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

DOUBLING OUR GROWTH DRIVERS
雙倍增長動力

INTERIM REPORT 2016
二零一六年中期業績報告

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FINANCIAL AND OPERATIONAL HIGHLIGHTS

Dear Shareholders,

The Board of Directors (the "Board") 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 2016 (the "Period") was RMB1,587 million, representing an increase of RMB360 million or 29.3% as compared to RMB1,227 million for the corresponding period last year.

Business Review

In the first half of 2016, the economic benefit of natural gas over substitute energy has been restored after the gas price cut in November last year and the gradual recovery of international oil price since the beginning of the year. Coupled with the continuous promotion of natural gas utilisation projects including "coal-to-gas" conversion by the People's Republic of China ("PRC") government with an aim to improve air quality, downstream natural gas market demand has gradually improved. According to the figures from the National Development and Reform Commission ("NDRC"), the national apparent consumption of natural gas in the first half of the year amounted to 99.5 billion cubic metres, up 9.8% year-on-year. Despite the challenging operating environment still persisted, with the concerted efforts of the Group's employees, its core businesses continued to record strong growth. During the Period, the Group's total natural gas sales volume was 6,479 million cubic metres, up 17.2% over the corresponding period last year. For the half year ended 30 June 2016, the Group's turnover and profit attributable to shareholders amounted to RMB15,639 million and RMB1,587 million, down 1.6% and up 29.3% over the corresponding period last year respectively. Earnings per share increased by 29.3% to RMB1.47. Excluding the impact from other gains and losses and amortisation of share option expenses, core profit grew by 19% to RMB1,652 million. The Group will continue to leverage on favourable government policies to promote the usage of natural gas, and will ride on its competitive edge to further develop existing core businesses while proactively develop new synergistic businesses, so as to expand its revenue stream and increase shareholders' return.

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		Increase/ (Decrease)
	2016 (Unaudited)	2015 (Unaudited)	
Revenue (RMB million)	**15,639**	15,887	(1.6%)
Gross profit (RMB million)	**3,732**	3,243	15.1%
Profit attributable to owners of the Company (RMB million)	**1,587**	1,227	29.3%
Basic earnings per share (RMB)	**1.47**	1.13	29.3%
Connectable urban population	**72,136,000**	65,625,000	9.9%
Connectable residential households	**24,045,000**	21,875,000	9.9%
New natural gas connections made during the Period:			
– residential households	**907,168**	791,822	14.6%
– commercial/industrial ("C/I") customers (sites)	**4,830**	4,621	209
– installed designed daily capacity for C/I customers (m^3)	**6,059,148**	4,225,616	43.4%
Accumulated number of connected piped gas (including natural gas) customers:			
– residential households	**13,233,204**	11,396,420	16.1%
– C/I customers (sites)	**61,688**	52,310	9,378
– installed designed daily capacity for C/I customers (m^3)	**64,667,309**	54,468,771	18.7%
Piped gas (including natural gas) penetration rate	**55.0%**	52.1%	2.9%
Total gas sales volume ('000 m^3)	**6,493,193**	5,550,601	17.0%
Natural gas sales volume ('000 m^3)	**6,479,425**	5,526,877	17.2%
– Unit of natural gas sold to residential households ('000 m^3)	**954,211**	775,581	23.0%
– Unit of natural gas sold to C/I customers ('000 m^3)	**3,744,428**	3,486,368	7.4%
– Unit of natural gas sold to vehicles ('000 m^3)	**758,906**	743,168	2.1%
– Unit of wholesale gas sold ('000 m^3)	**1,021,880**	521,760	95.9%
Number of vehicle gas refuelling stations	**587**	543	44
Number of natural gas processing stations	**161**	155	6
Total length of existing intermediate and main pipelines (km)	**31,204**	29,637	5.3%

City-gas Business

Residential Customers

During the Period, the Group's residential natural gas sales volume was 954 million cubic metres, up 23% over the corresponding period last year. The rapid growth of residential gas sales volume was mainly due to last year's newly connected residential customers gradually started gas consumption, their gas consumption was relatively stable, and with improving living standards, more residential households adopt individual natural gas heating system not only in the northern regions, but also in the southern part of China during winter. The Group took the initiative to establish residential tier-pricing mechanism in its city-gas projects. As of the end of June this year, the Group had a total of 104 projects with residential tier-pricing mechanism, relevant preparations to set up such mechanism were in progress for remaining projects. It is expected that residential gas sales dollar margin will gradually reach reasonable levels when more projects execute residential tier-pricing mechanism.

Commercial/Industrial ("C/I") Customers

During the Period, the Group's C/I natural gas sales volume was 3,744 million cubic metres, representing a growth of 7.4% over the corresponding period last year. The Group kept up its proactive customer management policies, enhanced customer relationship with key accounts so as to understand their needs and difficulties through regular communications. Leveraging on natural gas price cut, the Group adopted flexible pricing strategy taking into consideration the affordability of its customers and the price of substitute energy, thus, successfully retained existing gas usage and expanded new usage even under the challenging environment. The Group also took advantage of more competitive gas price to actively expand its distributed energy businesses, and develop new C/I customers utilising distributed energy technology, such as hospitals, airports and urban complexes, so as to boost its gas sales volume. Meanwhile, the Group pushed forward the implementation of "coal-to-gas" conversion together with local governments, and attracted customers to use natural gas by providing them with energy conservation solutions and lowering their overall energy consumption costs. It is worth noting that tertiary industries have become the new driver of economic growth in China under the transformation of national economic structure. In the first half of the year, the Group continued its proactive effort in developing more commercial customers who had higher affordability and stable demand to further optimise our customer base.

New Customers Development

During the Period, the Group's gas connection revenue was RMB2,900 million, up 13.4% over the corresponding period last year.

The Group connected 907,168 residential households during the Period, and the average connection fee was RMB2,718 per residential household. As at 30 June 2016, the aggregate number of connected piped gas (including natural gas) residential households reached 13,233,204, representing an increase of 16.1% over the corresponding period last year.

In the first half of the year, the government played an active role in facilitating the healthy development of real estate market by destocking and adopting a series of easing measures for home purchases, such as lowering the ratio of down payment and interest rate, the real estate market therefore showed signs of recovery. According to the "Recommendations for the Development of the National Economy and Society under the 13^{th} Five-year Plan from the Central Government", the current urbanisation rate in the PRC reached 55%. It was proposed in the new urbanisation plan that the urbanisation rate would reach 60% by 2020, implying that urbanisation will advance steadily in the next few years, creating significant housing demand. By grasping the opportunities raised by the recovery of the real estate industry, the Group has edged up its efforts in developing new buildings connections, while also sparing more efforts on exploring the market potential of unconnected old buildings. To date, the Group's city-gas projects in China covered a connectable population of 72.14 million with an average gas penetration rate of only 55%. Given the gas penetration rate of mature city-gas projects could reach above 80%, there is still significant room for the Group to connect old buildings.

During the Period, the Group connected 4,830 C/I customers (with total installed designed daily capacity of 6,059,148 cubic metres), and the average connection fee was RMB126 per cubic metre. As of the end of June 2016, the Group's aggregate number of connected piped gas (including natural gas) C/I customers reached 61,688 (with total designed installed daily capacity of 64,667,309 cubic metres).

The National Energy Administration indicated that China should aim at green and low-carbon development during the 13^{th} Five-year Plan period and implement control on both total energy consumption volume and intensity. Targets of the plan included more stringent control on coal consumption reduction, substitution of coal in key regions, and increasing the proportion of natural gas and non-fossil energies in the energy mix. In 2016, China would strive to eliminate obsolete coal production capacity of 60 million tonnes. It also suspended the approval of new coal mine projects in the next three years. It is expected that the volume of natural gas required for "coal-to-gas" conversion would reach 112 billion cubic metres by 2020. During the Period, the Group captured opportunity brought by the "coal-to-gas" initiative, conducted many conversions from industrial coal-fired boilers and kilns with stable energy usage. The Group also provided energy conservation solutions to industrial customers so as to lower their overall energy costs and enhance energy efficiency. During the Period, "coal-to-gas" conversion accounted for 44% of the newly developed C/I customers, showing continuous growth. The Group believes that with the steady promotion of "coal-to-gas" conversion in all province, it would become one of the drivers for the Company's continuous growth of natural gas sales in the future.

China is currently in progress of economic structural reform, and tertiary industries, mainly modern service industries with continuous growth such as catering, tourism and internet e-commerce, have already become the new momentum for economic development in China. As such, the Company actively explored this type of commercial customers to optimise its customer base. In the first half of 2016, out of the 6,059,148 cubic metres of newly connected C/I customers, the share of commercial customers increased from 19% to 47%, up 28 percentage points over the corresponding period last year.

New Projects

In line with its strategy of building a city-gas network around major project cities, the Group stepped up its expansion effort in areas such as major cities and peripheral counties, industrial parks and densely-populated new towns by way of participation in bidding and tendering organised by the government, forging alliances and cooperation as well as project acquisition. At the same time, the Group continued to promote alliances and co-operation with other gas distributors to tap into new markets, and acquired new industrial parks and development zones via offering integrated energy solutions through distributed energy technology. The Group managed to acquire 6 new projects in the first half of the year with additional connectable urban population of 600,000 on the back of its outstanding management system, solid track record and ability to secure gas supply. It also secured 5 new concessions nearby existing projects, further expanding its operational coverage. As of 30 June 2016, the Group had 158 projects in China, covering a connectable population of 72.14 million.

Projects	The Group's shareholding	Major industries
1. Dingzhou, Hebei	51%	Energy, automobiles and components, coal chemicals and food processing
2. Changle County, Shandong	70%	Chemicals, construction materials, paper making, machinery and plastic production
3. Gongyi Private Technology and Innovation Park, Henan	70%	Metallic products production and precision medical machinery manufacturing
4. Shenzhen Bao'an (Longchuan) Industrial Park, Guangdong	70%	Electronics and electrical appliances
5. Liaoning Yingkou Industrial Park, Liaoning	24%	Equipment manufacturing, shipbuilding, logistics, petrochemical and electronic information
6. Rizhao Haiyou Economic Development Zone, Shandong	60%	Petrochemicals, new materials, warehousing and logistics, machinery production and construction materials

The 5 new concessions nearby existing projects include:

Provinces	Operational areas
Anhui Province	Sanbing Town and Ba Town in Chaonan District, Chaohu
Hebei Province	Mengjin Luobei Modern Service Industry Zone and Langfang Airport New Zone
Henan Province	Luoyang Tianzhuang Industry Zone

Vehicle Refuelling and Bunkering Business

Construction and Operation of Vehicle Gas Refuelling Stations

During the Period, the Group's vehicular natural gas sales volume in the PRC increased by 2.1% to 759 million cubic metres, of which the gas sales volume of CNG decreased by 12.2% to 436 million cubic metres and the gas sales volume of LNG increased by 30.9% to 323 million cubic metres. During the Period, 9 CNG refuelling stations and 2 LNG refuelling stations were constructed and put into operation, bringing the total number of CNG and LNG refuelling stations to 315 and 272 respectively.

