acquisition of additional interest in a subsidiary	–	–	–	–	–	–	–	–	(22)	(22)
Capital contribution from non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	37	37
Dividend paid to non-controlling shareholders	–	–	–	–	–	–	–	–	(364)	(364)
Dividend recognised as distribution (Note 9)	–	(411)	–	–	–	–	–	(411)	–	(411)
Exercise of share options (Note 22)	–	1	–	–	–	–	–	1	–	1
Transfer to statutory surplus reserve fund	–	–	–	–	342	–	(342)	–	–	–
Transfer to designated safety fund	–	–	–	–	–	3	(3)	–	–	–
At 30 June 2014	113	769	(18)	2	961	44	8,476	10,347	2,329	12,676

Six months ended 30 June 2013 (unaudited)

	Equity attributable to owners of the Company									
	Share capital RMB million	Share premium RMB million	Special reserve RMB million (note c)	Share option reserve RMB million	Statutory surplus reserve fund RMB million (note a)	Designated safety fund reserve RMB million (note b)	Accumulated profits RMB million	Total RMB million	Equity attributable to non-controlling interests RMB million	Total equity RMB million
At 1 January 2013	113	1,541	(18)	3	504	39	6,471	8,653	2,017	10,670
Profit for the period and total comprehensive income for the period	–	–	–	–	–	–	737	737	309	1,046
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	8	8
Capital contribution from non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	136	136
Dividend paid to non-controlling shareholders	–	–	–	–	–	–	–	–	(234)	(234)
Transfer to statutory surplus reserve fund	–	–	–	–	82	–	(82)	–	–	–
Dividend recognised as distribution (Note 9)	–	–	–	–	–	–	(371)	(371)	–	(371)
Lapse of share options	–	–	–	(1)	–	–	1	–	–	–
Transfer to designated safety fund	–	–	–	–	–	2	(2)	–	–	–
At 30 June 2013	113	1,541	(18)	2	586	41	6,754	9,019	2,236	11,255

Notes:

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

b. 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 safety fund reserve. The fund will be used for installation and repair and maintenance of safety facilities.

c. The amount at 30 June 2014 represented the difference between the paid-up capital of the subsidiaries acquired and the nominal value of the Company's shares issued for the acquisition amounting to RMB2 million during the group restructuring carried out for the purpose of initial public offering of the Company's shares in 2001 and the difference between the fair values and the carrying values of the underlying assets and liabilities attributable to the additional interests in a subsidiary amounting to RMB20 million.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2014

		Six months ended 30 June	
	Notes	**2014 RMB million (unaudited)**	2013 RMB million (unaudited)
Net cash from operating activities		**1,579**	1,441
Investing activities			
Deferred income received		**197**	154
Purchase of property, plant and equipment		**(936)**	(1,069)
Net cash (outflow) inflow on acquisition of subsidiaries	23	**(28)**	18
Net cash inflow from disposal of a subsidiary	24	**74**	–
Repayment from joint ventures		**94**	157
Other investing activities		**78**	(94)
Net cash used in investing activities		**(521)**	(834)
Financing activities			
New bank loans raised		**970**	2,777
Repayment of bank loans		**(1,324)**	(4,526)
Proceeds from issue of convertible bonds		**–**	3,143
Transaction costs for issue of convertible bonds		**–**	(64)
Other financing activities		**(420)**	(342)
Net cash (used in) from financing activities		**(774)**	988
Increase in cash and cash equivalents		**284**	1,595
Effect of foreign exchange rate changes		**3**	–
Cash and cash equivalents at the beginning of the period		**6,822**	6,156
Cash and cash equivalents at the end of the period		**7,109**	7,751

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

1. Basis of Preparation

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

2. Principal Accounting Policies

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013.

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC)-Int 21	Levies

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

3. Segment Information

Information reported to the chief operating decision maker, the Company's President 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 are gas connection segment, sales of piped gas segment, vehicle gas refuelling stations segment, wholesale of gas segment, sales of other energy segment, sales of gas appliances segment and sales of material segment. Segment profit reviewed by President represents the gross profit earned by each segment.

3. Segment Information *(continued)*

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

Six months ended 30 June 2014 (unaudited)

	Gas connection RMB million	Sales of piped gas RMB million	Vehicle gas refuelling stations RMB million	Wholesale of gas RMB million	Sales of other energy RMB million	Sales of gas appliances RMB million	Sales of material RMB million	Consolidation RMB million
Segment revenue	2,449	12,504	1,825	2,500	171	158	607	20,214
Inter-segment sales	(327)	(3,434)	(15)	(1,361)	(144)	(111)	(471)	(5,863)
Revenue from external customers	2,122	9,070	1,810	1,139	27	47	136	14,351
Segment profit before depreciation and amortisation	1,384	1,518	293	15	13	24	8	3,255
Depreciation and amortisation	(62)	(213)	(28)	(1)	(12)	(1)	–	(317)
Segment profit	1,322	1,305	265	14	1	23	8	2,938