The decline in CNG gas sales was mainly attributable to the fact that oil price still hovered at low levels even though there was slight rebound in the first half of 2016, thus, the price competitiveness of natural gas over gasoline was not restored to the previous level in some regions. In addition, popular internet vehicle hailing services in the mainland affected the business of traditional taxis, and the measures on promoting electric vehicles implemented by local governments also affected the utilisation of CNG refuelling stations. On the contrary, LNG gas sales remained the stronger growth driver which benefited from the targeted market development strategies adopted by the Group. In the northern regions where economic benefits are of greater concern, the Group rapidly developed the market via alliances and market-driven pricing strategies to develop more new LNG vehicle users. Whereas in the southern regions, the Group actively communicated with the governments and public transport companies so as to increase the penetration rate of LNG passenger vehicles.

Impacted by the contracted oil and gas price differences, the refuelling station business is currently encountering considerable challenges, yet such an environment also gives the Group a chance for market consolidation. Leveraging its sound brand image and operational experience, the Group fostered the co-operation with PetroChina and Sinopec in the construction of stations, and expanded our influence and market share through alliances and co-operation. The Group continued to expand customer base and, on top of traditional users such as taxis, public transport and heavy-duty trucks, reinforced the development of social vehicles such as vehicles for internet car hailing and urban public services. The Group optimised its stations and implemented an accountability system for each station, which is a profit-based business incentive mechanism that can enhance the operational efficiency and profitability of its existing stations. At the same time, the gas sales volume was boosted via the "Smart Card" alliance by optimising the station network, capturing more customer resources as well as organising and implementing cross-regional joint marketing. With topped-up membership cards, customers could refuel at the refuelling stations and alliance stations, which offered solutions to refuelling along the transportation route, while materialising resources sharing and enhanced customers loyalty, and in turn raised the overall business competitiveness within the region. In addition, the "E vehicle E station" brand on the provision of value-added businesses – such as express repair, supermarket and insurance – was commenced in refuelling stations at the beginning of the year in order to enhance customer loyalty and broaden revenue streams. At present, "E vehicle E station" supermarkets became operational in 4 refuelling stations in Langfang and Dongguan, which received great responses from customers. It is planned that the "E vehicle E station" brand value-added service will continuously extend into more refuelling stations.

Development of LNG Bunkering Business

In the first half of the year, the Group's LNG bunkering barge in Xijiang, Guangxi, continued to provide bunkering services for Run Gui's No. 629 bulk freighter. Besides, the Group signed bunkering service agreement with CNOOC's tugboats in May this year and completed the bunkering for CNOOC's 525/526 tugboats. Looking ahead, the Group will continue to co-operate with various governmental departments to establish favourable industry policies and standards, while fostering alliances and co-operation with shipping companies, port and shipping authorities and various provincial and municipal transportation departments to seize opportunities to set up more stations at major ports and to facilitate market development for newly built vessels and vessel conversion, and to explore integrated clean energy solutions for vessels.

North American Gas Refuelling Business

In the first half of 2016, the vehicle refuelling stations in North America generated a revenue of RMB78 million, up 23.8% year-on-year. Under the operating environment with relatively small price differences between oil and gas, the Group shared the tax rebate of USD0.50/gallon from the sales of LNG with some of its customers in North America, while implemented measures such as strengthening cost control and selling diesel in some stations, the Group managed to narrow the net loss recorded in the region's gas refuelling business.

Development of New Businesses

Energy Trading Business

During the Period, the Group's wholesale volume of natural gas reached 1,022 million cubic metres, representing a significant year-on-year growth of 95.9%. The Group continued to supply natural gas to those customers yet to be covered by natural gas pipeline network and also offered LNG distribution service to Sinopec and CNOOC from their LNG terminals. In the first half of the year, sufficient LNG supply in China kept the downstream selling price at low level, thus, downstream demand remained robust. The Group capitalised on the sufficient gas sources and favourable distribution environment to vigorously extend its reach to users, thus, the gas sales volume for wholesale business recorded significant growth. The Group will continue to utilise its logistics fleet with a total capacity up to 22.6 million cubic metres, natural gas trading platform and solid upstream resources procurement capability to develop its gas wholesale business and enhance its profitability with this asset-light business model.

Development of Distributed Energy Project

With the growing energy demand, rising pressure to achieve energy savings and emissions reduction, and the introduction of supportive government policies, China became one of the fastest growing markets in the world for distributed energy. The NDRC promulgated the "Guiding Opinions on Promoting the Development of 'Internet + Smart Energy" on 29 February 2016, and proposed the establishment of an integrated energy network based on smart power grid with connection to various kinds of networks, such as thermal pipelines and natural gas pipeline network, as well as with the co-ordinated operation of concentrated and distributed energy. Establishment of infrastructure for flexible conversion, effective storage and smart co-ordination of different kinds of energy, including electricity, cooling, heating and natural gas, would also be promoted and supported.

Riding on favourable policies and opportunities offered by the country's electricity market reform, the Group proactively developed its distributed energy business with a focus on public utilities and industrial parks customers, and customised suitable energy system based on different customers' energy demand to boost natural gas sales volume. During the Period, the Group signed 6 new distributed energy projects, including Suqian Binhai New Zone project, Bengbu Huaxia Yungu micro grid project, Dongguan Haofeng Machong Industrial Park, Huzhou Central Hospital, Wenzhou Jinhai New Zone and Hangzhou Shengda Industrial Park. As of the first half of the year, 2 projects, namely Changsha Huanghua Airport and Yancheng Tinghu Hospital, have been connected to the power grid and in full operation, while 5 projects, namely, Zhuzhou Vocational City, Zhuzhou Shennong City, Zhaoqing New Zone, Qingdao Sino-German Ecopark and Shijiazhuang Junlebao, have realised partial energy supply.

Progress of Electricity Sales Business

During the Period, the country's electricity reform has further accelerated its progress with the introduction of regulations on electricity reform in 5 provinces and cities, including Yunnan, Guangdong, Shenzhen, Chongqing and Shanxi. On 7 March 2016, the "Implementation Plan on Electricity Marketisation and Trading in Yunnan for 2016" was promulgated in Yunnan Province, proposing the establishment of an intra-provincial and cross-regional electricity trading market for power plants, users and electricity sales companies to conduct annual, monthly and daily transactions for incremental capacity. It is the first detailed implementation plan on electricity market trading nationwide. On 15 June 2016, the "Notice on Issues Regarding to Direct Trading between Large-scale Electricity Users and Power Generation Enterprises for 2016" was promulgated in Guangdong Province. It addressed the electricity sales companies as main entities for the first time, and stipulated that electricity sales enterprises on the list of provincial electricity sales enterprises – after having registered with the Guangdong Electricity Trading Centre – are allowed to trade electricity directly with C/I users and power generation enterprises.

The Group announced on 8 January 2016 that it would explore and enter into the electricity sales business in Kunming High Tech Zone in Yunnan and Zhaoqing New Zone in Guangdong as pilot projects. The Group will fully utilise its existing customer resources from its city-gas business, and take advantage of its distributed energy technology, to provide customers with customised integrated energy usage solutions to realise combined sales of gas and electricity. The Group will also co-operate with different high-tech zones, economic and technology development zones, industrial parks, logistics parks to facilitate the development of new customers, so as to create new revenue streams for the Group.

International Awards

With steady growth in operating results and enhanced management capability, the Group received the following honours in the first half of 2016:

- "Best CFO" (second place in power sector) and "Best Analyst Days" (third place in power sector) in 2016 All-Asia Executive Team Rankings by Institutional Investor, an international financial magazine highly recognised by investment professionals;
- "China Top 500 in 2016" by Fortune Magazine; and
- "Top 100 Hong Kong-listed Companies in 2015" organised by QQ.com and Finet.

These accolades demonstrate the industry's widespread recognition of the Group's commitment to enhance investor relations and transparency in the past year, and prove that the business performance, corporate governance and fulfilment of social responsibilities of the Group has gained recognition from investors, shareholders and industry analysts. In view of this, the Group will continue to redouble its efforts to ensure that investors and shareholders can share its fruitful results.

Human Resources

As at 30 June 2016, the Group employed a total of 28,127 employees. 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 bonuses, retirement benefits, professional training and share option schemes.

Share Option Incentive Scheme

To enable the directors of the Company (the "Directors") and certain employees to enjoy the benefits brought by the Company's growth and to incentivise their enthusiasm, motivation and creativity in the challenging business environment, thereby enhancing operating performance and core competitiveness, the Group granted a total of 12 million share options to them on 9 December 2015. Such share options have an exercise price of HK$40.34 per share and are valid for a period of 10 years (commencing on 9 December 2015 and ending on 8 December 2025).

The Group recognised share-based payment expenses of RMB28 million and no option was exercised during the Period.

Financial Resources Review

Key Financial Data

During the Period, although the Company recorded growth in its gas sales volume, the total revenue decreased by 1.6% year-on-year to RMB15,639 million due to the natural gas price cut. Revenue attributable to piped gas sales, the vehicle gas refuelling business and gas connection decreased by 9.9%, 17.3% and increased by 13.4% to RMB8,672 million, RMB1,621 million and RMB2,900 million, respectively, while revenue from wholesale of gas, sales of gas appliances and materials, and sales of other energy reached RMB2,138 million, RMB238 million and RMB70 million, respectively, representing increases of 37.7%, 52.6% and 89.2%. During the Period, the Group's overall gross profit margin and net profit margin were 23.9% and 13.0% respectively, representing an increase of 3.5 percentage points and 3.2 percentage points respectively. The increase in gross profit margin was mainly due to smaller base of sales price after the natural gas price cut which drove up the gross profit margin of piped gas sales, while the increase in net profit margin was also due to the dividend income from Sinopec Marketing Co., Ltd. and better operating efficiency.

Liquidity and Financial Resources

As at 30 June 2016, the Group's total debts amounted to RMB13,676 million (31 December 2015: RMB15,680 million) and the bank balances and cash for the purpose of computing net gearing ratio amounted to RMB5,404 million (31 December 2015: RMB7,355 million). The Group's net gearing ratio, i.e. ratio of net debt to equity (including non-controlling interests), was 48.5% (31 December 2015: 51.7%).

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, working capital requirements and repayment of debts.

Borrowings Structure

As at 30 June 2016, the Group's total debts included fixed rate bonds of USD715 million (equivalent to RMB4,685 million) and USD65 million (equivalent to RMB426 million), zero coupon convertible bonds of USD500 million (equivalent to RMB3,477 million), as well as fixed rate bond of RMB2,500 million. The bank and other loans are denominated in Renminbi ("RMB") and bear interest at the interest rate announced by the People's Bank of China. Except for the loan amount equivalent to RMB376 million that are secured by assets with a carrying value equivalent to RMB11 million and the Group's rights to receive gas connection and gas supply fee income of certain subsidiaries and joint ventures, all of the other loans are unsecured. Short-term loans amounted to RMB1,134 million while the remaining were long-term loans falling due after one year or above.