Six months ended 30 June 2013 (unaudited)

	Gas connection RMB million	Sales of piped gas RMB million	Vehicle gas refuelling stations RMB million	Wholesale of gas RMB million	Sales of other energy RMB million	Sales of gas appliances RMB million	Sales of material RMB million	Consolidation RMB million
Segment revenue	2,154	8,342	1,381	1,646	117	157	498	14,295
Inter-segment sales	(301)	(1,877)	(7)	(1,103)	(83)	(114)	(424)	(3,909)
Revenue from external customers	1,853	6,465	1,374	543	34	43	74	10,386
Segment profit before depreciation and amortisation	1,218	1,412	297	27	13	18	17	3,002
Depreciation and amortisation	(52)	(188)	(23)	(2)	(15)	(1)	–	(281)
Segment profit (losses)	1,166	1,224	274	25	(2)	17	17	2,721

Segment profit represents the gross profit earned by each segment without allocation of other income, other gains and losses, distribution and selling expenses, administrative expenses, share of results of associates and joint ventures, finance costs and income tax expenses. This is the measure reported to the President for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

4. Other Income

	Six months ended 30 June	
	2014 **RMB million**	2013 RMB million
Other income includes:		
Incentive subsidies (Note)	**84**	37
Interest income	**45**	36

Note: The amount represents incentives received from the government for sales of gas and provision of connection service and refunds of various taxes as incentives received from the government authorities in various cities of the PRC. These incentive subsidies were recorded in the period when the relevant approvals were obtained.

5. Other Gains and Losses

	Six months ended 30 June	
	2014 **RMB million**	2013 RMB million
Other gains (losses) comprise:		
Gain on disposal of a subsidiary (Note 24)	**14**	–
Gain on disposal of an associate	**13**	–
Gain on disposal of a joint venture	**1**	–
Gain on re-measurement of assets upon step acquisition of a business (Note)	**–**	24
Fair value gain (loss) of convertible bonds (Note 20)	**56**	(214)
(Loss) gain on foreign exchange, net	**(50)**	18
Others	**2**	(10)
	36	(182)

Note: It represents the fair value gain on re-measurement of assets upon acquisition of business in a subsidiary, 河源市管道燃氣發展有限公司 ("Heyuan Piped Gas"), during the six months ended 30 June 2013.

6. Finance Costs

	Six months ended 30 June	
	2014 **RMB million**	2013 RMB million
Interest on:		
Bank and other loans wholly repayable within five years	**19**	94
Bank loans not wholly repayable within five years	**54**	48
Medium-term notes	**19**	19
Short-term debentures	**–**	28
Senior notes	**137**	141
Corporate bond	**16**	16
	245	346
Less: Amount capitalised under construction in progress	**(41)**	(64)
	204	282
Transaction costs incurred for issue of convertible bonds	**–**	64
	204	346

7. Profit Before Tax

	Six months ended 30 June	
	2014 **RMB million**	2013 RMB million
Profit before tax has been arrived at after charging:		
Depreciation and amortisation:		
– property, plant and equipment	**362**	312
– intangible assets	**39**	36
Total depreciation and amortisation (Note)	**401**	348
Release of prepaid lease payments	**12**	11

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

	Six months ended 30 June	
	2014 **RMB million**	2013 RMB million
Depreciation and amortisation included in:		
Cost of sales	**317**	281
Administrative expenses	**84**	67
	401	348

8. Income Tax Expense

	Six months ended 30 June	
	2014 **RMB million**	2013 RMB million
PRC Enterprise Income Tax:		
Current tax	**570**	520
Withholding tax	**19**	21
	589	541
Deferred tax:		
Current period	**(35)**	(24)
	554	517

PRC Enterprise Income Tax mainly comprises income tax of the Group which are recognised based on the applicable statutory tax rate of 25% expected for the full financial year (six months ended 30 June 2013: 25%).

During the six months ended 30 June 2014, the Group has not recognised the deferred tax assets in respect of the unused tax losses of RMB288 million (six months ended 30 June 2013: RMB598 million) due to the uncertainty of future profit streams.

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

9. Dividend

The final dividend in respect of fiscal year 2013 of HK$48.00 cents (equivalent to approximately RMB37.97 cents) per share on 1,082,859,397 shares (six months ended 30 June 2013: final dividend in respect of 2012 of HK$42.20 cents (equivalent to approximately RMB34.22 cents) per share) amounting to approximately RMB411 million (six months ended 30 June 2013: RMB371 million) were declared on 24 March 2014 and were not paid as at 30 June 2014.

The directors of the Company (the "Directors") do not recommend the payment of an interim dividend for the six months ended 30 June 2014 (six months ended 30 June 2013: 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	
	2014 **RMB million**	2013 RMB million
Earnings		
Earnings for the purposes of basic earnings per share (Profit for the period attributable to owners of the Company)	**1,214**	737
Effect of dilutive potential ordinary shares:		
Fair value gain of convertible bonds	**(56)**	–
Earnings for the purposes of diluted earnings per share	**1,158**	737

	Six months ended 30 June	
	2014 **'000**	2013 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,082,869**	1,082,859
Effect of dilutive potential ordinary shares:		
Share options	**412**	412
Convertible bonds	**79,779**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,163,060**	1,083,271

The convertible bonds of US$500 million issued by the Company on 26 February 2013 were anti-dilutive for the period ended 30 June 2013 and accordingly had not been taken into account in the computation of the diluted earnings per share.

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

During the six months ended 30 June 2014, the Group acquired property, plant and equipment and prepaid lease payments amounting to approximately RMB977 million and RMB143 million (six months ended 30 June 2013: RMB1,169 million and RMB102 million) respectively.

In addition, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of RMB206 million (six months ended 30 June 2013: nil) to a joint venture during the current interim period.

In addition, through acquisition of a subsidiary, the Group's property, plant and equipment and prepaid lease payments increased by approximately RMB27 million and nil respectively (six months ended 30 June 2013: RMB118 million and RMB11 million respectively) during the current interim period.

No revaluation on investment properties was carried out during the current interim period. The valuation at 31 December 2013 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 2014 were not significantly different from their fair values on 31 December 2013.

12. Intangible Assets

During the six months ended 30 June 2014, through acquisition of a subsidiary, the Group's intangible assets increased by approximately RMB36 million (six months ended 30 June 2013: RMB109 million).

13. Trade and Other Receivables

The following is an aged analysis, 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 2014 RMB million	At 31 December 2013 RMB million
Within three months	**636**	663
4-6 months	**61**	40
7-9 months	**30**	19
10-12 months	**13**	13
Total trade receivables (Note)	**740**	735
Other receivables	**552**	557
Notes receivable	**433**	428
Advance to suppliers, deposits and prepayments	**980**	1,144
	2,705	2,864
Analysed for reporting purpose as:		
Current portion	**2,677**	2,829
Non-current portion	**28**	35
	2,705	2,864

Note: The Group allows an average credit period ranging from 60 to 90 days to its trade customers, except for certain customers with credit period more than 90 days.

14. Restricted Bank Deposits

The restricted bank deposits carry fixed interest rate range from 0.35% to 0.50% (31 December 2013: 0.35% to 0.53%) per annum.

The reduction in restricted bank deposits during the current interim period mainly represents the release upon the settlement of relevant bill facilities and the expiry of purchase contracts.

15. Amounts Due From/to Associates

Included in the amounts due from/to associate are trade receivables amounting to RMB54 million (31 December 2013: RMB45 million) and trade payables amounting to RMB6 million (31 December 2013: RMB13 million) and the aged analysis based on invoice date at the end of the reporting period is as follows:

	At 30 June 2014 RMB million	At 31 December 2013 RMB million
Trade receivables due from associates		
Within three months	**17**	26
4-6 months	**8**	5
7-9 months	**14**	7
10-12 months	**5**	2
More than 1 year	**10**	5
	54	45
Trade payables due to associates		
Within three months	**5**	12
More than 1 year	**1**	1
	6	13

Owing the strategic relationship with the associates, there is no formal credit policy applied to above balances by the Group, and in the opinion of the Directors, the above balances are not overdue.

16. Amounts Due from/to Joint Ventures

Included in the amounts due from/to joint ventures are trade receivables amounting to RMB199 million (31 December 2013: RMB233 million) and trade payables amounting to RMB75 million (31 December 2013: RMB70 million) and the aged analysis based on invoice date at the end of the reporting period is as follow:

	At 30 June 2014 RMB million	At 31 December 2013 RMB million
Trade receivables due from joint ventures		
Within three months	**118**	155
4-6 months	**29**	60
7-9 months	**12**	6
10-12 months	**22**	2
More than 1 year	**18**	10
	199	233
Trade payables due to joint ventures		
Within three months	**46**	68
4-6 months	**2**	–
7-9 months	**25**	–
More than 1 year	**2**	2
	75	70

Owing the strategic relationship with the joint ventures, there is no formal credit policy applied to above balances by the Group, and in the opinion of the Directors, the above balances are not overdue.