Maximum Five-year 3.68% Fixed Rate RMB Bonds

On 18 December 2015, the Group issued five-year bonds in the aggregate principal amount of RMB2,500 million for the replacement of part of the USD400 million 3.25% bonds due in 2019. The coupon of the bonds is 3.68% and have a term of not more than 5 years (with an option for the issuer to raise the coupon rate and for the investors to put at the end of the third year). The bond was listed on the Shanghai Stock Exchange on 2 February 2016.

Five-year 3.25% Fixed Rate Bonds

On 23 October 2014, the Company issued five-year bonds in the aggregate principal amount of USD400 million with issue price of 99.502% and redemption price of 100%. The coupon of the bonds is 3.25%, and interests are paid semi-annually. The terms of the bonds require Mr. Wang Yusuo, Chairman of the Company ("Mr. Wang"), to retain not less than 20% of the issued share capital of the Company throughout the term of the bonds. To respond to the influence brought by RMB depreciation, in 2015, the Company repurchased approximately USD335 million principal amount of the bonds for cash. The principal amount of the bonds outstanding as at 30 June 2016 amounted to approximately USD65 million.

Ten-year 6% Fixed Rate Bonds

On 13 May 2011, the Company issued 10-year bonds in the aggregate principal amount of USD750 million with an issue price of 99.274% and a redemption price of 100%. The coupon of the bonds is 6%, and interests are paid semi-annually. The terms of the bonds require Mr. Wang to retain not less than 25% of the issued share capital of the Company throughout the term of the bonds. The Company repurchased a principal amount of USD35 million of the bonds in 2015. The principal amount of the bonds outstanding as at 30 June 2016 amounted to USD715 million.

Five-year Zero Coupon Convertible Bonds

On 26 February 2013, the Company issued zero coupon USD denominated convertible bonds with the aggregate principal amount of USD500 million. Each bond will, at the option of the bondholders, be convertible into fully paid ordinary shares with a par value of HK$0.10 each in the issued and paid up capital of the Company at an initial conversion price of HK$48.62 per share. 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. If the Bonds are converted into shares, they will be converted into 79,778,897 ordinary shares, representing 7.37% of the total issued share capital of the Company.

For details of major terms about the Bonds, please refer to the announcement in relation to the proposed issue of the Bonds published on 30 January 2013 and the "Offering Memorandum" attached in the overseas regulatory announcement published on 27 February 2013.

As at 30 June 2016, no Bonds were converted into ordinary shares.

Foreign Currency Risk

As the major operations of the Group are in China, revenues and expenses were mainly denominated in RMB, therefore, the Group is not exposed to significant foreign currency risk from operation.

The Company is exposed to foreign currency risk mainly arising from various bonds denominated in United States dollar ("USD"). As at 30 June 2016, the Group's USD debt amounted to USD1,280 million (31 December 2015: USD1,394 million) with the breakdown as below:

USD debt	Maturity date	As at 30 June 2016 USD
Ten-year 6% Fixed Rate Bonds	13 May 2021	715 million
Five-year 3.25% Fixed Rate Bonds	23 October 2019	65 million
Five-year Zero Coupon Convertible Bonds	26 February 2018	500 million

In response to the risk of RMB depreciation, the Group early repaid a bank loan of USD114 million (equivalent to approximately RMB739 million). In addition, the Company entered into structured foreign currency forward contracts with certain financial institutions to manage its foreign currency risk. The Board will continue to monitor the trend on the market interest rate and exchange rate closely and take appropriate actions when necessary.

Financial Guarantee Liability

As at 30 June 2016, the Group had issued guarantees to banks to secure loan facilities granted to associates and joint ventures to the extent of approximately RMB320 million (31 December 2015: RMB320 million). The loan facilities have been utilised at the end of the reporting date.

Commitments

(a) Capital commitments

	At 30 June 2016 RMB million	At 31 December 2015 RMB million
Capital expenditure in respect of acquisition of property, plant and equipment contracted but not provided for	**189**	281
Capital commitment in respect of investments in:		
– joint ventures	**251**	48
– associates	**134**	17
– share acquisition	**183**	112

(b) Other commitments

As at 30 June 2016, the Group has commitment amounting to RMB25 million (31 December 2015: RMB47 million) in respect of acquisition of land use rights in the PRC.

Strategies and Prospects

Pursuant to the 13th Five-year Plan, the PRC government will continue to provide great support for the development of natural gas industry. As at the end of 2015, the proportion of natural gas in primary energy consumption in the PRC only accounted for 5.9%, and the government has reiterated the targets of increasing the proportion of natural gas consumption to 10% and 15% by 2020 and 2030 respectively. To attain such goals, the PRC government has successively launched various important development plans over 2020, including the "National New Urbanisation Plan (2014-2020)", the "National Energy Development Strategy Action Plan (2014-2020)" and the "Work Plan on Strengthening Air Pollution Prevention and Control in Energy Industry". By submitting treaty documents to the United Nations in the Paris Climate Change Conference in June last year, China has committed to reduce the proportion of carbon dioxide emission per gross domestic product unit by 60%-65% in 2030 as compared to 2005.

In the future, the Group will establish and consistently implement market-oriented corporate development strategies taking into full consideration the macro-economic trend and the development trend of natural gas industry. The Group will make innovations and thoroughly unleash its potential to foster a solid growth of its core city-gas business, optimise vehicle gas refuelling stations network to enhance profitability, speed up the deployment of electricity sales business and advance the implementation of distributed energy projects. On the back of its scalable logistics fleet resources and the capabilities of upstream resources procurement and downstream market exploration, the Group will continue to develop wholesale of gas business and accelerate value-added businesses to diversify its revenue streams. The Group will ensure the completion of its annual operation targets and lay a strategic foothold for its future development.

As 2016 marks the beginning of the 13th Five-year Plan, the Group will continue to seize the opportunities and leverage its strengths to adapt to any changes in the market and to meet its customers' needs. Apart from making significant contributions to environmental protection and the energy sector both within and beyond the country, the Group will also maximise the long-term interests of its shareholders, customers and employees, as well as to society and itself.

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 15 to 47, which comprise the condensed consolidated statement of financial position as of 30 June 2016 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

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

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
23 August 2016

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016

		Six months ended 30 June	
	Notes	**2016 RMB million (unaudited)**	2015 RMB million (unaudited)
Revenue	3	**15,639**	15,887
Cost of sales		**(11,907)**	(12,644)
Gross profit		**3,732**	3,243
Other income	4	**349**	203
Other gains and losses	5	**(37)**	(161)
Distribution and selling expenses		**(252)**	(240)
Administrative expenses		**(1,040)**	(990)
Share of results of associates		**40**	42
Share of results of joint ventures		**262**	297
Finance costs	6	**(303)**	(264)
Profit before tax	7	**2,751**	2,130
Income tax expense	8	**(714)**	(572)
Profit for the period		**2,037**	1,558
Other comprehensive income (expense)			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translating foreign operations		**26**	(2)
Other comprehensive income (expense) for the period		**26**	(2)
Total comprehensive income for the period		**2,063**	1,556
Profit for the period attributable to:			
Owners of the Company		**1,587**	1,227
Non-controlling interests		**450**	331
		2,037	1,558
Total comprehensive income for the period attributable to:			
Owners of the Company		**1,613**	1,225
Non-controlling interests		**450**	331
		2,063	1,556
		RMB	RMB
Earnings per share	10		
Basic		**1.47**	1.13
Diluted		**1.30**	1.13

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2016

	Notes	At 30 June 2016 RMB million (unaudited)	At 31 December 2015 RMB million (audited)
Non-current assets			
Property, plant and equipment	11	**21,326**	21,121
Prepaid lease payments	11	**1,207**	1,190
Investment properties	11	**114**	114
Goodwill		**767**	752
Intangible assets	12	**1,464**	1,454
Interests in associates		**1,080**	1,024
Interests in joint ventures		**3,616**	3,810
Available-for-sale financial assets	13	**4,169**	4,169
Derivative financial instruments	14	**23**	–
Other receivables	15	**18**	27
Amounts due from associates	17	**54**	74
Amounts due from joint ventures	18	**328**	190
Deferred tax assets		**667**	582
Deposits paid for investments		**111**	26
Deposits paid for acquisition of property, plant and equipment, land use rights and operation rights		**187**	123
Restricted bank deposits	16	**404**	506
		35,535	35,162
Current assets			
Inventories		**579**	404
Trade and other receivables	15	**3,428**	3,051
Prepaid lease payments	11	**33**	28
Amounts due from customers for contract work		**198**	197
Amounts due from associates	17	**206**	156
Amounts due from joint ventures	18	**654**	455
Amounts due from related companies	19	**95**	46
Restricted bank deposits	16	**63**	99
Cash and cash equivalents		**5,404**	7,355
		10,660	11,791
Assets classified as held for sale	29	**–**	66
		10,660	11,857

	Notes	At 30 June 2016 RMB million (unaudited)	At 31 December 2015 RMB million (audited)
Current liabilities			
Trade and other payables	20	**6,763**	7,133
Amounts due to customers for contract work		**1,905**	2,248
Amounts due to associates	17	**189**	66
Amounts due to joint ventures	18	**1,647**	1,988
Amounts due to related companies	19	**487**	400
Taxation payables		**697**	706
Dividend payable		**693**	–
Bank and other loans – due within one year	21	**1,134**	2,600
Corporate bonds	22	**–**	498
Convertible bonds at fair value through profit and loss	23	**–**	3,556
Financial guarantee liability		**25**	29
Deferred income	24	**170**	150
		13,710	19,374
Liability associated with assets classified as held for sale	29	**–**	34
		13,710	19,408
Net current liabilities		**(3,050)**	(7,551)
Total assets less current liabilities		**32,485**	27,611
Capital and reserves			
Share capital	25	**113**	113
Reserves		**14,243**	13,355
Equity attributable to owners of the Company		**14,356**	13,468
Non-controlling interests		**2,712**	2,627
Total equity		**17,068**	16,095
Non-current liabilities			
Bank and other loans – due after one year	21	**266**	836
Corporate bonds	22	**2,988**	2,489
Senior notes		**4,685**	4,584
Medium-term notes		**700**	700
Convertible bonds at fair value through profit and loss	23	**3,477**	–
Unsecured bonds		**426**	417
Amounts due to joint ventures	18	**108**	–
Deferred tax liabilities		**384**	393
Deferred income	24	**2,383**	2,097
		15,417	11,516
		32,485	27,611

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

Six months ended 30 June 2016 (unaudited)