17. Amounts Due from/to Related Companies

Included in the amounts due from/to related companies are trade receivables amounting to RMB64 million (31 December 2013: RMB23 million) and trade payables amounting to RMB192 million (31 December 2013: RMB15 million) and the aged analysis based on invoice date at the end of the reporting period is as follow:

	At 30 June 2014 RMB million	At 31 December 2013 RMB million
Trade receivable due from related companies		
Within three months	**40**	4
4-6 months	**2**	2
7-9 months	**3**	1
10-12 months	**3**	4
More than 1 year	**16**	12
	64	23
Trade payables due to related companies		
Within three months	**149**	13
4-6 months	**2**	–
7-9 months	**15**	–
10-12 months	**10**	–
More than 1 year	**16**	2
	192	15

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

18. 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 2014 RMB million	At 31 December 2013 RMB million
Within three months	**1,023**	1,692
4-6 months	**106**	104
7-9 months	**63**	38
10-12 months	**18**	26
More than 1 year	**103**	113
Total trade payables	**1,313**	1,973
Advances received from customers	**3,291**	3,337
Accrued charges and other payables	**792**	856
	5,396	6,166

19. Bank and Other Loans

During the current interim period, the Group obtained new bank loans in the amount of RMB970 million (six months ended 30 June 2013: RMB2,777 million) and made repayments in the amount of RMB1,324 million (six months ended 30 June 2013: RMB4,526 million). The loans bear interest at the range from 2.77% to 7.78% per annum (31 December 2013: 2.96% to 7.54% per annum). These proceeds were used to finance the capital expenditure and general working capital of the Group.

At 30 June 2014, certain assets of the Group with aggregate carrying value of RMB130 million (31 December 2013: RMB310 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 gas connection and gas supply fee income of certain subsidiaries and joint ventures in favour of banks to secure banking facilities amounting to RMB1,370 million (31 December 2013: RMB1,290 million) granted to the Group and RMB765 million (31 December 2013: RMB820 million) of which is utilised up to 30 June 2014.

20. Convertible Bonds at Fair Value through Profit and Loss

On 26 February 2013, the Company issued zero coupon United States dollar ("US dollar") denominated convertible bonds with the aggregate principal amount of US$500 million (approximately RMB3,141 million) (the "Bonds"). Each bond will, at the option of the holder, 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. Conversion may occur at any time on or after 8 April 2013 up to 16 February 2018. If the Bonds have not been converted, they will be redeemed on 26 February 2018 at 102.53 per cent of their principal amount. On 26 February 2016 (the "Put Option Date"), the holder of each Bond will have the right, at such holder's option, to require the Company to redeem all or some only of the Bonds of such holder on the Put Option Date at 101.51 per cent of their principal amount.

In accordance with the terms and conditions of the Bonds, the Company: (i) may at any time after 26 February 2016 and prior to the maturity date redeem in whole, but not in part, the Bonds for the time being outstanding at the early redemption amount, provided that (a) the closing price of the shares (translated into US dollar at the prevailing rate defined in the terms and conditions of the Bonds) for each of any 20 trading days within a period of 30 consecutive trading days, the last of which occurs not more than five trading days prior to the date upon which notice of such redemption is published was at least 130 per cent of the early redemption amount divided by the then prevailing conversion ratio (as defined in the terms and conditions of the Bonds agreement) and (b) the applicable redemption date does not fall within a closed period; or (ii) may at any time prior to the maturity date of the Bonds redeem in whole, but not in part, the Bonds for the time being outstanding at the early redemption amount provided that prior to the date of such notice at least 90 per cent in principal amount of the Bonds originally issued has already been converted, redeemed or purchased and cancelled.

The Bonds, are traded on the Singapore Exchange Securities Trading Limited, were designated as financial instrument at fair value through profit and loss and the over-the-counter market price represents the fair value of the Bonds.

As at 30 June 2014, the over-the-counter market price of the Bonds was US$629 million (approximately RMB3,869 million equivalently) (31 December 2013: US$644 million, approximately RMB3,925 million equivalently). There was fair value gain of approximately RMB56 million (six months ended 30 June 2013: loss of approximately RMB214 million). No conversion has been made up to 30 June 2014.

21. Deferred Income

During the current interim period, the Group received RMB197 million (six months ended 30 June 2013: RMB154 million) subsidies from the industrial customers to subsidise the construction cost of the main gas pipelines to the gas provision site and the gas storage.

22. Share Capital and Share Options

During the current interim period, there is no share option granted. As at 30 June 2014, the number of outstanding share options is 520,000 (31 December 2013: 600,000).

On 13 June 2014, 80,000 shares were issued at exercise price of HK$16.26 per ordinary share in relation to the exercise of outstanding share options, which was recognised in share capital and share premium of HK$8,000 (equivalent to approximately RMBnil million) and HK$1.3 million (equivalent to approximately RMB1 million) respectively. These shares rank pari passu with the then existing shares in all respects. There was no further ordinary share issue during the current interim period.

23. Acquisition of Business

a. Acquisition of business during the current interim period

On 25 March 2014, the Group acquired 80% of the registered capital of 長沙新奧瀏陽燃氣有限公司 ("Changsha Liuyang") at a cash consideration of RMB40 million. Changsha Liuyang is engaged in sales of piped gas. Changsha Liuyang was acquired with the objective of expansion in market coverage of business of the Group.

The provisional value of the assets and liabilities acquired at the date of acquisition were as follows:

	RMB million
Current assets	
Inventories	1
Trade and other receivables	3
Cash and cash equivalents	8
Non-current assets	
Property, plant and equipment	27
Intangible assets – exclusive right	36
Current liabilities	
Trade and other payables	(16)
Non-current liabilities	
Deferred tax liabilities	(9)
Net assets	50
Less: Non-controlling interests	(10)
Net assets acquired	40

23. Acquisition of Business *(continued)*

a. Acquisition of business during the current interim period *(continued)*

	RMB million
Goodwill arising on acquisition (determined on a provisional basis)	
Total consideration	40
Less: Net assets acquired	(40)
Goodwill arising on acquisition	–
Total consideration satisfied by:	
Cash	36
Consideration payables (included in other payables)	4
	40
Net cash outflow arising on acquisition:	
Cash consideration paid	(36)
Less: cash and cash equivalents acquired	8
	(28)

Impact of acquisition on the results of the Group

Had the acquisition of Changsha Liuyang has been effected at 1 January 2014, the revenue of the Group for the six months ended 30 June 2014 would have been approximately RMB14,360 million, and the profit for the current interim period would have been approximately RMB1,534 million. The proforma 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 acquisition been completed at 1 January 2014, nor is intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group, had Changsha Liuyang been acquired on 1 January 2014, the Directors have calculated depreciation and amortisation of property, plant and equipment, prepaid lease payment and intangible asset acquired on the basis of the provisional fair values rather than the carrying amounts recognised in the pre-acquisition financial statements.

b. Acquisition of business during the period ended 30 June 2013

On 23 May 2013, the Group acquired 100% of the registered capital of LNG Europe B.V. ("LNG Europe") at a cash consideration of EUR1.2 million (approximately RMB10 million). LNG Europe is engaged in wholesales of liquid and gaseous fuels and liquefied natural gas in Netherlands.

On 27 June 2013, the Group acquired further 51.13% of the registered capital of Heyuan Piped Gas at a cash consideration of RMB84 million which became a wholly owned subsidiary of the Group. Heyuan Piped Gas is the holding company of a group of companies engaging in the sales of piped gas in Guangdong province, the PRC.

Heyuan Piped Gas and LNG Europe were acquired with the objective of significantly improving market coverage in Guangdong province, the PRC and as a touchstone to expand business to European Zone.

23. Acquisition of Business *(continued)*

b. Acquisition of business during the period ended 30 June 2013 *(continued)*

In accordance with the sale and purchase agreement of the shares in LNG Europe (the "Sale and Purchase Agreement"), the vendors of LNG Europe agreed that the purchase price should be adjusted by: (1) the difference between the final net asset value and the fair value disclosed below; (2) the difference between the final value of property, plant and equipment and the fair value disclosed below; and (3) an additional payment between EUR360,000 to EUR840,000 depending on LNG Europe's actual performance comparing to the target sales volume of LNG to its carrier businesses customers and the target consolidated earnings before interest, taxes, depreciation and amortisation as set out in the Sale and Purchase Agreement for the next five years after the date of acquisition.

Consideration

	Heyuan Piped Gas RMB million	LNG Europe RMB million
Cash	84	5
Fair value of adjusted purchase price	–	5
	84	10

Acquisition-related costs have been excluded from the cost of acquisition and have been recognised as administrative expenses in consolidated statement of profit or loss and other comprehensive income during the period ended 30 June 2013.

The fair values of the assets and liabilities of Heyuan Piped Gas and LNG Europe at the date of acquisition are as follows:

	Heyuan Piped Gas RMB million	LNG Europe RMB million
Non-current assets		
Property, plant and equipment	112	3
Intangible assets – rights of operation	100	–
Prepaid lease payments	11	–
Current assets		
Inventories	3	–
Trade and other receivables	15	1
Cash and cash equivalents	21	1
Non-current liabilities		
Deferred tax liabilities	(25)	–
Current liabilities		
Trade and other payables	(73)	(5)
Net assets acquired	164	–

23. Acquisition of Business *(continued)*

b. Acquisition of business during the period ended 30 June 2013 *(continued)*

The fair value of intangible assets is determined based on the valuation report issued by an independent professional valuer and the management reasonable estimation in investment evaluation due diligence.

In accordance with the best estimation at acquisition date, the fair values of the receivables acquired in these transactions are the same as the gross contractual amounts.