	Equity attributable to owners of the Company										
	Share capital RMB million (Note 25)	Share premium RMB million	Special reserve RMB million (note a)	Share options reserve RMB million	Exchange reserve RMB million	Statutory surplus reserve fund RMB million (note b)	Designated safety fund RMB million (note c)	Retained earnings RMB million	Total RMB million	Non-controlling interests RMB million	Total equity RMB million
At 1 January 2016	113	44	(20)	4	56	1,616	46	11,609	13,468	2,627	16,095
Profit for the period	–	–	–	–	–	–	–	1,587	1,587	450	2,037
Other comprehensive income for the period											
– Exchange differences on translating foreign operations	–	–	–	–	26	–	–	–	26	–	26
Profit and total comprehensive income for the period	–	–	–	–	26	–	–	1,587	1,613	450	2,063
Recognition of equity-settled share-based payment (Note 26)	–	–	–	28	–	–	–	–	28	–	28
Share repurchase (Note 25)	–	(7)	–	–	–	–	–	–	(7)	–	(7)
Acquisition of a subsidiary (Note 27)	–	–	–	–	–	–	–	–	–	18	18
Capital contribution from non-controlling shareholders	–	–	–	–	–	–	–	–	–	26	26
Acquisition of additional interests in subsidiaries	–	–	(53)	–	–	–	–	–	(53)	(34)	(87)
Deregistration of a subsidiary	–	–	–	–	–	–	–	–	–	(6)	(6)
Dividends recognised as distribution (Note 9)	–	–	–	–	–	–	–	(693)	(693)	–	(693)
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	(369)	(369)
Transfer to statutory surplus reserve fund	–	–	–	–	–	220	–	(220)	–	–	–
At 30 June 2016	113	37	(73)	32	82	1,836	46	12,283	14,356	2,712	17,068

Six months ended 30 June 2015 (unaudited)

	Equity attributable to owners of the Company										
	Share capital RMB million	Share premium RMB million	Special reserve RMB million (note a)	Share options reserve RMB million	Exchange reserve RMB million	Statutory surplus reserve fund RMB million (note b)	Designated safety fund RMB million (note c)	Retained earnings RMB million	Total RMB million	Non-controlling interests RMB million	Total equity RMB million
At 1 January 2015	113	769	(18)	1	(2)	1,160	44	10,031	12,098	2,443	14,541
Profit for the period	–	–	–	–	–	–	–	1,227	1,227	331	1,558
Other comprehensive income for the period – Exchange differences on translating foreign operations	–	–	–	–	(2)	–	–	–	(2)	–	(2)
Profit and total comprehensive income for the period	–	–	–	–	(2)	–	–	1,227	1,225	331	1,556
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	40	40
Capital contribution from non-controlling shareholders	–	–	–	–	–	–	–	–	–	6	6
Acquisition of non-controlling interests in a subsidiary	–	–	(2)	–	–	–	–	–	(2)	(21)	(23)
Disposal of a subsidiary	–	–	–	–	–	–	–	–	–	(6)	(6)
Dividends recognised as distribution (Note 9)	–	(715)	–	–	–	–	–	–	(715)	–	(715)
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	(354)	(354)
Transfer to statutory surplus reserve fund	–	–	–	–	–	280	–	(280)	–	–	–
Transfer to designated safety fund	–	–	–	–	–	–	5	(5)	–	–	–
At 30 June 2015	113	54	(20)	1	(4)	1,440	49	10,973	12,606	2,439	15,045

Notes:

a. The balance represented the difference between the fair values of consideration paid and the carrying values of the underlying assets and liabilities attributable to the additional interests in subsidiaries acquired.

b. 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.

c. Pursuant to relevant PRC regulation, the Group is required to transfer 1.5% on revenue generated from transportation of gas or other dangerous chemical into a designated fund. The fund will be used for installation and repair and maintenance of safety facilities. The movement during the six months ended 30 June 2016 and 2015 represents the difference between the amount provided based on the relevant PRC regulation and the amount utilised during the current and prior period.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

	Notes	Six months ended 30 June 2016 RMB million (unaudited)	 2015 RMB million (unaudited)
Net cash generated from operating activities		**1,372**	1,100
Investing activities			
Deferred income received		**387**	296
Purchases of property, plant and equipment		**(890)**	(1,047)
Purchases of available-for-sale investments		**–**	(4,045)
Purchases of wealth management products		**(5,043)**	–
Redemptions of wealth management products		**4,520**	–
Addition of restricted bank deposits		**(665)**	(529)
Release of restricted bank deposits		**803**	63
Net cash outflow on acquisition of subsidiaries	27 & 28	**(28)**	(47)
Purchases of prepaid lease payments		**(51)**	(23)
Investments in joint ventures		**(80)**	(9)
Dividends received from joint ventures		**537**	219
Dividends received from available-for-sale investment		**113**	–
Proceeds from disposal of property, plant and equipment		**166**	15
Amounts advanced to joint ventures		**(287)**	(140)
Deposits paid for unlisted equity investments		**(103)**	(1)
Other investing activities		**69**	196
Net cash used in investing activities		**(552)**	(5,052)
Financing activities			
New bank loans raised		**2,698**	1,456
Repayment of bank and other loans		**(4,730)**	(1,811)
Dividends paid to non-controlling shareholders		**(369)**	(354)
Interest paid		**(285)**	(281)
Amounts advanced from joint ventures		**124**	386
Amounts repaid to joint ventures		**(388)**	(152)
Amounts advanced from related companies		**120**	–
Other financing activities		**45**	(48)
Net cash used in financing activities		**(2,785)**	(804)
Net decrease in cash and cash equivalents		**(1,965)**	(4,756)
Effect of foreign exchange rate changes		**14**	–
Cash and cash equivalents at the beginning of the period		**7,355**	10,503
Cash and cash equivalents at the end of the period		**5,404**	5,747

1. Basis of Preparation

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

In preparing the condensed consolidated financial statements, the directors of the Company (the "Directors") have given careful consideration of the Group in light of its net current liabilities of approximately RMB3,050 million as at 30 June 2016. Having considered the secured credit facilities of approximately RMB7,785 million which remain unutilised at the date of approval of the condensed consolidated financial statements, the Directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the condensed consolidated financial statements for the period ended 30 June 2016 have been prepared on a going concern basis.

2. Principal Accounting Policies

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

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 2015.

In the current 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 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle

The amendments to HKFRSs have been applied retrospectively or prospectively as required by the respective amendments. Except as described below, the application of the other amendments to HKFRSs in the current period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

Amendments to HKAS 1 Disclosure Initiative

The Group has applied the amendments to HKAS 1 Disclosure Initiative for the first time in the current period. The amendments to HKAS 1 clarify that an entity need not provide a specific disclosure required by an HKFRS if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information for disclosure purposes. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in HKFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance.

2. Principal Accounting Policies *(continued)*

Amendments to HKAS 1 Disclosure Initiative *(continued)*

As regards the structure of the financial statements, the amendments provide examples of systematic ordering or grouping of notes.

The Group has applied these amendments retrospectively. The application of the amendments to HKAS 1 has not resulted in any impact on the financial performance or financial position of the Group in these condensed consolidated financial statements.

3. Segment Information

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

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

Inter-segment sales are charged at prevailing market rates.

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

Six months ended 30 June 2016

	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	3,383	11,077	1,624	3,753	70	246	623	20,776
Inter-segment sales	(483)	(2,405)	(3)	(1,615)	–	(172)	(459)	(5,137)
Revenue from external customers	2,900	8,672	1,621	2,138	70	74	164	15,639
Segment profit before depreciation and amortisation	1,926	1,927	214	45	20	27	9	4,168
Depreciation and amortisation	(76)	(295)	(54)	(3)	(7)	(1)	–	(436)
Segment profit	1,850	1,632	160	42	13	26	9	3,732

3. Segment Information *(continued)*

Six months ended 30 June 2015

	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	2,973	12,418	1,963	3,114	37	192	502	21,199
Inter-segment sales	(416)	(2,793)	(4)	(1,561)	–	(134)	(404)	(5,312)
Revenue from external customers	2,557	9,625	1,959	1,553	37	58	98	15,887
Segment profit before depreciation and amortisation	1,608	1,737	255	25	13	27	12	3,677
Depreciation and amortisation	(70)	(312)	(45)	(1)	(5)	(1)	–	(434)
Segment profit	1,538	1,425	210	24	8	26	12	3,243

Geographical information

Geographical information is analysed by the Group based on the location of the principal operations of the subsidiaries. Over 90% of the Group's revenue and non-current assets are located in the PRC, therefore no geographic segment information is presented.

The President also reviews the following analysis of the Group's domestic and overseas operations based on the locations of the subsidiaries. The basis for attributing the revenue is based on the location of customers from which the revenue is earned.

Six months ended 30 June 2016

	PRC RMB million	North America RMB million	Europe RMB million	Consolidation RMB million
Revenue	20,691	78	7	20,776
Inter-segment sales	(5,137)	–	–	(5,137)
Revenue from external customers	15,554	78	7	15,639
Profit (loss) before depreciation and amortisation	4,173	(6)	1	4,168
Depreciation and amortisation	(428)	(8)	–	(436)
Gross profit (loss)	3,745	(14)	1	3,732

3. Segment Information *(continued)*

Geographical information *(continued)*

Six months ended 30 June 2015

	PRC RMB million	North America RMB million	Europe RMB million	Consolidation RMB million
Revenue	21,129	63	7	21,199
Inter-segment sales	(5,312)	–	–	(5,312)
Revenue from external customers	15,817	63	7	15,887
Profit (loss) before depreciation and amortisation	3,688	(12)	1	3,677
Depreciation and amortisation	(425)	(9)	–	(434)
Gross profit (loss)	3,263	(21)	1	3,243

4. Other Income

	Six months ended 30 June	
	2016 **RMB million**	2015 RMB million
Other income includes:		
Incentive subsidies (note)	**132**	93
Interest income	**63**	72
Dividend income from available-for-sale investment	**113**	–

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

5. Other Gains and Losses

	Six months ended 30 June	
	2016 **RMB million**	2015 RMB million
Other gains and losses comprise:		
Fair value gain (loss) of convertible bonds (Note 23)	**79**	(109)
Fair value gain of derivative financial instruments (Note 14)	**23**	–
Loss on foreign exchange, net	**(81)**	(26)
Impairment loss on trade and other receivables, net	**(38)**	(20)
Loss on disposal of property, plant and equipment	**(23)**	(6)
Gain on disposal of a joint venture (Note 29)	**3**	–
	(37)	(161)

6. Finance Costs

	Six months ended 30 June	
	2016	2015
	RMB million	RMB million
Interest on:		
Bank and other loans	**107**	70
Medium-term notes	**19**	19
Senior notes	**144**	141
Corporate bonds	**62**	16
Unsecured bonds	**7**	43
	339	289
Less: Amount capitalised under construction in progress	**(36)**	(25)
	303	264

7. Profit Before Tax

	Six months ended 30 June	
	2016	2015
	RMB million	RMB million
Profit before tax has been arrived at after charging:		
Depreciation and amortisation:		
– property, plant and equipment	**469**	477
– intangible assets	**47**	41
Total depreciation and amortisation (note)	**516**	518
Release of prepaid lease payments	**17**	13

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

	Six months ended 30 June	
	2016	2015
	RMB million	RMB million
Depreciation and amortisation included in:		
Cost of sales	**436**	434
Administrative expenses	**80**	84
	516	518

8. Income Tax Expense

	Six months ended 30 June	
	2016 **RMB million**	2015 RMB million
PRC Enterprise Income Tax:		
Current tax	**744**	615
Withholding tax	**77**	32
	821	647
Deferred tax:		
Current period	**(107)**	(75)
	714	572

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 2015: 25%).