Goodwill arising on acquisition

	Heyuan Piped Gas RMB million	LNG Europe RMB million
Consideration	84	10
Plus: Fair value of previously held interest	80	–
Less: Fair value of identified net assets acquired	(164)	–
Goodwill arising on acquisition	–	10

Goodwill arose on the acquisition of LNG Europe is attributable to its anticipated profitability and the anticipated future operating synergies from the combination.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

Net cash outflow arising on acquisition

	Heyuan Piped Gas RMB million	LNG Europe RMB million
Consideration paid in cash	–	(5)
Less: Cash and cash equivalent balances acquired	21	1
	21	(4)

Impact of acquisition on the results of the Group

Had the acquisition of LNG Europe and Heyuan Piped Gas been effected at 1 January 2013, the revenue of the Group for the period ended 30 June 2013 would have been approximately RMB10,420 million, and the profit for the period ended 30 June 2013 would have been approximately RMB1,049 million. The proforma 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 acquisition been completed at 1 January 2013, nor is intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group, had LNG Europe and Heyuan Piped Gas been acquired on 1 January 2013, the Directors have calculated depreciation and amortisation of property, plant and equipment, prepaid lease payment and intangible asset acquired on the basis of the fair values rather than the carrying amounts recognised in the pre-acquisition financial statements.

24. Disposal of a Subsidiary

On 8 May 2014, the Group disposed of 55% equity interest in 中海油新奥(北海)燃氣有限公司 ("Xinao Beihai") at cash consideration of RMB82 million to an independent third party (the "Buyer"). Pursuant to the revised articles of association of Xinao Beihai, the resolution for the financial and operation activities of Xinao Beihai can only be passed with a two-third majority. As a result, both the Group and the Buyer were unable to execute full control on Xinao Beihai and the remaining 45% controlling interest of Xinao Beihai was recognised as interest in joint ventures for the period ended 30 June 2014.

24. Disposal of a Subsidiary *(continued)*

The net consideration received from the transaction is summerised as follow:

Consideration:

	RMB million
Consideration receivable (out of which RMB7 million is not yet received and included as other receivable at 30 June 2014)	82

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

	RMB million
Current assets	
Cash and cash equivalents	1
Trade and other receivables	22
Inventories	8
Non-current asset	
Property, plant and equipment	147
Prepaid lease payment	6
Current liabilities	
Trade and other payables	(18)
Short term loan	(46)
Net assets	120

The gain recognised in profit or loss on loss of control of Xinao Beihai was calculated as below:

	RMB million
Fair value of the residual interest in Xinao Beihai recognised	67
Consideration received and receivable	82
Less: Net assets derecognised	(120)
	29
Less: Goodwill recognised previously	(15)
Gain on derecognition of a subsidiary with loss of control to a joint venture	14

Net cash inflow arising on disposal:

	RMB million
Cash consideration received	75
Cash and cash equivalents disposed of	(1)
	74

25. 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).

The Group measures its convertible bonds at fair value at the end of each reporting period on a recurring basis:

	Fair value as at			
	30 June 2014 RMB million	31 December 2013 RMB million	**Fair value hierarchy**	**Valuation technique**
Financial liabilities				
Convertible bonds	**3,869**	3,925	Level 2	Fair values are derived from quoted prices in an over-the-counter-market as adjusted for the effect of market activity level, if any

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 2014		At 31 December 2013	
	Carrying amount RMB million	**Fair value RMB million**	Carrying amount RMB million	Fair value RMB million
Financial liabilities:				
Corporate bond	**497**	**486**	497	509
Senior notes	**4,543**	**5,127**	4,498	4,932
Medium-term notes	**700**	**661**	700	689
Fixed rate bank loans	**450**	**447**	682	681

26. Commitments

(a) Capital commitments

	At 30 June 2014 RMB million	At 31 December 2013 RMB million
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided	**44**	55
Capital commitment in respect of investments in:		
– joint ventures	**93**	118
– associates	**17**	–

(b) Other commitments

As at 30 June 2014, the Group has commitment amounting to RMB45 million (31 December 2013: RMB46 million) in respect of acquisition of land use rights in the PRC.

27. Related Party Transactions

The Group has entered into the following transactions with its related parties during the period:

	Six months ended 30 June	
	2014 RMB million	2013 RMB million
Associates		
– Sales of gas to	**81**	27
– Sales of materials to	**22**	17
– Provision of gas transportation services to	**6**	–
– Purchase of gas from	**101**	97
– Loan interest received from	**1**	1
Joint ventures		
– Sales of gas to	**320**	129
– Sales of materials to	**33**	28
– Sales of equipment to	**206**	–
– Purchase of gas from	**835**	304
– Purchase of equipment from	**3**	–
– Provision of gas transportation services to	**103**	181
– Loan interest received from	**6**	3
– Loan interest paid to	**4**	2
– Provision of supporting services by	**13**	2
– Provision of construction services by	**17**	14

27. Related Party Transactions *(continued)*

	Six months ended 30 June	
	2014	2013
	RMB million	RMB million
Companies controlled by Mr. Wang a controlling shareholder and director of the Company		
– Sales of gas to	**4**	4
– Provision for construction services by	**106**	7
– Provision of efficiency technology services by	**12**	21
– Provision of gas connection service to	**1**	–
– Provision for property management services by	**8**	4
– Provision of maritime transportation services by	**4**	5
– Purchase of equipment from	**1**	–
– Lease of premises from	**1**	1
– Lease of premises to	**1**	–
– Provision of electronic business services by	**5**	–
– Sales of materials to	**2**	–
– Provision of administrative services by	**15**	10

The Company issued US$750 million senior notes (the "2021 Senior Notes") and the Bonds on 13 May 2011 and 26 February 2013, respectively. The terms and conditions of the 2021 Senior Notes and the Bonds require Mr. Wang to retain control over the Company throughout the term of the 2021 Senior Notes and the Bonds failing which the Company would be require to repurchase all outstanding notes and bonds at purchase price as governed in the relevant agreements.