During the six months ended 30 June 2016, the Group has not recognised the deferred tax assets in respect of the unused tax losses of RMB214 million (six months ended 30 June 2015: RMB283 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 profits arising in Hong Kong for the six months ended 30 June 2016 and 2015.

9. Dividend

The final dividend in respect of fiscal year 2015 of HK$0.76 (equivalent to approximately RMB0.64) per ordinary share (six months ended 30 June 2015: final dividend in respect of fiscal year 2014 of HK$0.83 (equivalent to approximately RMB0.66) per ordinary share) amounting to approximately RMB693 million (six months ended 30 June 2015: RMB715 million) were declared on 22 March 2016 and were not paid as at 30 June 2016.

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: 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	
	2016	2015
	RMB million	RMB million
Earnings		
Earnings for the purposes of basic earnings per share	**1,587**	1,227
Effect of dilutive potential ordinary shares:		
– fair value gain of convertible bonds	**(79)**	–
Earnings for the purposes of diluted earnings per share	**1,508**	1,227

	Six months ended 30 June	
	2016	2015
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,082,341**	1,083,059
Effect of dilutive potential ordinary shares:		
– share options issued by the Company	**229**	267
– convertible bonds	**79,779**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,162,349**	1,083,326

The impact arising from the share options granted by the Company on 9 December 2015 (Note 26) was anti-dilutive and accordingly had not been taken into account in the computation of the diluted earnings per share for the six months ended 30 June 2016.

The impact arising from the convertible bonds of USD500 million issued by the Company on 26 February 2013 (Note 23) was anti-dilutive and accordingly had not been taken into account in the computation of the diluted earnings per share for the six months ended 30 June 2015.

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

During the six months ended 30 June 2016, the Group acquired property, plant and equipment and prepaid lease payments amounting to approximately RMB890 million and RMB51 million (six months ended 30 June 2015: RMB1,047 million and RMB23 million) respectively.

In addition, through acquisition of subsidiaries, the Group's property, plant and equipment and prepaid lease payments increased by approximately RMB36 million and nil respectively (six months ended 30 June 2015: RMB28 million and RMB1 million) during the current period.

No revaluation on investment properties was carried out during the current period. The valuation at 31 December 2015 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 2016 were not significantly different from their fair values on 31 December 2015.

12. Intangible Assets

During the six months ended 30 June 2016, the Group acquired intangible assets amounting to approximately nil (six months ended 30 June 2015: RMB34 million).

In addition, through acquisition of subsidiaries, the Group's intangible assets increased by approximately RMB57 million (six months ended 30 June 2015: RMB82 million).

13. Available-for-sale Financial Assets

	At 30 June 2016 RMB million	At 31 December 2015 RMB million
Unlisted equity securities, at cost less impairment (note)		
1.13% equity interest in Sinopec Marketing Co., Ltd.	**4,003**	4,003
Other unlisted equity securities	**166**	166
	4,169	4,169

Note: The above unlisted investment represents investment in unlisted equity securities issued by private entities incorporated in the PRC. They are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the Directors are of the opinion that their fair values cannot be measured reliably.

14. Derivative Financial Instruments

The Group is exposed to foreign currency risk mainly arising from various bonds denominated in the United States dollar ("USD"). To mitigate the foreign currency exposure, the Group entered into various structured foreign currency forward contracts ("Structured Forwards") with certain financial institutions during the current period.

The Structured Forwards have a total notional amount of USD300 million and maturity date on 14 February 2018. The Structured Forwards will enable the Group to buy USD at the predetermined RMB/USD exchange rate on the maturity date. The Structured Forwards are not designated as hedging instruments. Accordingly, the Structured Forwards are classified and accounted for as financial instruments at fair value through profit and loss.

The fair value gain of the Structured Forwards amounting to approximately RMB23 million (six months ended 30 June 2015: nil) is included in the other gains and losses during the current period.

Subsequent to 30 June 2016, the Group has further entered into various Structured Forwards of a total notional amount of USD200 million with certain financial institutions.

15. Trade and Other Receivables

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

	At 30 June 2016 RMB million	At 31 December 2015 RMB million
Within three months	**794**	925
4 to 6 months	**117**	79
7 to 9 months	**52**	69
10 to 12 months	**29**	23
Total trade receivables (note a)	**992**	1,096
Other receivables	**775**	764
Notes receivable	**345**	333
Investment in wealth management products (note b)	**523**	–
Advance to suppliers and prepayments	**811**	885
Total trade and other receivables	**3,446**	3,078
Analysed for reporting purpose as:		
Current portion	**3,428**	3,051
Non-current portion	**18**	27
	3,446	3,078

Notes:

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

b. The amount represents the wealth management products subscribed from certain commercial financial institutions, which invested only in debt securities with expected annual returns at rate of 3.4% to 5.0%. The products have fixed terms less than one year and the principal amount is unsecured.

16. Restricted Bank Deposits

The restricted bank deposits carry fixed interest rate ranged from 0.35% to 5.25% (31 December 2015: 0.35% to 5.25%) per annum. Except for the amount of mandatory reserves in the People's Bank of China ("PBOC"), other restricted bank deposits will be released upon the settlement of bank letter of credit, the expiry of purchase contracts or operation rights. The mandatory reserves in the PBOC classified as non-current assets are deposits placed by Xinao Finance Company Limited ("Finance Company"), a subsidiary of the Company, and the reserves amount is subject to change with respect to the savings accepted by Finance Company and the PBOC reserve rate adjusted from time to time.

17. Amounts Due from/to Associates

Included in the amounts due from/to associates are trade receivables amounting to RMB96 million (31 December 2015: RMB74 million) and trade payables amounting to RMB20 million (31 December 2015: RMB10 million) and the aged analysis based on invoice date at the end of the reporting period is as follows:

	At 30 June 2016 RMB million	At 31 December 2015 RMB million
Trade receivables due from associates		
Within three months	**28**	18
4 to 6 months	**10**	10
7 to 9 months	**10**	4
10 to 12 months	**5**	2
More than one year	**43**	40
	96	74
Trade payables due to associates		
Within three months	**9**	8
4 to 6 months	**11**	–
7 to 9 months	**–**	2
	20	10

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.

17. Amounts Due from/to Associates *(continued)*

The amounts due from/to associates are unsecured, interest-free and repayable on demand except for the amounts due from/to associates detailed in the following table.

At 30 June 2016

	Maturity date	Effective interest rate per annum	**At 30 June 2016 RMB million**
Loan receivables from associates			
Secured loans	13/08/2016-29/06/2017	4.35%-5.34%	**29**
Unsecured loans	24/08/2016-22/05/2019	4.35%-5.47%	**98**
			127
Loan payables to associates			
Unsecured loan	07/06/2017	3.92%	**61**
Savings accepted by Finance Company		0.35%-1.75%	**93**
			154

At 31 December 2015

	Maturity date	Effective interest rate per annum	At 31 December 2015 RMB million
Loan receivables from associates			
Secured loans	30/06/2016-14/12/2016	4.35%-5.34%	36
Unsecured loans	26/02/2016-29/11/2016	4.35%-5.61%	86
			122
Loan payables to associates			
Savings accepted by Finance Company		0.35%-1.55%	42

The interest-free amounts due from associates amounting to RMB36 million that the Group expects to recover after one year from the end of the reporting period are initially recognised at fair value calculated by using an effective interest rate of 4.75% (31 December 2015: 4.75%) per annum. For the remaining amounts due from associates, the Directors expect the amounts will be recoverable within one year from the end of the reporting period.

The Directors are of the opinion that the amounts due from associates are not impaired as the counterparties are associates that are financially sound.

18. Amounts Due from/to Joint Ventures

Included in the amounts due from/to joint ventures are trade receivables amounting to RMB319 million (31 December 2015: RMB210 million) and trade payables amounting to RMB129 million (31 December 2015: RMB98 million) and the aged analysis based on invoice date at the end of the reporting period is as follow:

	At 30 June 2016 RMB million	At 31 December 2015 RMB million
Trade receivables due from joint ventures		
Within three months	**250**	129
4 to 6 months	**23**	10
7 to 9 months	**7**	7
10 to 12 months	**9**	1
More than one year	**30**	63
	319	210

	At 30 June 2016 RMB million	At 31 December 2015 RMB million
Trade payables due to joint ventures		
Within three months	**96**	59
4 to 6 months	**11**	12
7 to 9 months	**2**	2
More than one year	**20**	25
	129	98

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.

18. Amounts Due from/to Joint Ventures *(continued)*

The amounts due from/to joint ventures are unsecured, interest-free and repayable on demand except for the amounts due from/to joint ventures detailed in the following table.

At 30 June 2016

	Maturity date	Effective interest rate per annum	**At 30 June 2016 RMB million**
Loan receivables from joint ventures			
Secured loan	22/04/2019	6.24%	**180**
Unsecured loans	07/07/2016-28/01/2022	4.35%-8.0%	**381**
			561
Loan payables to joint ventures			
Unsecured loans	09/08/2016-15/07/2018	0.35%-6.15%	**266**
Savings accepted by Finance Company		0.35%-2.0%	**586**
			852

At 31 December 2015

	Maturity date	Effective interest rate per annum	At 31 December 2015 RMB million
Loan receivables from joint ventures			
Unsecured loans	13/01/2016-28/12/2018	4.35%-8.0%	385
Loan payables to joint ventures			
Unsecured loans	28/05/2016-14/07/2017	0.35%-6.15%	958
Savings accepted by Finance Company		0.35%-1.55%	618
			1,576

The interest-free amounts due from joint ventures amounting to RMB10 million that the Group expects to recover after one year from the end of the reporting period are initially recognised at fair value calculated by using an effective interest rate of 4.75% (31 December 2015: 4.75%) per annum. For the remaining amounts due from joint ventures, the Directors expect the amounts will be recoverable within one year from the end of the reporting period.

The Directors are of the opinion that the amounts due from joint ventures are not impaired as the counterparties are financially sound.

19. Amounts Due from/to Related Companies

Included in the amounts due from/to related companies are trade receivables amounting to RMB93 million (31 December 2015: RMB39 million) and trade payables amounting to RMB330 million (31 December 2015: RMB340 million) and the aged analysis based on invoice date at the end of the reporting period is as follow:

	At 30 June 2016 RMB million	At 31 December 2015 RMB million
Trade receivable due from related companies		
Within three months	**49**	10
4 to 6 months	**7**	10
7 to 9 months	**9**	10
10 to 12 months	**9**	3
More than one year	**19**	6
	93	39
Trade payables due to related companies		
Within three months	**211**	236
4 to 6 months	**45**	23
7 to 9 months	**31**	20
10 to 12 months	**12**	37
More than one year	**31**	24
	330	340

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

The amounts due to related companies of approximately RMB341 million (31 December 2015: RMB387 million) are unsecured, interest-free and repayable on demand, and the amounts due to related companies of approximately RMB146 million (31 December 2015: RMB13 million) are savings accepted by Finance Company which are unsecured and carried floating interest rate of which the rate as at 30 June 2016 was 0.35% per annum.

20. Trade and Other Payables

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

	At 30 June 2016 RMB million	At 31 December 2015 RMB million
Within three months	**1,102**	1,260
4 to 6 months	**211**	189
7 to 9 months	**67**	56
10 to 12 months	**19**	37
More than one year	**121**	109
Total trade payables	**1,520**	1,651
Advances received from customers	**4,143**	4,382
Accrued charges and other payables	**1,100**	1,100
	6,763	7,133

21. Bank and Other Loans

During the current period, the Group obtained new bank loans in the amount of RMB2,698 million (six months ended 30 June 2015: RMB1,456 million) and made repayments in the amount of RMB4,730 million (six months ended 30 June 2015: RMB1,811 million). The loans bear interest at the range from 3.72% to 5.76% (31 December 2015: 2.77% to 7.94%) per annum. These proceeds were used to finance the capital expenditure and general working capital of the Group.

At 30 June 2016, certain assets of the Group with aggregate carrying value of RMB85 million (31 December 2015: RMB139 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 RMB1,020 million (31 December 2015: RMB1,020 million) granted to the Group and RMB373 million (31 December 2015: RMB413 million) of which is utilised up to 30 June 2016.

22. Corporate Bonds

On 16 February 2011, a subsidiary of the Company, Xinao (China) Gas Investment Company Limited ("Xinao (China)"), issued corporate bonds of RMB500 million ("2011 Corporate Bonds"). The amount is unsecured and carries a fixed interest rate of 6.45% per annum and is repayable on 16 February 2018. The interest is payable to the bondholders on yearly basis. The net proceeds, after deducting the issuance costs, amounted to RMB496 million. The 2011 Corporate Bonds was listed on the Shanghai Stock Exchange on 25 March 2011.

According to the terms and conditions of the 2011 Corporate Bonds, Xinao (China) may at its option to increase the coupon rate by 0% to 1% at the end of year five, which is the 10^{th} trading day before 16 February 2016 by giving a notice to the bondholders. And the bondholders may accordingly at their option to require Xinao (China) to redeem the bonds at a redemption price equal to 100% of the principal plus accrued and unpaid interest to such redemption date. The remaining bonds will be subject to the increased interest rate until the maturity date.

As at 31 December 2015, the 2011 Corporate Bonds were classified as current liabilities in the Group's consolidated financial statements as it is at the discretion of the bondholders to exercise the option. Xinao (China) decided not to adjust the coupon rate and no bondholder required Xinao (China) to redeem the 2011 Corporate Bonds in February 2016. Since 16 February 2016, the 2011 Corporate Bonds are reclassified as non-current liabilities as no bondholder exercised their put option.

23. Convertible Bonds at Fair Value Through Profit and Loss

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

In accordance with the terms and conditions of the Convertible Bonds, the holder of each Convertible Bond will have the right, at such bondholder's option, to require the Company to redeem all or some only of the Convertible Bonds of such bondholder on 26 February 2016 (the "Put Option Date") at 101.51 per cent of their principal amount. And the Company (i) may at any time after Put Option Date and prior to the maturity date redeem in whole, but not in part, the Convertible Bonds for the time being outstanding at the early redemption amount, provided that (a) the closing price of the shares (translated into USD at the prevailing rate defined in the terms and conditions of the Convertible 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 Convertible 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 Convertible Bonds redeem in whole, but not in part, the Convertible 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 Convertible Bonds originally issued has already been converted, redeemed or purchased and cancelled.

As at 31 December 2015, the Convertible Bonds were classified as current liabilities in the Group's consolidated financial statements as it is at the discretion of the bondholders to exercise the option on the Put Option Date. Since 26 February 2016, the Convertible Bonds are reclassified as non-current liabilities as no bondholder exercised the option on Put Option Date.

The Convertible Bonds, which are listed 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 Convertible Bonds.

As at 30 June 2016, the over-the-counter market price of the Bonds was USD524 million (approximately RMB3,477 million equivalently) (31 December 2015: USD548 million, approximately RMB3,556 million equivalently). There was fair value gain of approximately RMB79 million (six months ended 30 June 2015: loss of approximately RMB109 million) during the current period.

No conversion or redemption of the Convertible Bonds has occurred up to 30 June 2016.

24. Deferred Income

During the current period, the Group received RMB387 million (six months ended 30 June 2015: RMB296 million) subsidies from the local governments and industrial customers to subsidise the construction cost of property, plant and equipment including the main gas pipelines, leasehold land and buildings of the gas provision site, the gas storage and business building.

25. Share Capital

On 11 January 2016 and 21 January 2016, the Company repurchased 200,000 and 32,000 of its own ordinary shares through the Stock Exchange respectively. The highest price was HK$34.00 and the lowest price was HK$32.45. The aggregate consideration paid was HK$8 million (approximately RMB7 million). The above ordinary shares were cancelled on 28 April 2016. None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities up to 30 June 2016.

26. Share Options

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

a. Scheme 2012

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

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

26. Share Options *(continued)*

a. Scheme 2012 *(continued)*

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

					Number of options			
	Date of grant	Vesting period	Exercise period	Exercise price	Outstanding at 1.1.2016	Granted during the period	Forfeited during the period	Outstanding at 30.06.2016
Tranche 1	9.12.2015	9.12.2015 to 1.4.2017	1.4.2017 to 8.12.2025	HK$40.34	3,000,000	–	(171,750)	2,828,250
Tranche 2	9.12.2015	9.12.2015 to 1.4.2018	1.4.2018 to 8.12.2025	HK$40.34	3,000,000	–	(171,750)	2,828,250
Tranche 3	9.12.2015	9.12.2015 to 1.4.2019	1.4.2019 to 8.12.2025	HK$40.34	3,000,000	–	(171,750)	2,828,250
Tranche 4	9.12.2015	9.12.2015 to 1.4.2020	1.4.2020 to 8.12.2025	HK$40.34	3,000,000	–	(171,750)	2,828,250
					12,000,000	–	(687,000)	11,313,000
Exercisable at the end of the period								–
Weighted average exercise price					HK$40.34	–	–	HK$40.34

				Number of options			
	Date of grant	Exercise period	Exercise price	Outstanding at 1.1.2016	Reclassified during the period	Forfeited during the period	Outstanding at 30.06.2016
Directors	9.12.2015	1.4.2017 to 8.12.2025	HK$40.34	664,750	(75,500)	(15,000)	574,250
	9.12.2015	1.4.2018 to 8.12.2025	HK$40.34	664,750	(75,500)	(15,000)	574,250
	9.12.2015	1.4.2019 to 8.12.2025	HK$40.34	664,750	(75,500)	(15,000)	574,250
	9.12.2015	1.4.2020 to 8.12.2025	HK$40.34	664,750	(75,500)	(15,000)	574,250
Employees	9.12.2015	1.4.2017 to 8.12.2025	HK$40.34	2,335,250	75,500	(156,750)	2,254,000
	9.12.2015	1.4.2018 to 8.12.2025	HK$40.34	2,335,250	75,500	(156,750)	2,254,000
	9.12.2015	1.4.2019 to 8.12.2025	HK$40.34	2,335,250	75,500	(156,750)	2,254,000
	9.12.2015	1.4.2020 to 8.12.2025	HK$40.34	2,335,250	75,500	(156,750)	2,254,000
				12,000,000	–	(687,000)	11,313,000

26. Share Options *(continued)*

a. Scheme 2012 *(continued)*

The closing price of the Company's shares immediately before 9 December 2015, the date of grant, was HK$39.85 per share.

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

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

During the current period, 687,000 share options were forfeited. As at 30 June 2016, the number of outstanding share options is 11,313,000 (31 December 2015: 12,000,000), all of which have not yet vested and hence not exercisable until fulfilment of vesting condition. The Group recognised share-based payment expenses of RMB28 million during the period.

b. Scheme 2002

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

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

As at 30 June 2016, the number of outstanding share options granted to a former director and an employee of the Group is 400,000 (31 December 2015: 400,000).

During the six months ended 30 June 2016 and 2015, the Group recognised no share-based payment expenses.

27. Acquisition of a Business

On 12 May 2016, the Group acquired 70% of the registered capital of 昌樂新奧燃氣有限公司 ("Changle") at a cash consideration of RMB43 million. Changle is engaged in sales of piped gas. Changle was acquired with the objective of expansion in market coverage of business of the Group.

The provisional amounts of fair value of the assets and liabilities of Changle at the date of acquisition are as follows:

	RMB million
Non-current assets	
Property, plant and equipment	29
Intangible assets – right of operation	51
Current liabilities	
Trade and other payables	(6)
Non-current liabilities	
Deferred tax liabilities	(13)
Net assets acquired	61
Goodwill arising on acquisition (determined on a provisional basis)	
Total consideration	43
Add: Non-controlling interests (30% in Changle)	18
Less: Fair value of identified net assets acquired	(61)
Goodwill arising on acquisition	–
Total consideration satisfied by:	
Deposits paid in the prior year	4
Cash paid in the current period	35
Consideration payables (included in other payables)	4
	43
Net cash outflow arising on acquisition:	
Cash consideration paid	(35)
Less: Cash and cash equivalents acquired	–
	(35)

27. Acquisition of a Business *(continued)*

Impact of acquisition on the results of the Group

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

Included in the profit for the period ended 30 June 2016 is nil attributable to the additional business generated by Changle. Revenue for the period ended 30 June 2016 includes RMB2 million generated from Changle.

Had the acquisition of Changle been effected on 1 January 2016, the revenue of the Group for the period ended 30 June 2016 would have been approximately RMB15,662 million, and the profit for the period ended 30 June 2016 would have been approximately RMB2,040 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2016, nor is intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group, had Changle been acquired on 1 January 2016, the Directors have calculated depreciation and amortisation of property, plant and equipment and intangible asset acquired on the basis of the fair values rather than the carrying amounts recognised in the pre-acquisition financial statements.

28. Acquisition of Assets Through Acquisition of Subsidiaries

a. Acquisition of assets through acquisition of a subsidiary during the period ended 30 June 2016

On 5 May 2016, the Group acquired 100% of the equity interest of 好買氣電子商務有限公司 ("Haomaiqi") at a consideration of RMB20 million from a company controlled by Mr. Wang. The transaction was accounted for acquisition of assets through acquisition of a subsidiary and the fair value of the assets acquired are as follows:

	RMB million
Non-current assets	
Property, plant and equipment	7
Intangible assets – software	6
Current assets	
Cash and cash equivalents	7
Total assets acquired	20
Total consideration satisfied by:	
Cash	–
Consideration payables (included in other payables)	20
	20
Net cash inflow arising on acquisition:	
Cash and cash equivalents acquired	7

28. Acquisition of Assets Through Acquisition of Subsidiaries *(continued)*

b. Acquisition of assets through acquisitions of subsidiaries during the period ended 30 June 2015

On 23 January 2015, the Group acquired 60% of the registered capital of 寧波大榭開發區燃氣有限公司 ("Ningbo Daxie") at a cash consideration of RMB60 million. Ningbo Daxie is engaged in sales of piped gas.