As at 30 June 2014, the Group had issued guarantees to bank to secure loan facilities granted to associates and joint ventures to the extent of approximately RMB466 million (31 December 2013: RMB466 million). The amounts have been utilised on the balance date.

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

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Short-term employee benefits	**4,334**	4,898
Post-employment benefits	**58**	68
	4,392	4,966

Other Information

Disclosure of Interests

Directors' interests or short positions in shares and in share options

As at 30 June 2014, the interests and short positions of each Director of the Company 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 the SFO or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code"), Appendix 10 to the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange, 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 share capital as at 30 June 2014
Mr. Wang Yusuo ("Mr. Wang")	Interest of controlled corporation	326,095,000 (Note 1)	326,095,000	–	326,095,000	30.11%
Mr. Wang Guangtian	Beneficial owner	–	–	200,000	200,000	0.02%
Ms. Yien Yu Yu, Catherine	Beneficial owner	–	–	200,000	200,000	0.02%

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 (Ms. Zhao), the spouse of Mr. Wang.

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

Save as disclosed above, as at 30 June 2014, the register maintained by the Company pursuant to section 352 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 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 on the Company's ordinary shares in favour of certain Directors, the details of which are as follows:

Name of Director	Date of grant	Exercise period (Note 1)	Exercise price (HK$)	Number of shares subject to outstanding options as at 1 January 2014	Number of options exercised during the Period (Note 2)	Number of shares subject to outstanding options as at 30 June 2014 (Aggregate)	Approximate percentage of the Company's total issued share capital as at 30 June 2014 (Aggregate)
Mr. Wang Guangtian	14.06.2010	14.12.2010–14.06.2020	16.26	100,000	–	200,000	0.02%
	14.06.2010	14.06.2012–14.06.2020	16.26	100,000	–		
Ms. Yien Yu Yu, Catherine	14.06.2010	14.12.2010–14.06.2020	16.26	100,000	–	200,000	0.02%
	14.06.2010	14.06.2012–14.06.2020	16.26	100,000	–		
Mr. Kong Chung Kau (Note 3)	14.06.2010	14.12.2010–14.06.2020	16.26	100,000	(80,000)	120,000	0.01%
	14.06.2010	14.06.2012–14.06.2020	16.26	100,000	–		
Total				600,000	(80,000)	520,000	

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 2014 to 30 June 2014.
3. Mr. Kong Chung Kau has retired from director and did not offer himself for re-election at the Annual General Meeting held on 30 May 2014. The remaining of 120,000 share options have been also exercised in July 2014, being the date before the lapse of the options.

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, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate.

Substantial Shareholders

As at 30 June 2014, the interests and short positions of every person, other than Directors 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 the SFO were as follows:

Name of shareholder	Capacity	Interests in shares Corporate interests	Total interests in shares	Total aggregate interests in shares and underlying shares	Approximate percentage of the Company's total issued share capital as at 30 June 2014
Mr. Wang	Interest of controlled corporation	326,095,000 (Note 1)	326,095,000	326,095,000	30.11%
Ms. Zhao	Interest of controlled corporation	326,095,000 (Note 1)	326,095,000	326,095,000	30.11%
EGII	Beneficial owner	326,095,000 (Note 1)	326,095,000	326,095,000 (L)	30.11%
The Capital Group Companies, Inc	Interest of controlled corporation	128,758,596 (Note 2)	128,758,596 (Note 2)	128,758,596 (Note 2)	11.89%
Capital Research and Management Company	Investment manager	128,156,700	128,156,700	128,156,700	11.83%
Commonwealth Bank of Australia	Interest of controlled corporation	86,186,000	86,186,000	86,186,000	7.96%
JPMorgan Chase & Co.	Beneficial owner, investment manager and custodian corporation/approved lending agent	76,263,713 (L) (including 54,891,239 (P)) 1,640,731 (S)	76,263,713 (L) (including 54,891,239 (P)) 1,640,731 (S)	76,263,713 (L) (including 54,891,239 (P)) 1,640,731 (S)	7.04% (L) (including 5.06% (P)) 0.15% (S)

Notes:

1. The three references to 326,095,000 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. Of these shares, 128,156,700 shares are held by Capital Research and Management Company (a company which is wholly owned by the Capital Group Companies, Inc.)
3. (L) represents Long Position; (S) represents Short Position; (P) represents Lending Pool.