On 18 March 2015, the Group further acquired 40% of the registered capital of 北京新奧葉氏能源投資有限公司 ("Xinao Yeshi") at a cash consideration of RMB4 million. After the acquisition, Xinao Yeshi become a wholly owned subsidiary of the Group. Xinao Yeshi is engaged in sales of piped gas. Xinao Yeshi has not yet commenced operation as at the date of acquisition.

The transaction was accounted for acquisition of assets through acquisition of subsidiaries and the fair value of the assets and liabilities acquired are as follows:

	Ningbo Daxie RMB million	**Xinao Yeshi** RMB million
Non-current assets		
Property, plant and equipment	18	10
Intangible assets – rights of operation	82	–
Prepaid lease payment	1	–
Current assets		
Cash and cash equivalent	–	2
Trade and other receivables	–	2
Inventories	1	–
Current liabilities		
Trade and other payables	(2)	(4)
Net assets	100	10
Less: Non-controlling interests	(40)	–
Less: Interests previously held	–	(6)
Net assets acquired	60	4
Total consideration satisfied by:		
Cash	45	4
Consideration payables (included in other payables)	15	–
	60	4
Net cash outflow arising on acquisition:		
Cash consideration paid	(45)	(4)
Less: cash and cash equivalents acquired	–	2
	(45)	(2)

29. Disposal of a Joint Venture

On 15 August 2014, the Group has entered into sales and purchase agreement with 新能礦業有限公司 ("Xinneng"), a related company controlled by Mr. Wang, to transfer the 45% equity interest in 中海油新奧(北海)燃氣有限公司 ("Xinao Beihai") at a cash consideration of RMB69 million. Since the transaction has not been completed on 31 December 2015, the interest held by the Group was recognised as assets classified as held for sale and the cash received was recognised as liability associated with assets classified as held for sale.

On 20 June 2016, the Group completed the transaction. This transaction has resulted in the Group recognising a gain of RMB3 million in profit or loss, calculated as follows:

	RMB million
Cash consideration	69
Less: carrying amount of the 45% investment on the date of loss of joint control over Xinao Beihai	(66)
Gain on disposal of a joint venture	3
Total consideration satisfied by:	
Cash	34
Consideration receivable (included in amounts due from the related companies)	35
	69

30. 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).

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

The Group measures its derivative financial instruments and Convertible Bonds at fair value at the end of each reporting period on a recurring basis:

	Fair value as at			
	30 June 2016 RMB million	31 December 2015 RMB million	**Fair value hierarchy**	**Valuation technique**
Financial assets				
Derivative financial instruments	**23**	–	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties
Financial liabilities				
Convertible Bonds	**3,477**	3,556	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 2016		At 31 December 2015	
	Carrying amount RMB million	**Fair value RMB million**	Carrying amount RMB million	Fair value RMB million
Financial liabilities:				
Senior notes (including accrued interest expense in trade and other payable)	**4,724**	**5,370**	4,622	5,071

31. Commitments

(a) Capital commitments

	At 30 June 2016 RMB million	At 31 December 2015 RMB million
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided	**189**	281
Capital commitment in respect of investments in:		
– joint ventures	**251**	48
– associates	**134**	17
– share acquisition	**183**	112

(b) Other commitments

As at 30 June 2016, the Group has commitment amounting to RMB25 million (31 December 2015: RMB47 million) in respect of acquisition of land use rights in the PRC.

32. Related Party Transactions

Apart from the related party balances as stated in Notes 17, 18 and 19 and the equity transactions as stated in Notes 28 and 29, the Group had the following transactions with certain related parties:

	Six months ended 30 June	
	2016	2015
	RMB million	RMB million
Associates		
– Sales of gas to	**111**	135
– Sales of materials to	**22**	6
– Provision of gas transportation services to	**1**	2
– Purchase of gas from	**55**	143
– Loan interest received from	**3**	2
– Provision of gas connection services to	**–**	2
– Provision of gas transportation services by	**6**	2
– Provision of supporting service by	**1**	–
Joint ventures		
– Sales of gas to	**368**	390
– Sales of materials to	**40**	42
– Sales of non-current assets to	**174**	–
– Provision of supporting services by	**2**	–
– Purchase of gas from	**959**	1,053
– Provision of gas transportation services to	**115**	106
– Loan interest received from	**13**	12
– Loan interest paid to	**6**	4
– Provision of supporting services to	**9**	11
– Provision of construction services by	**21**	6
– Provision for gas connection services to	**30**	28
– Deposit interest paid to	**2**	2
– Provision of gas transportation services by	**2**	–
Companies controlled by Mr. Wang		
– Sales of gas to	**5**	5
– Provision for construction services by	**247**	226
– Provision of efficiency technology services by	**29**	50
– Provision of gas connection service to	**6**	–
– Provision for property management services by	**7**	9
– Provision of maritime transportation services by	**–**	1
– Purchase of equipment from	**1**	1
– Lease of premises from	**2**	1
– Lease of premises to	**1**	1
– Provision of electronic business services by	**–**	1
– Sales of materials to	**15**	7
– Provision of administrative services by	**35**	22
– Provision of liquefied natural gas by	**93**	183
– Deposit interest paid to	**1**	2
– Acquisition of non-controlling interests	**–**	5

32. Related Party Transactions *(continued)*

The Company issued senior notes on 13 May 2011, Convertible Bonds on 26 February 2013 and unsecured bonds on 23 October 2014. The terms and conditions of these bonds require Mr. Wang to retain certain percentage of shareholding over the Company, failing which the Company would be required to repurchase all outstanding bonds at a predetermined price.

A joint venture partner had issued guarantees to a bank to secure loan facilities granted to the Group to the extent of approximately RMB150 million (31 December 2015: nil), of which RMB150 million (31 December 2015: nil) has been utilised up to 30 June 2016.

As at 30 June 2016, the Group had issued guarantees to banks to secure loan facilities granted to associates and joint ventures to the extent of approximately RMB320 million (31 December 2015: RMB320 million). The loan facilities have been utilised at the end of the reporting period.

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

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Short-term employee benefits	**5,565**	3,904
Post-employment benefits	**88**	58
Share-based payments	**5,952**	–
	11,605	3,962

Disclosure of Interests

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

As at 30 June 2016, the interests and short positions of each Director in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of Part XV of the SFO or as otherwise notified to the Company and The Stock Exchange 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 2016
Wang Yusuo ("Mr. Wang")	Beneficial owner and interest of controlled corporation	329,249,000 (Note 1)	329,249,000	580,000	329,829,000	30.47%
Cheung Yip Sang	Beneficial owner	–	–	532,000	532,000	0.05%
Han Jishen	Beneficial owner	–	–	421,000	421,000	0.04%
Wang Dongzhi	Beneficial owner	–	–	382,000	382,000	0.04%
Wang Zizheng	Beneficial owner	–	–	60,000	60,000	0.01%
Jin Yongsheng	Beneficial owner	–	–	142,000	142,000	0.01%
Ma Zhixiang	Beneficial owner	–	–	60,000	60,000	0.01%
Yuen Po Kwong	Beneficial owner	–	–	60,000	60,000	0.01%
Law Yee Kwan, Quinn	Beneficial owner	–	–	60,000	60,000	0.01%

Note:

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

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

Save as disclosed above, as at 30 June 2016, the register maintained by the Company pursuant to section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code recorded no other interests or short positions of the Directors in any shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO).

Directors' rights to acquire shares

Pursuant to the Company's share option schemes, the Company has granted options to subscribe for the Company's ordinary shares in favour of certain Directors, the 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 2016	Reclassified during the Period (Note 2)	Lapsed during the Period (Note 2)	Number of shares subject to outstanding options as at 30 June 2016
Wang Yusuo	09.12.2015	01.04.2017–08.12.2025	40.34	145,000	–	–	145,000
	09.12.2015	01.04.2018–08.12.2025	40.34	145,000	–	–	145,000
	09.12.2015	01.04.2019–08.12.2025	40.34	145,000	–	–	145,000
	09.12.2015	01.04.2020–08.12.2025	40.34	145,000	–	–	145,000
Cheung Yip Sang (Note 3)	09.12.2015	01.04.2017–08.12.2025	40.34	133,000	–	–	133,000
	09.12.2015	01.04.2018–08.12.2025	40.34	133,000	–	–	133,000
	09.12.2015	01.04.2019–08.12.2025	40.34	133,000	–	–	133,000
	09.12.2015	01.04.2020–08.12.2025	40.34	133,000	–	–	133,000
Han Jishen (Note 3)	09.12.2015	01.04.2017–08.12.2025	40.34	105,250	–	–	105,250
	09.12.2015	01.04.2018–08.12.2025	40.34	105,250	–	–	105,250
	09.12.2015	01.04.2019–08.12.2025	40.34	105,250	–	–	105,250
	09.12.2015	01.04.2020–08.12.2025	40.34	105,250	–	–	105,250
Wang Dongzhi (Note 3)	09.12.2015	01.04.2017–08.12.2025	40.34	95,500	–	–	95,500
	09.12.2015	01.04.2018–08.12.2025	40.34	95,500	–	–	95,500
	09.12.2015	01.04.2019–08.12.2025	40.34	95,500	–	–	95,500
	09.12.2015	01.04.2020–08.12.2025	40.34	95,500	–	–	95,500
Yu Jianchao (Note 3 & 4)	09.12.2015	01.04.2017–08.12.2025	40.34	60,500	(60,500)	–	–
	09.12.2015	01.04.2018–08.12.2025	40.34	60,500	(60,500)	–	–
	09.12.2015	01.04.2019–08.12.2025	40.34	60,500	(60,500)	–	–
	09.12.2015	01.04.2020–08.12.2025	40.34	60,500	(60,500)	–	–
Wang Zizheng	09.12.2015	01.04.2017–08.12.2025	40.34	15,000	–	–	15,000
	09.12.2015	01.04.2018–08.12.2025	40.34	15,000	–	–	15,000
	09.12.2015	01.04.2019–08.12.2025	40.34	15,000	–	–	15,000
	09.12.2015	01.04.2020–08.12.2025	40.34	15,000	–	–	15,000
Jin Yongsheng	09.12.2015	01.04.2017–08.12.2025	40.34	35,500	–	–	35,500
	09.12.2015	01.04.2018–08.12.2025	40.34	35,500	–	–	35,500
	09.12.2015	01.04.2019–08.12.2025	40.34	35,500	–	–	35,500
	09.12.2015	01.04.2020–08.12.2025	40.34	35,500	–	–	35,500
Lim Haw Kuang (Note 5)	09.12.2015	01.04.2017–08.12.2025	40.34	15,000	(15,000)	–	–
	09.12.2015	01.04.2018–08.12.2025	40.34	15,000	(15,000)	–	–
	09.12.2015	01.04.2019–08.12.2025	40.34	15,000	(15,000)	–	–
	09.12.2015	01.04.2020–08.12.2025	40.34	15,000	(15,000)	–	–

Name of Director	Date of grant	Exercise period (Note 1)	Exercise price (HK$)	Number of shares subject to outstanding options as at 1 January 2016	Reclassified during the Period (Note 2)	Lapsed during the Period (Note 2)	Number of shares subject to outstanding options as at 30 June 2016
Yien Yu Yu, Catherine (Note 6)	14.06.2010	14.12.2010–13.06.2020	16.26	100,000	–	–	100,000
	14.06.2010	14.06.2012–13.06.2020	16.26	100,000	–	–	100,000
	09.12.2015	01.04.2017–08.12.2025	40.34	15,000	–	(15,000)	–
	09.12.2015	01.04.2018–08.12.2025	40.34	15,000	–	(15,000)	–
	09.12.2015	01.04.2019–08.12.2025	40.34	15,000	–	(15,000)	–
	09.12.2015	01.04.2020–08.12.2025	40.34	15,000	–	(15,000)	–
Ma Zhixiang	09.12.2015	01.04.2017–08.12.2025	40.34	15,000	–	–	15,000
	09.12.2015	01.04.2018–08.12.2025	40.34	15,000	–	–	15,000
	09.12.2015	01.04.2019–08.12.2025	40.34	15,000	–	–	15,000
	09.12.2015	01.04.2020–08.12.2025	40.34	15,000	–	–	15,000
Yuen Po Kwong	09.12.2015	01.04.2017–08.12.2025	40.34	15,000	–	–	15,000
	09.12.2015	01.04.2018–08.12.2025	40.34	15,000	–	–	15,000
	09.12.2015	01.04.2019–08.12.2025	40.34	15,000	–	–	15,000
	09.12.2015	01.04.2020–08.12.2025	40.34	15,000	–	–	15,000
Law Yee Kwan, Quinn	09.12.2015	01.04.2017–08.12.2025	40.34	15,000	–	–	15,000
	09.12.2015	01.04.2018–08.12.2025	40.34	15,000	–	–	15,000
	09.12.2015	01.04.2019–08.12.2025	40.34	15,000	–	–	15,000
	09.12.2015	01.04.2020–08.12.2025	40.34	15,000	–	–	15,000
Total				2,859,000	(302,000)	(60,000)	2,497,000

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 2016 to 30 June 2016.
3. The vesting of share options is subject to the fulfilment of performance target.
4. Mr. Yu Jianchao has retired from the position as an executive director of the Company and did not offer himself for re-election at the annual general meeting ("AGM") held on 31 May 2016. The remaining 242,000 share options held by him have been reclassified as share options held by employees.
5. Mr. Lim Haw Kuang has retired from the position as a non-executive director of the Company upon the completion of his service agreement on 7 April 2016. The remaining 60,000 share options held by him have been reclassified as share options held by employees.
6. Ms. Yien Yu Yu, Catherine, has retired from the position as an independent non-executive director of the Company and did not offer herself for re-election at the AGM held on 31 May 2016. Therefore, the 60,000 share options held by her under 2012 Scheme lapsed. The remaining 200,000 share options held by her have not been exercised before the date of this report and were exercisable within the period of six months following the date of her retirement.

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 or underlying shares in, or debentures of, the Company or its associated corporations.

Substantial Shareholders

As at 30 June 2016, the interests and short positions of substantial shareholders in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of Part XV of the SFO were as follows:

Name of shareholder	Capacity	Total interests in the Company	Respective interests in shares according to share options	Total aggregate interests in shares and underlying shares (Note 4)	Approximate percentage of the Company's total issued share capital as at 30 June 2016
Wang Yusuo	Beneficial owner and interest of controlled corporation	329,249,000 (Note 1)	580,000 (Note 2)	329,829,000 (L)	30.47%
Zhao Baoju	Interest of controlled corporation and interest of spouse	329,249,000 (Note 1)	580,000 (Note 2)	329,829,000 (L)	30.47%
EGII	Beneficial owner	329,249,000 (Note 1)	–	329,249,000 (L)	30.42%
The Capital Group Companies, Inc.	Interest of controlled corporation	130,512,700 (Note 3)	–	130,512,700 (L)	12.06%
Capital Research and Management Company	Investment manager	128,156,700	–	128,156,700 (L)	11.84%
Commonwealth Bank of Australia	Interest of controlled corporation	100,484,000	–	100,484,000 (L)	9.28%
JPMorgan Chase & Co.	Beneficial owner, investment manager and custodian corporation/ approved lending agent	85,814,965	–	85,814,965 (L) (including 179,779 (S) 69,523,078 (P))	7.93%

Notes:

1 The three references to 329,249,000 shares relate to the same block of shares. Such shares are held by EGII, which is beneficially owned as to 50% by Mr. Wang and 50% by Ms. Zhao, the spouse of Mr. Wang.

2. As Mr. Wang's spouse, Ms. Zhao is deemed as holding Mr. Wang's interests in shares.

3. 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.).

4. (L) represents Long Position; (S) represents Short Position; (P) represents Lending Pool.

Save for the shareholders as disclosed herein, the Directors are not aware of any persons who, as at 30 June 2016, were entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and were also, as a practicable matter, able to direct or influence the management of the Company.

Save as disclosed above, as at 30 June 2016, the Company had not been notified of any other person who had interest or short position in the shares or underlying shares of the Company, which are required to be recorded in the register maintained by the Company pursuant to section 336 of Part XV of the SFO and the Listing Rules.

Share Option Schemes

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

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

Option types/ Grantee	Date of grant	Exercise period	Exercise price (HK$)	Number of shares subject to outstanding options as at 1 January 2016	Reclassified during the Period	Lapsed during the Period	Number of shares subject to outstanding options as at 30 June 2016 (Note 1)
2002 Scheme							
Directors	14.06.2010	14.12.2010–13.06.2020	16.26	100,000	–	–	100,000
	14.06.2010	14.06.2012–13.06.2020	16.26	100,000	–	–	100,000
Employees	14.06.2010	14.12.2010–13.06.2020	16.26	100,000	–	–	100,000
	14.06.2010	14.06.2012–13.06.2020	16.26	100,000	–	–	100,000
Total				400,000	–	–	400,000
2012 Scheme							
Directors	09.12.2015	01.04.2017–08.12.2025	40.34	664,750	(75,500)	(15,000)	574,250
	09.12.2015	01.04.2018–08.12.2025	40.34	664,750	(75,500)	(15,000)	574,250
	09.12.2015	01.04.2019–08.12.2025	40.34	664,750	(75,500)	(15,000)	574,250
	09.12.2015	01.04.2020–08.12.2025	40.34	664,750	(75,500)	(15,000)	574,250
Employees	09.12.2015	01.04.2017–08.12.2025	40.34	2,335,250	75,500	(156,750)	2,254,000
	09.12.2015	01.04.2018–08.12.2025	40.34	2,335,250	75,500	(156,750)	2,254,000
	09.12.2015	01.04.2019–08.12.2025	40.34	2,335,250	75,500	(156,750)	2,254,000
	09.12.2015	01.04.2020–08.12.2025	40.34	2,335,250	75,500	(156,750)	2,254,000
Total				12,000,000	–	(687,000)	11,313,000

Notes:

1. A total number of 400,000 shares, representing 0.04% of the issued share capital of the Company as at the date of this report are available for issue under the 2002 Scheme and a total number of 11,313,000 shares, representing 1.05% of the issued share capital of the Company as at the date of this report, are available for issue under the 2012 Scheme. The vesting of certain part of the 11,313,000 share options is subject to the fulfilment of performance target.

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

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

Purchase, Sale Or Redemption of Listed Securities

During the Period, the Company repurchased a total of 232,000 shares on the Stock Exchange at an aggregate consideration of HK$7,815,500. Details of the repurchases are as follows:

Date	Total number of shares repurchased	Price per share Highest	Price per share Lowest	Aggregate consideration
		HK$	HK$	HK$
11 January 2016	200,000	34.00	33.50	6,761,300
21 January 2016	32,000	33.00	32.45	1,054,200
Total	232,000			7,815,500

As at the date of this report, all the above repurchased shares are cancelled.

The purpose of share repurchase is to increase net asset value per share and earnings per share. The share repurchase complied with the general mandate to the Board to repurchase the Company's shares that passed in the Company's 2015 AGM. Save as above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Audit Committee

The Company established an Audit Committee in accordance with requirements under the Listing Rules for the purpose of reviewing with management the accounting principles and practices adopted by the Group and discuss auditing, internal control and financial reporting matters.

The Company's audit committee meeting was held on 22 August 2016 to review the Group's unaudited interim results and interim financial report for the six months ended 30 June 2016. Deloitte Touche Tohmatsu, the Company's independent auditor, has carried out a review of the unaudited interim report for the six months ended 30 June 2016 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 as contained in Appendix 14 to the Listing Rules throughout the Period.

Public Float

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

Loan Agreements Imposing Specific Performance Obligations on Controlling Shareholders

The Company issued 10-year senior notes on 13 May 2011 (the "2021 Senior Notes") with a principal amount of USD750 million (equivalent to RMB4,863 million) and 5-year zero coupon convertible bonds on 26 February 2013 (the "Convertible Bonds") with a principal amount of USD500 million (equivalent to RMB3,141 million). The terms and conditions of the 2021 Senior Notes and Convertible Bonds require Mr. Wang Yusuo, 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 respective agreements. The total balance of the loans outstanding as at 30 June 2016 are USD715 million (equivalent to RMB4,685 million) and USD500 million (equivalent to RMB3,477 million) respectively.

On 23 October 2014, the Company issued 5-year bonds and the terms and conditions of the bonds required Mr. Wang Yusuo, the controlling shareholder of the Company, to retain at least 20% of the total issued share capital of the Company throughout the term of the bonds. The total amount of the bonds issued is USD400 million (equivalent to RMB2,460 million). As at 30 June 2016, the outstanding balance is USD64.8 million (equivalent to RMB426 million).

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.

Directors

As at the date of this report, the Board consists of Mr. Wang Yusuo (Chairman), Mr. Cheung Yip Sang (Vice Chairman), Mr. Han Jishen (President) and Mr. Wang Dongzhi (Chief Financial Officer) as Executive Directors; Mr. Wang Zizheng and Mr. Jin Yongsheng as Non-executive Directors; and Mr. Ma Zhixiang, Mr. Yuen Po Kwong and Mr. Law Yee Kwan, Quinn, as Independent Non-executive Directors.

By order of the Board
WANG Yusuo
Chairman

Hong Kong, 23 August 2016

Rooms 3101-04, 31/F., Tower 1, Lippo Centre, No.89 Queensway, Hong Kong
香港金鐘道89號力寶中心第一期31樓3101-04室
電話 Tel (852) 2528 5666
傳真 Fax (852) 2865 7204
網址 Website www.ennenergy.com
電子郵箱 E-mail enn@ennenergy.com