Save as disclosed above, as at 30 June 2014, the register maintained by the Company pursuant to section 336 of the SFO recorded no other interests or short positions in shares and underlying shares of the Company. Save for the shareholders as disclosed herein, the Directors are not aware of any persons who, as at 30 June 2014, 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.

Share Option Scheme

The Company has adopted a share option scheme (the "2002 Scheme") pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on 21 May 2002.

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 during the Period:

Grantee	Date of grant	Exercise period (Note 1)	Exercise price (HK$)	Number of shares subject to outstanding options as at 1 January 2014	Number of options exercised during the Period (Note 2)	Number of shares subject to outstanding options as at 30 June 2014 (Aggregate)	Approximate percentage of the Company's total issued share capital as at 30 June 2014 (Aggregate)
Directors	14.06.2010	14.12.2010–14.06.2020	16.26	300,000	(80,000)	520,000 (Note 4)	0.05%
	14.06.2010	14.06.2012–14.06.2020	16.26	300,000	–		
Total				600,000	(80,000)	520,000	0.05%

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 2014 to 30 June 2014.
3. The closing market price per share immediately preceding the date on which the share options were exercised was HK$53.45.
4. Included in the number of outstanding share options were 120,000 share options granted to Mr. Kong Chung Kau, who has retired from director in May 2014, but such outstanding options were not yet lapsed as at 30 June 2014.

No share option was granted, cancelled or lapsed under the 2002 Scheme during the Period.

The 2002 Scheme has expired on 20 May 2012, and upon its expiration, no further options could be granted thereunder; however, the rules of the 2002 Scheme will remain in full force and effect to the extent necessary to give effect to the exercise of options granted prior to its expiration or otherwise as may be required in accordance with the rules of the 2002 Scheme. Therefore, the expiration of the 2002 Scheme will not in any event affect the terms of the grant of such outstanding options that has already been granted under the 2002 Scheme and the above outstanding options granted under the 2002 Scheme shall continue to be subject to the provisions of the 2002 Scheme.

The Company has adopted a new share option scheme (the "2012 Scheme") pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 26 June 2012. No share option has been granted under the 2012 Scheme yet.

Purchase, Sale Or Redemption of Listed Securities

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

Audit Committee

The Company established an Audit Committee on 28 March 2001. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control (including financial control, operational control, compliance control, risk management function and the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function, as well as their training programmes and budget) and financial reporting matters. The Audit Committee currently comprised of all members who are all Independent Non-executives Directors. Mr. Kong Chung Kau ceased as the member and Chairman of the Audit Committee on 30 May 2014. Ms. Yien Yu Yu, Catherine has been appointed as the Chairperson. Mr. Lim Haw Kuang and Mr. Zhang Gang ceased as the members of Audit Committee on 24 March 2014. Mr. Yuen Po Kwong, Mr. Ma Zhixiang and Mr. Law Yee Kwan Quinn have been appointed as the additional member of Audit Committee on 24 March, 24 March and 30 May 2014 respectively. An audit committee meeting was held on 21 August 2014 to review the unaudited interim results and interim financial report for the six months ended 30 June 2014. Deloitte Touche Tohmatsu, the Group's external auditors, have carried out a review of the unaudited interim financial report for the six months ended 30 June 2014 in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

The Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as contained in Appendix 10 to the Listing Rules. Specific enquiries have been made with all Directors who have confirmed that they have complied with the required standard set out in the Model Code and the code of conduct regarding Directors' securities transactions during the Period.

The Corporate Governance Code

To the knowledge of the Board, the Company has complied with the Code Provisions set out in the Corporate Governance Code (the "Code") as contained in Appendix 14 to the Listing Rules throughout the Period except a deviation from Code Provision E.1.2., Mr. Wang Yusuo (Chairman of the Board) was unable to attend the annual general meeting of the Company held on 30 May 2014 due to business trips. Alternatively, Mr. Han Jishen, the Executive Director and President of the Company, attended and acted as the chairman of the said annual general meeting.

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

On 13 May 2011 and 26 February 2013, the Company issued 10-year senior notes (the "2021 Senior Notes") and 5-year zero coupon convertible bonds (the "Bonds") with the principal amount of US$750 million (equivalent to RMB4,543 million) and US$500 million (equivalent to RMB3,141 million) respectively. Both of the 2021 Senior Notes and the Bonds with terms and conditions require Mr. Wang, the controlling shareholder of the Company, to retain at least 25% of the total issued share capital of the Company throughout the term of the relevant agreements.

Interests in Competitors

During the Period, none of the Directors or the management shareholders of the Company or their respective associates had an interest in a business which competes or may compete with the business of the Group.

By order of the Board
WANG Yusuo
Chairman

Hong Kong, 22 August 2014

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